4Q08 THE FSAG ADVISOR

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Letter from FSAG

Dear clients and friends –

This quarter's newsletter shares some perspective on the current and rapidly changing market environment, our strategy during these challenging times and how we are addressing them within our client portfolios.

We are working harder than ever to find unique ways and values to generate diversification and solid risk adjusted returns and have taken the following measures to manage, adjust and protect client portfolios in these turbulent times.

We are limiting purchases of individual bonds to investment grade maturities of 5 years or less, maintaining limited exposure to any one state or company, and adding diversification through exchange-traded funds (ETFs). We continue to favor sectors that have performed well in this environment, such as Healthcare and Consumer Staples, while avoiding the Consumer Discretionary sector.

The current environment and the future of the markets will be characterized by high volatility but will also offer attractive opportunities for investment. In these difficult times, we will continue to follow our disciplined and diversified investment process and protect our client interests and portfolios to produce the best possible long-term results. We believe in communicating to our clients during these times of stress and hope you find this newsletter helpful.

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2008 YTD Returns

DOW	*(16.56%)*
S&P 500	*(19.43%)*
NASDAQ	*(21.49%)*
Russell 2000	*(10.38%)*
Russell Mid Cap	*(19.50%)*
MSCI EAFE	*(29.26%)*
Lehman US Agg.	*0.68%*
Lehman Muni.	*(3.68%)*
10 Year Treasury Yield	*3.85%*

Market and Economic Update

To put it mildly, the past few weeks were highly eventful for the financial markets. The U.S. Treasury decided to assume control over Fannie Mae and Freddie Mac. It featured escalating concerns over the future of some large financial institutions, which put pressure on the markets and ultimately came to a head as Lehman Brothers announced a bankruptcy filing, Bank of America agreed to purchase Merrill Lynch, AIG was saved by an $85 billion loan from the U.S. government and Morgan Stanley and Goldman Sachs decided to forego the investment model and become banks.

The financial system did come close to a meltdown, forcing the U.S. government to throw all it could at the situation. Intense market disorder prompted a touch of systemic failure. In our opinion, such systemic failure requires a system-wide solution. Bailing out institutions one at a time has not, and will not, stabilize the environment, which has prompted such

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What Will the Elections Mean for Investors?

The most asked question among investors when it comes to the elections is "how much will the outcome affect my portfolio?" The answer is "probably not as much as you might think." It is important to remember that any campaign promises eventually will have to be passed and funded by Congress. Democrat President Obama would likely have a far easier time having his legislation passed than would Republican President McCain. That being said, it is extremely unlikely that the Democrats will be able to pick up enough seats to have a filibuster-proof majority (which would require 60 seats; currently there are 49 Democratic senators, 2 Independents who caucus with the Democrats, and 49 Republicans). The number of Democratic seats in the House is less important, since most legislation is passed by simple majority. We expect Democrats to win roughly 15 seats in the House and around 2 seats in the Senate.

As a larger point, it is important to note that elections are just part of the long list of variables that affect financial markets. Market fundamentals historically have proved to be far more important. Asset allocation, valuations, earnings, yields, the economic outlook and other basic determinants of market performance will have far more influence on an investor's portfolio than will the election outcomes.

The Economic Backdrop

The economy has emerged as one of the key issues on which voters are focusing in this election cycle, and with good

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reason. An environment of weak economic growth will complicate matters for the new administration and the new Congress, and will likely make it more difficult to enact some of the wholesale changes the candidates have been discussing – simply put, there probably will not be enough money available to enact every campaign promise. Put into illustration, this means for example, that proposed healthcare changes are unlikely to affect the markets as much as some think due to the realities of the federal budget, which will force the new administration to curtail come of its plans. On the flip side, we are almost certain to see some form of additional fiscal stimulus next year as well as additional legislation aimed at helping the housing market.

Three Important Constraints

Despite a potentially important political shift, the next president will nevertheless face at least three important constraints:

1. Fiscal: Our current estimate for the budget deficit in 2009 is $440 billion. While much of the deterioration will be attributed to temporary issues – the war in Iraq, economic weakness, and the tail end of the fiscal stimulus package – some of it reflects a more structural budget imbalance.

2. Economic: A weak labor market and stagnating economic activity in the second half of 2008 and 2009 are likely to dampen consumer (and voter) sentiment. The most obvious effect may be on tax policy, where lingering economic concerns are likely to result in a more incremental increase in tax rates from current levels. Trade policy appears to be more of a mixed bag, with a deteriorating labor market driving protectionist sentiment, offset by the fact that trade continues to be one of the few bright spots of the U.S. economy for the time being.

3. Energy prices: Our commodities analysts forecast an oil price of $148/barrel around the start of the next presidential term, which would equate to roughly $4.35/gallon for gasoline at the pump. If so, policies that would increase the cost of energy consumption are likely to find less support, however, subsidization of alternative energy and opening of domestic production would rise on the agenda.

Key Issues

A number of key issues face the next president. While these issues are likely to be on the agenda next year regardless of the election result, the policy outcome will be determined by the next president:

Fiscal stimulus: McCain is more likely to focus on tax measures, and might couple near-term initiatives with longer-term or permanent measures such as his proposal to increase dependent deduction. Obama has endorsed a second $50 billion stimulus package, which is similar in scope to the pending congressional proposal and would include infrastructure spending, low-income energy assistance, state and local fiscal assistance, and a second round of rebate checks for lower-income individuals.

Housing and credit policy: Almost all of the government's fiscal support for the credit market comes through housing-related programs and institutions (the exceptions are the municipal and student loan markets). Obama was an early cosponsor of the Senate proposal to refinance mortgages through the Federal Housing Administration, and it is likely that he would be more likely to put additional government funds to work, either by enhancing that program or potentially establishing a new alternative structure. McCain has also supported intervention efforts, though he appears interested in limiting the scope of such intervention.

Tax policies: The economic issue of primary concern to investors is what will happen on the tax front. Conventional wisdom suggests that Republicans lower taxes and Democrats raise them, but the reality is more complicated. With the current economic condition, it is a foregone conclusion that the government will be forced to borrow more money and to increase tax rates simply to keep the government running. From a more general perspective, if Obama becomes president, overall tax levels are likely to go up more than they would should McCain get elected (specifically for higher-income Americans). While the likelihood of higher tax rates is a negative for some investments, municipal bonds are one of the few areas of the market likely to benefit from increased taxation.

There are two potential motivations for action on tax policy in the next Congress: addressing the scheduled expiration of the 2001 and 2003 tax cuts at the end of 2010, and funding other political priorities by raising additional revenue. Congressional Democrats are more likely to pursue substantial tax legislation in 2009 if Obama wins, since other major reforms – healthcare, for instance – may be addressed in the first year and could require significant resources. In addition, two important tax items will require attention by year-end 2009, making substantial legislation likely next year: first, Congress must "patch" the alternative minimum tax for 2009, which requires action before year end. Second, the estate tax will phase out entirely on January 1, 2010, and Congressional Democrats will find it politically advantageous to enact a longer-term compromise on the estate tax in 2009, rather than waiting for it to expire. On the other hand, McCain and the Democratic majority in Congress would have greater disagreements on policy, thus the probability is greater that tax policy would remain largely unchanged for 2009 and 2010, and the eventual resolution of these issues is more likely to become effective for 2011. Despite these differences, it is important to note that both parties support extending current rates and preferences for couples making less than $250,000 per year. This equals roughly 60% of the total revenue from 2011 through 2018 that would be lost if all of the tax cuts enacted in 2001 and 2003 were extended. Obama and McCain both support a compromise estate tax policy: Obama would extend the 2009 policy ($3.5 million exemption, 45% rate), while McCain would provide greater relief but would stop short of full repeal ($5 million exemption, 15% rate). The most important differences are on tax rates on income above $250,000 (McCain proposed extending the current 33% and 35% rates, while Obama would let these revert to 36% and 39.6%); and investment-related income. The 15% rate on capital gains and dividend income, like the other income tax rates noted above, expire at the end of 2010, after which the rates are set to revert to 20% and the taxpayer's marginal tax rate (up to 39.6%) respectively.

On the corporate side, McCain has proposed reducing the corporate tax rate to 25% by 2015 along with a number of other changes that the Tax Policy Center estimates would reduce corporate tax revenues by roughly $800 billion over ten years. Obama has proposed reallocation of multinational tax deductions, though the specifics of this proposal are not entirely clear.

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What Will the Elections Mean for Investors? *(Continued from page 2)*

Infrastructure spending: The Democratic majority has indicated that infrastructure investment will be a priority, and this seems likely to be an important issue in 2009 particularly if Obama wins. McCain has campaigned against excessive spending – with infrastructure projects featuring prominently in his rhetoric – and proposed suspending the federal gas tax, which is the main source of funding for surface transportation spending.

Health reform: Health reform is likely to feature prominently on the congressional agenda in 2009. Obama proposes an expansion of government healthcare subsidies combined with structural reforms designed to encourage employers to offer benefits or pay premiums for coverage through a government-sponsored alternative, and Congressional Democrats look likely to pursue such a plan next year. The Obama campaign estimates that its plan would increase federal spending by roughly $50 billion to $65 billion per year. McCain proposes to replace the current exclusion of employer-sponsored benefits from taxation with a standardized insurance deduction, and would bolster state-run high risk pools for those that are otherwise uninsurable. The cost of McCain's proposal would be substantially less than Obama's – estimated around $10 billion per year – but as a result it is unlikely to provide coverage to nearly as large a group.

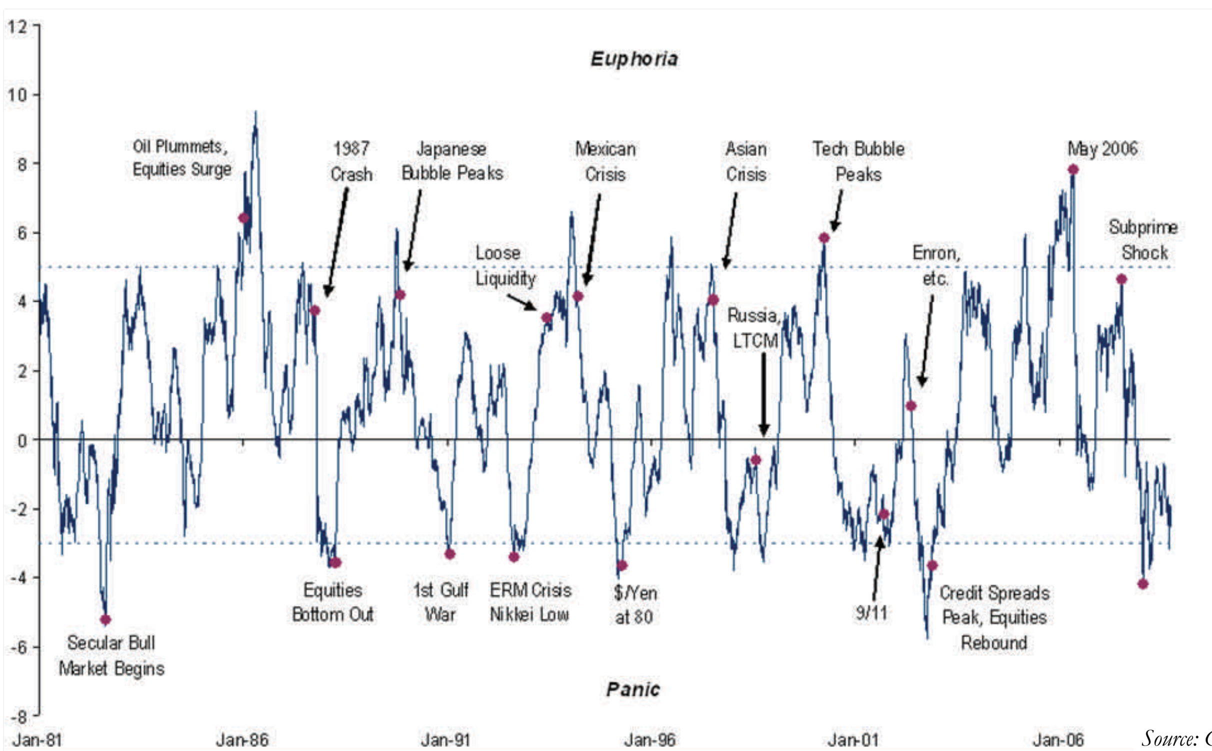
Trade issues: Trade is expected to remain a hot-button issue in the next administration – one that could have an impact on the markets. McCain has long been a free-trade proponent and, as president, would likely continue to push for the types of expanded trade agreements that have been a hallmark of both the Clinton and Bush administrations. Obama focuses more on protecting U.S. industries, and on environmental issues and labor rights, when considering trade issues. It is important to note, that protectionist policies run the risk of slowing overall economic growth and can add to inflation concerns via wage pressures.

Climate change: Both candidates support schemes to stabilize and ultimately reduce carbon emissions, and their positions are closer to each other than either is to the Bush Administration. That said, the candidates differ on the amount of credits to be auctioned as well as the ultimate target.

Energy policy: McCain and Obama differ on energy policy in most areas. Obama opposes suggestions to expand domestic oil and gas production, such as opening the Outercontinental shelf (OS) and the Alaskan Natural Wildlife Refuge (ANWR), though he has recently signaled some flexibility on offshore drilling. McCain has in the past opposed these initiatives as well, though he has come more recently to support repeal of the moratorium on OCS production. Both candidates have spoken favorably of nuclear energy, but while Obama appears to support incremental expansion, McCain suggests a more aggressive approach, including construction of 45 new plants. McCain opposes requiring electric utilities to produce power from renewable sources; Obama supports legislation to require a 20% renewable portfolio by 2020.

Sources: US Economic Research Group, Goldman Sachs, and BlackRock

Credit Suisse Global Risk Appetite Index



Source: Credit Suisse

Stocks in the News: Broadcom Corporation (BRCM)

Broadcom designs and markets a wide portfolio of semiconductor chips for wired and wireless communications applications such as modems, networking equipment, and mobile and wireless devices. Incorporated in 1991 and based in Irvine, California, Broadcom now has more than 6,300 employees and holds more than 3,800 U.S. and foreign patents. As a "fabless" semiconductor company, Broadcom does not manufacture the chips it sells, but rather outsources production to third-party chip "foundries."

Broadcom posted 2007 revenue of $3.77 billion. While serving as many as 20 identifiable niches within the communications universe, Broadcom groups its operations into three major segments: Broadband Communications, Wireless & Mobility and Enterprise Networking. During 2007, Broadcom derived revenue of $1.42 billion (38% of total) from Broadband Communications, $1.22 billion (32%) from Wireless & Mobility and $1.13 billion (30%) from Enterprise Networking.

Bulls Say

Broadcom is the market share leader in providing chips for technologies such as enterprise networking, cable modems, and set-top boxes.

Both consumer demand and technological innovation are pushing toward integrated technology such as the iPhone. Broadcom has a demonstrated talent for integration, and it should profit from this trend over the next five to 10 years.

Broadcom has an extensive research and development staff, as 73% of its employees work in R&D. This impressive human capital should help the firm develop and integrate new technologies.

Broadcom won several major contracts for its new mobile phone chips with top-tier producers such as Samsung and Nokia in 2007. This lends significant credibility to its mobile phone offering. Broadcom's diverse portfolio of semiconductor chips makes its revenue base less volatile than many of its competitors.

Bears Say

Broadcom's very generous stock compensation program, which comprised almost 14% of revenues in 2007, has consistently eaten away at operating margins and diluted current shareholders' equity.

Broadcom's emphasis on mobile chips pits them against titans such as Texas Instruments and Qualcomm in a ferociously competitive market.

The company's financial results and reputation have been tarred from recent stock option backdating scandals.

Broadcom's customers primarily consist of a handful of large, powerful device makers that can ultimately exert pricing pressure on the firm.

Sources: Argus Research Company, Standard & Poor's, Morningstar

Key Statistics: BRCM

Price	*$18.63*
Trailing EPS	*$0.59*
Estimated EPS	*$0.80*
Forecast P/E	*24.0x*
PEG Ratio	*1.60x*
Dividend	*$0.00*
Market Cap	*$9.84B*
52 Week High	*$43.07*
52 Week Low	*$16.38*
Beta	*0.95*
Expected Annual Growth Rate	*15.0%*
ROE	*23.2%*

Market and Economic Update *(Continued from page 1)*

large scale U.S. government action.

The broad outlines for the proposed policy measures – from money market fund insurance to the Resolution Trust Corp.-like funding of distressed mortgage securities – match the seriousness of the crisis, contain the hope of solving the core problems, and send a message that the U.S. government will do anything at any cost to prevent a large-scale financial meltdown for the simple reason that the alternatives would be even more expensive. A decisive rescue package from government authorities should bring us closer to the end of the bear market. In our opinion, it will be critical to avoid a deep recession that would weaken areas of the market that have remained resilient. For example, U.S. non-financial sectors have weathered a slowing but not receding economy quite well. However, should the economy turn sharply downward, even those sectors would likely suffer heavy losses.

How the proposals will affect the economy and financial markets will depend on the plans' details. As details become available, investors will try to make assessments based on answers to some of the basic questions, including how prices of currently illiquid mortgage securities will be determined, who will be able to sell their assets to gain relief, and which mortgage securities will be eligible. In any case, capitalism as we know it cannot function without a working banking system that requires banks to trust one another and markets to operate smoothly.

With this said, not all signs are negative. The recent drop in oil prices is a net positive for equities, and U.S. manufacturing activity continues to hold up reasonably well on the back of a weak U.S. dollar, despite its recent rise. Looking ahead, additional aggressive and coordinated central bank action, including rate cuts by the European Central Bank, may be necessary to continue to quell the fear and trepidation that so dominate market sentiment. While it is not an exaggeration to say that the financial markets have been gripped by fear, anxiety and despair, investor attitudes and pervasive bearishness typically have been signs of a market bottom. Eventually, we expect the banking system and financial markets to once again be based on fundamentals, but for the time being, disorderly markets are likely to continue.

Source: BlackRock

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