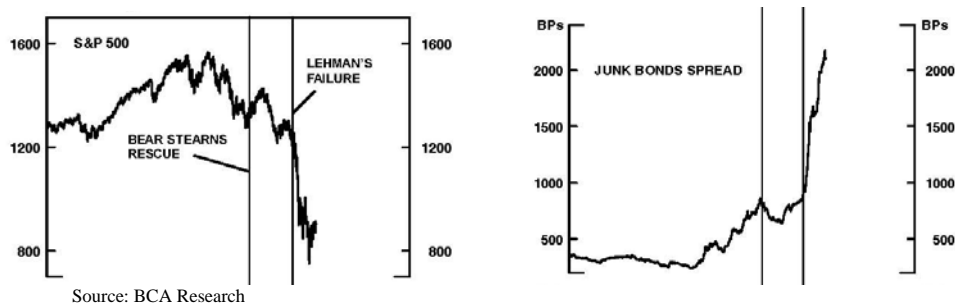


Quarterly Review and Outlook – Fourth Quarter 2008

With 2008 behind us, we would like to say good riddance. What a dreadful year for equity investors. The fourth quarter continued to discount significant economic weakness and credit strains with stock prices down across the board. There were few places for an investor to hide. Even the safety of cash came into question during the quarter. We have never taken so many questions from clients that were so worried about the safety of their cash.

In this type of environment the tide sinks all boats. The S&P 500 ended the year down 37%, the worst year for that benchmark since 1937. Midcap stocks were down 41% and small caps provided the best relative returns of the group down 34%. International and emerging markets were down 45% and 53% respectively. Hedge funds did provide a hedge but were still down 23%. Municipal bonds were down 2.5%. The only real bright spot was the broad bond market which was up 5.2% as measured by the Lehman Aggregate Bond Index.

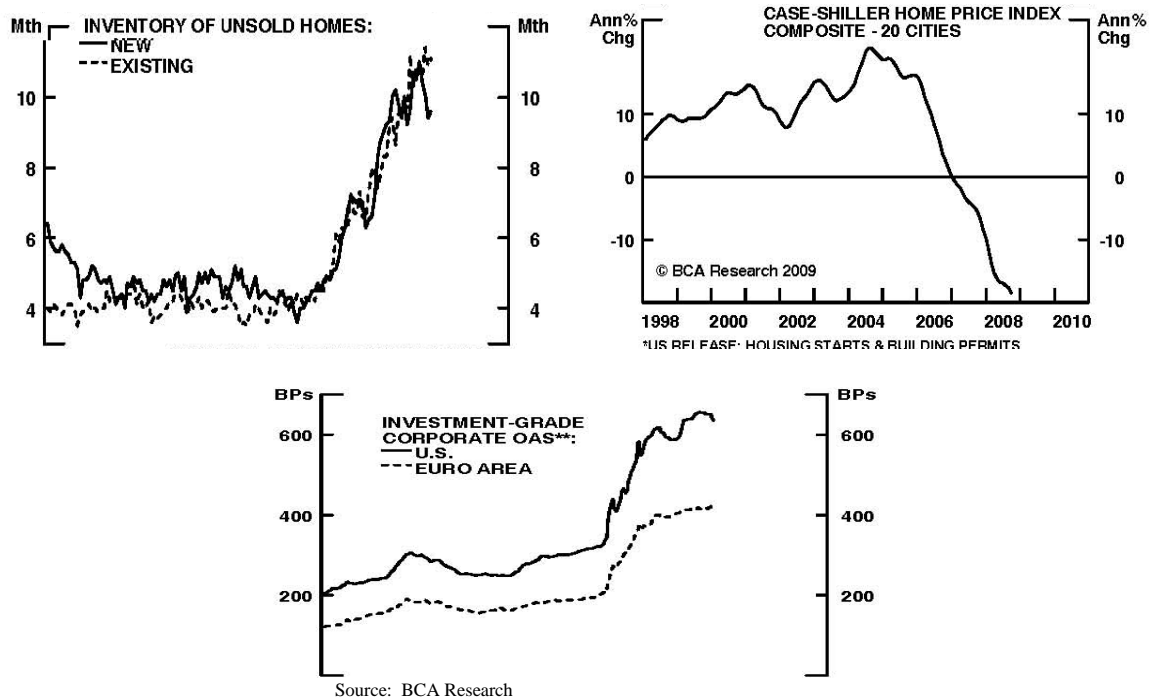
The sheer number and size of crisis type events that occurred during 2008 is astounding, but the crisis peaked during the fourth quarter after the failure of Lehman Brothers. We have not fully recovered from that event and the resulting credit seizure and will likely not totally recover for some time. The credit markets are the life-blood of capitalism and without a properly functioning credit market the economy risks coming to a grinding halt with significant collateral damage. The following charts demonstrate the dramatic market response after Lehman's failure. The first chart shows the price performance of the S&P after the Bear Stearns rescue in March and Lehman's failure in September. The second chart represents the spreads (premium over Treasury bonds reflected in basis points) for corporate junk bonds. The moves were the result of increasing illiquidity in the market.



As we move into 2009, we focus on the outlook for the markets and the economy and how they affect your portfolio. We continue to watch for signs that the economy is beginning to stabilize. While the outlook is dark and cloudy, it is important to resist the inertia of negativity and focus on the longer-term. In our view investors often make the mistake of believing inertia of today will continue on forever. This is simply not the case.

We believe that the markets have largely discounted this slowdown and the resulting credit crisis but we remain far from a sustainable recovery in the economy. In our last quarterly report, we discussed our belief that housing needs to stabilize before an economic recovery can begin in

earnest. We believe that even more so today, but would add that the credit environment which worsened during the fourth quarter needs to stabilize as well. The following charts look at housing data we have been watching as well as some metrics of corporate spreads in the credit markets. Neither paint a rosy picture.



On a positive note, the Federal Reserve and Treasury are being extremely aggressive in their actions to stimulate the economy. Both have been criticized regarding their response to the credit crisis. We believe that certain aspects of their response could have been better, but the reality in these uncharted waters is that no one really knows what is going to work until it does. The Fed has reduced Fed Funds effectively to zero and has embarked upon a path of quantitative easing which is showing positive signs but will take time. The actions taken so far are right out of the playbook that Ben Bernanke codified in a speech in November 2002 titled “Deflation: Making Sure “It” Doesn’t Happen Here”.

Quantitative easing consists of oversupplying the financial system with liquidity through direct asset purchases. The overall goal of these purchases is to lower the yield on non-governmental bonds. The first sign of success has been seen in the mortgage market. The Fed announced a facility to purchase mortgage backed securities in the open market. That announcement helped bring mortgage rates down. This was desirable to stimulate demand for prospective homeowners to purchase a home or refinance and thereby help to stabilize home prices. The Fed has indicated that they will purchase other asset backed paper in the coming weeks in addition to continuing with numerous other funding mechanisms that have been announced in recent months. In essence, the Fed and Treasury have become the buyer of last resort in hopes that they can stabilize the markets that need it most.

Unintended Consequences

The real question we have is what unintended consequences will result from all the stimulus that is being pumped into the system. Some believe inflation will flare up, while others believe that countries will stop funding U.S. consumption and the value of the dollar will be our next crisis. These are certainly plausible scenarios, but we will likely have to deal with unforeseen effects as our economy begins to recover.

One goal for portfolios is to deal with these unforeseen events and help preserve capital while earning a return that is commensurate with the level of risk taken. The best way to accomplish this is through establishing a well thought-out asset allocation that is specific to each client's goals and objectives. You have heard us talk about asset allocation and its importance in environments like we experienced in 2008. One positive development from the credit crisis is that investors are beginning to appreciate risk once again. We see signs that risk is being repriced with changes in the pricing of credit spreads, price-to-earnings multiples, leverage ratios and other valuation metrics. This will serve us all well in the future.

Right now many investors are questioning stocks as part of their asset allocation. This is understandable, but our responsibility as investment advisors is to remind clients that stocks are a prudent way to achieve returns over the long run. The following chart shows the S&P 500 price fluctuation and valuation at different points over the last 12 years. On a P/E basis, the market is below where it was in 1997 at 17 times trailing earnings.



Source: Standard & Poor's, First Call, Compustat, FactSet, JPMorgan Asset Management



As we said last quarter, there are a large number of stocks that look particularly attractive to us. Over the longer term, attractive valuations will be recognized and their price will rise. As we review our managers and the portfolios they are buying, we see numerous examples of very attractive value.

A Deficit of Decency

We want to discuss recent events that have occurred that force us to consider the morality of the markets and its players. A properly allocated portfolio with a mix of both stocks and bonds, will continue to be the best way to preserve and grow wealth over the long term with an appropriate amount of risk. We believe the markets are not corruptible, however, those people that operate within them can be.

We are appalled at the actions of many players in the markets. The greed that has manifested itself in corporate frauds here and abroad, as well as, questionable strategies or products offered to customers, demonstrate that many lack an ethical compass. It is important for us as investment advisors to remember that people are corruptible and make sure our due diligence process recognizes that reality.

We believe that greed and corruption will not be solved through tighter regulations. The issue is much broader and its source is much deeper than any Congressional action could resolve. BT Wealth Management was founded on the values set forth by Bennett Thrasher which are integrity, family, and clients. Those values are our focus and will remain for years to come. We always have and always will put your best interests first as we manage your wealth.

As we begin 2009, we want to wish you a happy, healthy, and prosperous New Year. As always, please do not hesitate to call us at any time with your concerns or questions.

Best regards,

Steven P. Barth, CFA, CPA
Chief Investment Officer
BT Wealth Management LLC