

110 Fort Couch Road, Suite 108
Pittsburgh, PA 15241-1030
Phone: 412.851.1400 Fax: 412.851.1403
E-Mail: kfg@kapustafinancial.com
www.kapustafinancial.com



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As the fluctuations in the economic markets continue, I wanted to bring you the latest information and some perspective on what is taking place in our economy.

At the Kapusta Financial Group, the top priority is you – our client. The fact is that worldwide credit markets are still uncertain and that means continued vigilance and patience as we weather this economic storm.

There are several items worth noting that have occurred in the past few days:

Large swings in the stock market. In the past week alone, we saw the stock market drop 18% and the very next trading day surge 11%. These fluctuations were tied directly to the efforts by the federal government to bring about stability. In addition to the \$700 billion rescue plan approved by Congress, the Federal Reserve announced it would start buying commercial paper and moving to protect money market mutual funds. At the same time, the international community, which is also experiencing severe financial problems, announced it too would lend a hand and the Europeans announced a \$1.8 trillion financial stabilization package which included direct government investment in European banks. The U.S. followed suit and that move triggered a big upswing in the stock market.

Moving forward with the economic recovery plan. U.S. Treasury Secretary Paulson is moving forward with a plan that is considered groundbreaking and certainly aggressive. Instead of just purchasing troubled mortgage assets, the Treasury announced it will invest \$125 billion (part of the \$700 billion Congressional package) in preferred stock of nine specific banks, and make another \$125 billion available to other banks that need it. The Treasury will also receive warrants so that taxpayers can participate on the upside if these banks recover successfully.

The main issue: CREDIT. Even with the global effort to bring stability to the world's financial markets, the main issue that still needs to be resolved is the availability of credit. Here's the chief concern: if short-term borrowing and lending don't happen, that means that businesses large and small can't count on being able to borrow money when they need it. And that means that ordinary businesses throughout America would have to build up a cash cushion to make sure that they can pay their bills, make their payroll, and purchase inventory on time and without disruption. If businesses are busy hoarding cash in the months ahead, that means no new hiring, no new investments in plant and equipment, no expansion, no growth. And some businesses that were already struggling

at the edge of profitability would go under, costing workers their jobs and harming other healthy companies. Left unchecked, it's a recipe for a deep and broadening recession. A lot of emphasis is being placed on the latest move by the Treasury to invest taxpayer funds in banks. The plan is certainly controversial because it means that the U.S. government is now taking on a direct ownership stake in private companies. Critics contend that we're nationalizing the banking system putting us on the road to socialism. At the same time, others point to the fact that the involvement of the federal government as investor in U.S. banks is temporary and done only to 'free up' the frozen credit market.

The truth is that any rescue plan will take time. There is still tremendous volatility. And, that volatility is likely to continue. We don't believe the market has 'bottomed out' – that its decline is over.

What we do believe is that there is still a lot of uncertainty ahead – and markets do not like uncertainty. While stock and fund prices appear to be attractive because of recent declines, we recommend maintaining cash positions – holding firm. In our view, it's not the time to re-commit to the equity markets.

At Kapusta Financial Group, we remain committed to putting your needs and concerns first. And I want to underscore that commitment to you especially during these challenging times.

Please do not hesitate to contact us if you have any questions or concerns. We are here for you.

Sincerely,

George

George Kapusta, CFP
President