



**PETERSEN
HASTINGS**

Leading you to financial freedom

Reflections

November 7, 2008

As Founder of Petersen Hastings and because of my experiences in many periods of economic cycles, I was invited to author this market update to you as a valued client of Petersen Hastings.

October Losses

The wicked witch of October cast her ugly spell over investment portfolios. Before Halloween Day, October 2008 had the dubious distinction of being the 11th worst month in stock market history (measured by percentage loss). Nine of the other worst months occurred during the Great Depression.

Not a Depression

Some overzealous members of the media are incorrectly trying to compare this painful point in our economy to the Great Depression. I can tell you it isn't even close. I can vividly remember young men coming to our back door asking for work in return for something to eat. Obesity was never a problem in the 1930's. Homes like ours that were receptive to these offers were secretly marked by the march of the unemployed, wandering the nation in a search to trade work for a bowl of soup or a wholesome sandwich. We learned of the national price for these times when nearly half of the young men trying to enlist in the military services after December 7, 1941, were rejected due to the effects of malnutrition. The unemployment rate peaked at about 20%. That equates to about 40% by today's standards for family units, because women did not enter the workforce in any numbers until World War II.

Congressional Blame

The FDIC was enacted as part of the Glass-Steagall Act in 1933. Prior to the Act, people lost their life savings whenever a bank failed. The Act's primary purpose was to separate commercial banking from investment banking, and it also created the Federal Reserve.

Congress unwisely repealed the banking separation portion of the Act in 1999, just as it had earlier deregulated Savings and Loans. Somehow I don't recall any Congressional Committees investigating themselves for their role in causing the S&L bailout or their insistence on requiring a percentage of sub-prime loans by financial institutions. A few weeks ago Alan Greenspan had the courage to admit that he had been mistaken in supporting deregulation, because he believed the executives of our financial institutions were competent to regulate themselves based upon their own self-interest.

Lack of Investment Experience

Prior to World War II, investment portfolios were almost exclusively tools of the rich. Our national population consisted of a few rich, and a few middle class, with the balance made up of the working and non-working poor. The war brought about a surge in employment and wage controls which encouraged the widespread growth of retirement plans. This was the beginning of middle class financial independence. But a generation of these workers avoided the stock market out of fear of the unknown and vivid memories of the depression. Meanwhile, the markets soared to new highs absent their participation. It was truly unfortunate that the next generation was deprived of family wealth creation and investment education.

Bubbles

Our national economy repeatedly goes through cycles of expansion and contraction. We are now in a period of contraction where unemployment increases, both individual and

corporate bankruptcies increase, and assets move from weak hands to strong hands. The value of assets decreases (including stocks and bonds) because the weak are forced to sell at any price, creating an imbalance of supply over demand. Petersen Hastings has successfully led our clients through several economic contractions. We have included some of these under “Bubble Experiences” to the right. Like all bubbles, this one involved a mountain of debt. The bubble occurred in the belief that real estate values would rise in value forever. A year ago nobody would have believed in the demise of Washington Mutual, Lehman Brothers, Wachovia Bank, Bear Stearns, Fannie Mae, and Freddie Mac. Nobody knew that commercial banks, large insurance companies, and automakers would plead for Government assistance. Outright greed usually prevails during the last days of a bubble, and this was no exception. Incompetence, poor risk analysis, and excess debt forced the current fire sale of assets.

Bargain Sales

At some point the price of assets falls sufficiently to attract strong buyers. As the economy works through the contraction, and begins to show signs of recovery, more buyers enter the market and eventually demand exceeds supply and the price of assets increase. Just as greed prevails during the last period of an expansion, outright fear prevails during the final days of bargain sales. Signs of such fear appeared during the first dark days of October as many individual investors cashed in their mutual funds.

What Is Petersen Hastings Doing?

Our mission is to use our experience and skills to preserve and grow your wealth over the long term. Long term is usually defined as your lifetime and sometimes beyond. Your risk exposure to any single or group of companies is drastically reduced through global indexed asset diversification. We exercise a rebalancing discipline requiring us to buy assets that have temporarily lost value and sell assets that have temporarily appreciated in value. We are also realizing capital losses in after-tax accounts to use them as a tax advantage in offsetting future capital gains.

Bubble Experiences

1960's:

This was the beginning of our on the job experience at the time the “go-go” mutual funds were headed by glamorous “gun-slingers”, including Fred Carr and John Bogle. The Vietnam war began and President Kennedy was assassinated.

1970's:

Stagflation hit in 1973 with high inflation and a severe contraction. Bank trust fund investments took a massive beating as the belief in the nifty fifty large cap growth funds proved to be erroneous. An Arab Oil Embargo resulted in all of us lining up at the gas pumps hoping to fill our tanks. A reformed John Bogle introduced the first widely available index fund shortly after starting Vanguard.

1980's:

We blew the whistle on a Ponzi scheme by Kenneth Oxborrow involving \$58.5 million taken from Columbia Basin residents. The Savings & Loan failures were bailed out by the Government. Michael Milken's junk bond fiasco and the demise of Drexel-Burnham occurred.

1990's:

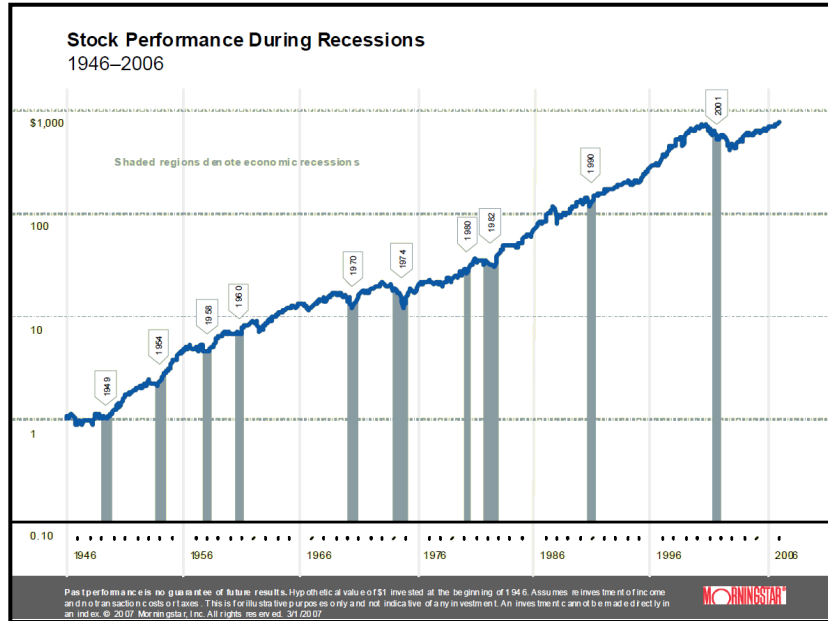
The largest life insurance company in California went under when Executive Life, headed by former “gun-slinger” Fred Carr, bought too many of Milken's junk bonds. The Asian Crisis began in Thailand and a large hedge fund required a government bailout. Our firm lost a few clients for being too conservative during the final days of the dot.com run-up. Warren Buffett was regarded as a financial dinosaur.

2000's:

September 11th! The dot com's collapse reminded us again to be wary of those who claimed “This time it's different.” Warren Buffett was regarded as a financial genius again.

What You Can Do?

We are all subject to human emotions. This is not a fun time for our clients. This is not our first time to help our clients through difficult times. In fact, we have guided our clients through the tough times of each decade beginning in the 1970's. Let us know if you want to discuss any issue. We are here to serve you. It takes character and a lot of hard work to create wealth. During periods of extreme greed or extreme fear, it takes character to maintain your investment goals. Prosperous times are easy to accept. Tough times require character.



And Finally

In closing, let me just say that, along with all the Petersen Hastings Team, I have my personal wealth invested in the same markets that all of you do, and I can understand the anxiety that you are no doubt feeling. We want you to know that, as always, we appreciate the confidence you have placed in us, and assure you that we will continue to work hard to do what's in your best financial interests.

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