KLS PROFESSIONAL ADVISORS GROUP, LLC
Complete Financial Management

The First Ten Days of October 2008

We have previously written that the lack of confidence in the balance sheets of financial institutions is at the center of what is now acknowledged to be a worldwide financial crisis. This lack of confidence relates not only to the institutions' inability to muster up liquidity but also to their ultimate solvency. During the first ten days of October, the S&P 500 has declined by more than 22%. The outlook for reduced corporate earnings and the likelihood of contracting price earnings ratios could produce a powerful force in driving share prices still lower. As the leverage in the system unwinds and selling stresses asset values, balance sheets are further compromised. Stability will resume only when balance sheets are re-rationalized with fresh capital and suspect assets are fully marked down, disposed of, or underwritten by the federal government.

The consensus view at this point is that there will be a protracted and deep recession. It is difficult to see robust earnings growth until all of the financial excesses are fully worked through the system.

Going forward, investors must adjust expectations for corporate earnings growth rates and share price appreciation. In a less charged, less leveraged environment, earnings growth will likely be slower but less volatile.

Although the Fed and the central banks of other countries have undertaken an aggressive monetary policy, we believe that it is fiscal policy that must be employed to turn the situation.

For most of our clients, we began October significantly underweight equities. We further reduced this month in the face of increasing risk and volatility. Each client's account, however, is managed separately based on each individual's circumstance and portfolio and in accordance with the historical operating relationship with the client. We will keep you posted as developments occur.

October 10, 2008

111 Fifth Avenue • 8th floor •New York, NY 10003 *t* 212.355.0346 *f* 212.355.0413
www.klsadvisors.com