

"Fasten your seat belts, it's going to be a bumpy night."*

3rd Quarter 2008

Little did we think that when Ms. Davis said that line as she was going up the stairs in her big apartment that she was going to turn on her stock ticker. Normally when you receive this newsletter, the issues of the last quarter are more significant than what happens in the two weeks or so before you receive this report. However, we are in different times. It was clear that we were in a credit crisis and extraordinary measures were necessary to prevent severe economic turmoil. We had hoped that if Congress passed the Treasury's rescue package we would start to see some relief. What has happened since Sept 30th has been unprecedented in my experience as an advisor. Through October 16th there were only two (2) up days for the markets. The news is everywhere and economic "crisis" is the headline. A major cable channel is running a daily headline and special evening coverage, "Is your money safe?" I am not stating that things are good. The New York Times on October 17, 2008 wrote that the major banks (including the investment banks that were at the center of this problem) have now written off about 320 billion (that's right billion) dollars. This is all of the profits that were earned by those banks in the center of the credit crunch and these same banks have now written off 106% of all of the profits that they reported between 2004 through 2007; those profits were an illusion. Do things look bad out there? Yes, however, what does it mean?

We need to look for advice from the master, not from the crowd. Warren Buffet, arguably the greatest living American investor, penned an OP-ED piece in the October 17, 2008 New York Times. He wrote, "The financial world is a mess, both in the United States and abroad. Its problems are leaking into the general economy....headlines will continue to be scary....So...I've been buying American Stocks." He goes on to state, "Why, a simple rule dictates my buying: Be fearful when others are greedy and greedy when others are fearful." He also states, "I haven't the faintest idea as to whether stocks will be higher or lower a month -or a year- from now. What is likely the market will move higher...well before either sentiment or the economy turns up. So if you wait for the robins, spring, will be over." Finally, this is his position on cash: "Those people who hold cash equivalents feel comfortable. They shouldn't. They have opted for a terrible long term asset, one that pays virtually nothing and is certain to depreciate in value."

Are we at the beginning of a crisis or at the first stage of the next great opportunity? We choose to follow Mr. Buffett. He is looking for the bargains and not running and hiding. We feel that over this quarter we need to harvest tax losses, adjust your investments to remove items that we do not like, and add investments with better opportunities. We know the short term is still going to be rough but we need to try to achieve your long-term goals. Putting our heads in the sand will only dirty our hair and not help your portfolios.

Finally, we just want to reinforce the security of your investments with us at Royal Alliance Associates, Inc. As you know, Royal custodies your assets at Pershing LLC, a subsidiary of Bank of New York Mellon, and is not owned or related to AIG at all. To give you a higher level of comfort, the US Treasury chose the Bank of New York Mellon as the custodian for the \$ 700 billion rescue plan. If BNY is the right custodian for the US Government, it certainly is a good custodian for you.

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Bette Davis as Margo Channing in the 1950 academy award winning film "All About Eve"