ASHLEY FINANCIAL SERVICES PA, CPA
REGISTERED INVESTMENT ADVISOR
CERTIFIED PUBLIC ACCOUNTANT

Special Market Summary
November 1, 2008

October, 2008 marked the largest one month market decline since October, 1987. Expect to see your October statements reflect your portfolio down 10%+ from September. The recent freeze-up of credit on a world-wide basis and the near melt-down of our financial institutions pushed both stocks and bonds down dramatically. Liquidity injection by the Federal Reserve and Treasury appears to have stemmed the decline and we are seeing a slow reversal, as witnessed by daily improvement in the LIBOR rates and rebounds in the stock market. Since hitting a bottom on October 10th, the S&P 500 Index and Bond Index are both up 10%. With economic stimulus injected both here in the U.S. and internationally, we expect markets to stabilize as they slowly move back to normalized levels. The good news is that most **AFS** managed accounts have fared better than the averages.

AFS holds to its unwavering belief in our core investment philosophy – maintaining focus on investing for the long run, minimizing losses on the (anticipated) downside, and shunning "trendy hot stocks and sectors." We recognize that the stock market operates like a voting machine on a daily interval, but operates like a weighing machine over the longer term. We know that a company's fundamentals, such as earnings and dividends are the factors that ultimately drive the price of a stock higher. Everything else is speculation.

In this once-in-a-generation economic environment, we remain focused on owning the stocks of the very best companies, those with the highest degree of financial strength and earnings predictability, companies that dominate their peers in their respective industry/sector. We refer to this trait as a "durable competitive advantage." We say these companies profit from maintaining a "wide moat" between themselves and their competitors. Such companies typically have a unique product, trademark or patent that distinguishes them from their competition. They stand head and shoulders above their peers. Because of this uniqueness, it would take decades to replicate their industry position. Rather than placing a large bet on the number 3 or 4 player in an industry, we prefer owning just the very best, and leave the rest to gamblers, market timers, and momentum-driven day traders. Finally, we prefer to buy these leaders with a large margin of safety.

In this credit strained environment, we are looking for stocks of companies with the ability to sell products and services that do not depend on consumer financing (i.e., homes, boats, appliances, etc). As always, we also look for companies that consistently increase their earnings and dividends each year – because your total return is the sum of capital appreciation, plus dividends.

2856 Carrie Lane Lakeland, Florida 33812.3158 Tel 863.446.1650 E-Fax 863.223.0260
ashleyfinancialservices.com ashleyfinancialservices@verizon.net

Current inflation rates will cut your purchasing power in half in 24 years. Accordingly, we invest in companies that will send you a bigger dividend check every year. Compare that to a bank CD or fixed annuity that does not increase your cash flow to outpace inflation.

We maintain 15-20% exposure to the energy sector and expect this sector to offer superior performance. Although oil prices have nearly dropped in half since this summer, the major integrated oil companies reported record earnings last week.

Portfolio Changes

In stock portfolios in the past month, we added an electric utility company and a beverage company, which have both announced mergers. The merger acquisition prices for both exceed our cost for the securities, so we anticipate a tidy profit on the transaction when the merger is completed. We also added three "durable competitive advantage" holdings (global consumer staples) with wide margins of safety.

Our investment philosophy on fixed income holdings is to purchase short term bonds <u>trading at a discount</u> and <u>holding them to maturity</u>. Aside from default risk, the yield to maturity at original cost on many of these bond portfolios is 6-8%. You should understand the market value of the bonds reflected on your monthly statement is irrelevant to their maturity value; the interim market value only reflects a price that you could obtain if you sold the bond prior to maturity. Further, the value on the bond does not mean the interest payment to you is affected!

None of us like to see our portfolios decline. However, we are pleased with our investment results so far his year, versus the benchmarks. As history has taught us, the investors that suffer the most are those that flee to cash and try to time the market on re-entry. Within 12-18 months, we expect the market will heal itself, your portfolios will grow and you won't feel such trepidation opening your monthly statement.

You pay me, as your investment advisor to "think responsibly" – not to overreact hysterically to market volatility. Accordingly, **AFS** is committed to remaining vigilant, reviewing investment selections regularly, and making strategic changes – *only when appropriate to respond* to unfolding economic events.

Thank you for your continued trust and confidence in our ability to provide you with outstanding service.

Best Regards,

Jill Ashley