Quarterly Report

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October 27, 2008 Quarter 3, 2008

What's New?

Conference Call Recordings are posted on our website at

www.ufpartners.com

Contents:

Investing and The Economy Conference Call Series

Because of the complexity and severity of the current Financial Crisis, we began a Conference Call Series on Investing and the Economy.

To Access the Call:

Toll Free
1-800-704-9804

Access Code:
994-29-332#

Please join us on the call, ask live questions, and invite your friends, relatives, and business associates to participate.

You can email questions and concerns or topics you want to have discussed:

aterranova@ufpartners.com

The Conference Call is recorded and posted on our website the next day. People who could not be available for the live call can still have the information covered on the Call.

www.ufpartners.com

The main topics of discussion have been:

What to do with investments during this period of drastic stock market volatility?

Understanding the Credit Crisis, Recession Fears, the Bailout Package and what to do about it all.

How safe are cash investments? What is the status of our banks, banking regulation, and cash deposits in general?

We will discuss other issues at the request of our clients and call participants.

So far the Calls have been well received. I hope you can join us.

Wednesdays

From 5:00 – 6:00pm

Crisis: The De-Regulation Debacle

To protect the public, we need to separate America's banking system from the brokerage (investment banking) industry as it was for seventy years under the now repealed Glass-Steagall Act. Complex derivative securities created by brokerage firms collapsed in recent months causing the biggest worldwide financial crisis in decades. Problems with investment (derivative) securities should not be allowed to threaten our public banking system. The De-Regulatory ideology of the past has failed. It is time to develop a functional Regulatory System to guide the financial industry.

Rather than continuing on the ill-fated route of banking and brokerage integration and deregulation, I believe the public and the world economy would be better served by moving in the opposite direction: reinstate the Glass-Steagall Act and re-establish the separation between banking and brokerage.

The Glass-Steagall Act was originally adopted in 1933 as a response to the 1929 Market Crash and Great Depression. The Act mandated the separation of the banking and brokerage industries by prohibiting a commercial bank from offering investment and insurance services. The purpose of this landmark legislation was to protect the nation's banking system and the cash deposits of the people of this country from the speculative excesses of the brokerage industry. In 1999, the Gramm-Leach-Bliley Act (the "Financial Privacy and Modernization Act") was signed into law. This legislation dismantled a major piece of financial regulation protecting our banking system by the repeal of the Glass-Steagall Act.

The argument used for removing the distinction between banking and brokerage was that despite the law, institutions had found "side routes" to creating "financial integration" and the many combined financial

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"Sensible regulation need not stifle innovation, growth, or competition. It does need to make a distinction between a person choosing to speculate with their own money and an institution or individual advisor making decisions with other people's money. In the case of other people's money, nothing less than a fiduciary standard and full disclosure should be acceptable. "

--Ann Terranova, CFP ™

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institutions we see today. Indeed, the combination of Travelers and Citigroup (in 1998) took place before the repeal of the Act (in 1999). How that happened and why anti-trust issues were not raised can only be attributed to raw political clout.

Such mergers could have been modified or even stopped had the Fed enforced regulations that existed at the time. They didn't want to. According to the Federal Reserve Bank of San Francisco Newsletter (FRBST Economic Letter 2000-10 March 31, 2000) the Act "breaks down barriers—some of which are seven decades old—and allows full affiliation of banking with underwriting and agency activities in securities and insurance." The Act also clearly places responsibility squarely on the Fed for monitoring the credit risk exposure of these integrated institutions both on the banking and brokerage sides. Then Fed Chairman Alan Greenspan chose to "raise concerns" but took no action.

The second piece of legislation that unhinged regulation and led to the current credit crisis was the Commodity Futures Modernization Act. It was introduced on the floor of the Senate by Phil Gramm, who was then chairman of the Senate Finance Committee, and signed into law in 2000. This law completely deregulated the market for "complex derivatives" allowing banks and brokerage firms both separately and together to speculate in this thoroughly unregulated market.

We've all heard about the sub-prime mortgage-related derivatives that sparked the collapse. It's important to broaden our perspective and understand that mortgage-related derivatives account for only a portion of the complex derivatives market. In 2007 these securities had a notional value of $516 Trillion Dollars according to statistics from the International Monetary Fund. At the same time, the entire world stock and bond market combined had a value of $194 Trillion Dollars. It is the leverage on these holdings that to me is the element of the crisis today that most resembles the Great Depression – when people were buying stocks 10 cents on the dollar. The leverage of Bear Stearns was 30 to 1 at the time they were acquired. 30 to 1 leverage is like having a $500,000 house with a $15 million dollar mortgage.

The value of the credit derivatives exceeded the value of the securities they were supposed to represent. Imagine an option to buy 100 shares of IBM stock at a specified price three months in the future. Then imagine that the number of options outstanding vastly exceeds the value of all the IBM stock that exists. Then imagine that the strike price of the option is met and all of the holders of the option are entitled to delivery of IBM stock at that price. They cannot all receive IBM stock because there simply is not enough to go around. It would then become necessary to "de-leverage" the option holdings.

It is important to note that both of these laws were spearheaded by Phil Gramm, former Republican Senator from Texas and key advisor to John McCain. He is potentially positioned to serve as Treasury Secretary if McCain were to become President.

It is also important to note that while Alan Greenspan argues his innocence in the matter, he did nothing to halt financial integration, allowed the repeal of the Glass-Steagall Act and indeed championed the Commodity Futures Modernization Act of 2000, heralding its supposed benefits. There is little true regulation in the incestuous relationship between the Fed and the Financial Services

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Bank Quality Research

Contact us directly at Union Financial Partners for the results of our findings

Union Financial Partners has been conducting some research regarding resources that consumers can use to check out their bank. If you are interested in finding out more about the health of your bank, you can go to the FDIC website at www.FDIC.gov. In the Search Box type "Bank Ratings Services." Here you will find a list of ratings services. Many of them are free of charge.

For example, one of the services, Bankrate.com, is a free analysis of a bank's health. To access this information, go to www.Bankrate.com. In the Search Box type "Safe and Sound Ratings."

For our clients, you can have access to the results of our own research. We used free as well as paid services to conclude our own research about the banks.

Clients can call the office or email aterranova@ufpartners.com to receive this information at no additional cost.

Stock Market: They Don't Call it a Bear Market for Nothing!

It's called a Bear Market because it is hard to take. Money is an issue that cuts close to the emotional bone for every human being. It is often associated with love and it is always associated with survival. When our money is threatened, as it is when we see our investment balances go down and the world facing an economic crisis, we go into survival mode.

For many people that means wanting to react by taking all their money out of the stock market and hiding it in the mattress. This is a normal reaction to a threat.

Here are seven points I want to make.

Emotions = Normal

The emotional reaction that people have is normal and if you have been feeling this way you're not alone. We are monitoring the economic crisis and your investments very closely. Perhaps you can leave the worrying to us.

Stock Market Volatility = Normal

The stock market is volatile. There have been 13 bear market declines of 20% or more since 1926, an average of one every six years. Four of those declines were in excess of 48% and happened in 1929, 1937, 1972 and 2000. It is easy to think of these declines as unusual and outside of normal limits. Returns following bear markets also exceed "normal limits." The average one year return following a bear market is 46%. It is the nature of risk to experience falling market values. Risk is often defined as volatility, but no one calls it risk when the volatility is on the upside. The market behavior we see today is normal.

Timing Doesn't Work

People who think that they can sell out of stocks when they start to go bad and then re-enter the market in time to reap the rewards of an upturn generally fail. The risk of making these moves at the wrong time is greater than the risk of staying invested. According to Standard and Poors, equities typically recoup a third of what they lost in a bear market in the first 40 days of a new bull. (Money November 2008 pg 91).

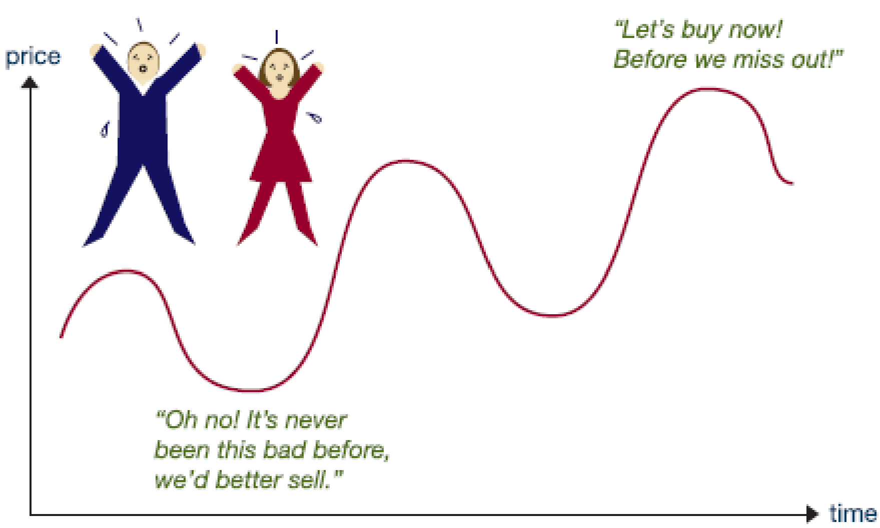
Still, many people try to time the market. You can see this if you look at the flow of money in and out of the market as it rises and falls. Large sums of money flow in as the market reaches its peak. Money flows out as it reaches its troughs. There is a difference between investment returns and investor returns. The investment returns of the market itself are generally higher than the personal experience of most investors for exactly this reason. Taking money out of the stock market when it is down is the worst thing an investor can do if the goal is to create healthy long-term results.

No Crystal Ball

Predicting the future direction of the stock market on a short-term basis is not possible. At the beginning of the Gulf War in 1991 practically everyone said that the market would go down. It did the opposite. There are simply too many unknown factors at work to reliably make any prediction about short-term swings in the stock market.

The direction of interest rates is not predictable. Studies have been done polling economists' predict – tion about the direction of interest. The studies conclude that they are right about 50% of the time—the same as flipping a coin. A year ago many people believed rates were headed up. What happened to cause the reversal in the trend was unforeseen at the time (the credit crisis).

The future direction of the economy is not known either. We may have a recession and we may not. For the Fed Chairman to state that we ARE going to have a recession in some ways creates a recession that may or may not be around the corner. Any recession we experience



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The Risk of Inflation

Price of Bread
1969 = $0.29
1999 = $2.49

Movie Ticket
1969 = $1.00
1999 = $12.00

New Ford Car
1969 = $2,200
1999 = $33,000

Downside Market Risk S&P 500

Worst Year
1931
-43.35%

Worst 10 Yrs.
1930 - 1940
-1.0%

Worst 30 Yrs.
1929 - 1959
+8.6%

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could be long, short, severe or mild. We [they] just don't know.

The Situation is Serious

The freezing of the credit derivatives market, the size and interconnectedness of this market, the degree of leverage and the threat that this crisis has posed for our economy is a serious matter. Deleveraging, developing and implementing meaningful regulatory reform will take time. The impact that this crisis will have on us remains to be seen. That there will be a serious impact is certain.

The Media Exaggerates

It is the nature of the news media to sensationalize events. It is also the nature of the beast to elaborate on negative news almost to the exclusion of anything positive. I suppose this is a subject for social psychologists. I just know that this sensationalism feeds on the fears of people about their money, their survival instincts. What's important is for people to keep a perspective about the news so that it doesn't cause them to make bad financial decisions.

Financial Planning

What you can do about this mess is to maintain a long-term perspective about investments and to make sensible decisions about your money. The financial planning perspective shows you whether or not you are on target to meet your financial goals regardless of the current state of the stock market, the economy, the real estate market or who wins the World Series.

Several people have told me that they have become more conservative with their money because of the financial crisis. This can be a good thing. For many people this includes building more cash reserves, paying down debts, and more closely evaluating spending decisions. Moderate spending buys more financial freedom. All of these behaviors will create a more stable financial condition for yourself and will allow you to more easily weather any worldwide or personal financial crisis.

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Industry. Here are Greenspan's remarks (May 5, 2005, Federal Reserve Bank of Chicago's Forty-first Annual Conference on Bank Structure):

"In the United State, the Commodity Futures Modernization Act of 2000 has permitted healthy competition between the exchanges and the OTC markets, and both sets of markets are reaping the benefits. The benefits are not limited to those that use derivatives. The use of a growing array of derivatives and the related application of more-sophisticated approaches to measuring and managing risk are key factors underpinning the greater resilience of our largest financial institutions…."

There are people who will argue that any regulation hinders the workings of the free market economy. These "free market" ideologues would have banks and brokerage firms operate without rules, without accountability and without regard for public well-being. Financial regulation is as necessary and appropriate as speed laws on the public highways. Both are a matter of public endangerment.

Speculation is an inherent part of the workings of a free market economy and will always exist. At the same time, it is imperative that the public banking system not be threatened by these speculative activities. In fact, what is most important is that some distinction be made between people choosing to speculate with their own money and the fiduciary and social responsibility of institutions and individuals making decisions with other people's money. There is no ethical imperative obliging us to safeguard private profits with public risks. We should not wait until the economy is as bad as it was in the Great Depression to be motivated to create real regulatory reforms that are deeply rooted in the protection of the public trust. That is one lesson and one remedy that I think we should consider right now in light of the current worldwide "credit crisis." Don't Wait – Regulate!