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Market Commentary – October 17, 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 PLANNERS™, 5 Chartered Financial Analysts, 10 MBAs, 2 CPAs, 2 JDs, 2 with MS degrees, 1 ChFC, 1 CDFAs, 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 October 17, 2008.

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

Our last market update communication discussed rebalancing your portfolios once the extreme volatility in the markets declined. During this time of unprecedented volatility in the markets, our Investment Committee has been doing research concerning our fundamental asset allocation models so that, when we do rebalance portfolios, you will have the best opportunity to benefit during the recovery.

A few words on “the recovery”. We are not expecting the markets or the economy to recover within a few weeks or months. Some progress is being made in the credit markets, but volatility still persists in the stock markets. You’ll recall that we are waiting for the VIX (the CBOE’s Volatility Index) to get below 40 for a few days before we rebalance. The VIX started drifting lower early this week, but Thursday it spiked up and hit a new high. We will continue to be patient before rebalancing.

Our investment committee split into two groups to analyze the optimal asset allocation for a recovery. One group looked back historically to analyze which asset classes recovered the best after serious bear markets. The other group analyzed current valuations for each asset class and looked for fundamental changes in the asset class. When we put the two groups’ work together, it compelled a few changes to our recommended asset allocation models.

The historical approach yielded some answers that appear obvious; it gave us confidence in our conclusions based on valuations. We examined the bear markets of 1967, 1973-74, 1987, and 2000-02 and uncovered two simple principles: First, those asset classes that declined the furthest also recovered the strongest. Second, the more volatile asset classes tended to recover more than the less volatile. These conclusions appear obvious, but it’s nice to see the data confirm them. Simplicity is good.

Using standard valuation metrics, stocks around the world look very cheap. Emerging Markets stocks and International Small Cap stocks have gone down the farthest and are some of the more volatile asset classes. Those are the two ingredients in our analysis of asset classes that will likely do best during a recovery. Our Investment Committee has increased our recommended allocation to Emerging Markets and International Small Caps and reduced the allocation to Global Large Caps. Global Large Caps stocks have gone down the least and are the least volatile of our equity asset classes.

Asset Classes	Standard Allocation	Current 2008 Allocation	New 2008 Allocation	2008 Over/Under
Short-Term U.S. Bonds	35.0%	40.0%	50.0%	Over
Int’l Bonds (Hedged)	20.0%	25.0%	25.0%	Over
High-Yield U.S. Bonds	10.0%	10.0%	10.0%	Neutral
Inflation Indexed Bonds	35.0%	25.0%	15.0%	Under
Global Large Stocks	60.0%	65.0%	60.0%	Neutral
U.S. Small Stocks	15.0%	10.0%	10.0%	Under
Int’l Small Stocks	12.5%	12.5%	15.0%	Over
Emerging Markets	12.5%	12.5%	15.0%	Over
Real Estate	30.0%	20.0%	20.0%	Under
Commodities	30.0%	30.0%	30.0%	Over
Hedging Strategies	40.0%	50.0%	50.0%	Over

Let's look under the hood of Emerging Markets stocks and make what we believe is a conservative case for why this is a good opportunity. As with any investment, we should look at two critical numbers: what is the potential return per dollar invested, and what is the likelihood that the return will grow to keep pace with, or even exceed, the rate of inflation?

The average current Price-to-Earnings (P/E) ratio (today's stock price divided by a company's earnings per share over the past 12 months) on Emerging Markets companies' stocks is 9. A P/E ratio of 9 means that, for every \$100 of stock price, we are buying a stake in companies generating \$11 of profits ($\$100/\$11 = 9$). But we want to be conservative, so let's assume that current earnings decline by a lot: say the \$11 of current earnings becomes \$7. That would still be a handsome potential return: for every \$100 we invested we would be buying \$7 in return. That's our first critical number.

Second, what will happen to our return relative to inflation? Unlike a bond, where the return is fixed (unless it's indexed to inflation like TIPS), stocks offer a chance to participate in the underlying companies' growing earnings. Very generally, you would expect the average earnings of companies in any area to grow at the same rate as the overall economy of that area. And unlike the economies of the developed nations, emerging markets countries have enjoyed average growth of 6% to 8% per year in excess of inflation in the new globalized economy. The IMF recently revised downward their estimates for emerging economies' real GDP growth rates for 2009 to 6.1% from 8% a year earlier. But again, let's be very conservative and assume GDP growth rate in excess of inflation slows to 0% for awhile as we work through this rough patch. A 0% real GDP growth rate means that economies are still growing by the pace of inflation.

Even with these very conservative assumptions, the bottom line is that we believe it's reasonable to hope for an inflation-adjusted return of 7% a year going forward from an investment in a diversified collection of Emerging Markets stocks.

Asset Class	Index	Price/Earnings Current	Price/Earnings 1 Year Forward	One Year Return Ending 10/15/08
World Stocks	MSCI World	11.5	9.9	-41.3%
US Stocks	MSCI USA	14.5	11.0	-40.2%
International	MSCI EAFE	9.4	9.1	-42.3%
US small	MSCI US Small	677	15.8	-41.4%
International Small	MSCI EAFE Small	11.4	10.4	-47.7%
Emerging Market	MSCI EM	9.0	3.6	-50.6%

Source: Bloomberg

That's why we believe that, based on current valuations in the world's stock markets, this could be a very good buying opportunity. Don't misunderstand us: we are not making light of the world's financial troubles. There will be no quick, easy road to recovery; we expect a lot more bumps and scary turns. Of course our predictions are no guarantees.

Our investment style has always been conservative to a degree. Being conservative today in our opinion means being guardedly optimistic about the future. We are optimistic about the future, not the future three months from now, but three years from now. Think about the site of a forest fire right after the last embers have been extinguished and there is still smoke in the air. It's black and bleak, and it's very hard to feel optimistic about the forest's future. The photo below was taken a year after a major forest fire in California.

Sincerely,

RegentAtlantic Capital, LLC

Important Disclosure:

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this letter will be profitable, equal any corresponding indicated historical performance levels, or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this letter serves as the receipt of, or as a substitute for, personalized investment advice from RegentAtlantic Capital, LLC. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to their individual situation, they are encouraged to consult with the professional advisor of his/her choosing.



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