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

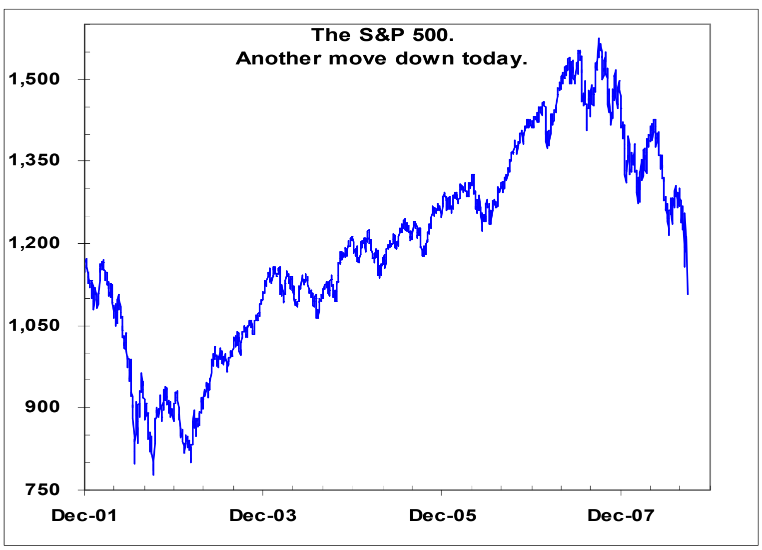
September 29, 2008

We'll Take Our Time

Our Treasury Secretary and the Congressional leaders appear to have been too eager. It is not for the worst that today's bill failed. Let Congress and Treasury offer us a good bill that can work for at least a few years. Our investments can withstand short-term disruptions while we wait.

Today's deliberations and votes in Congress and the afternoon's rejoinders on Wall Street made for an unhandsome spectacle. I had expected that the deal between the Treasury and Congress--however ugly--would be done today. Wrong. The markets were unhappy with the failure of the bill in the House and we had very sharp selling after the outcome became clear. I wish to make a two points, first addressing the problem, second addressing how Core manages it for you.

Firstly, banks fall right and left because on their capital bases they have built enormous inverted pyramids of very risky assets. If MegaBanCorp has $10 billion of capital, it will have borrowed $100 billion through various channels. With this $110 billion, it will have purchased various assets, including pools of mortgaged-based securities. It turns out that the residential real estate market does not and cannot appreciate at a rate far in excess of the growth of the economy and the population for long. (We have been writing about this for more than a few years.) Our MegaBanCorp forgot to take that into account. Instead, it paid $100 billion to buy this stuff, which stuff is now worth 80 cents on the dollar or 40 cents or less. So now, if we value the assets of MegaBanCorp at the prices its 'assets' can fetch in a market in which there are many more sellers than buyers, its mortgaged-backed securities, for which it paid $100 billion, may only be worth $80 billion--or maybe much less. Unfortunately, its capital base is still only $10 billion, so it cannot absorb its $20 billion of mark-to-market losses. Out of business.



Secondly, Core's clients are in a very strong position. Indeed, we are in an enviable position. Here's why: We do not borrow money and then invest our borrowed capital. We maintain cash in our investment accounts even in the best of times. When things turn nasty in the investment markets, we sell positions that are at risk. As things get worse in the world--and they certainly have been getting worse this year--we raise cash. When today's nasty trading began, Core's clients' assets held more than 62% in cash and short-term bonds. About 38% of clients' assets were at risk to the drama unfolding before us. (Once again, permit me to remark that some accounts held more cash and others held more equities, for reasons mostly having to do with our individual clients' willingness to reject or to accept investment risk.)

By

Jack Mayberry

Your investment accounts that we supervise are in a strong position. We hold very large cash reserves and valuable equity investments with attractive prospects. We intend to invest your cash effectively when conditions are favorable. There will be very attractive opportunities for your capital.

We are not pleased when the value of our at-risk assets declines in price in any given period--as they certainly did today--but we also know that the market's day-to-day valuation of our at-risk assets does not accurately reflect their real value. However the market values these investments on any given day, we should remember that, as the market goes down, we are being offered good investment assets at increasingly attractive prices. And, unlike MegaBanCorp, we have lots of cash to invest <u>at the time and at the price of our choosing.</u>

I am quite concerned about this financial crisis. Core's clients' accounts have incurred losses this year. We must and we do value our investment accounts at the presently-prevailing prices for the investments we hold. Fair enough. My view, however, is that the investments we hold are, in fact, worth quite a bit more than their market prices at today's (or tomorrow's) close. We have large investments for you in water-related industries and in alternative energy and in other securities with exceptional long-term prospects. Will we be drinking less water because WaMu has fallen into the cold embrace of JP Morgan and because the market for commercial paper is in seizure? No.

Recognize that we cannot sell our assets on any given day for more than the market will pay us. But you have hired Core, I believe, to manage your assets for the cash and for the value they can produce for you over the next year, over the next five years and more. We are on firm ground, because we hold lots of cash and we hold equity investments with real value.

I know for sure that the financial system will adapt itself to whatever emerges from the process now unfolding at both ends of Pennsylvania Avenue. Your accounts have the funds available to purchase the investments that are being valued at increasingly attractive prices. In order to manage all this properly, we need to be risk averse now and to be opportunistic when, prospectively, things look less nasty. We are alert; we are watching, we are thinking, and we are working.

We may or we may get a better piece of legislation about this than the one voted down today. Because we have plenty of cash assets to invest, I would rather a good piece of legislation later than a bad one tomorrow. Let our elected representatives do their work at their speed. We will make our investments at our speed.

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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