USI Advisors, Inc.

Market Update
October 2008 Review

Market Update is a monthly publication circulated by USI Advisors, Inc. and is designed to highlight various market and economic information. It is not intended to interpret laws, regulations or to address specific client situations.

Market Crash

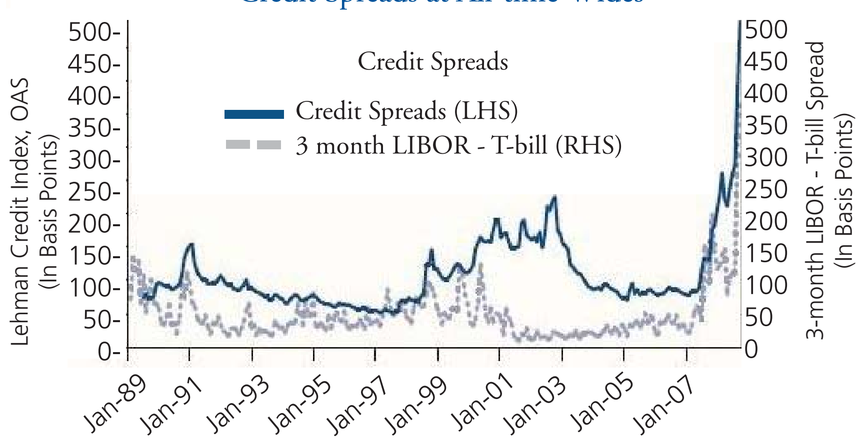
"April is the cruelest month . . ." begins the first line of *The Waste Land*, the signature modernist poem by T.S. Eliot. As far as the stock market and investors are concerned, October is the cruelest. Stunning in its magnitude of volatility and sheer loss of market capitalization, October 2008 will go down in history as one of the worst months on record for stocks (see chart to the right). Driving share prices sharply lower was a combination of indiscriminate selling by leveraged investors and signs of a significant economic slowdown. The Dow Jones Industrial Average ended down 14% for the month while the S&P 500 Index shed almost 17% and the NASDAQ dropped 18%. International equity markets were hit hard as well, as the MSCI EAFE Index declined 20.2% and the MSCI Emerging Markets Index shed 27.4% for the month and is off 53.1% year-to-date.

S&P 500: Worst 10 months	
Months	**% Change**
09/1931	-29.94%
03/1938	-25.04%
05/1940	-23.95%
05/1932	-23.33%
10/1987	-21.76%
04/1932	-20.25%
02/1933	-18.44%
10/2008	-16.90%
06/1930	-16.46%
08/1998	-14.58%

Source: Stock Trader's Almanac

Conditions in the fixed income markets didn't fare much better as investors hoarded cash and Treasuries while selling anything with risk; including high-quality investment grade corporate bonds, bank loans, as well as asset and mortgage-backed securities. Deleveraging by hedge funds combined with a declining appetite of risk from domestic and foreign investors widened credit spreads to new all-time levels (see chart below). The Lehman Aggregate Bond Index, a barometer for the U.S. bond market, declined 1.7% for the month while the Lehman U.S. Corporate High Yield Index shed nearly 13.7%. With limited buyers of risk, the new issue market for corporate bonds has been effectively closed for a month.

Credit Spreads at All-time Wides



Source: Bloomberg

Just as we witnessed in September, the markets continued to suffer under the weight of a deteriorating housing market, an ongoing credit crises, sluggish profits, a too close to call election and persistent fears of a global recession. The market malaise continued in October in spite of the U.S. government's sweeping actions to kick start the economy, including Congressional approval of a $700 billion rescue package,

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buying stakes in ailing banks and the Federal Reserve agreeing to buy businesses' commercial paper. Collectively working with central banks around the world, the Fed cut its target rate another 50 basis points, to 1%. Japan, China, Norway, Taiwan, South Korea and Hong Kong also lowered borrowing costs. We still expect these collective actions to have a positive impact on the markets into the future, although the timing of this is still uncertain.

Despite the magnitude of monetary stimulus across the globe, investors increasingly shifted their attention from the woes of Wall Street and financial related firms to the prospects of weakness in manufacturing and other non-financial industries. In particular, oil and commodities were hit hard in October, as investors bet that demand would sag due to softness in the U.S economy and elsewhere. Crude oil declined almost 33% to $67 a barrel (its steepest monthly drop ever) in large part to a significant decrease in demand worldwide. Copper declined nearly 40% while even gold slumped 18%. Domestically, the U.S. economy contracted last quarter as gross domestic product ("GDP") fell 0.3%. Behind the GDP numbers reveals a U.S. consumer that has put the brakes on spending. The Reuters/University of Michigan consumer sentiment fell to 57.6 in October, sharply down from September's 70.3 reading while consumer spending declined by 3.1%, its biggest drop since the 1980 recession.

Fortunately, help is on the way in the form of an unprecedented global policy package, as described earlier, that injects capital into the banking system and helps companies with near-term debt and commercial paper maturities. During the last week of October we witnessed the first signs of a rebound in commercial paper issuance since the collapse of Lehman Brothers, evidence that the Fed's Commercial Paper Funding Facility is working. In addition, credit showed signs of loosening as the London Interbank Offered Rate, or Libor, has trended modestly lower. The S&P 500 also benefitted with a historically high return of 10.5% for the last week of October.

As mentioned earlier, the global combination of fiscal and monetary stimulus should help the credit markets over the long term and, specifically, the banking system. Nevertheless, the real effects of the year long credit crunch will be felt throughout the overall economy over the next several months in terms of lower GDP, further deterioration in the housing market and higher unemployment rates. We expect near term deleveraging is likely to result in continued market volatility. Replacing fear with confidence is key to a market recovery, as Warren Buffett was recently quoted "be fearful when the market is greedy and be greedy when the market is fearful."

Definitions & Disclosures:

An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.

Market Capitalization – A company's market capitalization is equal to the number of company shares outstanding multiplied by its current stock price. Large-cap stocks are often classified as companies with market capitalizations of more than $10 billion; Mid-cap stocks between $2 billion and $10 billion; and Small-cap stocks with less than $2 billion.

Consumer Price Index (CPI) – The CPI is a cost of living index, released monthly, and published by the U.S. Bureau of Labor Statistics within the Department of Labor. It measures prices of a fixed basket of goods hypothetically bought by a typical consumer. This basket of goods includes food, shelter, utilities, transportation, medical care, clothing, entertainment, and other items.

Producer Price Index (PPI) – The PPI is a wholesale price index, released monthly, and published by the U.S. Bureau of Labor Statistics within the Department of Labor. It tracks the prices of oil and gas, metals, lumber, food, and many other commodities. It does not measure the price of services. The PPI is monitored by economists seeking to identify trends delineating upward or downward pressure on wholesale prices, as these price movements are usually passed through to consumer prices over time. Therefore, the PPI can be an accurate precursor to changes in the CPI.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to **measure growth of the U.S. economy.**

The Russell 2000 Index is a market capitalization weighted index consisting of approximately 2000 small cap U.S. stocks. It is a subset of the larger Russell 3000 Index and is often used as a benchmark for small cap stocks.

The Lehman Brothers U.S. Treasury TIPS Index measures the performance of inflation protected securities issued by the U.S. Treasury that are designed to provide investors with inflation protection through adjustments to principal and coupon payments.
The Lehman Brothers U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Lehman Brothers Global Aggregate Index covers the most liquid portion of the global investment grade fixed-rate bond market, including government, credit and collateralized securities.

NASDAQ Composite: The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market

Lehman Corporate High Yield: The Lehman Brothers Corporate High Yield Index covers the U.S. Dollar denominated non-investment grade, fixed-rate, taxable corporate bond market.