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Dear Valued Investor:

As we approach Thanksgiving, I want to wish you happy holidays and offer my best wishes for you and your family. This is a time when many take some time to think about what they have to be thankful for over the last year. My list is certainly shorter than last year, with all the economic turmoil and financial losses. We all know it has been a very troubled time for the economy and financial markets, so I am fervently hoping to add their recovery to my list next year.

While I think the economy will continue to produce ugly statistics in the months ahead, some things do appear to be getting better for financial markets over the last few days. Importantly, President-elect Obama has been putting his team of advisors and Cabinet officers together, and I think he has made good choices of seasoned people. He has designated the current head of the New York Federal Reserve, Timothy Geithner, as his Secretary of the Treasury. I view this as a very good choice in that Mr. Geithner has been working very closely on many aspects of the financial recovery program with current Secretary of the Treasury Henry Paulson, Federal Reserve Chairman Ben Bernanke, FDIC Chair Sheila Bair and others. So I think Geithner is already up to speed, and the last two weeks' apparent divergences in opinions between the current and incoming administrations on what should be done will likely diminish. And I think Paulson, Bernanke, and Bair have been doing a good job and will continue to do so through the transition.

As a big example of why I think they're doing a good job, last weekend the Treasury, the Federal Reserve (Fed) and the FDIC announced a second round bailout of Citigroup (Citi) that, I think, signals a restart and a major change of direction for the Troubled Asset Relief Program (TARP). Rather than the Treasury just directly buying troubled assets, as was considered earlier, the term sheet gives the government a great deal of control over management of the securities and loans being guaranteed, executive compensation, and dividend payments, and provides for substantial up-front deductibles from Citi in the event of further loan losses. In return for the $20 billion capital injection to Citi by the Treasury, the Treasury and the FDIC got $27 billion in preferred shares and warrants. More importantly, a net of more than $250 billion of Citi's troubled loans will be guaranteed by the Treasury, the FDIC, and the Fed, which provided a large non-recourse loan guarantee for losses.

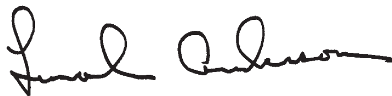
Including all three government entities in this new TARP process appears to me to be beneficial, and this model may be a more workable one for lifting risk out of other banks. The FDIC has experience with troubled loan management, while the Fed has essentially unlimited resources to guarantee asset pools. If the government can, in effect, lift a net of more than $250 billion in risk off the bank's balance sheet for an

upfront cost of $20 billion, then if need be they could lift more than $4 trillion in risk out of the banking system with the $350 billion second tranche in the TARP! I doubt there is that level of need, but it now appears that the Treasury and the Fed have sufficient ammunition to fight this crisis.

All these changes have, one more time, breathed life into the very distressed U.S. equity and credit markets. Is this the bell ringer that the stock and bond markets have hit bottom? Again, nobody knows, but I am encouraged by these new policy actions and see both the incumbent as well as the incoming Administration as demonstrating renewed determination to do whatever it takes to resolve this financial crisis and limit the damage to the economy. We've seen a solid rebound in equity markets last Friday and Monday, with the S&P 500 recovering 13.2%. But we have a long way to go, and it is possible we could go back down again if, on balance, market participants decide they have not sufficiently priced in the depth or length of the recession or there is some new calamity. On the other hand, at the low hit last Thursday, the dividend yield on the S&P 500 was above 4%, to me representing a valuation extreme in a low inflation environment.

As we enter this holiday season, I expect the bad news on the economy will outweigh the good news for a while. The recession will be difficult and trying. Financial markets will likely remain volatile. There are a lot of things that are broken, but there are a lot of policy actions already underway to fix them, with more to come. If there is one thing I am sure of, it is the ability of American people to absorb these shocks, pick up the pieces, and get going again. I wish you all the best this Thanksgiving.

Best Regards,



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