

Quarterly Newsletter

3rd Quarter - 2008

Market Overview:

This quarter taught me a brutal lesson in why I should *never* start writing my quarterly letter a month early; this time the markets made me do a full re-write! This quarter began as the last quarter ended – dismal news coupled with awful stock performance. Midway through the quarter, there was a sharp upward correction in the market as banking and finance companies helped rally the market. The rally was powerful but lasted only briefly. In September, as the realization that the world's housing and banking woes were not yet passed, the market began collapsing again.

What proceeded will be one of the most widely discussed sequences of economic events for years to come. Financial shares led a market rout that intensified until the government seized the two mortgage giants Fannie Mae and Freddie Mac. Next, Lehman Brothers, a top 5 investment bank, declared bankruptcy. Immediately following this, Merrill Lynch (another top 5 investment bank) announced a merger with Bank of America as Merrill's ability to operate as an independent firm became under question. Next, American International Group (AIG), the largest insurance company in the world, was downgraded from AAA to A by the rating agencies and then, after a furious round of discussions on how to raise capital, was provided an \$85B line of credit from the US government to avoid financial collapse. On top of this, Washington Mutual (a local bank for me and many clients) was seized by the FDIC after customers got nervous and began to withdraw their funds. After the seizure, Washington Mutual's branch network was bought by JP Morgan Chase.

Amidst all of this, there were ongoing discussions about a financial injection package to be rammed through Congress intended to stimulate the economy and keep credit, on which our society has come to depend, flowing for both the US and the world markets. As the quarter closed, this 'bailout' package was still frozen in Congress and the world markets are convulsing. In summary, commodities have been absolutely crushed this quarter, almost all bonds that aren't US government guaranteed have been sold off sharply and of course stocks have not, on aggregate, made their owners happy.

Below I have a table designed to summarize the most recent returns for some key investment markets. The 'Wilshire 5000' represents the aggregate US stock market, the 'MSCI World' represents the entire developed world stock markets excluding the US and Canada, and the 'Lehman Aggregate Bond' is a representation of the entire US Bond market. These market indices are important to follow over time as they help keep the performance of your own account in perspective.

Returns* ended 9/30/2008:	1 Qtr Return	1 Year Return	3 Year Return (annualized)
Wilshire 5000 Index (Ticker: VTI)	-8.94%	-21.54%	-1.11%
MSCI World Index (Ticker: EFA)	-20.51%	-30.49%	-0.37%
Lehman Aggregate Bond Index (Ticker: AGG)	-0.61%	+3.63%	+3.54%
Remick Capital (Account Composite)	+15.82%	-6.57%	N/A

As you can see from the table, accounts managed by Remick Capital strongly bucked the trend over the past quarter and year. Interestingly enough, our strongest performers this quarter were all financial companies. The strong performance of our very financially heavy accounts demonstrates a key lesson that a 'market' is just a collection of businesses. While many businesses may move in tandem with the economy there will always be opportunity for a few well run businesses to take advantage of the weakness of less adept competitors.

* The Wilshire 5000 Index is a collection of stocks that is designed to approximate the returns of the entire US Stock Market. The MSCI World Index is a collection of stocks that is designed to approximate the returns of the global stock market with US stocks removed. The Lehman Aggregate Bond Index is a collection of bonds that is designed to approximate the returns of the entire US Bond market. All above returns are based on Exchange Traded Fund (ETF) market returns to make the numbers representative of actual investor returns. For Remick Capital performance data, please see our [performance disclosure](#) document for the basis of results.

Investment Updates:

Below is a summary of some of our investments and how they have performed this quarter. Note that while some investments are held in all Remick Capital client accounts, oftentimes, due to either the timing of investment cash flows, account size, or risk tolerance, some investments discussed below may not be in your account.

Accredited Mortgage Loan REIT Trust, 9.75% Cumulative Preferred, Class A (OTC: AHHP) – Accredited has scaled back their operations further this quarter to reduce expenses. Our Preferred Stock dividend of \$0.60/share was declared as expected for Q3 and will be deposited on October 1st. Accredited had not had current financial data available for investors since last year but has finally gotten their books up to date and their act together mailing their 2007 annual report out to owners. The shares were very volatile this quarter going from \$9, to \$11, to \$7. They ended the quarter down 17% (including dividends).

Sears Holdings (NASDAQ: SHLD) – I mentioned how our stake in Sears was a drag on performance last quarter. The shares went down another 10% before going up 40% to close out the quarter. During the quarter Sears announced earnings that were no big surprise, and that the company repurchased 4% of their shares in the last few months at a price of \$78/share.

Fairfax Financial (NYSE/TORONTO: FFH) – Our Fairfax shares drastically underperformed during the beginning of the quarter; the funny thing is that I couldn't have been *happier*. Clients who once owned Odyssey Re due to the value discrepancy with respect to Fairfax were switched out of Odyssey and into shares of Fairfax. In addition, Fairfax was able to repurchase shares to consolidate our ownership at *unbelievable* prices. As Fairfax hovered around 85-90% of book value, the financial crisis described earlier really began to take hold. Fairfax, as I've mentioned before, has several investment contracts in place that will allow it to profit from the collapse of other financial institutions. Amazingly, these contracts covered Freddie Mac, AIG, and Washington Mutual in addition to many other companies. This was all public information and I was most ecstatic to see Fairfax selling so cheaply right as all the bad news on these companies was coming out. In the 3rd week of September, Fairfax announced roughly \$0.5 Billion in gains on these financial contracts, and the stock took off.

Wells Fargo (NYSE: WFC) – It seems that the market remembered the value of Wells Fargo this quarter as the shares rose from a low of less than \$21 to more than \$44 at one point – on essentially no (good) news. Wells is doing exactly what they have always done; they are treating their customers like humans and trying to provide products that can help them and make their lives simpler. The business model that Wells utilizes is so simple in fact that very few other banks have thought to copy it. Conservatism is much easier on paper than it is in real life, and their real life application of it is why Wells is so successful.

Compton Petroleum (NYSE: CMZ, TORONTO: CMT) – Compton was a disastrous performer in our portfolio this quarter for a number of reasons. First, all energy prices went into a free fall during the quarter as the prospect of a deep recession (and less consumption) began to become a reality. Second, natural gas prices have been getting beat up due to some legitimate fears about increased US production that may lead to a short term supply glut. And finally, there was an implosion of a hedge fund (Ospiraie) that owned a reasonably large stake in Compton, and this has precipitated fears of a force liquidation of Compton shares.

Constellation Energy Group (NYSE: CEG) – Constellation Energy is what I would call a special situation – a very special situation. The company operates various energy businesses and is highly profitable, but in the 3rd quarter, the company fell into a pit due to some serious problems with their short term funding needs, and the stock plummeted to a low of \$13/share (from \$70/share just a month earlier). Warren Buffett's company (Berkshire Hathaway) stepped in to offer \$26.50/share to buy the whole company, and also to provide some short term financing for the company. Shortly after that Electricite de France (a French utility) offered up \$35/share as a competing bid for Constellation. For some reason, on the 29th of September a rumor came out that Constellation was going to declare bankruptcy, and the stock plunged. We were able to pick up shares at \$19 each, a 28% discount to Berkshire's (cash) offer and a price that values Constellation

at just 4 times its annual earnings. There is tremendous upside here with the potential higher bid at \$35 and very minimal downside in my opinion. The market quickly agreed as the shares are already above \$26.

Update: After the close of the quarter, the shares we owned of Constellation Energy Group were sold for over \$26.

USA... Heading for an Imminent Collapse?

By this time, I'm sure even casual observers of the economy are probably getting a little tired of hearing about the never ending crisis in the US. The non-stop droning by newspapers and industry pundits about the issues facing the US banking system, real estate markets, and the overall financial system is nearly deafening at times. It also seems that at every turn, there is someone clamoring to 'predict' that it will get worse or that it's already over. These experts have an incentive to be bold in their predictions because a very bold, contrarian, and correct market call can provide for a career's worth of notoriety from the unwitting majority increasing book sales and inviting advice for years to come.

But despite all the noise about the imminent collapse of the US and the question on everyone's lips "Is it over yet?", there are a few facts that have gone unspoken or, at the very least, unrealized and unacknowledged by the vast majority of the media and regular citizens. Below I've provided some interesting numbers and facts that go together. I doubt many of these data points would be known to or guessed by the vast majority of people (in the US at least). I think the fact that the data points below will likely surprise you really is a testament to how misleading the financial media is:

1) Greater than 30%

- This is the amount an investor in US Stocks has outperformed a comparable investor in Chinese stocks over the 12 months ended September 30th, 2008. (As referenced by the Wilshire 5000 and Shanghai index respectively). At one point this month, the Shanghai stock index had lost more than 70% of its peak value.

2) Positive 1%

- This is the amount the US Dollar has *appreciated* versus a basket of worldwide currencies on a trade weighted basis in the past 12 months. You'd think listening to the media that the American economy is about to collapse but we are still one of the strongest economies in the world, and our currency has been going up during this crisis. We are the place other countries look to when they need to store the money their economies generate.

3) 26th

- This is the ranking of the US among all countries in terms of its national debt as a % of GDP. Japan, France, Germany, Greece, Portugal, Norway, and Canada are all higher up the list than the US meaning they have a bigger debt load relative to their economic size. When talk of the imminent collapse of the US economy due to our debt load is in the news, a realistic question might be to ask who will do better *and also* who will do worse than us. The media simply never discusses this and neither do many supposed economists and analysts.

4) Greater than 96%

- This is the percentage of mortgages that are *not* seriously delinquent (two months past due or more). Roughly 19 out of 20 American's are still paying their mortgages as usual. On top of that, this statistic does not include the roughly one third of residential housing that is *un-mortgaged*.

I am the last person to declare that America has no problems, or that all of our issues will magically just fix themselves. As a country we (and our politicians) have some hard choices to make regarding how we invest the collective national wealth, how we tax our businesses and our citizens, and how we will continue to thrive in a changing and increasingly competitive world. There are indeed issues, such as Medicare, that are what I would call urgent *and* potentially catastrophic if we do not address them soon.

However, in this country we have a flexible economy, strong rule of law, generally good regulation, and a fairly low level of corruption. And while our education system is in decline, we still have a pretty decent system all things considered. In addition, we are still widely viewed as a place where a person can come, work hard, and succeed. Many of us know

immigrants of all stripes and colors who are 1st or 2nd generation and are very successful in our society; few countries can say the same. We have the tools to be one of the most collectively successful and wealthy nations on Earth; we just need to use these tools properly. It is not, in my opinion, a coincidence that the US financial meltdown has brought the US stock market down 20%, while emerging country stock markets are down more than twice that amount.

There are many other countries in the world who cannot claim to have even half of the benefits listed above. There are also many emerging superpowers that are growing and will continue to be very important on the world stage, such as China and Brazil, who present legitimate threats (and opportunities) for our economy. However, their success does not mean our failure, and to some extent our fates are tied together (as we have been reminded recently).

My job is to navigate the potholes in the economy and provide a return on your hard earned savings. While there have been more potholes than usual lately, I still believe that our economy is fundamentally sound and has enormous potential. I also believe that a cautious approach to investing is still the order of the day. The American media likes to focus on extremes and sensationalism to hook you in and keep you greedy or fearful, but the fact is that the real truth is often somewhere in the middle of the road.

It's the Clients Stupid...

As many of you know, there are a lot of people you can hire to manage your money. There are many independent folks similar to me and even more institutional money managers that you contract by buying a mutual fund or some other investment product. While I'm certain there are many money managers out there who are top shelf, I find that many of them are handicapped by their clients (whether they realize it or not). They feel they can't make the choices they want because of fear that they may look dumb to their clients, or that their clients won't be able to stomach the potential volatility in an investment strategy, or simply that a client won't like to see an unpopular stock in their portfolio. As an example, it's very difficult to look stupid if you lose money by buying General Electric stock ("Hey, everyone owns it!"), but you can look like a complete imbecile if you lose money buying a delisted Subprime Mortgage company stock that doesn't even have current financial statements available (like our Accredited Preferred investment, until recently).

When I founded this company I promised myself and my clients that I would manage your money just like it was my own. When I put together a portfolio of investments, I don't care how smart or dumb I 'look'; I care how I think the portfolio will perform and how much risk I have exposed us to. I have actively sought to attract clients who understand and trust my abilities and I have turned down more clients than I would care to admit simply because they didn't have the mindset that is required to invest successfully. Investing is hard; whether you buy the stocks yourself or just look at the monthly statements, having the ability to accept that sometimes a decline may be required to generate a bigger gain down the road is something that most people *think* they can accept, but in reality do not.

The past three weeks provided me a reminder that I have chosen my investments well, but more importantly it reminded me that I have chosen my *clients* well. I received no scared phone calls from clients asking in a panic why I owned XYZ stock. No clients called and said I was crazy for having more than 50% of their portfolio in financial companies. In fact, the phone calls and emails I received were questions about whether it was a good time to add more money into an investment account, and I also received very calm and reasoned questions about what the economic events may mean for clients' bank accounts. I pride myself on my ability to interact with all my clients directly and answer any questions or concerns you may have. I appreciate the fact that the questions and concerns I received were no more than normal, and no one was panicking. It was quite refreshing given the number of panicked calls I received from *non*-clients.

So as cliché as it sounds, I'd like to thank all my clients for making my job enjoyable! I know this is a tough economic time, and I appreciate the patient attitude you have with regards to investing. If any of you know other friends or family members with similar mindsets who are looking for a conservative Advisor, I would be interested in talking with them.

As always, my money will be invested right alongside yours so you can be sure that I will work diligently to make sure our investments will be profitable ones, regardless of the market conditions. I appreciate the trust you have placed in Remick Capital as your Investment Advisor; I will work hard to make our relationship as profitable as possible.

If you ever have any questions about this report, your investments, or anything financially related in general, please do not hesitate to call me.

Sincerely,



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