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

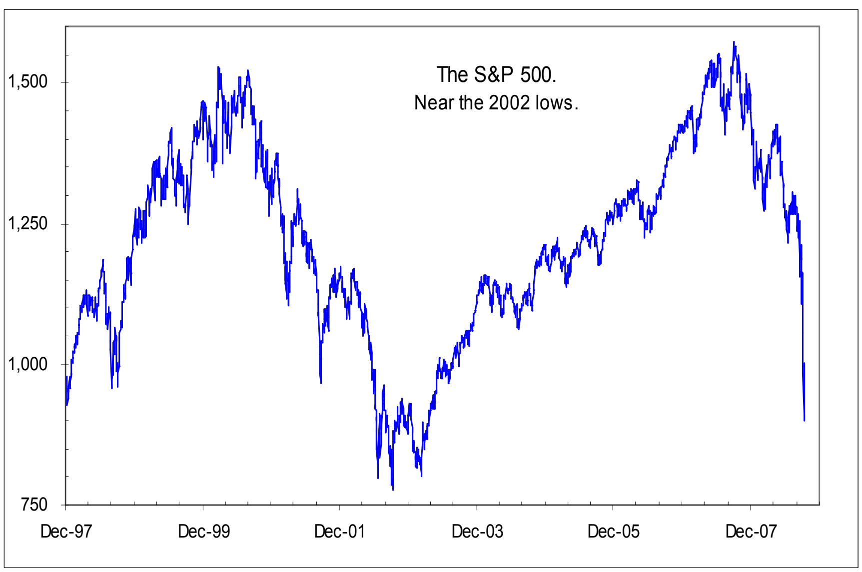
October 14, 2008

Snapshot in a Crisis

The British plan to recapitalize banks has been adopted by the European countries. Reports have it that the US Treasury will announce a similar plan this morning. This is a very hopeful development. The global credit and banking systems may revive.

There are not enough quiet hours in the week to study the rapidly-changing developments in the financial crisis, to plan and execute appropriate investment and trading strategies, and to write in a reasonably lucid way about it all. I have drafted and tossed out two letters in the last several days, as the subjects I have addressed have been overtaken by events. I will make a stab at actually finishing this one and getting it out to you.

I write on Monday night, as the US Treasury's plans to recapitalize the major US banks are being reported. In the middle of last week, the British government lead the way with a plan to recapitalize its banks, and to guarantee interbank lending and deposits. Finance ministers of the major economies met over the weekend in Washington; European heads of government met in Paris on Sunday. The British approach has been adopted widely, even by the foot-dragging Paulson and Bush team. My draft letters from a few days ago discussed the disintegration of the global banking system over the last two weeks; a fuller discussion of this will have to wait for more placid times. Suffice it to say that situation had become absolutely dire. It seems certain that we are now in a severe global recession as a consequence of the losses and collapse of property markets and the banking system.



It is quite possible that the extraordinary steps by the central banks and the European and American governments will restart the global banking system. The crushing losses in equity markets over the last few weeks have expressed the fear of the system's utter failure. The belief that the system will survive gave rise to the rallies that began in Asian markets on Monday. Given the extent of the recent panic selling, continuation of Monday's rallies seems quite likely.

Core's investments. We began buying some extraordinarily depressed equity investments last week, while the markets were still falling. These involved a closed-end fund that holds a portfolio of high-quality and high dividend paying stocks. This fund was trading at a discount of 20 percent to the market value of its underlying portfolio and its dividend yield is over 14 percent. We also added to our investment in alternative energy, after the bailout bill included an extension of tax credits for wind and solar. Shortly after the

By

Jack Mayberry

A tradable rally has probably begun, at last. We have made new investments. These may be temporary: the bear market may not be over

opening on Monday morning, we purchased an exchange-traded fund for the S&P 500. We may buy more. This savage bear market may not be over. It seems probable to me that the market will have a sharp and healthy rally for now, but that more trouble lies ahead. Having cut your equity investments very sharply in recent months, we are now investing some of your cash reserves in what may be a very productive, if short, rally. We have no wish to be traders, but the very sharp and violent market moves demand that we make tactical trades and investments in order to preserve capital and earn some money in a very volatile environment.

Past performance is not a guarantee of future returns.

The results so far. As it happens, the high in the US stock market occurred one year ago last week. Last week was also the sixth anniversary of the low point in the 2000 to 2002 bear market. (As always, please note that the figures we discuss for Core are for all of our accounts in the aggregate. There is variation among individual accounts for many reasons.)

Losses in Core's accounts over the recent year are about half those of the US stock market, as measured by the S&P. And our portfolios have earned almost twice the gain in the S&P since the bottom of the bear market with which this decade began. We are glad to have performed much better than the market, but are well aware that the recent losses are quite significant. The game is not over: our aim is to keep losses relatively low in the bear market, and to earn good returns when markets are better. Hence our very recent investments. This is an extraordinarily treacherous and difficult market in which to invest, but we are working to do it right.

Vanquishing the bear? On Sunday afternoon, I was writing an earlier draft of this letter, sitting outside my house in the country 50 miles north of New York City. A black bear ambled through a hedge bordering an adjacent pasture on his way across the lawn toward a nearby woodlot. As he passed about twenty feet from me, I rose and assumed a formidable bear-scaring stance. He was startled to see me and ran off. Did I finish off the bear market? Hope so.

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.

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