



**Claremont Financial Group, Inc.**  
Registered Investment Adviser

Dear Valued Client,

When markets are as volatile as they are right now, there is no substitution for advisor-client communication. Therefore, below I will describe what has taken place in your portfolios over the last week and what we are doing to manage you through this credit crisis. In addition, I will attempt to warn you of some of the mistakes being made by our competitors' clients who have been lured into the wrong type of assets in our opinion. Finally, I will layout some of our thinking for potential future strategies for your nest egg.

### **A Week in History**

As we wrote in our Letter to Clients dated September 29<sup>th</sup>, 2008, we took decisive action by moving your portfolio predominantly to U.S. Treasury securities (75%), and Blue Chip equities (25%) with little, if any, exposure to financial stocks. In addition to what was described in that letter, one of the rationales for the move was that the Federal Reserve had pumped \$300B in cash loans to banks that day, well before congress voted down the bailout package, yet the credit markets had locked up even tighter. It was on this news that your account was reallocated, for it sent us a clear message that the problem was a bit deeper in its current state than a (subsequently) passed bailout bill could immediately address. While we do feel the bailout should be effective, we've concluded that it will take some time to get the fluidity back in the credit markets, so the best place we can be is (predominantly) direct obligations of the U.S. Federal Government (Treasuries). On this note, today the Fed's have injected another \$900B in markets through cash loans to banks, so we await the final results in the credit markets tomorrow before opining on its effectiveness.

### **Caveat Emptor**

One caveat we feel compelled to inform you of is the idea of rate shopping for Certificates of Deposit (CD's) at the local bank. Keep in mind folks that this is a *banking crisis*! The federal list of troubled banks is growing each day. FDIC insured CD's are considered safe, but they are not direct obligations of the federal government, whereas Treasuries are. Do not be lured by high-yield CD's. The higher the yield, the more potentially desperate the bank is for your deposit, possibly signifying trouble.

Our bearish view comes from analysis on the banking segment as a whole, and on FDIC in particular. FDIC, as of the time of this writing, is under-funded, in our opinion, to handle the worst-case scenario of multiple bank failures at once. This is due primarily to the fact that they have approximately \$22B in reserves insuring approximately \$1.5T in deposits: A mere 1.5%. It is still likely you'd be returned your principal, but FDIC does not guarantee interest beyond the date of failure and the red tape associated with your claim can be frustrating to say the least. For those of you that had money at a failed savings and loan in late 80's and early 90's, you know what I am talking about here! In our opinion, now is no time to be yield hunting, it is a time to protect your interests.

### **The Future Could Be Bright**

Folks, there may be a silver lining in all of this. Since we reallocated you to the Wilshire Defensive Strategy, and thereby largely sitting your money on the sidelines, the market has continued its precipitous fall. After getting out somewhere between 10,400 and 10,500 on the Dow, it is now, as of the time of this writing, 9,600 points. While we certainly are not rooting for the fall to continue by any means, it deserves mentioning that the deeper a bear market declines, the higher the future returns can be (if you are not fully invested throughout the decline, of course). Rest assured we are scouring the market daily for trends and opportunities, but have yet to come across any with the confidence required to take a position. The trick for us, of course, will be to increase your stock exposure at the right time to capture a future rebound. In the absence of the proverbial crystal ball, we have our work cut out for us in that regard.

The next rally could very well prove to be a sucker's rally and plunging back in with all of your money could leave us as bad off as if we had never mostly left. Therefore, we are working diligently with Wilshire and our other strategists to design a plan for when and how to increase your equity exposure. We do not anticipate a wholesale move, but instead an economics driven, gradual shift over time. For those of you who would like to accelerate the purchase of equities, please call us anytime and we will adjust your portfolio accordingly.

### **House Keeping**

As many of you are now aware, we have implemented an Email Broadcast Alert System (EBAS) to more rapidly convey our thoughts throughout this dynamically shifting market. Please note that we will NOT market our services through this system. It is strictly for existing business with existing clients, so please, open the emails and read them carefully.

In addition to the EBAS, we have implemented a "Client Alert" button on our website, [claremontfinancial.com](http://claremontfinancial.com). When you enter the site, if the tab is flashing, we have a time-sensitive message to convey to you. Please open it up and read it.

In closing, we believe that while the credit crisis has created some uncertainty, we will get past this just as we got past the crash of 1987 and the deep bear market of 2000 to 2003. We are now in a position to capitalize on the opportunities presented by the decline and are looking forward to some clarity to take advantage of.

Should you have more questions or need some clarification of our strategies, please do not hesitate to call me. I will return your call in as soon as time permits.

My very best,

Nick Scalzo  
CEO-Claremont Financial Group, Inc.