

October 14, 2008

Dear Clients, Friends, and Partners:

Market events of the past three months have challenged the convictions of even the steadiest of investors. When you add in the presidential election and the political posturing, it is very easy to feel discouraged. Needless to say, we have been busy at CapTrust speaking with investment managers and their respective strategists and economists about the situation. In such times, it is always easy to focus on the headlines and succumb to human emotions, especially fear. The analogy of driving a car on the interstate while only staring intently one foot in front of the vehicle comes to mind. However, rarely is such an approach beneficial to driving, much less investing.

Irrational markets can shake the foundation of an investor's belief system, leading some to temporarily believe in just about anything. Although we are always looking for ways to improve the management of our clients' assets, our core beliefs at CapTrust remain unchanged despite the recent events in the market. In fact, we feel the last few weeks only provide further validation of their truth.

We understand many of the current feelings regarding the market. Looking back, it was only a few years ago we experienced the tragedy of 9/11 preceded by the bursting of the technology bubble. In August of 1998, we were shocked by the failure of the hedge fund, Long Term Capital Management. Eleven years earlier, we suffered through the stock market crash of 1987 (Black Monday) and before that the S&L crisis of the 1980's. We believe there is no reason to conclude that this historic time will not play out like the others that have come before. In all such other times, being pragmatic and shrewd instead of fearful, and buying assets as opposed to selling, proved to be profitable ventures for those with patience and a long enough time horizon to invest.

Ben Graham's notion that the stock market is a voting machine (susceptible to human emotion and irrational behavior) in the short term but a weighing machine (securities rather efficiently reflect true economic value and earnings) in the long term is another belief we share and is very apropos to today's markets. Accordingly, we would be the first to acknowledge that things could certainly get worse before they get better. The current market volatility is driven by emotion, not fundamentals. This short term view increases market fluctuations on both the downside and upside as we saw on Monday, October 13<sup>th</sup> with the Dow Jones Industrial Average gaining over 936 points.

In such times, we believe two practical steps can be taken. First, we believe it is prudent for individuals and organizations taking distributions to maintain an adequate liquidity position. What that means for our clients is having a certain number of months worth of distributions in money markets or short-term, high quality fixed income instruments (treasuries and high grade corporate debt). Given that the market is already one year and 30-40% into its decline,

we believe that maintaining 6 to 24 months worth of distributions in such investments should provide sufficient time for the value of the securities presently invested to recover. Secondly, we believe that investors should reexamine their portfolios to ensure that adequate diversification exists among and within several distinct assets classes. Using diversification to control risk is, perhaps, the only free lunch in investing, and is especially critical now to help mitigate losses.

While these steps are defensive in nature, they do not change the overall investment strategy or risk taking an investment portfolio off course. In these times it is very important not to make decisions that will negatively impact returns ten years from now.

As an independent and objective firm with access to virtually every great mind in the business, we are confident that our clients' investment managers will navigate smartly through these difficult waters uncovering numerous opportunities. In the end though, we, nor anyone else, knows for certain the direction of the next 1,000 point move in the market. What we do know is that, for our clients to succeed over time, we absolutely must capture the next 10,000 point move. And we remain firmly confident that the direction of that move will be up.

Sincerely,

A handwritten signature in cursive script, appearing to read "Eric W. Bailey".

Eric W. Bailey, CFA  
Managing Principal