

October 2008

Dear Client,

Attached are your current account reports and newsletter from First Affirmative. As you will see in the newsletter, we are experiencing one of those periods when many of the sustainable and responsible funds and accounts are giving us above average returns.

Although you were probably expecting it, I should warn you, at this point in time things don't look pretty. Things are changing so fast that by the time you receive this letter, some of what I have put together for you below may no longer be applicable or current, but I've done my best to summarize the current economic, financial, and political situation.

As of quarter-end, the S&P 500 index was down to where it was back in April 1998, August 2001, and January 2004 with bouncing around in between. Even bonds, which are supposed to be the more stable part of our accounts, are down, as illustrated by the benchmark Lehman Aggregate Bond Composite dropping back to where it was summer 2007. What we have here is one of the worst market purges in a century with what looks like a long-term recovery and readjustment phase ahead of us.

While some people may want to run for cover, one of my colleagues says, "the sure way to get injured on a roller coaster ride is to jump off midway." I don't know when the current crop of "mattressed investors" are going to capitulate and begin deploying their cash hoards into their investment portfolios, but some large seasoned "value" investors have already started bargain hunting and others will eventually begin to empty their mattresses as well.

Meanwhile, our mutual fund and separate account managers are doing their best for us by adjusting, refocusing, and rebalancing our portfolios. Our attentive and long-term-thinking managers are carefully picking up good stocks and bonds at bargain basement prices for us ahead of a recovery.

The Bailout: What it is and what it isn't

Of course the advertised reason the bailout was loaded onto our backs was to rescue credit, financial markets, and the economy. But what's really going on?

The reality is that there's a giant elephant in the room. We need to understand that the recipe for the credit crisis and Wall Street turmoil was as follows: Start with unregulated and deregulated financial markets, mix in some greed, let rise until you have over-leveraged investment banks, and then bake the whole mess with free-market economic theory. According to Mr. Bush and Mr. Paulson, the bailout would avert a series of market crashes and martial law. From our view it did not. According to Congressman Kucinich, the bailout was the largest instant wealth transfer from the middle class to the ultra-wealthy in our country's history. And according to author Naomi Wolf, it was largest instant wealth transfer from citizens to the executive branch of our government for the sole purpose of funding a radical fascist agenda.

Although in the end, Democrats in Congress required some progressive policy to be added to the bailout, or "rescue" package, overall it was a hasty, ill-deliberated bill, that once again like the Patriot Act, few in Congress had a chance to read prior to voting. Many other democracies of the civilized world, Northern Europe for example, spend their taxes on the things that their citizens actually need and want such as health care, education, transit, and assuring safe and re-

sponsible business practices. This bailout certainly isn't that and so far has not succeeded in stabilizing the economy and markets.

The Recession: What it is and what it isn't

I've been saying for well over a year that we've been in a recession that has been masked by the Bush regime's war, occupation, and "homeland security" spending. A deregulated financial system allowed banks and credit companies to over-lend to citizens which in turn supported continued unsustainable consumerism. Now we're in a period of rationalization or recovery from excess.

A recession is to be taken seriously and there will undoubtedly be surprising twists, turns, and adjustments in the coming weeks and months. Throughout the modern age we have never seen a *permanent* economic downturn or a *permanent* market crash—we've always been able to solve the problems. In other words, there is light at the end of the tunnel, we just don't know how long the tunnel is yet.

Things we all can agree on

We want to have economic and political priorities that look at the challenges of the 21st Century and place people and our environment front and center. We, more than ever, need to continue to invest with a deep understanding of social, environmental, and financial sustainability. The keys to accomplishing these goals include building community, talking with each other, and getting involved. "...of the people, by the people, for the people..."

It is a privilege to have the opportunity to assist you with your investment management service needs. Your continued long-term trust and confidence is inspiring and humbling.

I'd really like to know what is on *your* mind and how *you* feel—please contact me if you have questions, comments, or changes to your goals and objectives that might affect how your finances are managed or anything else. Otherwise I look forward to talking with you during your next periodic financial review and renewal session.

Best regards,

