CORE Comments
ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

November 10, 2008

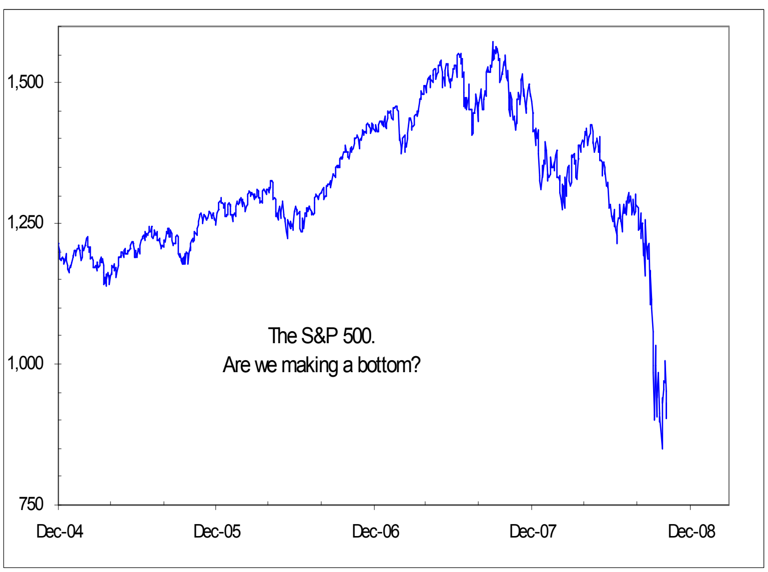
# Back from the Abyss…
# …and a Remarkable Election

*The stock market appears to have ended its precipitous plunge.*

*The recent action is volatile in the extreme, but equity markets seem to take some assurance from concerted actions by central banks and governments.*

The actions last month by the Federal Reserve, the Treasury, and their counterparts in Europe and Japan to rescue the banking and credit systems appear to be working. Various credit markets have improved steadily. Stock markets, while still very volatile, have not fallen below the levels set on October 10th. Three weeks ago, the world's financial systems stood at the abyss. We have taken a few steps back. As the Fed becomes the primary banker to the world, banking functions are beginning again.

Despite the respite from financial panic, we now have the shrinking real economy to contend with. In each month of this year, the numbers of unemployed have increased. In September, when the wheels began to come off the world's financial system, the ranks of the jobless began to balloon. From a job loss rate of 60,000 to 80,000 per month for the year through August, Friday's report showed that in September and October, job losses rose to 260,000 per month. Retail sales and housing prices are falling; more bad economic news lies ahead.




Despite gloomy economic prospects and the investment losses of September and October, there is good news for us investors, very good news. Stock prices of many very good companies have fallen to valuation levels unseen in decades. And, because we sold various investments earlier this year, we hold large cash reserves. We can take advantage of the very good values on offer when and as we choose.

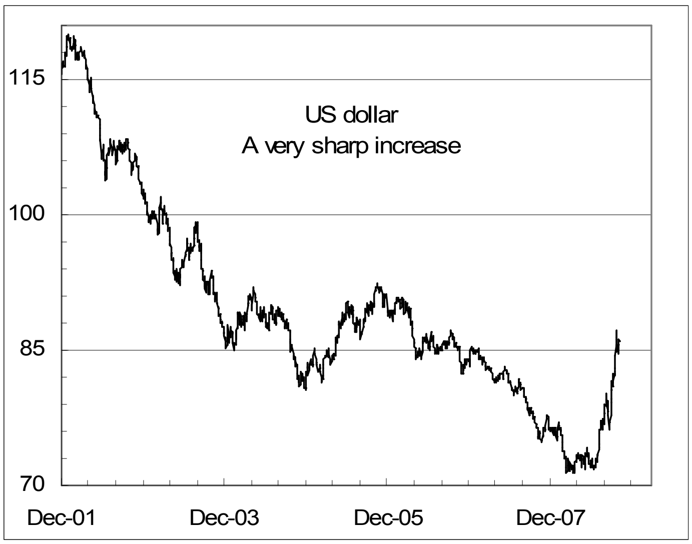
We have written recently about a type of investment with exceptional valuation characteristics, namely certain closed-end funds. We have uncovered a few such funds with portfolios of financially strong companies with really enduring business franchises. Because of the peculiarities of closed-end funds, a number of these trade at significant discounts to the underlying current market values of their holdings. Thus, we can buy for 85 to 90 cents a dollar's worth of portfolio values. Consider, as well, that the underlying portfolio holdings have already fallen sharply in price in recent months, along with almost every other asset on the planet. Thus, we have been able to buy at a discount from their already-depressed prices stocks in very fine companies. Some of these funds also pay very large dividends, well in excess of 10 percent, making them safer and more appealing.

***By***

***Jack Mayberry***

*The dollar has risen very sharply in recent months. Some of this is part of world-wide deleveraging. Some represents a flight to the safety of US treasury bonds. Core sold its investments in foreign currencies months ago.*

There is nothing new about this phenomenon of closed-end funds trading at steep discounts during bear markets. It has long been observed in years past; I have made such investments during other bear markets. When there are bouts of panic selling, as recently, buyers simply step back and those who must sell are obliged to take lower prices than their investments are worth. Closed-end funds, in good times and bad, typically trade at discounts or premiums to the value of their underlying portfolios. In bad times, like now, the discounts are wide. When calm and optimism return, as will happen in due course again, the discounts narrow. My expectation is that these investments we make now will make money for us in two ways: the value of their underlying portfolios will rise—probably quite substantially—as confidence is restored and economies improve. Meanwhile, the discounts will narrow from present levels of 15% or more to 5% or less.




Last week, we sold our position in an oil and energy fund and purchased in its place a closed-end fund with a portfolio of high-quality oil-related companies. This fund, called Petroleum and Resources, trades at a discount of 11% to the value of its portfolio. We also added to your investment in an Eaton Vance fund, symbol ETG, with a current discount of 15% and a dividend yield of 14%.

**Caution is still in order.** We still maintain large cash reserves and expect to be quite deliberate in investing your cash reserves. Although there are very appealing values in the markets, there is also plenty of uncertainty. It is too early for the Fed and Treasury to declare victory. The financial system shows signs of life again, but the healing is far from complete. As the repercussions of all this—the drying up of credit, the process of forced selling of assets by institutions big and small, the possible collapse of the US auto industry, and worsening recession, to name a few—are felt around the world, the risk of further systemic problems remains high. Today's announcement about the still-larger rescue deal for the insurer AIG demonstrates the scope of the risk. We expect that investments markets will remain volatile for a time; there may be nasty bouts of selling. We will continue to adjust your portfolio holdings, but we will add to your equity investments very carefully.

*Each year Core Asset Management files with the SEC a form ADV with information about our company. If you would like a copy of Part II of Form ADV, please contact us.*

**The election.** At the end of an election-night party last week, my wife Francesca suggested that we go up to Harlem to join the celebrations there. The outpouring on Harlem's streets of amazement, optimism and joy at the election of an African-American as our president was thrilling.

Mr. Obama has an impressive group of economic advisors and a good thing it is: the problems that face his administration and our country are daunting. If he can govern half as well as he ran his campaign, we can anticipate a strong recovery from the bear market and the recession. We wish him well.

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