



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

NOVEMBER 4, 2008

The bear market accelerated downward last month to its lowest level since March 2003. At its October low, the Standard & Poor's 500 Index was almost 46% below its peak just over a year ago. While our strategy continues to maintain significant cash reserves, the October month-end statements reflect the recent turmoil in the financial markets.

You may have noticed purchases of stock over the last month or so. Where appropriate, our strategy includes a plan to make gradual additions to the equity portion of the portfolio. This is not premised on the stock market having already achieved a bear market trough; although, such a trough may have either already occurred or could be near-at-hand.

A number of factors suggest the appropriateness of such a strategy. First, the depth and duration of this decline has been as severe as some of the worst bear markets in the last century (with the exception of the 1929-32 collapse) even though this decline was not preceded by excessive valuation. Second, stock market recoveries often precede and anticipate the next recovery in the economy. Most economic forecasts expect an improvement in business conditions during the second half of next year. Third, a good portion of our bear market troughs are achieved between September and December. Fourth, severe bear markets are often followed by sharp recoveries of 30% - 50% within a year. Thus, waiting for business conditions to improve before investing in stocks could mean missing a significant portion of the initial market recovery. The extraordinary 10.8% surge in stock prices on October 28th serves as a reminder of how sharp and sudden stock market recoveries can be.

It is for this reason that a strategy of gradually adding to stocks in the current environment has been undertaken. Prices are now low enough to discount a good part of the economic risks that lie ahead. This strategy recognizes that additional stock market volatility can be expected due to upcoming news documenting the recession and investor reaction to the outcome of the election. However, adding to stocks at this time takes advantage of stock price levels that may not be attainable in more stable economic environments. By making such additions in a gradually manner, investments are made in an orderly and structured process. We welcome your questions and comments.