

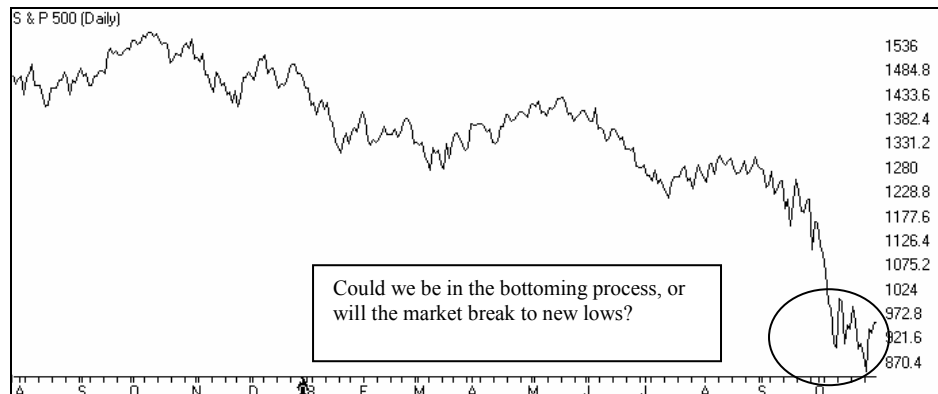


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## November Market Commentary

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The market continued its volatility throughout the month of October to close one of the worst months on record for global markets. To date this bear market is the fourth worst on record evidencing a downturn of about 46% over the past 12 months. We have advocated a defensive stance over the past few months, and this has paid off as our portfolios have not seen the large losses of the major market indices. In the month of October alone, the S&P 500 is down about 18%, EAFE index is down close to 20% and the Emerging Market index is down 28.5%. These are massive drops for one month.



The equity markets are not the only markets to experience large losses. Not much has been spared from the selling this month. Clearly panic has set in, as nearly every asset class and country has witnessed historic volatility. Many hedge funds have faced large liquidations forcing them to sell assets serving to exacerbate the market downturn. In fact, economies with the strongest fundamentals have seen some of the largest losses, while economies with weaker fundamentals have performed better. This shows that fundamentals have been ignored in a pervasive flight from any type of risk.

Another sign of indiscriminate selling is manifested in the Asian markets. In the past two months, Asian credit indices have fallen more than they did during the Asian currency crisis of 1997. This is not due to problems with the credit issuers themselves. During the Asian crisis the countries and companies were going bust, problems which are clearly not currently an issue. However, they are being hit by forced liquidations as a result of hedge fund and mutual fund redemptions.

Uncertainty, which abounds, has a major negative impact on markets. Constant discussion of deleveraging, bailouts, liquidity, deflation, liquidations, etc. only adds to the uncertainty. Adding to the lack of clarity is the upcoming presidential election, which has uncertain implications for financial markets, foreign trade, regulations, etc. In sum, there are many issues keeping investors from moving back into the market.

Central banks and governments around the world are taking unprecedented actions in an attempt to stabilize the markets. The US government passed the \$700 billion Troubled Asset Rescue Program (TARP) and the Fed has lowered rates to 1%. They are pulling out all the stops in an attempt to allow banks to begin lending again. This is extremely important, as banks are the lifeblood of our financial system and our economy.

Will these actions be enough to stabilize the markets? We believe the Fed is correct in dropping rates. While they have been behind the curve, they have been aggressive in catching up. However, many other central banks have either not been as aggressive or are making major policy mistakes. The European Central Bank has just started easing, but they are at 3.75% compared to the Fed at 1%. Believe it or not, Hungarian and Ukrainian authorities have actually raised interest rates in an attempt to defend their currencies. It looks like it will only be a matter of time before they issue a moratorium on their debt. If this occurs, many European banks will be hurt badly.

Even with the drastic actions to assist banks, the credit markets, in general, remain frozen. This is the overarching issue we face: How do we get the banks to resume lending? The credit supply or lack thereof, interrupts global trade. There has been a large decrease in the Baltic Dry Freight Index (which measures the demand for shipping capacity versus the supply of dry bulk carriers and is a leading economic indicator). How much of this is due to a lack of credit is not estimable, but it clearly is affecting trade. Until credit becomes available to corporations again, we will have trouble establishing a bottom.

In the past few days we have witnessed some signs that the credit markets may be returning to normal. Libor, Euribor, and Ted Spread all seem to be drifting back towards normal readings. While it will take time to achieve normalcy in the banking and financial industries, these are encouraging signs.

We are seeing some signs of an appetite for risk returning. One of the best performing markets over the past few years have been emerging markets as they have experienced major economic growth. Emerging markets have taken a beating this year and were down over 60% a few weeks ago as investors fled from these higher risk markets. Recently, with the Fed granting swap lines to Korea, Singapore, Brazil and Mexico, investors have seen value in the emerging markets. The swap lines allow these country's central banks to obtain dollars from the Fed and auction them in their own markets. Over the past week, emerging markets have climbed over 30%. This is a positive sign, demonstrating that the appetite for risk could be returning.

| Peak                              | Trough     | Duration (Months) | Bear Market Magnitude | Recession During Bear? | 1-Yr Return After Trough |
|-----------------------------------|------------|-------------------|-----------------------|------------------------|--------------------------|
| 9/3/1929                          | 7/8/1932   | 34                | -86%                  | Yes                    | 124%                     |
| 3/10/1937                         | 4/28/1942  | 61                | -60%                  | Yes                    | 59%                      |
| 3/24/2000                         | 10/9/2002  | 31                | -49%                  | Yes                    | 34%                      |
| 1/11/1973                         | 10/3/1974  | 21                | -48%                  | Yes                    | 38%                      |
| 10/9/2007                         | 10/10/2008 | 12                | -43%                  | ?                      | ?                        |
| 11/29/1968                        | 5/26/1970  | 18                | -36%                  | Yes                    | 44%                      |
| 8/25/1987                         | 12/4/1987  | 4                 | -34%                  | No                     | 23%                      |
| 5/29/1946                         | 6/13/1949  | 37                | -30%                  | Yes                    | 42%                      |
| 12/11/1961                        | 6/26/1962  | 6                 | -28%                  | No                     | 33%                      |
| 11/28/1980                        | 8/12/1982  | 21                | -27%                  | Yes                    | 58%                      |
| 2/9/1966                          | 10/7/1966  | 8                 | -22%                  | No                     | 33%                      |
| 8/2/1956                          | 10/22/1957 | 14                | -22%                  | Yes                    | 31%                      |
| 7/16/1990                         | 10/11/1990 | 3                 | -20%                  | Yes                    | 29%                      |
| <b>Average (excluding 07-08):</b> |            | <b>22</b>         | <b>-35%</b>           | <b>-</b>               | <b>46%</b>               |

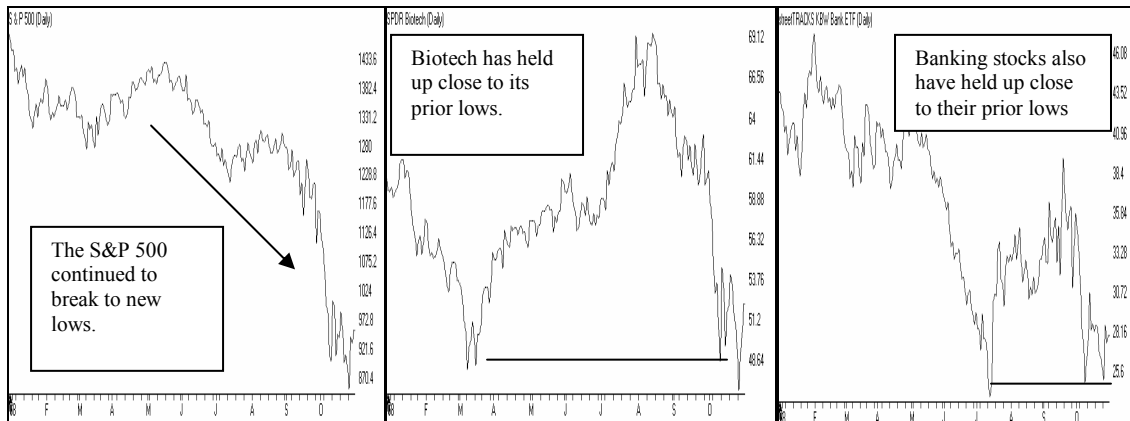
Source: ISI, Bloomberg, National Bureau of Economic Research, Haver Analytics, FMRCo (MARE) as of 10/20/2008. Recessions are defined by the National Bureau of Economic Research.  
 [1] - All stock returns represented by S&P 500 index returns.  
 Past performance is no guarantee of future results. You cannot invest directly in an index. The S&P 500® is a market capitalization-weighted index of common stocks, is a registered service mark of the McGraw-Hill Companies, Inc. and has been licensed for use by Fidelity Distributors Corporation.

Another positive for the markets is the pullback in commodities. The high prices of commodities have been worrisome as they inflated the costs of fuels and foods around the globe during a time of economic slowdown. In fact, some areas are now seeing gas prices dropping below \$2! As seen in the chart below, commodities have come crashing down, which is allowing central banks to change their focus from inflation to growth.



One thing for certain is there are many great values being created. Low interest rates, competitive currency devaluations, and the fiscal stimulus packages are laying the foundation for the next bubble to be born. During the US stock bear markets of the past 82 years, the 12 months following bear market troughs have seen well above average performance, with one year stock returns averaging about 46%.

Although we believe we may have seen the bottom and there are signs that some stability may be returning to the credit markets, we continue to maintain a cautiously optimistic approach. We have held, and continue to hold, large amounts of cash in our portfolios. In our conservative portfolios we remain 100% in cash, but we have dipped our toes into the market with a small portion of our more aggressive portfolios. We have added small positions in biotech and banking, two areas that have held up well during this bear market as seen below. While the S&P 500 was hitting new lows, both biotech and banking have held close to their prior lows.



We continue to monitor the markets and developments on a daily basis and are keeping a watchful eye should market conditions continue to improve. Many times this year it appeared that stability had returned to the markets, whereupon it then fell to new lows. Therefore, we continue to maintain a defensive posture. Our main concern is protecting our portfolios from further losses. Once the markets turn around, we feel confident we will be able to participate in the gains, but we don't want to make the mistake of jumping in too early.

To provide an additional tool for our clients to potentially generate normal stock market type returns in a potentially poor or mediocre stock market environment, Regatta is launching another Structured Product portfolio, REX. This will be a portfolio of reverse convertible securities. A reverse convertible security is a short-term investment tied to one or more underlying stocks. It provides a steady income stream from a coupon rate higher than that of a comparably-rated traditional corporate bond of the same maturity. In addition to the stated coupon that is paid, at maturity the investor receives either 100% of the initial investment in cash, or a pre-specified number of shares of the underlying stock, the value of which would be less than the amount originally invested. To learn more about this exciting portfolio or our other structured product portfolios, contact your advisor.

Regatta will be interviewed by Fox News on Greg Gumbel's Economic Report. We will be discussing the new structured product portfolios and our upcoming book that will be released in December, "The Xs and Os of Rebuilding and Protecting Your Nest Egg in any Market Environment."

We sincerely thank you for your continued patronage and support!

Sincerely,

The Regatta Research Team

Disclosure

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