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

February 29, 2008

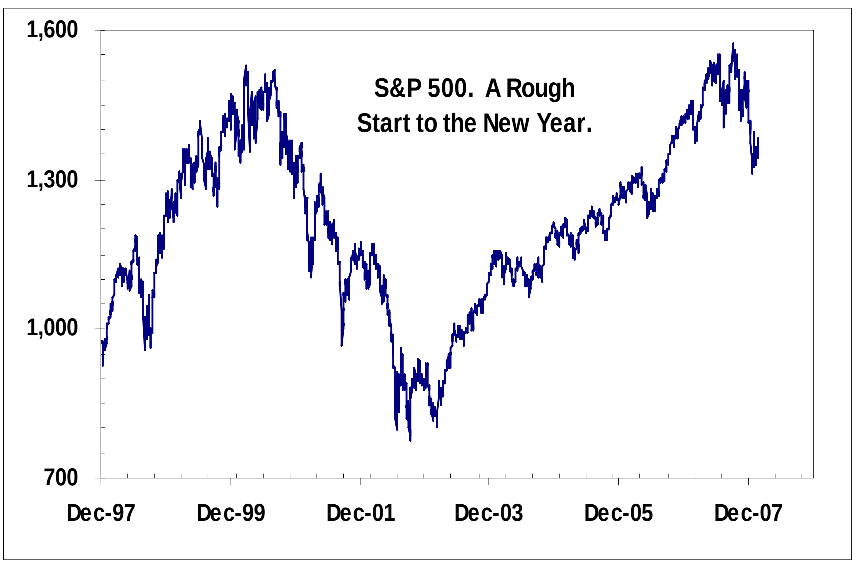
# Taking Things Slowly

*We have taken a defensive position in portfolios we manage.*

*We are not predicting a serious recession or prolonged bear market, but we think it best to be cautious when uncertainties and risks are high.*

Since the sharp decline in stock markets world wide in the first weeks of January, markets have swung sharply up and down with little net change. The US stock market is well above the January lows, but is down by about 7 percent (as measured by the S&P 500) since the end of December.

After selling several positions in January and February, Core's portfolios now hold large cash reserves and we are investing new accounts more slowly than usual. In the aggregate of all the capital we manage, half is now invested in bonds or in US dollar or non-dollar money market funds. This is an uncertain time in the markets. There is a chance that stock markets around the world are in the early stages of a bear market, that the US economy is in (or on its way into) recession, and that other important economies will slow. Or, it may well be that the lows in January will prove to be the low point in this cycle and that we are in early stages of a recovery. It is not difficult to make the bullish case or to make the bearish case.




Because it is impossible to know how things will unfold, we must make judgments about the probabilities. My sense is that the probability of a 'bad outcome' is high enough to warrant the defensive and conservative position we have taken. When risks in the market are high, Core's job is to lower the risk in your portfolios and to take steps to conserve capital. It is better for us to avoid loss of capital than to miss some opportunities if the markets should rally without further declines.

The problems with housing markets in the United States, from which the credit and financial market turmoil began, are far from over. The effect on credit markets of the weird forms of mortgage debt (and other credit concoctions) dreamt up on Wall Street is still impossible to quantify. The big banks and brokers have taken large losses already; more losses are still to be recognized. The Federal Reserve Board and the Treasury Department are clearly concerned about risks to the banking system; they have taken co-ordinated monetary and fiscal actions to mitigate risk.

***By***

***Jack Mayberry***

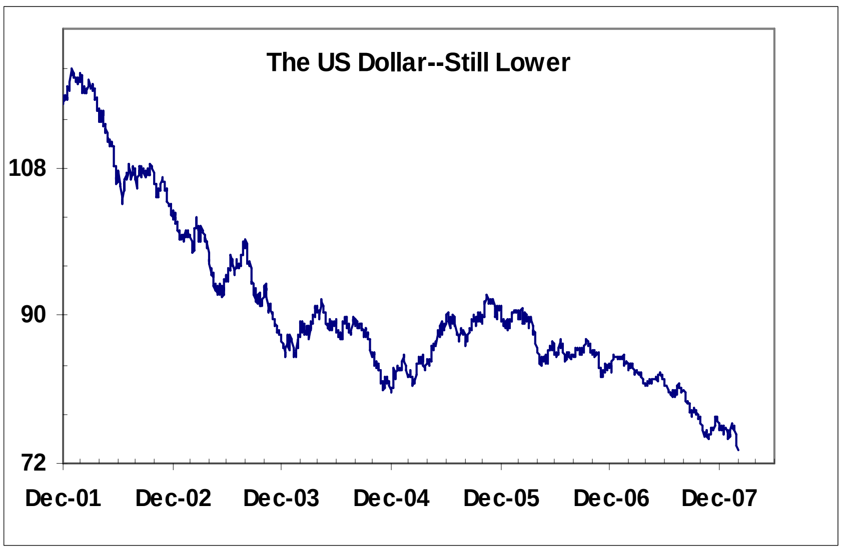
**Commodities and the dollar.** In addition to the well-publicized problems in various corners of the credit markets, there has been a startling increase in

*Despite credit market problems and fears of recession, commodity prices are soaring. The dollar continues to fall.*

prices for commodities, especially foods, gold, and oil. While we fear a recession in the United States, which would, presumably, take the edge off demand for commodities, we have the remarkable rise in various commodities, driven by the expectation of ever-rising demand from Asia. It is rather disjunctive to fear economic slow down and simultaneous rising demand for industrial commodities, but that is the current situation. Although oil prices have risen for several years, official measures of inflation in the United States remained low. No longer. Inflation is now recognized by the statistics. This combination of credit constraints, economic slow down and rising inflation makes the job of the Fed and the Treasury very difficult, indeed.

*Past performance is not a guarantee of future returns.*

Unsurprisingly, in light of the Fed's interest rate cuts and rising commodity prices, the dollar is falling quite sharply. Our foreign currency money market funds are continuing to appreciate; by 14 to 20 percent since the beginning of 2007. We have put some of the proceeds of our recent sales in these funds.




**A broader perspective.** When the markets are in a tizzy--as they are now--and the news is quite negative, it is easy to imagine that investment losses lie ahead to the distant horizon. (In a similar way, when our portfolios are appreciating, it is tempting and easy to imagine uninterrupted profits for years to come.) It is rarely helpful to make investment decisions based on exaggerated emotions engendered by sharp swings in the markets.

There have been and will continue to be periodic cycles of recession and economic growth, of banking and credit crises, and of bull and bear markets. The bear markets, banking crises, and recessions all create opportunities to make long-term investments at favorable prices. We hold large reserves of cash at present. Several weeks ago, we used a portion of these reserves to make an initial investment in the banking sector where prices are now very low. It is quite clear that the world will need these global banks for a long time to come, despite their recent and serious missteps. We can lament the bankers' folly and the improvident lending practices, while we eagerly invest in them at such low prices. We are reviewing other investments and taking our time while the markets sort themselves out.

*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.*

Recall that in the last two years, we made investments in water and clean energy. In recent weeks, the prices for these investments have come down with the rest of the markets. We have not touched these positions, confident that the world will need clean water and alternative sources of energy. Businesses that supply and support water and clean energy will thrive. We have also built positions in recent years in equity markets in developing countries. We sold some of these in recent weeks, simply to reduce portfolio risk. We have a keen interest in investments in these countries and we will continue to be investors in them for a long time to come.

Despite the unsettling news and the dislocations in credit markets, a careful but opportunistic approach to investing provides solid, long-term appreciation. Please contact us, if you wish to discuss any of this.

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