CORE Comments

ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

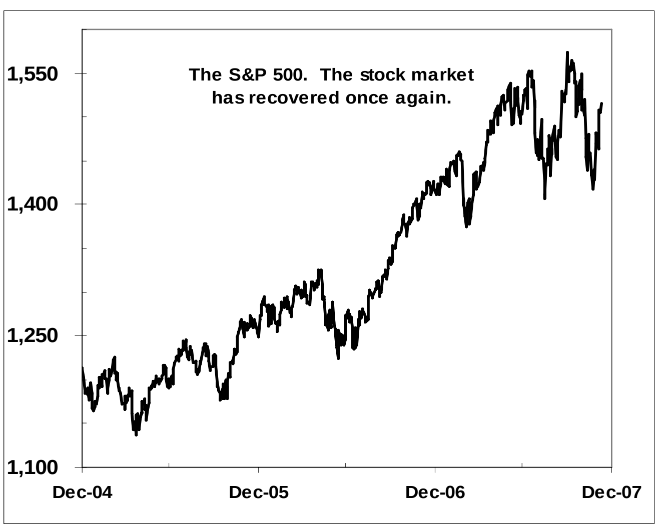
December 11, 2007

2007 Draws to a Close, A Year of Solid Gains in Core's Portfolios

Despite all the bad news, US stock market averages are higher this year. Core's portfolios have done far better than the broad market

….both because of what we own and what we do not own.

As the year draws to a close, one can only be rather surprised that the major US stock market averages are in positive territory. The S&P 500 is ahead by about 7% for the year as of this writing and stands only a few percent below its all time high set in early October. The collapse of credit markets, ever higher rates of foreclosure in the US housing market, the dramatic decline in the value of the dollar, growing fears of a recession in the United States, crude oil prices above $90 per barrel--these do not seem like the ingredients for strong financial markets.



However, despite these real problems and two severe rounds of selling engendered by the subprime crisis, equity markets have demonstrated a readiness to rally whenever hope can be discerned.

Core's portfolios have been much stronger than US markets, and have avoided the worst of the selling during the bad spells. Our long-standing investments in foreign money market funds and international stock markets have appreciated in value as the dollar has declined. Similarly long-held investments in oil-related securities, in utilities, and in commodities have thrived in this environment. It has helped, as well, that we have had essentially no investments in banks, mortgage-lenders, home builders and other sectors that have suffered the most this year. As a result, we are winding up a year in which our investment returns have been very healthy, indeed.

By

John N. Mayberry

The bursting of the housing bubble in the United States has given rise to all this havoc. The bubble inflated for a period of years. It may take more than a few months for its baleful effects to work through the system. This week began with UBS, the gigantic Swiss bank, announcing another $10 billion of losses from its holding of ill-fated US mortgages. Last week's news involved the negotiations among the US Treasury and mortgage lenders to freeze the low teaser rates for a period of years on certain adjustable rate mortgages. Whatever arises from the Treasury's plan will not be a magic wand. The numbers of mortgages

We have not had the last of the bad news from the bursting housing bubble.

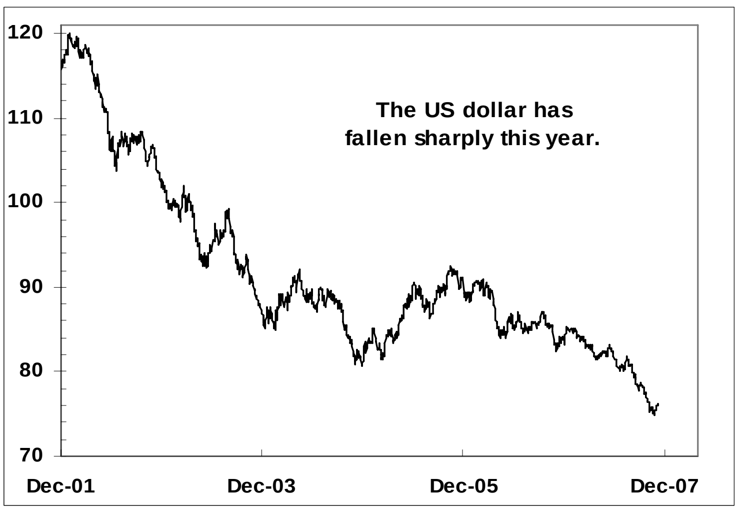
We will continue to invest cautiously and to be alert to low-risk investment opportunities.

scheduled for resetting is on the rise and will peak in the midst of next year's presidential election. There will be more market disruptions, more enormous losses by banks, more people tossed out of homes, and more political pressure to take action. It appears now that 2007 will probably end quite well in the markets, but there will be more volatility and more selling before these problems are laid to rest.

As in investment matter, we plan to maintain our major investments that have served us so well in the last few years. We expect to maintain ample cash reserves both to protect our capital from uncertainties that lie ahead and to enable us to make new investments as we identify low-risk opportunities.

A Note of Thanks

We at Core are very grateful for the opportunity you have given us to work with you. We enjoy our individual contacts with you and the sense that our work for you is helpful to you and your family. For me, the investment process is endlessly fascinating and I consider myself enormously lucky to be able to pursue this interest as a business. The intellectual challenge of investing is stimulating and absorbing. When our work provides good results without significant risk, as has been the case in recent years, we have a real sense that our work is useful, as well as interesting.



We wish you a warm holiday season and offer our hopes for a peaceful and prosperous year in 2008.

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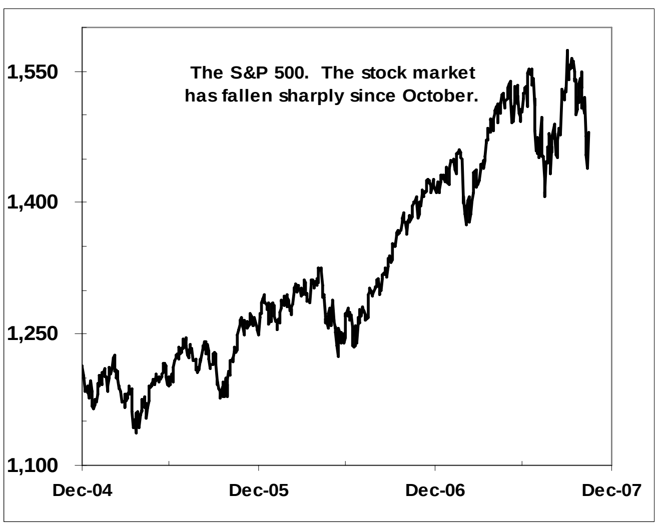
CORE Comments
ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

November 14, 2007

Steady Gains in Core's Portfolios, Despite Sub-Prime Turmoil

Core's portfolios have earned very good returns during this very turbulent year. Our long-term views about the dollar, oil, and foreign stock markets have helped our portfolios. Because we have not held investments in banks and brokers, we have avoided sub-prime problems.

Financial markets have become so volatile, news reports about the economy and markets so gloomy, it is perhaps the occasion to look at the bigger picture. Although we monitor Core's investments closely, particularly during times of such turbulence, our view is a longer one. We seek to understand the large trends in the world to determine how we may invest your capital to take advantage of developments that will unfold over a period of years. This approach has served us very well in recent years: we have taken a relatively small amount of investment risk and have earned substantial gains. The utility of this approach has been especially well marked during the recent months of sharp stock market declines and sudden rallies. In the aggregate, Core's client accounts have appreciated by 12% so far this year, while the S&P 500 has gained only 4%. (Returns in individual client accounts vary for individual reasons, including levels of risk tolerance and risk aversion. The SEC would have us remind you that we should not expect future returns to mirror those of the past.)



As the bear market of 2000 to 2002 came to an end, the wars in Afghanistan and Iraq began, and the global economic expansion gained strength, we foresaw a number of interrelated phenomena: We came to expect that developing economies in China, India, elsewhere in Asia, Latin America, and central Europe would grow at faster rates than the United States, and that there would be a shift in wealth and power from the United States to these countries. We concluded that the US current account and trade deficits with the rest of the world were unsustainably large and that the value of the US dollar would fall in relation to major foreign currencies. We expected that the demand for raw materials--especially oil--from rapidly growing Asian economies would grow faster than new supplies could be brought to market. We observed that the process of globalization and the free movement of investment capital around the world would invigorate foreign markets.

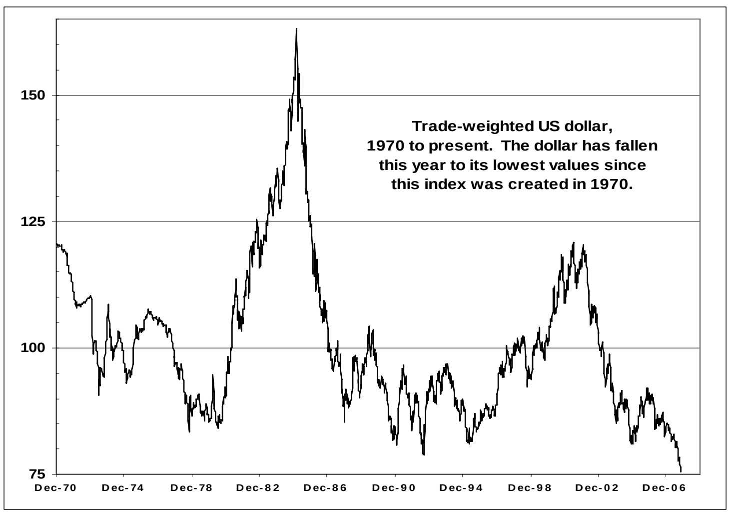
By

John N. Mayberry

With these views in mind, we made a series of investments, beginning in 2002, in foreign bond and stock markets to take advantage of the appreciation of foreign currencies against the dollar and to participate in the dynamic growth in Asian economies. Beginning in 2004, we invested in physical commodities and in oil-related stocks in the expectation--borne out by events--that commodities, oil prices, and oil stocks would rise. Our major investments of the last several years have worked well. Now, with crude oil approaching $100 per barrel, with the dollar trading at 40-year lows in relation to major foreign currencies, with the rise in wealth and power of India and China apparent to all, what next? We now have large and highly appreciated investments in oil stocks, Asian equity markets, and foreign currency money funds. Will these appreciate further? Do the risks associated with higher prices for these investments outweigh potential future returns? For now, our view is that further appreciation lies ahead. We are holders of these investments.

The US dollar has fallen to forty-year lows against foreign currencies. Its decline has helped our portfolios, because we have major investments in foreign markets and in other assets that appreciate as the dollar falls.

In the last two years, we have taken the view that water will be an increasingly precious resource and that the global need for ready supplies of clean water creates favorable investment opportunities. Similarly, the terrible effects of climate change make it a near certainty that industries developing clean energy will grow in the coming decade. In 2006, we made initial investments in water-related industries and in alternative energy. In recent weeks, we have invested some of your cash reserves in a global water industries fund; we expect to make a further alternative energy investment soon. In the past year, these first investments in water and clean energy have performed well. Wonderful. We do not expect these to march upward in a straight line; let us not wait for a repeat of Microsoft and Intel in the 'eighties and 'nineties or Google more recently. But in five or ten years, we expect these two industries to reward us handsomely.



Trade-weighted US dollar, 1970 to present. The dollar has fallen this year to its lowest values since this index was created in 1970.

Other long-term and low-risk investment opportunities lie before us. How can we recognize them and when should we act? Unsurprisingly, stocks of banks and investment banks have fallen as losses in 'sub-prime' mortgage instruments have mounted. Stan O'Neill and Chuck Prince, recent leaders of Merrill and Citi, are gone. Merrill has chosen a new chief executive, John Thain; Citi is still looking. The easy and cheap credit available to commercial real estate, which created a years-long boom in REITs, is grinding to a halt and REIT prices have fallen sharply. But the banking and commercial real estate industries will not go out of business. These are not buggy whip makers. If prices in these sectors fall further, we may find very compelling investments. It does not appear, despite another flamboyant stock rally on Tuesday, that we have reached the end of this long-running film about the housing bubble and easy credit. There are more losses to be recognized and more selling to endure. We hold large reserves of money market funds--US dollar and foreign currency--in your accounts. We will welcome the chance to buy financial stocks, REITs, or other investments at low prices. We intend to remain very cautious in our investing; the world is perilous and your capital is precious. We will guard it 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 and

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ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

October 1, 2007

Remarkably, the third quarter ended very strongly and Core's portfolios earned good gains.

The US dollar has fallen sharply in recent weeks, boosting the value of our foreign investments.

Introducing John Forlines

I am happy to announce that John Forlines III, with whom I have been working for some time, has joined Core as its president. John and I met several years ago as members of the investment committee of a private investment firm run by a mutual friend. We realized that we had compatible investment ideas and came to respect each other's work and views. John had had a successful twenty year Wall Street career in various investment banking activities at JP Morgan. He managed money for family members and other private clients. We decided in 2004 that he would place these accounts under Core's supervision, that he would assist me in managing Core's client assets, and that I would work with him with his clients.

In the three years since then, we have come to realize that our initial favorable views of each other were well founded and we have worked ever more closely together. To formalize the relationship makes good sense. For some time I have wanted to strengthen Core, to provide more depth in our activities, and to build the company further. I believe that I have accomplished this by bringing John more closely into the company. I remain as Chairman of Core and as fully involved as ever. I welcome John to Core and look forward to introducing John to you in coming months. You may reach John by email at jforlines@coreasset.com, or by phone through our office, 415 332 2000 or 800 451 224.

Investment Gains in an Eventful Third Quarter

Contrary to what seemed likely just six weeks ago, the summer quarter produced solid gains in Core's portfolios. In the aggregate, Core's accounts appreciated by 3% in the third quarter and 11% for the year to date. (As always, there is variation among individual accounts, because of differing investment goals and risk levels.) The period from the middle of July through the middle of September was one of most volatile periods for financial markets in decades. From mid July through mid August, the stock market fell by 10 percent. Even more significant and alarming were events in credit markets around the world. Day to day borrowing and lending among banks and other financial institutions nearly ground to a halt. Large banks in Britain and Germany had to be bailed out, as they lost their ability to fund their operations. It suddenly became impossible to value many kinds of securities, especially, but not only those involved with sub-prime mortgages. Lenders were unsure whether the institutions to which they had been

By

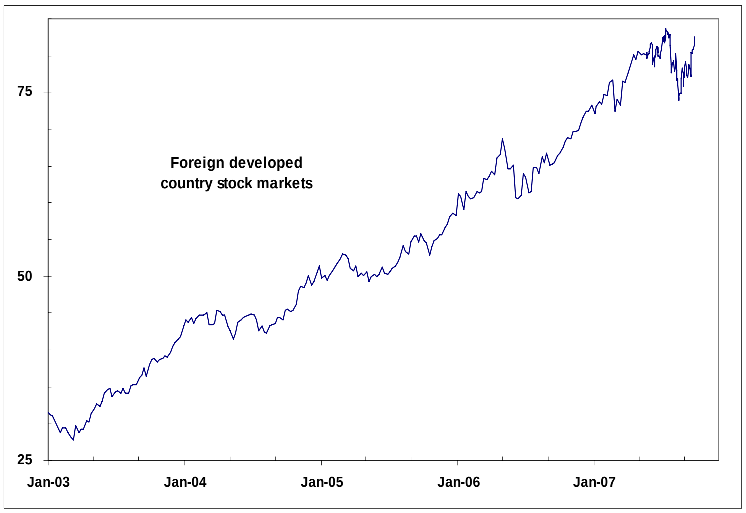
John N. Mayberry

Disruption in investment markets may not be over. We plan to wait before adding to equity positions. We may make changes in some equity investments without adding to overall equity positions.
Over the next several years, we expect equity markets outside the United States to be stronger than US markets and we will focus investments abroad. Water, alternative energy and oil-related investments will continue to appreciate. The US dollar may well decline further.

loaning funds were, in fact, creditworthy. The Federal Reserve, the European Central Bank and other central banks took a number of dramatic steps in an effort to maintain flows of credit.

Central bank actions, including the Fed's unexpected one-half percent cut in the fed funds rate two weeks ago, restored confidence in many financial markets and gave rise to equity market rallies that have restored most of the late July and early August losses. But there is still considerable disruption in the commercial paper market; credit market problems have certainly not yet been resolved.

Astute observers of the banking system and financial markets, including Warren Buffett and Paul Volcker, have warned that the explosion of derivative financial instruments over recent decades presents significant risks to the functioning of global financial markets and banking. In these letters, I have written about this several times, expressing my perceptions of these risks. Because of my concerns, Core has held large portions of your investment capital in US and non-dollar money market funds and high grade US and foreign bonds for several years. At present, about 36% of the capital Core manages is invested in these assets. In the last three years, the range for money funds and bonds has been from one third to slightly more than one half. I do not believe that we have yet seen the last of the credit and financial market problems arising from the bursting of the housing bubble and sub-prime mortgages. My present plan is to wait before increasing the level of our equity investments.



Because the dollar has fallen so sharply this year, our large holdings of foreign currency money market funds have been very productive. Returns for our two principal foreign currency investments, the Euro Currency Trust and the Franklin Templeton Hard Currency fund have appreciated by 15% and 11% this year respectively. We are being paid well to limit our exposure to risky equities. Oil prices and the stocks of energy-related companies have been very strong all year. Even better, our investments in alternative energy have exceeded the returns from oil-related investments. Water investments, utilities, and most of our equity investments in developing markets have flourished. In coming years, I expect that foreign economies and foreign markets will grow faster than the US economy and markets, that water will be an increasingly precious resource, that alternative energy will be ever closer to the heart of global growth, but that oil will remain the key energy source. Core's investments will reflect these themes. These are the investment opportunities, now and for some years to come.

While these opportunities beckon, the recent crisis in credit markets has shown that the paramount need is to control risk. As of this writing, the financial market crisis appears to have passed without wreaking undue havoc. But one misreads the nature of investment risk if one believes markets are now safe, just because stock markets rallied sharply from mid-August lows. The complexities of the world's interconnected financial markets and banking systems are such that no one can know where risk lies and from where it will emerge to cause damage. We will do well to continue our cautious approach, to keep strict limits on the level of our risky investments, to keep significant reserves of high-grade, short-term fixed income investments, and to hold large non-dollar investments. Please call or email me (JNMayberry@coreasset.com) if you wish to discuss your investments.

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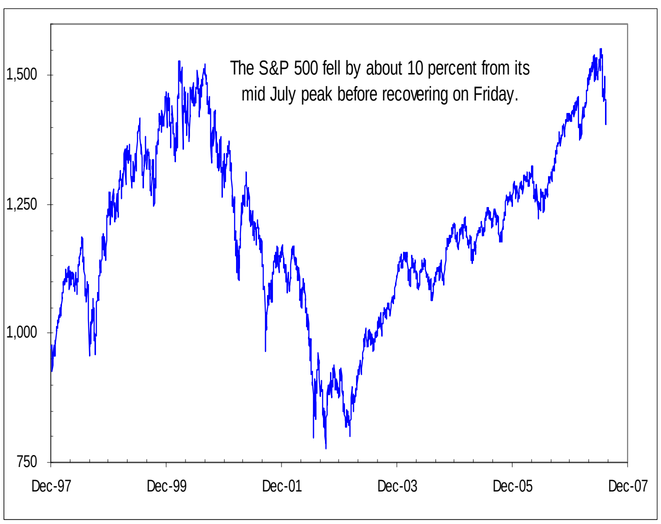
CORE Comments
ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

August 19, 2007

The Bubble Bursts and Mr. Bernanke Takes Action. A Good Thing, or Not?

Selling in the stock market has been very intense. Fine investment opportunities are before us. We have large cash reserves and expect to make good investments at favorable prices.

A text book case of the bursting of a financial bubble has unfolded in recent months. The extremely low interest rates set by the Federal Reserve in the aftermath of the dot-com bubble and September 11th caused housing prices to rise. Concurrently and contributing to the rising prices, came the combination of very easy credit and 'innovative' financial products. (The world of finance often coins colorful terms. The best in this cycle has been the 'Ninja' mortgage: No Income, No Job or Assets.) As housing prices rose, came the home buyers who never intended to live in the homes they bought, but to 'flip' them. Euphoria, visions of ever-rising home prices and wealth prevailed. The Cassandras who warned that things would not end well were ignored because their predictions of dire outcomes were not realized. Until recently.



For a time, the view was that the problem would be limited to 'sub-prime' mortgages. But the financial innovators who created Ninja mortgages also created packages of the sub-prime mortgage loans. Credit-rating companies—S&P and Moody's and Fitch—granted Triple-A ratings to packages of slices of sub-prime mortgages. (Most of their fees were paid by the underwriters of these securities: Is it a coincidence that the agencies could give AAA ratings to pools of really dodgy stuff?) Credulous institutions—including some very well-known banks—bought these securities. When these banks and hedge funds and others, some of whom we know now, others of whom we will know, realized that the securities they had bought were impossible to value and to sell, they stopped buying more.

Because they could not sell what they wanted to sell, they sold what they could. Soon, everything was falling in price. Lenders stopped lending—even to the credit worthy—and buyers stopped buying. Investors happy to pay 120 (let us say) for the stock of a very good company while its price was rising became utterly uninterested in the stock when its price fell to 105.

By

John N. Mayberry

Beginning on August 9, the important central banks, lead by the European Central Bank, began actively to provide cash to the financial system that seemed to be grinding to a halt. The ECB provided 200 billion euros to the markets by buying loans that other institutions did not wish to hold. The Fed acted in a similar fashion on a smaller scale. By Wednesday of this week, it

Walter Bagehot, the 19th century economist and journalist, foresaw the events of the last year:

"At particular times, a great deal of stupid people have a great deal of stupid money …. At intervals . . . the money of these people . . . is particularly large and craving; it seeks for someone to devour it, and there is a 'plethora'; it finds someone, and there is 'speculation'; it is devoured and there is 'panic'."

became clear that those actions by the central banks were insufficient to keep the banks lending and the markets stable. After a climactic session on Thursday, the Fed took the novel step on Friday morning of cutting the discount rate for bank borrowing directly from the Fed. The timing was exquisite: the US market had recovered from a 350 point loss in the Dow by 1 pm on Thursday to close unchanged. Before the opening on Friday, the Fed made its announcement and a very satisfactory rally ensued.

The questions. As of Friday's close, things looked reasonably favorable on Wall Street. But there is probably more selling ahead. The very dramatic decline is of the magnitude of the best of them in the last decade or two. If Thursday's low was the bottom (a big if, of course), then we are still likely to have more bad news and more selling. Even if the stock market low happened at 1 pm on Thursday, can we imagine that all the credit problems have been resolved, as well? Probably not. It seems quite likely that more time will be needed before this round of selling will have run its course.

The other question, which does not bear directly on how Core invests your capital, involves what is called 'moral hazard'. Since the early nineties, when financial crises have disturbed the markets and the banking system, the Fed has taken dramatic and decisive action to restore confidence. There was talk of the "Greenspan put": Speculators could take risk freely on the notion that the Fed would put a floor under losses if things went really wrong. The idea that the Fed will bail out improvident investors encourages recklessness. Would it be a better thing for the financial system if the institutions that purchased flawed Triple A packages of sub-prime mortgages failed? Would it be better if the consequence of stupid investing were failure? Certainly the Fed does not want to encourage recklessness, but it must also concern itself with the greater social and systemic costs of reckless investing. It seems that the members of the Fed thought that there was risk to the broad economy and the functioning of the banking system during the last week. Its actions, providing liquidity to the system and lowering the discount rate, were designed to preserve the system, not to bail out stupid investors.

Core's actions. At the end of July, we sold your positions in commodities; early this month, we sold investments in US small cap stocks. Last week, we sold investments in emerging markets. Before we made these recent sales, Core's overall position in US and non-US money funds and in bonds was 30%. Our recent sales have increased these levels to above 42%. (These are aggregate numbers; individual accounts vary.) The intense selling has produced some very attractive investment opportunities. If and as the selling continues, more opportunities will arise.

What lies ahead? In the coming weeks, markets will surely be very volatile, with days of big gains and big losses. It is very possible that the Fed will take further actions to support the banking system and calm the markets. It seems likely to me that in coming weeks, the markets will regain firm footing, that the banking and credit systems will resume normal activity, and that world-wide economic growth will continue. We intend to take advantage of the appealing opportunities that are now and will be on offer. Your large money market positions provide shelter from the selling and the source of funds for new investments.

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

July 30, 2007

Volatility Returns to Equity Markets

Stock markets around the world fell sharply last week. Although we can expect the markets to be volatile, higher stock prices lie ahead.

I write after the sharp decline in global stock markets last week, to offer a view on the increasingly volatile markets and to explain an investment change made today. It appears to me that stock markets have not yet made their highs for this bull market. The way will probably be increasingly bumpy; the wide price swings we have observed since February of this year will probably be the rule, not the exception.

Global economic growth and corporate profitability remain strong. Stock prices, despite having risen at a healthy rate for some time, are not exceptionally high. Higher prices lie ahead.

As you know from these letters and from observing your portfolios under our supervision, we have held fairly large positions in US and foreign currency money market funds for a few years. The size of these positions varies among client portfolios according to our assessments of clients' risk tolerances. These money market funds, of course, are not subject to the risks of stock markets and they have been paying decent dividends. Not only have the foreign currency funds paid dividends; they have appreciated modestly as the dollar has declined.

We have also limited risk in client accounts by our investments in physical commodities, which we have held since the beginning of 2004. Commodity prices have risen in these three and a half years and our portfolios have benefited directly from the higher prices for oil, industrial and precious metals, and agricultural commodities.

In recent months, I have observed that the prices of many commodities have grown faster than the stocks of the companies involved in their extraction, refining, and transportation. To give an example, crude oil prices have risen faster in recent years than the stocks of companies in the oil business. This situation obtains for a number of commodities and the related equities. Hence, I sold our positions today in physical commodities (mostly through the mutual fund Pimco Commodity Real Return fund, symbol pcrdx). I plan to use proceeds from these sales to

By

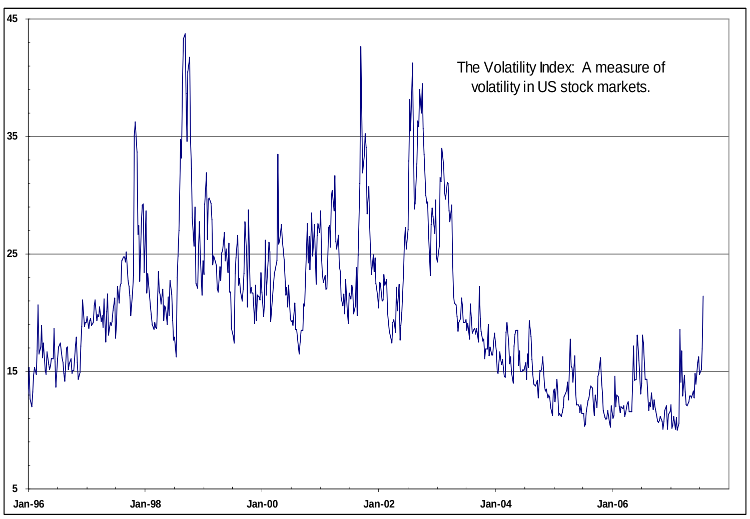
John N. Mayberry

buy equities in industries (within and without the United States) involved in commodities. We have held profitable positions for several years in energy stocks and utilities, both significantly involved with oil, coal and natural gas. I expect in coming weeks to make other investments in these areas, as well as in alternative energy and water-related industries. The present market weakness may provide us with the opportunity to make these investments at favorable prices. Happily, as stock prices have fallen in recent sessions, commodity prices have appreciated a bit, enabling us to sell our commodity positions at good prices.

Stock markets have been increasingly volatile this year. I expect this volatility to continue.

Because we have large cash reserves, we have capital available to take advantage of opportunities that weak stock markets present.

Stock Market Volatility. The adjacent graph shows volatility in the stock market, as measured by the so-called VIX index. VIX is derived from premiums on options on a US stock market index. A higher level of the VIX indicates that price swings in the market--up and down--are higher. Two observations about this: First, for the last four years, stock market volatility has been falling from the very high levels that prevailed from 1998 to 2002, the period of the Asian currency crisis, Russia's default on Soviet-era debt, the dot-com bubble and the subsequent bear market. Since that time, which marked the beginning of this bull market, stock markets have experienced small swings. Markets have been increasingly placid; volatility has fallen. Second, the decline in volatility probably came to its end early this year. We may expect to witness rises and declines in stock market of greater magnitude.



Bigger swings up and down put a premium on a deliberate, unemotional approach to investing. As price swings increase, the news about the stock market becomes louder and more urgent. An approach that lowers risk while markets are strong provides a calmer perspective for judgments when markets become unsettled, as they are now. Because we have held large cash positions, our portfolios suffer less when stock markets fall. Additionally, because of the large money fund positions (increased today by our commodities sales), we have funds available to take advantage of bargains in the stock market. Present market conditions are favorable for investors like us.

Please call (800 451 2240) or email (JNMayberry@coreasset.com) if you wish to discuss your investments.

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CORE Comments
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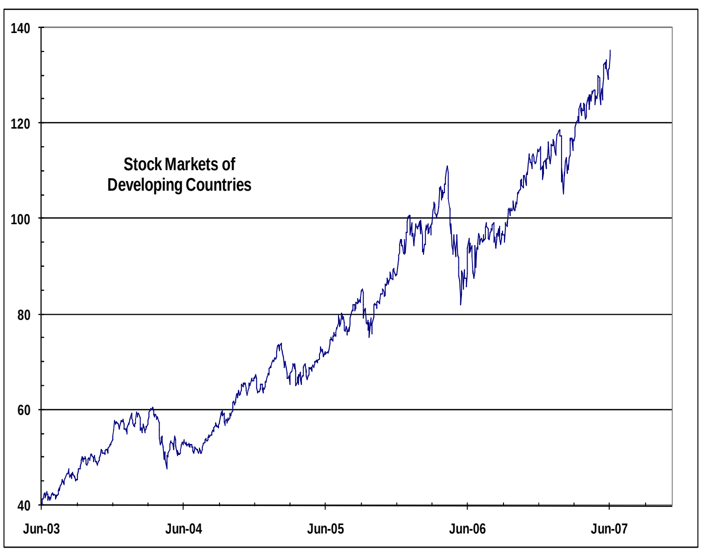
July 06, 2007

At the Halfway Point

Strong returns in the first half of 2007 demonstrated investors' (so far) insatiable appetite for risk.
Stock markets of developing countries are a good proxy for interest in risky investments.

Summary of recent market action and portfolio returns. The first half of 2007 produced very favorable gains for our portfolios. After a brief sell off in late February and early March, the markets were exceptionally strong through the end of May. In the aggregate, the accounts of Core's clients gained 7.6% in the first half, essentially all in March, April and May. (Returns in individual accounts vary, generally because differing risk profiles.) In May and June, there was a rather sharp world-wide rise in bond yields (and corresponding decline in bond prices). At the same time, widening problems in the 'sub-prime' mortgage sector caused failures of some small hedge funds and a crisis at two large funds run by Bear Stearns. The combination of rising interest rates and these problems with mortgage-backed securities caused jitters in many markets and among many kinds of investment assets. Stock markets fell sharply for a brief period in June; investments sensitive to interest rate levels were hit hard. Utilities and financial stocks, and Real Estate Investment Trusts (REITs), were among those adversely affected.



Notwithstanding the increase in interest rates and the short waves of panic selling, the appetite for risky investments remains high. The exchange-traded fund for the stock markets of developing economies (symbol EEM), in which Core clients have investments, is a good proxy for risky assets. (See the adjacent chart.) It began the year at a price of about 115, fell to 105 during the late February and early March sell off, then climbed to 133 in late June. Investors show confidence that equity markets will continue to be strong.

By

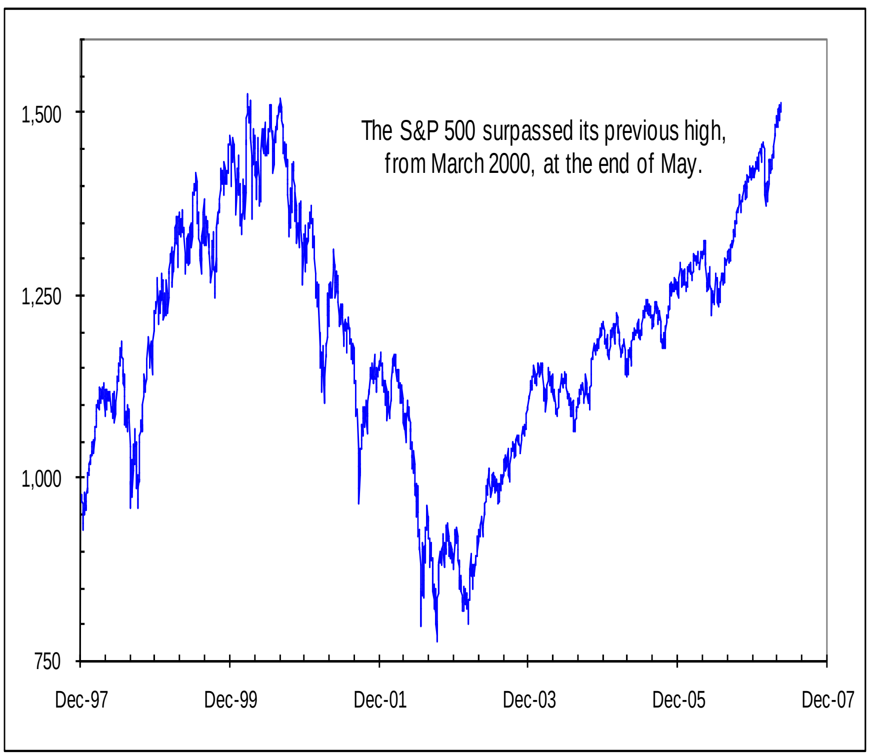
John N. Mayberry

After the housing bubble. We are well into the aftermath of the hou–sing bubble. Median home prices have fallen in the last twelve months and masses of houses are languishing on the market. A couple of years ago, at the height of the frenzy to buy houses and create mortgages, some banks made loans to anyone with a heartbeat. Unsurprisingly, we now have an explosion of defaults in so-called "sub-prime" mortgages. These mortgages (like conventional ones) have been packaged into pools and sold to investors in various forms. The creativity of investment bankers who "securitize" these, the complaisance of the credit rating agencies (Moody's and Standard & Poor's), and the obtuse greed of investors—avid for yield but blind to risk—have created a newsworthy set of problems.

So far, the banking system and financial markets have easily absorbed the failures and losses associated with sub-prime mortgages.

Financial systems are certainly robust, but we have not yet watched the last reel of this film.

Geniuses at the investment houses created CDOs (Collateralized Debt Obligations), which put large numbers of loans, including sub-prime mortgages, into highly leveraged pools. Even though many of the underlying loans were of the poorest credit quality, their numbers were deemed sufficient collateral to give the pool as a whole the highest (AAA) credit rating. This is alchemy. As the borrowers of the underlying sub-prime mortgages stop making their payments—a growing trend—the defaults have chipped away at the cushion of prospective payments to support the AAA rating. The messy bailout a couple of weeks ago by Bear Stearns of two hedge funds it organized to invest in this arena forestalled the risk of wider damage to institutions and funds holding this rather toxic stuff.



Several months ago, a number of small financial institutions that originated these sub-prime mortgages failed; a number of banks and investment banks have reported losses from the parts of their businesses that deal in this arena. So far, the losses from subprime mortgages have not caused a ripple on the banking system as a whole. There is a reasonable possibility that the Bear Stearns debacle is not the last act in the housing bubble aftermath. We remain vigilant, but so far the banking system has been sufficiently robust.

Water and alternative energy. Last summer, we made initial investments in water-related industries and in alternative energy. It seems a near certainty that water will be increasingly valuable; investments in water utilities and in industrial companies involved in filtration, pumping, desalinization and the like will very likely be quite profitable in coming years. The same applies to investments in wind and solar energy industries. These investments have done well so far, ahead by 32% in the last twelve months for the water-related investment and by 24% for the alternative energy. I expect to make further investments in water and alternative energy in the future.

The alternative energy industry is in its infancy. Its future is very bright.

The oil business is mature but is nowhere near its decline. We have investments in both and expect to benefit from both for several years to come.

Oil-related investments. We began making oil-related investments four years ago; these have been very profitable investments, averaging 32% per year since the end of 2003. As is well known, economic growth in China and other developing Asian countries has accounted for much of the world-wide increase in demand. Constraints in meeting that demand, especially in increasing crude oil production and refining capacity, have caused prices to rise. Although there is an ever-wider search for alternative fuel sources, it seems to me very likely that oil demand will keep rising in coming years. (Within a few years, more cars will be sold in China each year than in the United States.) And, despite investment gains since 2003, energy stocks are somewhat undervalued at present. We expect the investment gains in oil-related stocks to continue.

There are many ways to invest in energy. A new investment by Core has been in Brazilian stocks, via a security called (awkwardly) iShares MSCI Brazil Index, symbol EWZ. Brazil has become an energy exporter in recent years and its success with ethanol derived from sugar cane has been well publicized. Petrobras, its large oil company, is a big part of EWZ. Likewise, our commodity investments include oil and heating oil. Our total energy-related investments represent a big part of your portfolios.

The dollar has fallen further in 2007, continue its long-running decline. The euro and British pound have been the strongest currencies; most Asian currencies have been weaker than the dollar. In time, the dollar will decline against the Asian currencies, as well.

The dollar and foreign currencies. The dollar has fallen a bit further this year on a trade-weighted basis. The euro and pound sterling have been quite strong; the Asian currencies, including the Japanese yen, have been notably weak. Since the end of 2001, the dollar has lost about one third of its value. Because we have had large foreign investments, in foreign bonds, foreign currency money funds and, especially, in non-US stock markets, our portfolios have benefited from the weak US dollar. Further declines in the dollar, especially against the Asian currencies, are quite likely in coming years. We intend to maintain large foreign, non-dollar investments for the foreseeable future. We will continue to divide our cash reserves between US money market funds and foreign currency money funds.

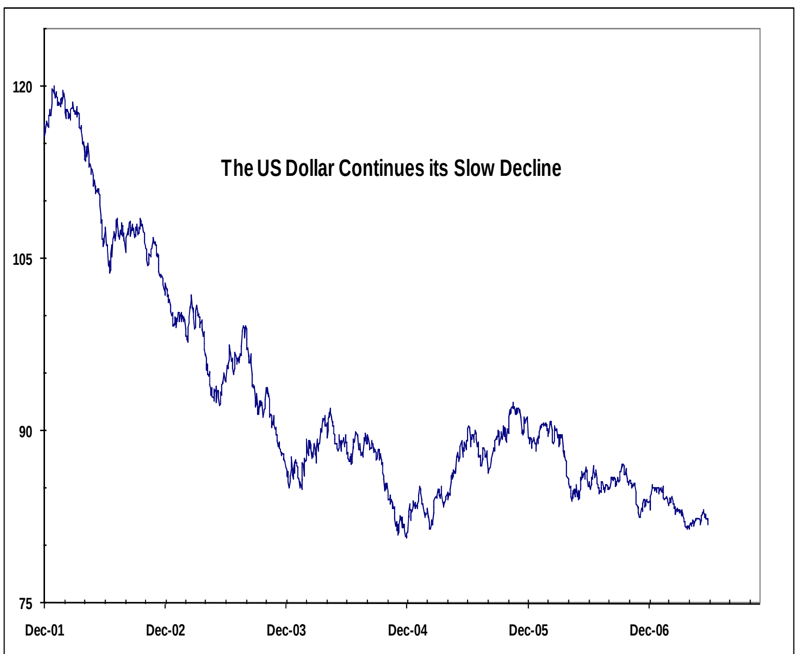
Stock markets have been strong around the world. More gains lie ahead.

Equity investments, generally. Almost five years ago, the bear market in stocks came to an end and equities began a long bull market. Despite the duration and extent of this bull market, further gains lie ahead. Strong

Stock prices have become increasingly volatile this year. This is disconcerting to watch, but the big price swings present opportunities to sell at high prices and to buy other assets at favorable prices.

economic growth around the world and growing corporate profits provide the underpinnings of these favorable markets. The process of financial globalization, including free flows of investment capital world wide, has opened many more markets in which companies can raise capital and into which we may invest. The extraordinary surpluses being accumulated by China, Japan and other Asian exporters, and by the oil exporting countries provide more than a trillion dollars of new investment capital each year. As investors have becoming increasingly confident that relatively low inflation and relatively high growth will persist, the appetite for capital market investments has grown. Prices for stocks, real estate, and physical commodities have all risen. Asset markets will not forever go up, but they will probably continue to rise in the next six to twelve months.

The latter stages of a bull market. You may have noticed the growing number of days with big changes up or down in stock prices this year. In late February and March, and again in June we saw this. We should get used to it: as a bull market ages, price volatility increases. This bull market is more than half way through its fifth year.



Price volatility has its benefits: As mentioned, REIT prices have been adversely affected by rising bond yields. Since February, REIT prices generally have fallen by about 20 percent, after rising phenomenally for four years. Price volatility poses risks, of course, but it also presents opportunities to make long-term investments at favorable prices. We have very small REIT investments for many clients; I have kept positions small because prices have seemed unrealistically high. Should REITs fall further, they will become increasingly attractive candidates for purchase. I would be very happy to hold large REIT investments at the right price. Similarly, I would like to add to our investments in water-related industries and alternative energy. Sharp declines in stock prices may provide us with an opportunity to buy these at good prices. We remain alert to risks. As prices rise, risk increases. But, as markets shift, opportunities arise. We have two jobs: to manage risk, and to exploit opportunities.

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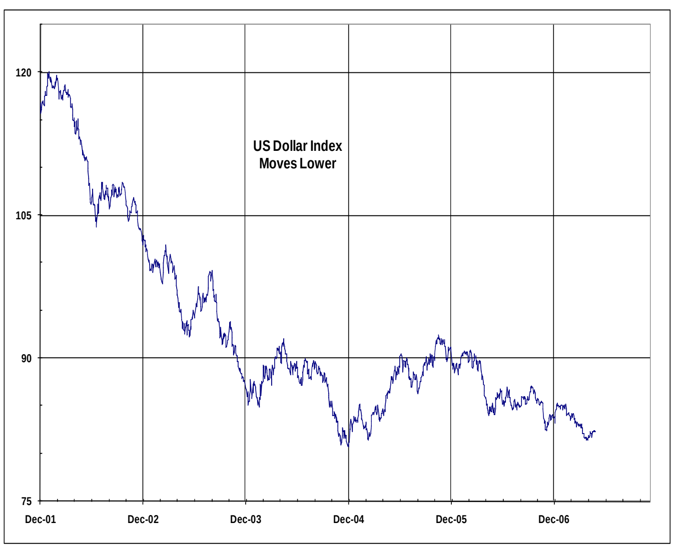
CORE Comments
ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

May 30, 2007

Sovereign Wealth Funds: Tomorrow's Investors

The US dollar has fallen against most foreign currencies this year, especially the euro and the pound sterling. Strength in foreign currencies increases the value of Core's foreign stock and bond investments.

A remarkable world-wide rally in stocks and commodities has produced very strong returns in Core's portfolios. Since the sharp bout of selling in late February and early March, equity markets have posted steady gains. Since March 5, the low point of the brief sell off, the S&P 500 has gained more than 11 percent; since the end of 2006, the S&P is ahead by 7 percent. In the aggregate, Core's portfolios have gained more than 7 percent so far this year. Foreign stock markets and commodities have been particularly strong; the US dollar has been weak.



The persistence of strong investment markets flows from the accumulation of investment assets, especially by foreign investors, and the continued strength in global economies. (It is interesting to note that the US economy is the weakest of the world's big economies.) The confluence of global growth and capital accumulation raises prices of investment assets around the world. This letter takes a look a important set of huge and rapidly growing pools of capitals and considers their effect on investments and politics in the future.

Two groups of countries have generated--and continue to generate--huge surpluses: the oil-exporting countries and the (mostly) Asian exporters, including China, Japan, India and others. With persistently high oil prices and growing demand for oil, the oil exporters have accumulated enormous reserves. Similarly, the non-oil export powerhouses earn vast sums; China's foreign currency reserves exceed $1.2 trillion and grow daily by more than $1 billion. Because the reserves held by these countries now far exceed amounts needed to finance their trade and defend their currencies, more countries have created investment funds with their excess capital. These funds, sometimes referred to as Sovereign Wealth Funds ('SWFs'), are being deployed in the world's investment markets in ever larger amounts. Their influence grows steadily.

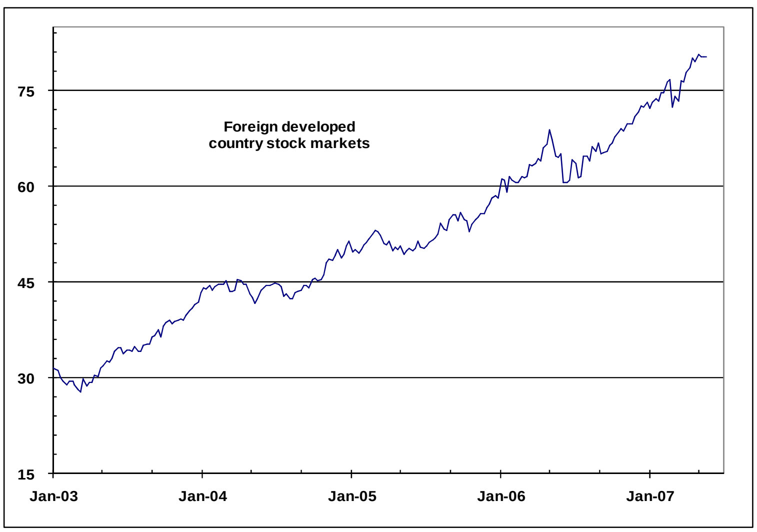
By

John N. Mayberry

According to Morgan Stanley, these funds may hold $2.5 trillion today; by 2015, their totals may exceed $12 trillion. The nature of investments by SWFs is likely to be very different from the investments of the official reserves of the same countries. Typically, a country's official reserves are held in treasury bonds of the United State, the euro countries, and the United Kingdom. These investments have supported bond markets and kept interest rates low. SWF investments are more likely to be in equity markets, real estate, and natural resources. A striking deal was announced recently: China agreed to invest $3 billion in the stock of the Blackstone Group, the large, New York-based private equity firm, which plans to sell shares to the public in coming months. This suggests that China plans to be a significant private equity investor. China is not the first country to invest in private equity: Korea has been an investor in private equity funds organized by Blackstone and others for some time. Private equity is only one investment activity for China, which has also been very active in recent years in attempts to secure supplies of oil in Africa, Latin America and Central Asia.

The growth of Sovereign Wealth Funds provides a good measure of the increased wealth, power and influence of oil exporting countries and the developing countries in Asia.

Sovereign Wealth Funds are significant for two reasons, the scale of their assets and the scope of their investments. As they grow in size, their influence in the world's investment markets grows. Broadly speaking, it seems likely that SWFs will avoid bond markets in favor of equity and natural resource markets. Political strife may loom larger in investment markets as sovereign funds seek strategic investments in sensitive industries and difficult places: recall the squabbles in recent years when China sought to buy Unocal (the old Union Oil of California) and a Dubai sovereign investment fund sought to buy a company that operates several United States ports.



Foreign stock markets, of emerging and developed countries, have been strong since 2003. Investment by Sovereign Wealth Funds will lift these markets further.

For us as private investors, the growth of these funds creates opportunities. Ever larger SWFs will be buyers of investment assets in America and Europe, pushing up prices of our investments in these stock markets. It is also likely that SWFs will be significant investors in emerging markets, contributing to the broadening and deepening of these markets. Core has been investing more capital into emerging markets and we have held significant investments in commodities and natural resources companies for several years. These investments will benefit from the attention SWFs direct to them.

As mentioned, these sovereign investment funds will deploy their capital differently than has been typical with a country's foreign currency reserves. To the extent that a given country's reserves are now ample, it is likely more of its surpluses will be directed to its SWF and thence into equities, real estate and natural resources. Although the investments will not be in US dollar bonds, the proportion allocated to US dollar assets will not necessarily fall. However, SWFs may find that their need for productive investment assets cannot be filled with US assets and the US share of investment by SWFs may well be lower in coming years than it is now. This may weaken the value of the dollar and diminish the attraction of US dollar investments. This is a further reason why it is useful for us to invest large portions of our capital in foreign markets and in non-dollar securities.

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

April 10, 2007

A Brief Warning, then Buying Returns

Core's portfolios have made a good start to 2007. Energy-related and foreign stock markets were the strongest parts of our investments.

Despite sharp declines in stock markets around the world beginning in late February, and despite the swift increase in oil prices after Iran seized British sailors in the Persian Gulf, Core's portfolios earned strong gains so far this year. Following nervous weeks of selling into mid-March as investors feared risky investments, appetite for risk returned. For now, investors have concluded that the specific problems of February and March do not pose immediate danger: Fears of a slow down in China's growth (occasioned by its sudden sharp sell off) have receded. The worsening defaults in the sub-prime mortgage sector now seem unlikely to present widespread problems to the US banking system. The risk of a large increase in oil prices from the British/Iranian standoff has been rendered moot by the release of the sailors. The question, to use the metaphor suggested by the British/Iranian matter, is whether clear sailing lies ahead? What do these swift-passing squalls portend?

Since the year end, the aggregate of all Core's accounts has risen by 3.8% as of this writing. By contrast, major US stock market averages are ahead by less than 2%. Foreign stock markets have performed better than US markets. Our investments in commodities, traditional and alternative energy companies, utilities, and foreign stocks have been quite strong. These have provided a good portion of our investment earnings this year.

The sudden sell off and the rebound. In late February, seemingly out of the blue, came a sudden round of selling in stocks around the world. For months, the markets had been characterized by calm and confident advances. Troubling events--political, economic and financial--seemed incapable of disturbing investors. Since then, markets have fallen and risen by large amounts day after day. Judging by the wide daily price swings, it appears that investors are no longer complacent and have a renewed appreciation of risk. Belying this is the strong showing by the risky assets. The nearby chart shows prices of stock markets in developing countries; surely these are risky investments,

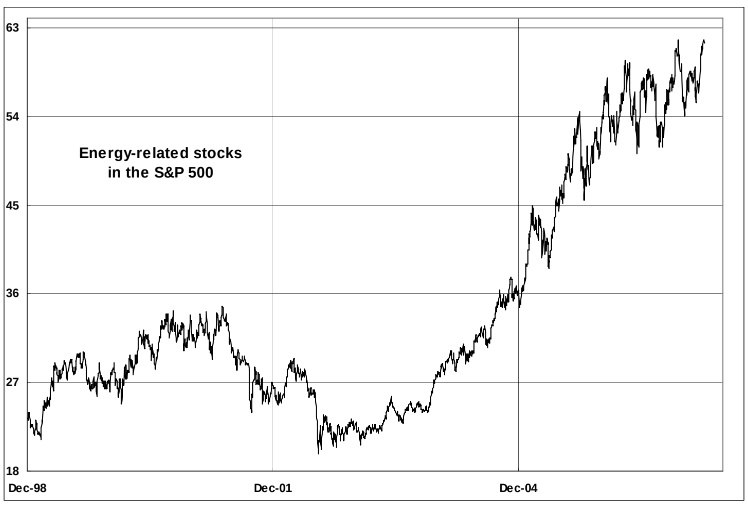
By

John N. Mayberry

gaining while risk appetite is high and falling sharply when the investment world becomes nervous. After a quick 11% plunge in a few trading sessions, emerging markets regained their footing and last week surpassed their former highs from late February.

Despite geopolitical problems, despite difficulties in the US housing market, growth in Asia and Europe is solid. Further appreciation in stocks and commodities seems likely in 2007.

The geopolitical problems, of which the Persian Gulf episode is just the latest example, are always with us. At any time, a similar event may arise. This one was resolved by diplomacy; in the future, clumsy anger may give rise to devastating crises. By contrast to the uncertainties of the geopolitical messes is the apparently smooth progression of economic growth. As sub-prime lenders failed in recent weeks, the fear arose that this finally could trigger economic slowdown. On current evidence, it seems that the sub-prime defaults will not cause losses through the banking system. And, even as economic growth in America slows from the rates of previous years, the rest of the world grows more rapidly. It used to be said that when the United States caught a cold, the rest of the world suffered from pneumonia. As developing economies have grown so robustly over the last decade, dependence on US demand has waned. Indeed, the rapid growth of US exports provides further evidence of the size and importance of foreign economies. And, this suggests that America's overall economy--and its domestic investment markets--may not suffer unduly with a modest decline in US domestic demand. Stock markets, American and (especially) foreign, may advance even as US economic growth slows.



Prices of companies in energy markets are rising; economic and political prospects are favorable. Oil-related and alternative energy markets are attractive.

What lies ahead. Our various investments have good prospects and we expect 2007 to produce reasonably strong returns. The demand for oil and other commodities remains robust; incidents like the recent one in Iran suggest that the combination of demand and political risk makes oil stocks attractive even after several years of big price gains. Growing economies around the world provide a good support for the global export powerhouses, Germany and Japan, in which we have very productive investments. We participate in the vibrant developing economies of Asia and Latin America through our investment in the Emerging Markets exchange-traded fund and in country-specific ETFs. The US dollar has fallen a bit this year and we expect this long-term, slow decline to continue. We have investments in a foreign currency money market fund and in a euro currency ETF. These appreciate in value as the dollar falls; like US dollar money market funds, they also are the best defensive holdings when markets are weak. (During the sharply falling markets at the end of February and early March, these positions gained in value.)

The late February and early March selling is another reminder that markets do not always go up. We did not make any significant investments changes last month in response to that selling, which we judged to be a temporary event. We consider the preservation of value of your investment capital to be our primary responsibility. We are alert and prepared to act.

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

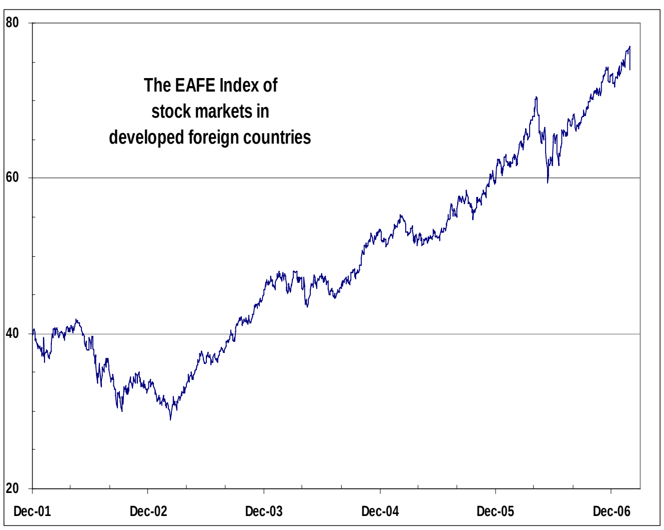
February 27, 2007

A Good Start for 2007 . . .
. . . Then a Stumble

Core's portfolios appreciated in the opening weeks of this year. Favorable investment conditions prevail and investors demonstrate confidence in the assets in which we invest.

Will today's world-wide selling in financial markets undercut this confidence?

Notwithstanding a sharp sell off that began in China and extended around the world today, the year has begun well for the assets in which we invest and our portfolios show good gains. The stock market rally that began last summer--after a brief shudder in May and June--continued its steady gains in US and foreign markets. Prior to today's activity, the character of the market persists as it has, with brief interruptions, for the last three years: there is a sense of confidence in the markets that arises from the seeming abundance of money to invest, from the slow and steady growth of economies and of markets, and from the very resilience of the markets when confronted with unsettling news. Is today's selling the beginning of a bear market, or is this just another interruption in the stately advance of the world's investment markets?



The major investment themes that we have identified and acted upon over the recent years continue: World economies grow apace. Asian countries gain wealth, power and political influence. Relatively free movement of capital around the world broadens and deepens the markets in which we invest. Demand for commodities to fuel economic activity grows (although the cycle of commodity price gains has become somewhat advanced). Economic growth and wealth creation is generally faster outside the United States than within it. Core has continued to invest much of the capital we supervise outside the United States and, as the years unfold, we expect ever-greater commitment to foreign markets.

We have written many letters discussing the risks that should give the markets pause. Indeed, we have seen "pauses." In the spring of 2004 and again in last year in May and June, markets experienced sharp, but very brief bouts of selling. On both occasions, the selling appeared to come out of the blue. That is, there was not a clear event, either in the financial markets or in the world at large, that triggered the selling. As the selling began, many market participants joined in and virtually all major markets fell sharply in price. Then the selling dried up, nothing appeared to have changed, and investors resumed their buying. Is today's selling the beginning of a more serious decline, or is this just another brief interruption? This question will be before us in the coming days and weeks.

By

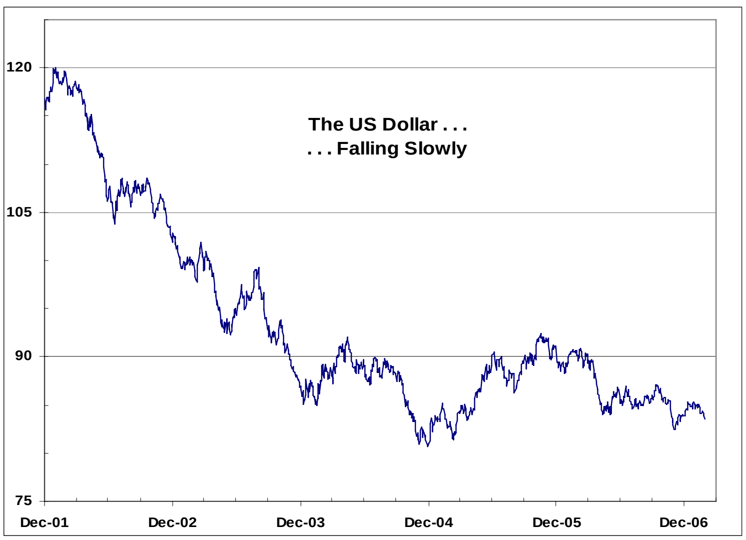
John N. Mayberry

Investors have ignored geopolitical risks and invested as if all were well in the world. At some time, a bear market will begin. The trigger may be a political or economic event, or it may come from within the financial system.

If we remain alert and ready to take action, we are likely to preserve capital during bear markets and to invest productively when falling prices create good opportunities.

The various unsettling geopolitical, economic and financial events since 2003 have been brushed off by the markets. The war in Iraq worsens; al Qaeda regroups in Afghanistan and Pakistan; North Korea detonates an atomic bomb; Iran tries to build them; Hezbollah and Israel fight to a bloody stand off in Lebanon; the Amaranth hedge fund loses $6 billion in a few short weeks; oil prices more than double; and the United States incurs $800 billion of new foreign indebtedness each year. The markets have ignored the bad news and moved ahead.

Some event will trigger the next bear market. There can be no doubt that we will see the end of this bullish period. When the bear market begins is utterly unknowable. Whether today's sharp selling is day one cannot be known now. We prepare for the next bear market by observing the markets and the world as things unfold, by being alert to signs of problems, and by investing some of our capital in money market funds and other low risk assets that will not be pulled down when risky assets fall in price. (For example, during today's selling, our foreign currency money market investments rose by one half percent.) When conditions change and the markets begin to worsen, we are likely to sell riskier investments in your portfolios. Perhaps we will sell too soon; we may sell too late; we have done both before. We certainly will be unable to pick the top of the markets unless by chance. But we will do well, if we avoid the delusion that markets will forever go up and if we prepare to invest opportunistically after the bear market.



Recent investments. Since the year began, we sold part of our commodities investments on the view that the balance between supply and demand is shifting and that the surest price gains are behind us. We have rejiggered positions in foreign currencies, by selling a portion of our investments in the Franklin Templeton Hard Currency fund (a foreign currency money market fund) and buying an exchange-traded fund that tracks the value of the euro in dollar terms. The Franklin Templeton fund has a big weighting in the yen and other Asian currencies and a smaller one in the euro. We thought the balance wrong for our portfolios--we favor a somewhat higher allocation to the euro. We are continuing our slow deployment of capital to foreign equity markets. Our investments in Germany and Japan, made two or three years ago, have been exceptionally productive; their prospects remain good. We are adding investments, through various exchange-traded funds, in Brazil, India and Singapore.

Investments after the bull market ends. The last two or three years have been characterized by low interest rates and readily available credit. Capital is at hand for almost any plausible investment--and for some pretty odd ones, as well. As we have discussed before, many investment assets have come to trade at levels never before thought plausible. When this cycle turns and some of the mountains of debt begin to totter, various markets may suffer.

But as prices fall, opportunities will arise. Then many investment assets, now quite expensive, will become much less dear and much more attractive. There will be very good opportunities in struggling or bankrupt companies, "distressed securities," as they are called. We expect to be able to invest then in very low risk and good quality assets that will have fallen sharply in price as credit--now cheap and readily available--becomes scarce and expensive. When the cycle turns, we expect that our investments will continue to earn a healthy return.

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CORE Comments

ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

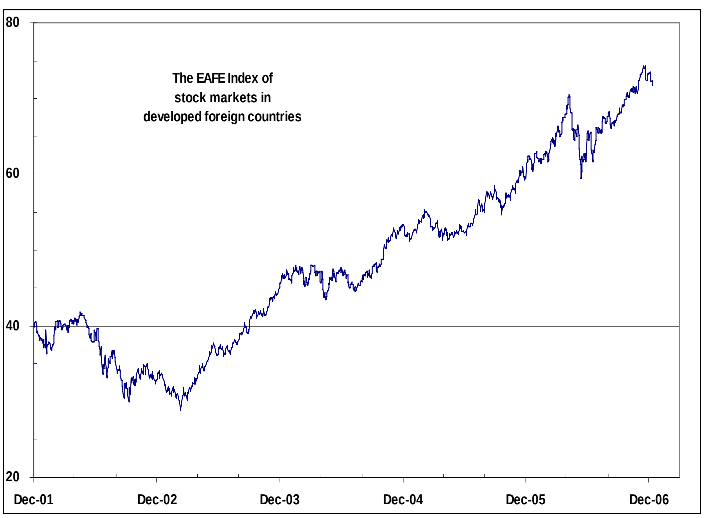
January 11, 2007

The Turn of Another Year

Stocks markets generally were strong around the world in 2006. The chart below shows returns for the last five years for foreign stock markets in developed countries, including Japan, Australia, Canada, and the western European countries.

2006 was a favorable year for Core's investors; let us hope to have more like this one just past. In the aggregate, all of Core's accounts earned 11 percent, a return commensurate with US stock market averages, but with far less risk. (Variation among individual accounts arises from the differing levels of risk we take for different people.) This letter addresses the broader issues that investors face in 2007.

Principal Factors for Investments



As was the case in 2006, a handful of issues will determine the course of investments. In no particular order, these include the huge amount of money available worldwide for investment; economic growth in the very dynamic Asian economies; the tremendous accumulation of money by China and other Asian exporters and by the oil-producing countries; the state of the US housing market and--related to it--potential problems in the mortgage market; the interconnections of global capital flows through financial derivatives; and the growing importance of borrowed capital. To understand these phenomena, the interplay among them and their influence on the assets in which we invest, is the real task in which we are engaged. Among other things, investors must seek to understand how these factors have caused the prices for many investment to rise to such exceptional levels.

Liquidity and leverage. The apparently enormous amount of money available world wide for investment has caused one asset class after another to attain prices previously thought impossibly high. Strong worldwide economic growth and the increasingly free flow of global capital provide ever-greater liquidity for investment. Perhaps equally important is the use of leverage. The creation of new financial derivatives and relatively low interest rates around the world have permitted much more investment with borrowed funds. Concurrently with this readily available investment capital, markets around the globe have opened up and expanded the range of assets in which we can invest.

By

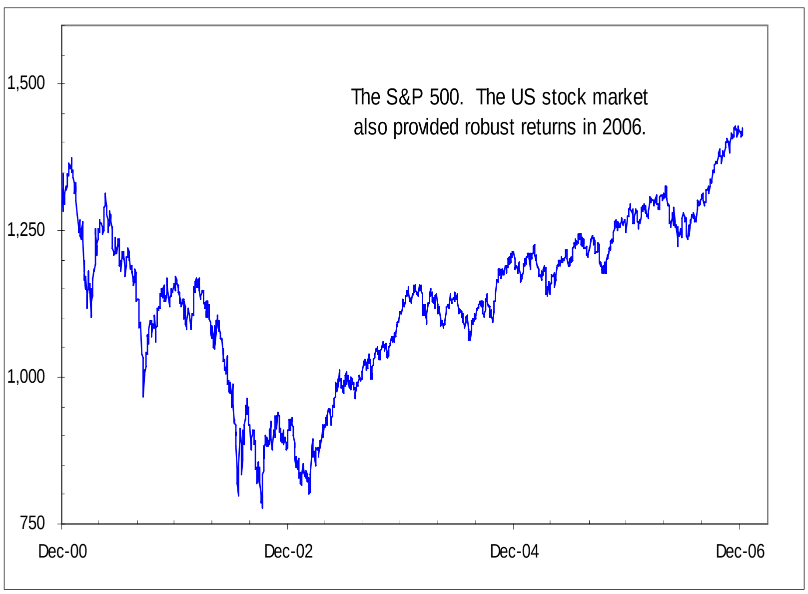
John N. Mayberry

Trillions in Asia and OPEC countries. It is hard to overstate the importance of the stunning accumulation of capital by the Asian countries and by OPEC. China now holds more than one *trillion* dollars in foreign reserves. Other Asian exporting countries, Japan, Taiwan, Hong Kong, India, Singapore, Thailand, and South Korea, hold a trillion more. The oil exporting countries have gathered similarly enormous reserves as the price of oil has tripled in the last few years: Russia, a significant debtor until quite recently, now holds more than $280 billion in foreign reserves. These huge pools of capital have an enormous impact on global investments. (They also have a big influence on political affairs among nations, a subject beyond the scope of this letter.) For example, China plows much of its $200 billion annual trade surplus with the United States back into US treasury bonds. This keeps the prices of US bonds and the dollar higher than would otherwise be the case. OPEC countries, also holders of vast and growing reserves, are more willing to hold euros than dollars--indeed, Iran, for transparent political reasons, seeks to be paid in euros, rather than dollars, for its oil.

The dollar declined against foreign currencies, particularly the euro and the pound sterling, in 2006.

Many Asian countries continued to intervene in currency markets to keep their currencies from strengthening against the dollar.

The strength in foreign currencies helped our foreign stock investments.



Neither the Asian exporters nor the OPEC countries invest as we do: we seek to earn a good total return without taking too much risk. We try to figure out what is cheap and what is dear; we assess the profit prospects for our investments before we deploy our capital. Different considerations inform the decisions of China, OPEC and the others. The Asian exporters are mercantilists; these countries seek to sell their goods at favorable prices in their export markets, especially America. The Chinese buy dollars as they accumulate reserves as a way to keep the value of the dollar high in relation to their currency. Low US interest rates help the housing market here and sustain consumer spending, including on Chinese imports. Thus, it makes sense for the Chinese willy-nilly to buy US treasury bonds with their export earnings without reference to whether these bonds represent good investments as we would analyze them. (Chinese bond purchases increase demand for US treasury bonds and keep their yields low.) Investment decisions made with considerations like these give rise to different asset prices than would prevail if all investors sought--as private investors do--to maximize returns and reduce risk.

Each year, Core Asset Management Company files with the SEC a Form ADV with information about the company. If you would like to receive a copy of Part II of Form ADV, please contact us and we will send one to you.

US residential real estate. It may seem parochial to discuss matters specific to America these days. But, despite the growing importance of China, India, Brazil, and the oil exporters, America remains the world's largest economy and its most important investment player. As the new year begins, primary issues here include the further effects of residential real estate on

Commodity markets have become more complicated arenas for investment. We invested in commodities in January 2004. For two years, most commodity markets were very strong and our investment gained 40 percent.

In 2006, our commodity investment lost about 3%. Oil prices peaked in August 2006 and have since fallen from $78 a barrel to about $55 dollars. Other industrial commodities have been weak so far in 2007. We decided to sell one quarter of our commodity investment this week. We will consider how to invest the proceeds of that sale.

economy and its most important investment player. As the new year begins, primary issues here include the further effects of residential real estate on the economy as whole. Much thought has been given and much ink spilt in considering the outcome of America's adventures with housing, but all the questions remain unanswered. Will the "housing bubble" burst? Will its bursting damage the economy severely?

I do not have answers, but offer a couple of observations: Many are optimistic that the decline in the housing market will not wreak havoc with the economy and the markets. The view is that the worst of the slowdown in home building and the weakness in sales of homes is behind us. (There are lots of optimists on questions American and they are usually right.) The pessimists foresee a worse outcome and regard bullish monthly economic reports as insignificant upticks in a serious downtrend. No one knows yet how all this plays out: certainly the Fed, a vigilant and able organization, is waiting to see.

However, it is entirely possible that equity markets will be higher with either the outcome. If the pessimists are right, if the decline in the housing market continues, and if it proves to have broad and negative effects on the world--and it may--then the Fed and other central banks will take actions to stimulate economic activity and asset appreciation. If the optimists have it right and the housing 'crisis' proves to be a damp squib, then investment markets will not suffer unduly. This view--that things will be all right in either event--itself is an optimistic one, of course. But there is a difference in outcomes between the two choices: If things get bad and the Fed must ride to the rescue, we may have some real pain and suffering for a period, followed by big rallies in stocks. In the latter case, in which the housing market does not really collapse--the view on which markets have been acting--rallies continue without the intervention of a messy bear market.

The collapse of a large hedge fund in 2006 proved not to cause a broad financial crisis.

There remains concern that problems with a big investment house somewhere could cause a widespread crisis. The world's financial system is very interconnected. This makes the system stronger; it may also make it somewhat more brittle.

Global imbalances, risks in financial derivatives. For years we have "known" that the enormous debt the United States accumulates each year with the rest of the world is unsustainable. So far, it has been sustained without dire consequences. For years, we have "known" that the proliferation of financial derivatives and its necessary contractual interlinks between unknown parties will surely cause a world-wide financial crisis. But in 2006, Amaranth, a rather large hedge fund, sustained a loss of $6 billion in one week. Its natural gas investments that went sour in a hurry surely involved counterparties around the world, but nothing bad happened. Amaranth's investors sustained significant losses and institutions on the other side of its trades made lots of money. But the world's financial markets and banking institutions did not budge. (One could write an interesting letter on the etymological ironies in the name this hedge fund chose for itself. A warning for those of us who like to play with words equanimity. Markets plunged. A few weeks thereafter, Long Term Capital, another large hedge fund, sustained large losses. Then the Fed was sufficiently concerned with the stability of the world's financial system to cajole a number of big banks to buy Long Term Capital's book of investments. The Fed cut interest rates in the US very sharply and pumped billions of dollars into the banking system. Did the Fed *overreact* in 1998? Did the world's financial markets *underreact* this year when Amaranth collapsed? Easy questions. Difficult answers.

We have observed in recent years that when there is a financial crisis, even a minor one, all most all investment assets decline together.

We conclude that, at least these days, portfolio diversification does not offer much help during periods of sharp declines. In order to protect our portfolios against the inevitable declines, holding money market funds is best.

Core holds large investments in money market funds, both US dollar funds and foreign currency money funds.

Managing risk in an unknowable environment. If the foregoing matters defy simple analysis--they do--then how do we manage the risks and uncertainties in our investment portfolios? It is an illusion to believe that portfolio diversification alone provides sufficient protection against investment risk. (I intend to discuss this in a later letter, but the basic point is that when there is even a minor financial crisis, virtually everything goes down in price.) If my observation is correct, then one must use cash as a buffer against these uncertainties.

Core holds significant amounts of cash in most portfolios. Our money market investments, which we hold in US dollar funds and in foreign currency funds, are safe. When markets do fall sharply again, as surely they will, our cash investments will be safe. Moreover, they will be available to us for investment in stocks, commodities, real estate, bonds, or other investment assets that may then be on offer for purchase at very attractive prices. If we can earn a good return on the risky assets we own, while keeping a meaningful portion of our capital in safe cash investments, we accomplish what we set out to do. We have been accomplishing just this. We will continue to think hard, because these apparently placid waters may become more turbulent.

Core can assist with required minimum distributions from IRAs and can provide reports for income tax returns. Please call us if you would like either of these.

IRA distributions and tax reports.

Owners of IRAs and other qualified plans must take distributions from these beginning in the year in which one turns 70 1/2 years old. We will be happy to assist in IRA distributions. We also stand ready to send or email tax reports to you or your tax advisor. Please contact us by phone (800 451 2240 or 415 332 2000) or email (JNMayberry@coreasset.com), if you would like our help with either.

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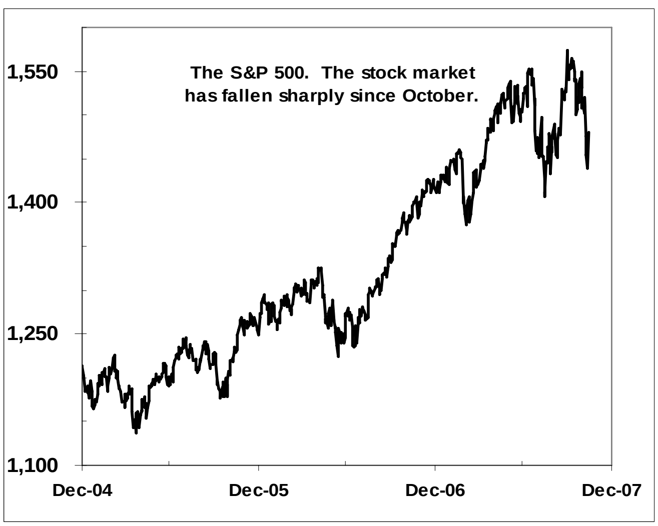
CORE Comments
ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

November 14, 2007

Steady Gains in Core's Portfolios, Despite Sub-Prime Turmoil

Core's portfolios have earned very good returns during this very turbulent year. Our long-term views about the dollar, oil, and foreign stock markets have helped our portfolios. Because we have not held investments in banks and brokers, we have avoided sub-prime problems.

Financial markets have become so volatile, news reports about the economy and markets so gloomy, it is perhaps the occasion to look at the bigger picture. Although we monitor Core's investments closely, particularly during times of such turbulence, our view is a longer one. We seek to understand the large trends in the world to determine how we may invest your capital to take advantage of developments that will unfold over a period of years. This approach has served us very well in recent years: we have taken a relatively small amount of investment risk and have earned substantial gains. The utility of this approach has been especially well marked during the recent months of sharp stock market declines and sudden rallies. In the aggregate, Core's client accounts have appreciated by 12% so far this year, while the S&P 500 has gained only 4%. (Returns in individual client accounts vary for individual reasons, including levels of risk tolerance and risk aversion. The SEC would have us remind you that we should not expect future returns to mirror those of the past.)



As the bear market of 2000 to 2002 came to an end, the wars in Afghanistan and Iraq began, and the global economic expansion gained strength, we foresaw a number of interrelated phenomena: We came to expect that developing economies in China, India, elsewhere in Asia, Latin America, and central Europe would grow at faster rates than the United States, and that there would be a shift in wealth and power from the United States to these countries. We concluded that the US current account and trade deficits with the rest of the world were unsustainably large and that the value of the US dollar would fall in relation to major foreign currencies. We expected that the demand for raw materials--especially oil--from rapidly growing Asian economies would grow faster than new supplies could be brought to market. We observed that the process of globalization and the free movement of investment capital around the world would invigorate foreign markets.

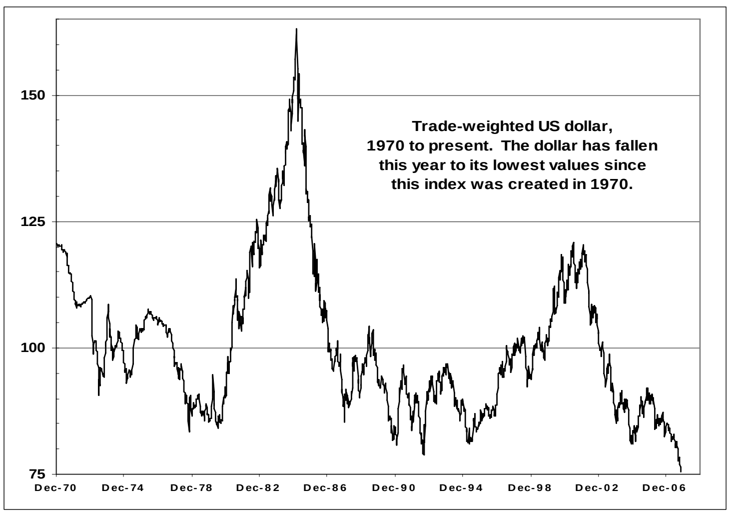
By

John N. Mayberry

With these views in mind, we made a series of investments, beginning in 2002, in foreign bond and stock markets to take advantage of the appreciation of foreign currencies against the dollar and to participate in the dynamic growth in Asian economies. Beginning in 2004, we invested in physical commodities and in oil-related stocks in the expectation--borne out by events--that commodities, oil prices, and oil stocks would rise. Our major investments of the last several years have worked well. Now, with crude oil approaching $100 per barrel, with the dollar trading at 40-year lows in relation to major foreign currencies, with the rise in wealth and power of India and China apparent to all, what next? We now have large and highly appreciated investments in oil stocks, Asian equity markets, and foreign currency money funds. Will these appreciate further? Do the risks associated with higher prices for these investments outweigh potential future returns? For now, our view is that further appreciation lies ahead. We are holders of these investments.

The US dollar has fallen to forty-year lows against foreign currencies. Its decline has helped our portfolios, because we have major investments in foreign markets and in other assets that appreciate as the dollar falls.

In the last two years, we have taken the view that water will be an increasingly precious resource and that the global need for ready supplies of clean water creates favorable investment opportunities. Similarly, the terrible effects of climate change make it a near certainty that industries developing clean energy will grow in the coming decade. In 2006, we made initial investments in water-related industries and in alternative energy. In recent weeks, we have invested some of your cash reserves in a global water industries fund; we expect to make a further alternative energy investment soon. In the past year, these first investments in water and clean energy have performed well. Wonderful. We do not expect these to march upward in a straight line; let us not wait for a repeat of Microsoft and Intel in the 'eighties and 'nineties or Google more recently. But in five or ten years, we expect these two industries to reward us handsomely.



Trade-weighted US dollar, 1970 to present. The dollar has fallen this year to its lowest values since this index was created in 1970.

Other long-term and low-risk investment opportunities lie before us. How can we recognize them and when should we act? Unsurprisingly, stocks of banks and investment banks have fallen as losses in 'sub-prime' mortgage instruments have mounted. Stan O'Neill and Chuck Prince, recent leaders of Merrill and Citi, are gone. Merrill has chosen a new chief executive, John Thain; Citi is still looking. The easy and cheap credit available to commercial real estate, which created a years-long boom in REITs, is grinding to a halt and REIT prices have fallen sharply. But the banking and commercial real estate industries will not go out of business. These are not buggy whip makers. If prices in these sectors fall further, we may find very compelling investments. It does not appear, despite another flamboyant stock rally on Tuesday, that we have reached the end of this long-running film about the housing bubble and easy credit. There are more losses to be recognized and more selling to endure. We hold large reserves of money market funds--US dollar and foreign currency--in your accounts. We will welcome the chance to buy financial stocks, REITs, or other investments at low prices. We intend to remain very cautious in our investing; the world is perilous and your capital is precious. We will guard it 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 and

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

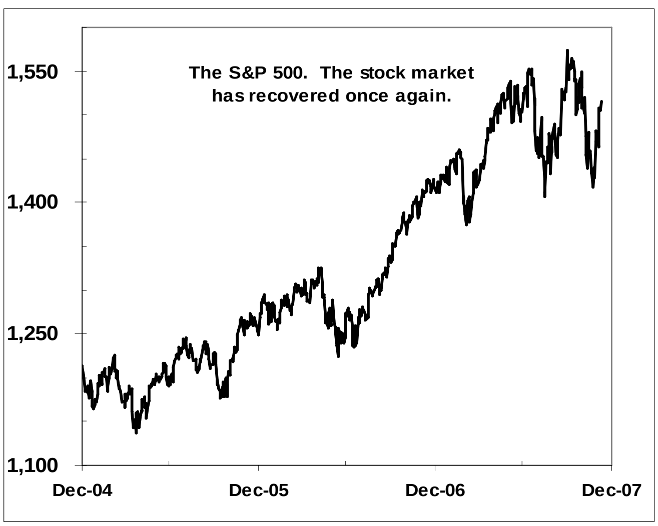
December 11, 2007

2007 Draws to a Close,
A Year of Solid Gains in Core's Portfolios

Despite all the bad news, US stock market averages are higher this year. Core's portfolios have done far better than the broad market

….both because of what we own and what we do not own.

As the year draws to a close, one can only be rather surprised that the major US stock market averages are in positive territory. The S&P 500 is ahead by about 7% for the year as of this writing and stands only a few percent below its all time high set in early October. The collapse of credit markets, ever higher rates of foreclosure in the US housing market, the dramatic decline in the value of the dollar, growing fears of a recession in the United States, crude oil prices above $90 per barrel--these do not seem like the ingredients for strong financial markets.



However, despite these real problems and two severe rounds of selling engendered by the subprime crisis, equity markets have demonstrated a readiness to rally whenever hope can be discerned.

Core's portfolios have been much stronger than US markets, and have avoided the worst of the selling during the bad spells. Our long-standing investments in foreign money market funds and international stock markets have appreciated in value as the dollar has declined. Similarly long-held investments in oil-related securities, in utilities, and in commodities have thrived in this environment. It has helped, as well, that we have had essentially no investments in banks, mortgage-lenders, home builders and other sectors that have suffered the most this year. As a result, we are winding up a year in which our investment returns have been very healthy, indeed.

The bursting of the housing bubble in the United States has given rise to all this havoc. The bubble inflated for a period of years. It may take more than a few months for its baleful effects to work through the system. This week began with UBS, the gigantic Swiss bank, announcing another $10 billion of losses from its holding of ill-fated US mortgages. Last week's news involved the negotiations among the US Treasury and mortgage lenders to freeze the low teaser rates for a period of years on certain adjustable rate mortgages. Whatever arises from the Treasury's plan will not be a magic wand. The numbers of mortgages

By

John N. Mayberry

scheduled for resetting is on the rise and will peak in the midst of next year's presidential election. There will be more market disruptions, more enormous losses by banks, more people tossed out of homes, and more political pressure to take action. It appears now that 2007 will probably end quite well in the markets, but there will be more volatility and more selling before these problems are laid to rest.

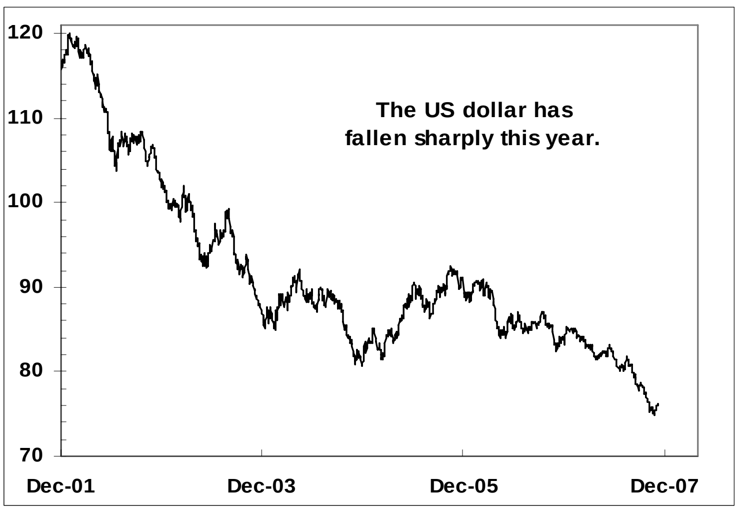
We have not had the last of the bad news from the bursting housing bubble.

We will continue to invest cautiously and to be alert to low-risk investment opportunities.

As in investment matter, we plan to maintain our major investments that have served us so well in the last few years. We expect to maintain ample cash reserves both to protect our capital from uncertainties that lie ahead and to enable us to make new investments as we identify low-risk opportunities.

A Note of Thanks

We at Core are very grateful for the opportunity you have given us to work with you. We enjoy our individual contacts with you and the sense that our work for you is helpful to you and your family. For me, the investment process is endlessly fascinating and I consider myself enormously lucky to be able to pursue this interest as a business. The intellectual challenge of investing is stimulating and absorbing. When our work provides good results without significant risk, as has been the case in recent years, we have a real sense that our work is useful, as well as interesting.



We wish you a warm holiday season and offer our hopes for a peaceful and prosperous year in 2008.

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