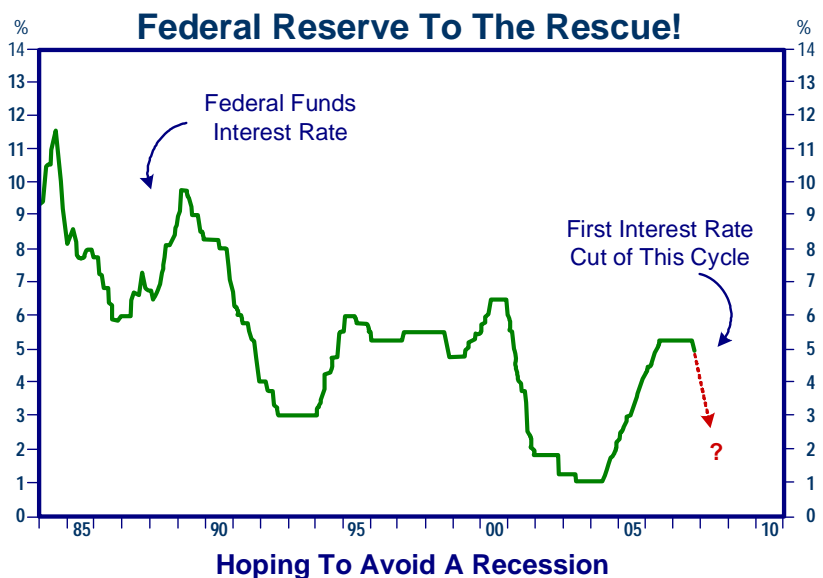


DODGED A BULLET — FOR NOW

The stock market experienced a sharp, swift decline for the second time this year and yet managed to finish the quarter higher. In the first quarter of the year, it was a 7% market pullback and this last quarter a more uncomfortable 12% decline that made for a very bumpy ride for investors. In last quarter’s newsletter, we stated a financial “wild-fire” could quickly spread through the financial system, especially considering aggressive hedge fund speculation in combination with abusive lending practices. Indeed a fire did ignite and many speculators were burned in the process. We admit even we were surprised by the abrupt and widespread damage inflicted on the entire financial system from sub-prime real estate loans. As a result, some hedge fund investors have been wiped out, mortgage lenders put out of business, and financial companies (banks, insurers, and brokers) forced to write off billions in losses. **Your portfolio was conservatively positioned to withstand the volatility and insulated from the crisis that hurt many others. Pring Turner Capital Group clients finished the quarter with gains and more importantly, were able to sleep well while others hit the panic button.** We are pleased to report consistent portfolio results in spite of a volatile and inconsistent world. It is times like this that make us thankful that prudent risk management is the cornerstone of our investment philosophy.

In mid-August, just one week after leaving interest rates unchanged at their regularly scheduled meeting, the Fed held an emergency session and voted to cut the discount rate by one half per-

cent. Turmoil in the financial system, specifically a dangerous liquidity crisis when even large lenders were suddenly unable to fund loans to qualified borrowers, caught the Federal Reserve’s attention. This led to a dramatic reversal in monetary policy. **The surprise move had an immediate psychological effect on investors, relieving some of the chaos in the system. A follow-up interest rate cut in September boosted investor confidence yet further. Is most of the volatility behind us and where do we go from here?**



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For the moment this financial crisis appears to be largely over, however the hangover from housing problems will likely be with us for a very long time. It will be months, if not longer, before we know the full extent of damage to financial institutions and the economy. The big question remains: Is the Fed action going to be a case of too little, too late and the economy heads

“Conditions in financial markets have shown some improvement since the worst of the storm in mid-August, but a full recovery of market functioning is likely to take time and we may well see some setbacks.”

Fed Chairman Ben Bernanke, 10/15/07

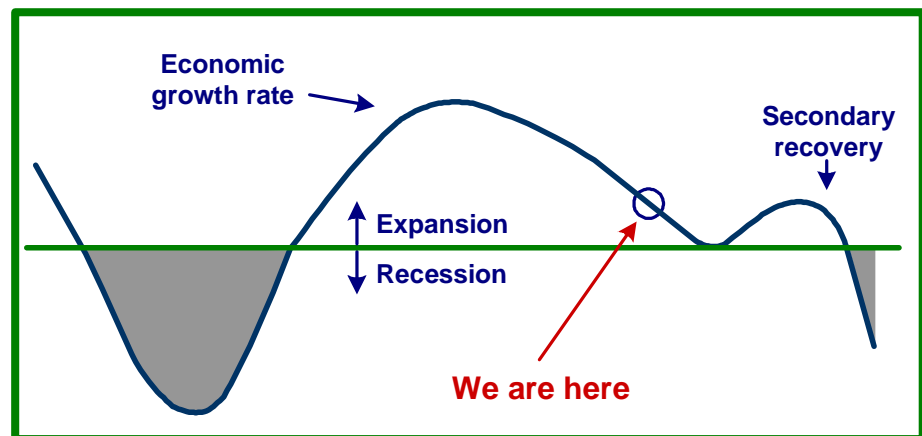
into recession soon; or, is the move just enough to reaccelerate and extend this aging business cycle? We opt for the second scenario and believe the economy and markets have dodged a bullet for now. **The Fed’s strong actions pre-empted a deepening liquidity crisis that almost resulted in a crash landing for financial markets and the economy.** We anticipate

what Martin Pring has referred to as a “double cycle” which he described this way:

“As an example, the US economy experienced this type of environment in 1980’s during the so-called rolling recession. All sectors of the United States moved into the recovery state in the early 1980’s, but by the mid 1985-1986 period, the farm, energy producing and rust belt areas of the country experienced an extremely sharp recession. Because other regions were quite buoyant, the aggregate economy did not slip into recession, but the internal distortions were so great that the financial markets experienced a couple of mini-cycles.”

-- Martin Pring’s All-Season Investor

Economic “Double Cycle”



The Economy Avoids Recession . . . For Now

Today’s economy is following a similar pattern as evidenced by the wide disparity in performance amongst broad industry sectors. Housing is in a severe recession and related industries in the consumer area including retail and financials have suffered significant blows. On the other hand, energy, commodity, and other global beneficiaries are thriving due to strong growth overseas. Overall, the U.S. economy has slowed considerably and although it has technically avoided a recession so far, it has delivered very uneven performance. **You have been able to steadily grow wealth by concentrating your portfolio in value areas, emphasizing strong sectors, and avoiding weak ones.** We will continue to selectively add promising new sectors as opportunities

present themselves. We look forward to structuring portfolios with investments meeting our time-tested criteria for quality, value, and income.

Caution and patience are essential traits to have in today's "double-cycle" environment. As the economy continues on an irregular, slow growth path, periodic bouts of uncertainty are likely to affect the financial markets with additional volatility. **We are confident that our investment disciplines, crafted over many past boom and bust cycles, will continue to protect and grow your precious wealth.** Once again, thank you for your continued confidence. Please feel free to contact us with any questions regarding your portfolio.

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