



Market Commentary - November 4, 2008

RegentAtlantic is a fee-only wealth management firm. We define wealth management as the integration of financial planning and investment management. Our clients are individuals, retirement plans, foundations, corporations, trusts, not-for-profits and endowments. We manage approximately \$1.2 billion of assets. Our clients outline their goals and are guided by our knowledge and solutions in order to meet those goals. Some differentiators for our firm include:

- We have a deep bench of financial professionals. Among our 38 employees, we have 16 CERTIFIED FINANCIAL PLANNERSTM, 5 Chartered Financial Analysts, 10 MBAs, 2 CPAs, 2 JDs, 2 with MS degrees, 1 ChFC, 1 CDFIA, and 1 CLU. Our culture fosters teamwork and collaboration, so that each client of the firm has access to the expertise of any and all of our financial colleagues.
- When we begin a relationship with a client, we first seek an understanding of that client's goals and financial situation. For individuals or families, examples of those goals can be retirement, planning for education funding for our client's children, charitable giving, estate planning, or buying a second home at the shore. From the information provided, we analyze with our client what steps will likely be necessary to achieve our client's financial goals, and when appropriate, what tradeoffs our client may have to consider to achieve those goals. These steps help us to recommend a diversified investment portfolio for our clients to consider.
- Our firm's investment discipline is based upon the principles of Modern Portfolio Theory. We use globally diversified, multi-asset class portfolios which we believe, over the long term, have the potential to increase return while limiting the risk taken to achieve that return. Of course, as recent events have shown, all investments have risk, including the risk of loss of money invested.

To give you a sense of our relationship with our clients, we recently sent the Market Commentary below to clients on November 4, 2008.

If this communication arrives at a time when you are evaluating your financial future, we would welcome the opportunity to talk with you.



Frozen Turkey, Returns and Earnings

Newlywed couples preparing their first Thanksgiving meal are often surprised by just how long it takes to defrost a frozen turkey. Caught unprepared on Thanksgiving morning, many have tried hairdryers, hot water, and prayer to get the bird in the oven in time for the day's feast. To the dismay of many a young chef, even a combination of remedies barely hastens the desired thaw.

After Lehman Brothers declared bankruptcy on September 15, global credit markets froze up worse than a Thanksgiving turkey. All of a sudden, no one wanted to be a lender, because no one believed they could assess anyone else's creditworthiness. Short-term commercial paper, bank-to-bank lending, and letters of credit dried up, let alone longer term business and personal loans. Home equity lines of credit – a fountain that nourished U.S. growth for the past several years – either shrank or froze. The entire global financial intermediary system that connects savers and investors with borrowers and issuers started to resemble a creaking glacier instead of the normal lively river.

Central banks around the world have tried various approaches to thaw the credit markets, including reduced interest rates, new credit facilities, expanded deposit insurance, and guarantees of inter-bank loans. Central bankers have worked together on some rate cuts and have worked independently on others. They have demonstrated their willingness to emulate others' successes: the U.S. Treasury had no sooner pushed its "troubled assets rescue program" through Congress than it changed course and emulated the British plan of injecting capital directly into banks.

Despite this nonstop flurry of activity around the world, it seemed through mid-October that the credit markets would play the stubborn Thanksgiving morning turkey, refusing to thaw no matter what anyone threw at them. But then we started to see some slow progress being made. LIBOR rates began to decline, slowly but steadily. Commercial paper markets started to thaw, no doubt in part due to the U.S. Treasury's entry into that market. Fresh crises continued to erupt in various foreign markets, but as each crisis was addressed by additional government resources, the steady thaw in the global credit markets continued day after day. The equity markets over the past week have started to show more optimism, and the VIX volatility index, although still at historic levels, seems to be subsiding as well.

Returns

October 2008 returns across asset classes were down. However bad the returns have been through October's end, our careful review of the results has yielded a number of interesting observations:

- Yields on investment grade bonds are relatively low when compared to the dividend yields on stocks in all of the equity classes. Over time, the dividends on stocks will generally grow as the companies grow, making stocks a more attractive opportunity than bonds from a pure yield perspective. Of course, stocks have much more risk than bonds.
- Aside from investment grade bonds, the current yields on lesser grade bonds ("junk bonds") are now at an all-time high (based on data back to 1986). If the current recession gets a lot worse and lasts a long time, there could be a lot of defaults in high yield bonds, but the current yields will quite possibly more than offset the default losses, making the asset class

attractive. We will exit high yield bonds when credit spreads (amount of extra interest junk bonds have to pay above treasuries) decline below 5%.

- Although it's been ugly here at home, the U.S. has declined less than most other countries, including developed as well as emerging economies. Accordingly, foreign stocks now appear to be a better bargain than U.S. stocks from both yield and valuation perspectives.
- The dividend yield on the REIT index (real estate investment trusts) is almost 8%. That is a very attractive yield from an absolute perspective, a historical perspective, and relative to the yield on the 10-year Treasury (3.96% as we write). One simple rule of thumb for evaluating REITs is that they are attractively priced when their dividend yield is greater than the 10-year Treasury; at this point the yield on REITs is about twice the 10-year Treasury.
- In October the DJAIG Commodities Index experienced its worst monthly decline ever, as commodity prices plunged in the face of slackening demand and people's fears of a serious and prolonged global recession.
- Hedging strategies declined in October, but they had a "good" month compared to the equity markets. The goal of our investment in certain hedge funds is to earn reasonable, consistent returns regardless of what the stock markets do. While no one would consider being down 10% for the month a reasonable return, a -10% return is clearly preferable to the much worse losses in stocks.

		Returns Thru 10/31/08			
Asset Class	Index	Year to Date	Month to Date	Current Yield	Current P/E
Treasury Bonds	Lehman US Treasury	4.47%	0.00%	2.82%	
Short-term Corp Bonds	Lehman US Credit 1-3 year	-2.67%	-1.40%	3.45%	
Short-term Municipal Bonds	Lehman Municipal Bond Index	2.94%	0.17%	3.32%	
Inflation Index Bonds	Lehman US TIPS 10 year	-13.21%	-10.71%	8.79%	
International Bonds	Lehman Hedged Global Ag USD	0.24%	-0.66%	4.44%	
High Yield Bonds	Lehman US Corp High Yield	-24.38%	-15.91%	18.67%	
Global Large	MSCI World	-38.28%	-18.93%	3.85%	12.23
US Large	S&P 500	-32.83%	-16.79%	3.13%	21.29
Int'l Large	MSCI EAFE	-43.26%	-20.18%	4.83%	9.35
US Small	Russell 2000	-29.02%	-20.81%	2.20%	Neg Earnings
Int'l Small	MSCI EAFE Small	-47.80%	-23.71%	4.67%	11.09
Emerging Markets	MSCI Emerging Markets	-53.25%	-27.38%	4.48%	8.24
Real Estate	FTSE NAREIT Index	-30.24%	-31.58%	7.94%	
Commodities	DJAIG Commodities Index	-28.65%	-21.34%		
Hedging Strategies	MSCI Hedge Invest Index	-22.25%	-9.91%	<<<< As of 10/28/08	

Source: Bloomberg

Earnings

Over the past few weeks we have been talking about the attractiveness of the equity markets based on a number of fundamental factors, including price-to-book, price-to-sales, dividend yield, and the popular price-to-earnings ratio. Of all the valuation measures, earnings seem to concern people the most. And well they should, for earnings is one of the most volatile valuation measures. In comparison, book value, dividends, and even sales tend to be much less volatile than earnings.

At 21 times earnings, the current P/E ratio on the S&P 500 isn't very attractive. Given historical averages, a P/E ratio in the mid-teens is widely regarded as a fair value. The one-year forecast P/E of 11 is a much more attractive ratio, but numbers based on what analysts are forecasting can be misleading. Historic earnings may provide a more meaningful perspective than forecasts. If corporate earnings just get back to some historic numbers, the P/E ratios are quite attractive. Per share earnings on the S&P 500 reached a high of \$85.71 in July 2007; if we return to that point, the P/E on the S&P 500 would be 11. If earnings only got back to their three-year average of \$72.29 (as of 10/31/08), the P/E on the S&P 500 would be 13.4; if they got back to the five-year average of \$65.90, the P/E would be 14.

Many investors are anxious about how earnings will be affected by the coming recession. We believe it's important to admit that the "coming recession" is already upon us. Earnings on the S&P 500 started declining over a year ago, sliding from their \$85.71 high in July 2007 to \$45.50 in October 2008. This is a 47% decline in corporate profits over the last 15 months. Much of the decline in earnings is attributable to the financial sector, which has contributed mostly losses rather than profits. We believe the financial sector will begin to show signs of recovery after the massive write-offs already posted. The U.S. and international economies will likely continue to slow over the next year, which will continue to put negative pressure on corporate earnings. But, as financial markets continue to thaw and the economy starts to turn the corner and resume its long-term growth, corporate earnings will likely pick up strongly.

Rebalancing

In our October 10th communication, we said that we would look to rebalance when the stock market volatility subsides. We indicated that we would look to rebalance once the VIX index (CBOE Volatility Index) falls below 40 for a few days. The VIX has consistently been above 40 since that communication. It has started to fall since October 27th and is currently at 45. We used the VIX as a gauge of panic in the markets. Given, the decline in volatility and improvement in other key banking ratios, such as overnight lending interest rates, we believe the panic in the markets has sufficiently subsided to begin rebalancing portfolios. We intend to start rebalancing portfolios towards the end of this week.

A Closing Note on the U.S. Election

This communication was composed on November 4. From an investment perspective we haven't spent much time thinking about the outcome today, because as a practical matter the current global financial crisis will severely limit either candidate's ability to effect major changes for the

foreseeable future. From a pure investment perspective we just don't believe who wins today is that important. Our fondest hope is that both parties will put aside their differences for however long it takes to get the credit markets completely thawed and the global economy back on a healthy track.

Sincerely,

RegentAtlantic Capital, LLC

Important Disclosure:

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