



The picture that has been painted by both Washington and Wall Street is not an appealing one, no matter what the angle. The events of September have made that evident now more than ever; events which have included the nationalization of the country's largest financial institutions, Fannie Mae and Freddie Mac, and the Chapter 11 bankruptcy filing of Lehman Brothers, the fourth biggest US investment bank.

Since the subprime mortgage crisis began last year, the widespread credit situation and economic downfall has claimed numerous businesses, including insurance giant American International Group, Inc. (AIG). AIG, a one-time Dow component, was compelled to hand over the bulk of its stock to the government for an \$ 85 billion loan, followed closely by the Washington Mutual Inc. collapse, marking the largest bank failure in US history.

In the largest bank failure in US history, Washington Mutual Inc., with about \$ 310 billion in assets, succumbed to the fallout from the subprime mortgage crisis, and was seized by federal regulators, then rapidly acquired by JP Morgan Chase for \$ 1.9 billion. WaMu, one of the nation's largest mortgage lenders, was hit head-on by the subprime crisis that has widened to jeopardize the US financial markets and led to the current crisis and the federal proposal to stabilize financial markets with a \$ 700 billion plan to buy up bad debt. Over the last three quarters, WaMu's losses totaled more than \$ 6 billion, as it wrote down billions of dollars of bad loans. WaMu's downfall was hastened by the collapse in real estate prices in addition to its aggressive lending practices. WaMu was also the second largest originator of home loans called "Option ARM's," which were marketed to borrowers via low introductory rates and included various payment options. Those loans often included the option to pay only interest, which caused the borrowers debt to grow with each payment. When housing prices began to fall just at the time rates were adjusting higher on those loans, borrowers began defaulting at alarming rates, leading to big losses for WaMu and others who had extended the credit or purchased securities based on the credits.

In a moment of historic proportions at the Capitol and on Wall Street, the House of Representatives voted on September 29 to reject a \$ 700 billion rescue of the financial industry. The vote, in opposition, came in stunning defiance of President Bush and Congressional leaders of both parties, who said the bailout was needed to prevent a widespread financial collapse. The vote was a catastrophic political defeat for President Bush, who was described as 'very disappointed.' After long favoring a 'hands-off'

approach and deregulation of the financial industry, the Bush administration found itself, in recent weeks, interceding repeatedly in the private market to try to avert one mishap after another.

Many in opposition intended to vote against the package, deeming the bill would leave the taxpayers responsible for, as one Republican representative stated, 'the mother of all debt.' Other members of Congress echoed the same sentiment, emphasizing that negotiators had not seriously considered any alternative.

Supporters of the bill, which included both presidential candidates, had argued that it was necessary to avoid a collapse of the economic system, a blow that would drag down not just Wall Street investment houses, but possibly the savings and portfolios of millions of Americans. Moreover, supporters argued that a lingering crisis in America could stifle business and consumer loans to a degree that could prompt bank failures in Europe and slow down the global economy.

What ensued after the defeat of the proposed plan was what many economists are now labeling 'Black Monday of 2008.' The Dow Jones fell 777.68 points, while the S&P 500 fell 8.77%, its biggest drop since October 1987, its third-biggest decline since World War II. But some economists are reminding us that our nation has seen worse times. For example, the Dow dropped 7% on September 29; one-third as much as the 22.6% decline in the 1987 crash. Furthermore, it has been almost 7 years exactly—September 17, 2001—since the last time the Dow dropped by a greater amount than it did on September 29. Another comparison point: more differences than similarities between the 1930's and today, including the jobless rate, which jumped to 25% by 1933; it is a little more than 6% today. Home prices dropped more than 30% during the Depression versus about 16% today. In the 1930's, more than 9,000 banks failed compared with fewer than 20 over the past couple of years.

### Commodities

Commodities took a wild ride in the third quarter, reaching new highs in early July, falling sharply into early September, then rebounding as the US government took steps to stabilize the financial system. Oil ended the quarter at \$ 100.64, up 4.43% for the month. Oil has seen recent lows of \$ 90.51 a barrel, still significantly higher than it was one year ago. Gold fell 5.6% in the quarter. The precious metal at one time was down 20% but recouped most of the losses in the last few days of the quarter to end at \$ 874.20 an ounce.

## Market Overview

US stock indexes bounced back from the prior session's historic sell-off, with the Dow Jones Industrial Average surging almost 500 points on optimism that a rescue plan would make a comeback in coming days on Capitol Hill. The Dow Jones Industrial Average finished the quarter at 10,850.66. The S&P closed the quarter at 1,164.74, while the NASDAQ finished the quarter at 2,082.33. Yields on 10-year Treasuries closed at 3.83%, while the Russell 2000 Index closed at 679.58.

What's ahead? Rejection of the original plan means there is currently no political solution to this financial crisis on the horizon. But investors are keeping a close eye on Capitol Hill, where the Senate is expected to vote on new legislation. With Election Day fast approaching, the financial dilemma must be resolved, as this pending bill is key to the financial future of not only the US, but globally as well. Remember the holidays? On a brighter note, as they too are around the corner, retailers plan to offer more incentives to buy now as opposed to later--with good reason.

Sources: *MarketWatch*, September 2008; *New York Times*, September 2008, *Wall Street Journal*, September 2008



## NUMBERS TALK

Percentage of Americans expecting Social Security to be the primary funding source for retirement...60

Number of dollars out of each \$1,000 in disposable income saved by the average American household...2

Percentage of workers in firms of 10-24 employees who participate in an employer-based retirement plan...28.6

Percentage growth in the number of millionaires in 2007...2

Percentage of Americans who made investment mistakes because they were "confused" or "didn't understand an investment"...52

Percentage inflation rates have averaged in the world for the past decade...7

Percentage inflation rates have averaged in the U.S. for the past decade...2.6

Percentage of Americans ages 27-42 who believe they will never be financially able to retire...66

Percentage of adults in relationships who admit to lying to their partner about spending habits...40

Percentage of couples who felt money is used as a means of control in their relationship...57

Percentage of adults who married in the past year in order to gain access to their new spouse's health care benefits...7

Percentage of Americans who in the last year postponed or skipped medical tests or care, didn't fill a prescription or reduced dosages, or didn't get mental health care due to costs...42

Percentage of privately insured adults in 2007 enrolled in tax-advantaged consumer-driven healthcare plans...2

Number of individuals whose 2007 out-of-pocket medical expenses equaled 10 percent or more of their family income, versus half that number in 2003, in millions...17.2

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