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To Our Valued Clients & Friends:

I have an idea. It may seem harsh, but I am going to express it to emphasize the frustration and disappointment that I and many others are feeling right now. Here it is—people who work on Wall Street should be required to evaluate their intentions each morning before they begin work. They should be required to ask themselves, “Am I staying humble? Are honor and ethics at the top of my priority list? Am I focused on protecting the people I serve?”

I do not believe that people working on Wall Street start out as corrupt as some of them appear. I have sifted through reams of information over the last month, but I believe I was saddened most by the report that three days before Lehman Brothers declared bankruptcy, the New York executives of the company had their London office transfer \$8 billion back to New York and placed \$2.5 billion of that figure into a “bonus pool” for Senior Executives.* (*Independent news services, United Kingdom, 9/22/2008)

Ironically, it was the London Lehman offices that blew the whistle on the New York executives because they were not allowed to participate in the bonuses. I find it hard to understand



the thought process of those executives who are prepared to allow their own shareholders to be wiped out, vendors to suffer losses, and thousands of fellow employees to lose their jobs, but at the very same time are more than willing to write themselves a seven or even eight figure check on the way out the door.

After being in the financial business for 35 years, I am saddened by what I view as a contentious lack of responsibility of the financial industry to its clients. Whether it is in their New York offices, where they design products that appear to benefit their firms more than their clients, to the local offices across America that appear to be driven by how much commission can be generated by each salesperson, firms seem to have a problem with the

meaning of **fiduciary responsibility** to their clients. (Many of you have heard me say before that there has never been a Monday morning sales meeting in a brokerage firm that began with the manager asking the question, “Which one of you guys made your clients the most money last week?”)

About a week and a half ago, the financial industry took our economy close to an abyss because of greed and lack of responsibility. It is time to change the fundamental principles of how the financial sector works in this country. I shed no tears for the sale of Bears Stern to J.P. Morgan, the demise of Lehman Brothers, or the shotgun wedding of Merrill Lynch to Bank of America. While there are fine individuals within the industry, the industry seems to be taking care of itself first, while



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clients are treated as an afterthought. Individuals within the industry have been allowed to make huge sums of money with no capital risk to themselves and suffer no repercussions when things crash and burn. Meanwhile, their clients suffer losses that endanger their ability to educate their children, become financially secure, or retire comfortably.

We have reached a point where regulations designed to limit executive and brokerage compensation have been proven to be warranted and should be put into place!

Let's Look At The Last Couple Of Weeks

I don't know if many realize how close the financial system of this country came to causing the economy to barrel beyond recession and into a very real depression. You will notice that I separate the economy and the financial system. The economy has been slowing down, but more than 95% of those wanting to work have a job and are buying goods and services. This might not have been ideal, but the economy has yet to fall into the definition of an actual recession. On Wednesday, Sept. 17th, the Reserve Primary Fund, a \$63 billion Money Market fund considered one of the safest non-bank Money Market accounts, was frozen. This meant that the fund was not allowing investors to access their cash for a period of one week and that when the fund did open again, investors would only be

able to redeem 97 cents for every \$1 invested. This is referred to as the fund "breaking the buck." The reason for this announcement by the fund was this: an investment in "Lehman paper." (Remember the bonus that the Lehman Executives were about to declare for themselves? Add another victim to their greed.)

Let's stop for a moment and consider what was about to happen on September 17th. **Non-Bank** Money Market accounts are not FDIC insured, and when the American public hears that a Money Market account has "frozen up," many do not understand that the FDIC insures their "bank money market account" for up to \$100,000. They are going to immediately react and drive to the bank to get the cash that they have out of their bank.

I believe that if the government had not stepped in at the moment that they did, there would have been lines outside of every bank in the country with individuals trying to get their money out, whether it was insured or not. (Goodness knows what they would do with the cash even if they were able to withdraw their funds!)

You may have seen pictures of the lines forming outside of Indy Bank in California last month when it failed and the depositor's deposits **were insured** by the FDIC. Can you imagine what would happen to our U.S. economy if the banks ran out of cash? This is a very real possibility, as we are no longer a society that

deals in cash. The banks simply don't have that much cash as the bank assets are in securities and loans. (Remember Jimmy Stewart in the movie "It's A Wonderful Life" and that wonderful old Bailey Savings and Loan? The infamous quote is, "The money's not here. Your money's in Joe's house...right next to yours. And in the Kennedy house, and Mrs. Macklin's house, and a hundred others." I would say much the same thing to you today: "Your money is not here—it's in your neighbor's house!")

The bottom line is this: I do not think the government had a choice regarding stepping in with a "bail out package." Nevertheless, the form of this bail out package is subject to a great deal of debate. To that debate, I offer a suggestion—watch Warren Buffet and mimic the structure of Buffet's recent investment in Goldman Sachs.

Buffet's Berkshire Hathaway negotiated the purchase of \$5 billion of preferred stock of Goldman Sachs, which will pay a 10% dividend and may be converted to the Common Stock of Goldman Sachs at a price of \$115 a share. Once the announcement of the purchase was made, the stock immediately rose to \$130 a share, providing Mr. Buffet with a \$1 billion paper profit before the market opened.

Buffet invested in the troubled institution; he did not make them a loan or buy any of the troubled assets of the firm. Why

should we as investors/ taxpayers make a loan to troubled institutions or consider buying their troubled assets and subject ourselves to the possibility of loss while allowing these institutions the opportunity to shed assets, rebuild their financial statements and reward their existing shareholders and executives. If there is going to be a loss in the value of these institutions, shouldn't the loss fall on the shareholders of that institution and not the taxpayers?

Perhaps the bail out package should take the form of an offer to buy Preferred Stock from the troubled institutions. Since the bailout package is going to require the issuance of \$700 billion in Treasury Bills at an interest cost of between 4% and 5%, why don't we ask each of these troubled institutions to issue to the taxpayers of this Country Preferred Stock paying 6% to 7%? We immediately begin to generate a positive cash flow, as we are receiving more interest than our cost of borrowing, and the possibility exists that these institutions will do well, and we may convert our Preferred Stock into Common Stock to make a profit, the very way that Mr. Buffet did with his Berkshire Hathaway and Goldman Sachs.

Seems like the "World's Greatest Investor" has demonstrated and provided a simple option to me, and I believe the taxpayer should find it attractive. Nevertheless, Washington seems to be hell bent on buying the troubled

institution assets. Unfortunately, there is nothing that I see in the proposed bailout package that is going to address falling home prices or the surplus of real estate in this country. As a result, the bailout package, in whatever form it takes, will not allow us to sidestep the current problems with the economy. There is one part of the bailout package that I do feel is long overdue—the prohibition of short selling for 799 financial stocks, which have been experiencing the pressure of short sellers for sometime. When this announcement was made, financials applauded the move with some rising anywhere from 15% to 40% during the troubled week. Nevertheless, as I write this, that euphoria has faded (i.e. Wachovia "hitting the wall").

Well, Where Do We Go From Here?

Many of you have noticed and have been complimentary of the large cash positions in our Thoroughbred program. I would like to take the credit for some great insight that lead to the protection provided by this cash position, but as the year has unfolded, we simply sold mutual funds that did not meet our defensive criteria when compared to other funds and their respective investment index. After these funds were sold, we did not find any compelling stories that led to the reinvestment of this cash. The result is that the cash position in most Thoroughbred accounts range from 20% to almost 50%.

Our cash positions have been carefully reviewed. The majority of cash in money market accounts with a balance of over \$100,000 have been placed in money market accounts that are invested in U.S. Government securities only.

Also, let me remind you that annuities are reported at their contract value and not at the guaranteed values achieved by the John Hancock GRIP and Pacific Life Annuities. Reporting the contract value is the more conservative method of reporting.

My closing comments from last quarter's letter suggested that as summer ended and vacation driving was curtailed we would see lower fuel prices. It was my hope this would relieve consumers from the burden of high gas prices. Oil prices have fallen 35% to below \$100 a barrel; unfortunately, Hurricane Ike disrupted the flow of refined fuel to the Southeast. Perhaps by mid-October we will begin to see relief at the pump, hopefully in time to salvage the Christmas season for retailers.

I am not as optimistic about the economy as I was at the end of the last quarter. The increasing number of failed financial institutions will undoubtedly contribute to higher unemployment, and the momentary gridlock with the bailout package has caused "deep scars" in the way financial institutions deal with those who are in need of credit and with one another. I believe there will continue to be enormous uncertainty in the investment markets in the near term. Nevertheless, I



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do believe there are investment opportunities surfacing among this turmoil that will allow us to make sound investments for the long term. I understand that Mr. Buffet has made more investments in the past six months than in the last six years.

As mentioned above we are currently sitting on large cash positions. This provides us with an opportunity that others may not have as we identify those areas in the markets where funds may need to be allocated. To assist in directing that allocation, I am pleased to announce that Bill Levant, Chief Investment Officer of Arlington Partners of Birmingham, has joined our investment committee to assist in identifying those areas that need to be

explored. Arlington Partners and Bill are responsible for advising their clients on over \$1.5 billion in assets under management.

In closing, a special thanks to many of you that have called during this last quarter expressing your concern for and your support of our firm and the method in which we manage your money. I want to thank you for your confidence and sincerely appreciate your concern for my "safety." Nevertheless, I will remind you that our office is on the first floor and that our windows are sealed. The worst I could possibly do by attempting to jump out the window is possibly bruise my nose in the process.

Please take a moment to review the numbers listed on the charts on this page.

While the downdraft in investment indexes during the quarter is severe. It does not address the severity of the volatility that is occurring. There have been a number of days where the Dow Jones Industrial Average, from peak to bottom, has traveled well over 300 points in a single day. **During times like this, it is important to remember that the only people who get hurt on a rollercoaster are those who unbuckle their seatbelt mid ride.** We are going to make sure that our seatbelts continue to be fastened tightly, that our investments are chosen carefully and that we keep a keen eye out for any potential "break in the rollercoaster's track."

Warmest Regards,

M. Brooks Clarke

If you would like to have a copy of your statement from Clark Financial Advisors listing all of your accounts and their current values, please email or call Lauren, and she can update your statement and forward it to you.

The Numbers

	3 rd Quarter Change	YTD % Change	9/30/2008 Index
Dow Jones Industrial	(4.4)	(18.2)	10,850
S&P 500	(17.8)	(20.5)	1,164
NASDAQ	(14)	(21.5)	2,082
Russell Value	(6.7)	(20.6)	632
Russell Growth	(12.8)	(21.1)	482
Treasury Index	+2	+2	94.9

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