



Claremont Financial Group, Inc.
Registered Investment Adviser

This message is in reference to Schwab accounts ONLY

October 10, 2008

Good evening ladies and gentlemen,

It is Friday evening and my meeting with our lead investment partner, Wilshire Associates, has adjourned. If you will recall, Wilshire's analytics are used on over \$12.5T of global assets. They are the ones who consult on the investment management of CALPERs, one of the world's largest pensions, and approximately 70% of all the public employee pensions in the United States. To that end, they won Pension Consultant of the Year for 2007 for the umpteenth time, and have proven to be a preeminent firm in our industry. For those of you who haven't heard of them, it is probably due to the fact that they require a \$500M minimum investment to gain access.

I was fortunate enough to meet with some of the most brilliant minds in our business this afternoon, including Wilshire's president, discussing both quantitative and qualitative analysis of the current market environment. In addition, much of the time was devoted to discussing planning strategies specifically for our clients at Claremont Financial Group. We discussed in detail the dilemma we now face of when and how to increase the equity positions in your portfolios so as to capture a fair share of a market rebound without exposing you to excessive risk.

It is with that in mind that I want to lay out in a concise manner our plans moving forward.

Your Current Portfolio

The portfolio in which you are all currently invested we have named the Wilshire Tactical Opportunities Portfolio. The plan is to gradually increase the equity exposure in this model, over the next four to twelve months, from 25% (currently) to a cap of 60%. It is very important to note that this gradual increase is dependent on Wilshire's interpretation of then-current global economic data and is subject to change at any given time. Hence, we could see a more rapid increase in equities, or a slower, more gradual increase, or even a mid-stream pull back in equities, if prudent. In other words, this is a very fluid model with an eventual cap of 60% in stocks and will be managed according to current events, with 60% being the future goal.

A Conservative Option (you must contact us directly!)

For those of you that are long-term conservative investors or who are just not quite ready to begin inching further into the market, we have added another very defensive portfolio which will contain the same 70% to 100% Cash and Treasuries and 0 to 30% Large-Company stocks in your current portfolio. We will call it the **Wilshire Defensive Strategy**. This new portfolio will always be defensive in nature and it is very unlikely this portfolio will have any significant increase in equity exposure, but you could very well see a future reduction. **It is very important to note that this is an option you MUST elect. To remain very conservative you must enroll in this strategy both verbally, and in writing or you will remain in the Tactical Response Portfolio above and could therefore see your equity exposure increase.**

Please call or e-mail our office to request the form.

My Opinion

I want to share with you my opinion on the market but it must be noted that it is simply that--an opinion! I believe that the wild swings in the markets today signaled that capitulation is near. I also believe we will see a volatile week next week, but I believe it will mark the beginning of recovery, or at least the bottom to which I referred in my first letter dated 9/29/08. There are a variety of events unfolding which should help strengthen support for the market. I believe that the credit markets, which are responsible for this historic sell-off, froze up as a result of the Lehman Brothers bankruptcy and the Fed's "mistake" of selectively allowing them to fail. Lehman's commercial paper (which act like short-term bonds) is what caused the money markets to "break the buck" a few weeks ago and it has spread like cancer ever since. On top of that, there are many global banking institutions that were guaranteeing Lehman's bonds through Credit Default Swaps (like insurance), whereby they have to pay the bondholder the principal should Lehman fail. Well, they failed!

Banks have been hoarding cash ever since, in spite of how much the world's central banks loaned to them because they had no clarity as to what they owed. Today was the day that the auction for the Lehman Brothers Credit Default Swaps commenced. This was the beginning of the "unwinding" of their bankruptcy, and very well could be the beginning of clarity. The auction priced the bonds at a mere 9.5 cents on the dollar, but at least they have been priced! This event was coupled with the Fed's guaranteeing of both sides of the money markets and an emergency half-point rate cut this week. Add to that newly dispensed trillions of dollars in global liquidity and the beginning of the "bailout" package, and you have a recipe that should thaw the credit freeze. The test will be the effect this has on the overnight LIBOR interest rates that banks charge one another for loans. If this number drops substantially next week, it should signify at least a floor in the markets, if not the beginning of recovery.

When I say recovery, I am not talking about the DOW heading straight back to 14,000 points. That appears to be much longer into the future. I am talking about getting back to 10,000 or so, which would be an approximate 20% increase from current levels. We won't see new highs until the overall economy begins to improve, which could start in late 2009 or 2010. More on that later.

In summary, we believe that at some point in the not-too-distant future Wilshire will begin to increase equity exposure in your portfolio (if you do not opt into the permanent Defensive Model). While we have substantially out-performed the market and many of our competitors, it is our hope that we will be successful at capturing a good portion of a future rally so as to return your portfolios to profitability soon. While we cannot guarantee the market, we can guarantee that we are working diligently with your best interests at the forefront of every decision we make.

Sincerely,

Nick Scalzo
CEO-CFG, Inc.