

## OUR 2008 THIRD QUARTER MARKET SCORECARD

<b>Economy</b>	<b>Negative</b>	The U.S. economy increased at an annual rate of 2.8% in the second quarter as measured by GDP growth up from 0.9% during the first quarter. Early indications were for flat to negative GDP during the third quarter. Two thirds of economists surveyed believed a recession began in the second half of 2008. <sup>1</sup>
<b>Employment</b>	<b>Negative</b>	Unemployment continued at 6.1% in September with a loss of 159,000 jobs. The number of unemployed persons totaled 9.5 million. Employment declined in most industries except Health Care and Mining. Manufacturing, Retail, and Construction suffered the most job losses. The US economy lost 760,000 jobs YTD 2008. <sup>2</sup>
<b>Productivity</b>	<b>Positive</b>	Labor productivity for business and nonfarm business improved to 4.3% in the second quarter from 2.3% in the first quarter. However, productivity declined by -2.2% for manufacturing due to an increase of 6.2% in unit labor costs. This was driven by higher hourly compensation for manufacturing workers. <sup>3</sup>
<b>Housing</b>	<b>Negative</b>	The housing market continued to be problematic with an estimated 10.4 months supply versus a 4.5 month supply in 2005. In August, existing home sales declined -2.2% from July and were down -10.7% from August 2007. However, forward looking Pending Home Sales were up 7.4% in August versus July and 8.8% higher than August 2007. <sup>4</sup>
<b>Consumer</b>	<b>Negative</b>	The Consumer Confidence Index improved to 59.8 in September from 58.5 in August. However, these results did not capture the tumultuous events in the financial sector in October. 90% of consumers in September thought the economy was in a recession. Consumers' outlook remained grim for business conditions, job market, and income gains. <sup>5</sup>
<b>Liquidity</b>	<b>Negative</b>	A credit crisis and illiquidity existed near the end of the third quarter as many businesses and consumers could not borrow. The Treasury, Federal Reserve, and FDIC took steps to protect the economy and strengthen public confidence including injecting capital into our banks, creating a backstop for commercial paper, and an FDIC guaranty program. <sup>6</sup>
<b>Inflation</b>	<b>Negative</b>	Headline inflation (including energy & food) increased 7.2% (annualized) over the past three months ending in August and 5.4% over the past twelve months. Core inflation (excluding energy & food) increased to 2.5% just above Fed's stated target of 1.5% to 2.0%. Going forward relief may be provided by the drop in the price of oil. <sup>7</sup>
<b>Interest Rates</b>	<b>Positive</b>	On October 8 <sup>th</sup> , the Federal Reserve cut the fed funds rate by another 50 bps to 1.50%. The reasons cited were the pace of economic activity had slowed, financial markets were in turmoil, and spending was restrained by the ability of households and businesses to obtain credit. The yield curve continued normalized with greater yields on longer maturities. <sup>8</sup>
<b>Earnings</b>	<b>Negative</b>	S&P 500 operating earnings declined year-over-year by 29.3% primarily due to write downs by financial stocks. Earnings for other companies excluding financials generally remained in positive territory. Write downs could diminish in the second half of 2008, but forward earnings could be constrained due to the slowing economy. <sup>9</sup>
<b>Valuations</b>	<b>Positive</b>	Stocks appeared undervalued historically and relative to bonds as the S&P 500 earnings yield was 1.5% above the 10 year Treasury yield. The trailing P/E ratio for the S&P 500 was 18.8x and forward P/E ratio was 12.3x. versus a 20 year average of 22.3x. Large caps looked attractive. Municipal and high yield bonds appeared undervalued. <sup>10</sup>
<b>Investment Returns</b>	<b>Negative</b>	During the third quarter and YTD, higher quality fixed income enjoyed positive returns and outperformed stocks that had negative returns in every style class. Small cap stocks and value stocks lost less than large cap and growth. International stocks underperformed domestic stocks due to weakening global economies and the strengthening of the dollar. <sup>11</sup>

*Important disclosures on back page.*

Sources:

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| 1 Sources: Bureau of Economic Analysis & Nat's Assoc. of Business Economists | 2 Sources: Bureau of Labor Statistics       |
| 3 Sources: Bureau of Labor Statistics  | 4 Sources: National Association of Realtors |
| 5 Sources: The Conference Board & University of Michigan                     | 6 Sources: Federal Reserve, Treasury, & FIC |
| 7 Sources: Bureau of Labor Statistics  | 8 Sources: Bureau of Labor Statistics       |
| 9 Sources: Federal Reserve   | 10 Sources: J.P. Morgan                     |
| 11 Sources: J.P. Morgan  |   |

The prices of small and mid cap company stocks are generally more volatile than large company stocks. Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. High-yield bonds, also known as junk bonds, are subject to greater risk of loss of principal and interest, including default risk, than higher-rated bonds. Past performance is not a guarantee of future results.

The price/earnings (P/E) ratio is the price of a share of a stock divided by earnings per share, usually calculated using the latest year's earnings. The Russell 2000 Index consists of the smallest 2,000 securities in the Russell 3000 Index. This is the Frank Russell Company's small capitalization index that is widely regarded in the industry as the premier measure of small capitalization stocks. The Russell 3000 Index is composed of the 3,000 largest U.S. securities, as determined by total market capitalization. The Russell Midcap™ Index measures the performance of the 800 smallest companies in the Russell 1000® Index. The Russell 3000 Index is composed of the 3,000 largest U.S. securities, as determined by total market capitalization. The S&P 500 (a registered trademark of the McGraw Hill Companies) is an unmanaged, index of common stock. The indices are presented to provide you with an understanding of their historic long-term performance and are not presented to illustrate the performance of any security. Investors cannot directly purchase any index.

The MSCI Emerging Markets Index (EMF) is a free float-adjusted market capitalization index that is designed to measure equity market performance. As of May, 2005, the index consisted of the following 26 developed market country indexes: Argentina, Brazil, Chile, China, Columbia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey, and Venezuela.

The Consumer Confidence Index (CCI) is a unique indicator, formed from survey results of more than 5,000 households and designed to gauge the relative financial health, spending power and confidence of the average consumer. The index started in 1985 at 100 and is normalized based on the Consumer Confidence level when it began.

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