



EARL M. FOSTER ASSOCIATES

I N V E S T M E N T M A N A G E M E N T

MARKET UPDATE

SEPTEMBER 15, 2008

The credit crisis that began with the failure of Bear Stearns earlier in the year and was followed by the collapse of Freddie Mac and Fannie Mae, has more recently led to Lehman Brothers filing for bankruptcy and Merrill Lynch agreeing to be bought by Bank of America. The current financial turmoil has put considerable strain on the financial markets resulting in the Dow Jones Average and the S&P 500 Index declining in excess of 4%.

The crisis in the financial markets is pervasive and more failures are likely before conditions stabilize. This will undoubtedly impact the performance of the rest of the economy in the weeks and months to come. A breakdown in the financial markets, such as we are now experiencing, is rarely confined to the financial sector alone. The impact on the housing sector has already received considerable attention, and the consumer and industrial sectors, which also rely on the credit markets, will be impacted.

Our investment strategy, as stated in our quarterly Newsletter, considered the possibility that stock prices could decline to levels reached today. The financial crisis has become more widespread, and stocks could fall even further. However, additional declines should be limited. The Standard & Poor's Index is now 23% below its October, 2007 peak, a decline nearly as deep as most post-World War II bear markets. Also, most bear markets are relatively short, lasting a little over a year. In a matter of weeks, this bear market will reach its first anniversary. Moreover, an improvement in the economy is expected during the first half of next year.

We maintained a cautious investment posture through much of the year by allocating a substantial portion of our investments to cash reserves. In addition, our stocks have performed relatively well over the last several months. We now believe it is time to add to stocks to take advantage of the recent market turmoil and the values that are now available. This process will be undertaken in a gradual and cautious manner. We are also monitoring the economy, and plan to adjust the pace of buying to reflect the conditions in the credit markets, their impact on the economy, and stock price levels.

We welcome your questions and comments.