NG Wealth Market Commentary
3rd Quarter, 2008

There is an old saying that says the financial markets can deal with good news and it can accept bad news, but Wall Street becomes nervous whenever there is uncertainty or no news at all. This is exactly what the world financial markets have been facing this quarter – and for much of 2008. The end result has been an environment in which many disciplines for investing were abandoned and ignored, sending the global markets gyrating wildly from one extreme to the next.

YEAR-TO-DATE 2008, the returns for the major indices are (% change):

Dow Jones Industrial Average	-16.60
Standard & Poor 500	-19.30
NASDAQ	-20.60
Russell 2000	-10.40
MSCI EAFE	-29.40

As of this writing on October 10, the financial markets continue to be schizophrenic. The prices of most major asset classes are completely irrational and therefore, fundamental valuations are being ignored. Confidence and trust between counterparties is non existent, resulting in central banks around the globe becoming the "lender of last resort." The financial sector continues to have extreme difficulties accessing liquidity to manage their business affairs longer than a few days. This, and many other activities, has led to a panic liquidation by hedge funds, mutual fund shareholders, margin calls, etc.

So, the logical question becomes:

WHAT HAS BEEN THE CAUSE OF THE CURRENT CRISIS?

While it is almost impossible to outline all of the causes of the current situation, we believe it is important to understand how this came to pass, generally speaking. As we have stated previously, the root of the problem lies in the housing bubble of the mid-2000's and subsequently, the significant decline since then. Although the United States has witnessed these bubbles before, none has been to this magnitude.

Specifically, here are several factors which amplified the impact on the current financial markets:

- Too much of the housing phenomena were financed by subprime mortgages that were destined to default, if and when an economic or housing downturn occurred.

- The complex structure these mortgages were packaged and repackaged, which indicated their ultimate value was difficult to determine, especially in a declining market environment.
- The tremendous amounts of leverage used by investment firms in acquiring these assets, which has led to forced selling and financial failures, and,
- The interwoven relationship among the financial institutions, which means the failure of one firm, has widespread repercussions on many other firms.

WHAT IS THE GOVERNMENT RESPONSE TO THIS CRISIS?

Whether or not the $700 billion financial rescue package has enough teeth to pull the financial markets out of the current malaise, the passage of the Emergency Stabilization Act of 2008 reinforces to us that lawmakers are committed to restoring confidence to the U.S. financial system as well as the credit markets throughout the world.

At NG Wealth, we believe the decisive actions taken in Washington have led to three important trends that are noteworthy:

1. MONETARY POLICY EXPANSION – The Federal Reserve lowered short-term interest rates to 1.50%, below the core inflation rate. This indicates an aggressive monetary policy and has introduced several new guarantees and capital injections into the financial markets, globally.

2. GREATER REGULATION – The Securities and Exchange Commission has become more actively involved in regulation. In 2009, it is our opinion you will see much greater regulation on Wall Street firms as well as the financial tools they employ in an attempt to dampen volatility in the financial markets.

3. EXPANSIONARY FISCAL POLICY – After a few missteps, the Federal government is intervening in a massive way. As mentioned above, the $700 billion plan should, in time, help stabilize the balance sheets of the financial institutions. A new President and Congress may well inject additional stimulus into the economy in 2009.

THE TWO MOST LIKELY OUTCOMES

Given the tremendous level of uncertainty, it is important for us to provide two scenarios that are likely to occur:

In a more positive scenario, the decisions by authorities around the world prove to be successful, as confidence and trust are restored allowing companies to borrow, expand and hire. Unemployment would likely rise for a period of time and the 2008 holiday season remains weak. However, in the early stages of 2009, the world economies recover due to lower interest rates, a significant decrease in the price of crude oil and commodities, and potentially, another round of stimulus checks from a new administration sets up for an economic rebound. In addition, new regulation achieves the desired result of reducing volatility, and investors gradually invest some of the $3.5 trillion dollars that are waiting in U.S. Treasuries and money market funds.

The second scenario leads to a longer and deeper recession as banks stubbornly refuse to lend, causing continued shocks to the beleaguered, global financial system. Under this scenario, unemployment rises sharply and the economy languishes in recession for much of 2009. The consumer elects to replenish their savings account and therefore, has fewer dollars for discretionary purchases or investment. The financial markets remain volatile and continue to reflect a national gloom. However, eventually, the massive amounts of liquidity, the actions of Washington (and the world), and pent up demand should generate an economic rebound albeit at a slower pace.

CONCLUSION

At NG Wealth, we do not want to downplay the magnitude of the current investment climate. However, our research indicates that now is not the appropriate time to be liquidating equity and fixed income portfolios. We believe the financial markets are at, or near, a low point for the following reasons:

- Inflation is a dwindling threat
- Valuations appear to be near the bottom quartile of historical distributions
- The recession might already be half over
- The financial markets are experiencing historic levels of volatility
- A record level of cash is invested in short-term instruments
- Investor sentiment is at all-time low levels (a contrarian indicator)
- In the past 80 years, the United States has experienced 13 economic recessions – and recovered with 13 economic expansions

While our investment strategies were positioned for a difficult and weakening economic environment, we underestimated the severity of the decline. The strategies employed at NG Wealth are based on balancing risk versus potential returns and we would not classify this environment as a low risk investment opportunity. We will continue to adhere to our disciplines – disciplines that have served us well in the past – and adjust portfolios accordingly. Stay tuned…

If you would like additional information or would like to discuss our current investment strategies, please contact Next Generation Wealth Management, Inc. at **(414) 257-4248**. Or, if you prefer, you may visit our website at www.ngwealth.com.

Sincerely,

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