

November 12, 2008

EXTRA! EXTRA! EXTRA! "A NEW AMERICA"

Gotcha! You probably are thinking we want to discuss politics and the Obama administration. No! We want to visit with you about the new America in banking, finance and investing! We are witnessing unprecedented history in the world of capitalism. If there was ever "shock and awe" in the world of finance, this is it! What the Federal Reserve, Treasury Department, Congress and Central Banks around the world are doing is absolutely unprecedented. We will likely never witness this type of restructuring of our banking and finance system again in our lifetimes. I would liken this to the restructuring of the banking system in 1933. So, we do need to revisit history to chart our path to the future.

Quite simply, in The Narmi Group's opinion, this is not 1929¹. We point to a number of facts to back this belief. In 1929, America was an agrarian economy. People living on the farm had virtually no cash money. They eked out an existence to maintain a life. People that did live in the cities also eked out an existence. If you lived in the city, you most likely worked on an assembly line; pre-unions, you worked in a "sweat shop" type of factory environment, or you worked for a local retailer earning perhaps 25 cents an hour. Common folk simply "had no money" with which to survive hard times. Fast forward to today: Individuals, not corporations or the government, Individuals personally hold trillions of dollars respectively in CD's, money markets, pass books, 401k's, bonds and stocks, even at these deflated prices. In addition, net of mortgages and reduced residential real estate prices, Individuals hold trillions of dollars of net equity in their homes. The Individuals of America hold our "sovereign wealth fund", not the government as in China, Russia or the Middle East. We believe the individual American is far better off, despite the ramp up of excessive personal debt of the past 25 years, to fight and contend with this downturn than the people of 1929 ever could.

In addition, the United States government has established safety nets which did not exist in 1929. Today, we have social security, Medicare, Medicaid, unemployment insurance, jobs training, utility subsidies and food coupons, to name a few. Collectively, these safety net programs may seem trivial, but collectively, they too add trillions of dollars of individual consumer purchasing power with which to buy goods and services from the economy, which in turn maintain jobs.

In 1929, the subsequent Treasury Department made virtually every mistake they could have made given the environment which they faced. They raised interest rates, withdrew massive amounts of funds from the banking system, shrank the money supply, and congress restricted free trade. Fast forward to today. The Federal Reserve and the Treasury Department, along with Congress and the Executive Branch, have done a complete 180 from 1929. The system is being flooded with money, \$4 trillion⁴ and counting daily; so much so that the \$700 billion rescue package is becoming increasingly irrelevant each and every day. In addition, Central Banks around the world have joined in concert to stem this problem. Europe, \$3 trillion and counting. Asia, \$1 trillion and counting. OPEC countries, trillions and counting⁵. This is utterly amazing. In addition, the Fed has cut rates from 5.25% to 1% in less than one year¹. The Treasury Department is investing on a seemingly daily basis in major corporations to provide equity and staying power to maintain jobs for Americans. This is incredible stuff!

Okay, here is where we think the really big change appears to be occurring: virtually all Wall Street investment firms have either gone out of business, or been converted into banks. Why is this so significant? The "banks" are now regulated by the Federal Reserve; moving forward and banks cannot leverage like investment houses. The Narmi Group opinion is that there will be far less leverage deployed for investment and speculation; we view this as a positive development for a potentially more stable future. We think this will ultimately lead to fewer occurrences of excessive speculation. This could be a major, major change in America's capitalistic system. Is it good? Time will tell, but The Narmi Group thinks "yes".

If the government is taking huge stakes in corporate America, could we be turning to socialism? The Narmi Group thinks "no". Why? We feel as with the Chrysler loan of the 1980's, the equity should ultimately be repaid to the government. There are many shrewd investors, including Warren Buffett, who feel the government will "turn a profit on these trades"². We also think we, the taxpayers, in our opinion, will turn a profit on these trades and the Fed will exit the business arena as "investors".

What does the future hold in the "brave new world"? The Narmi Group opinion is that America lead the world economically coming out of this crisis. We, as a government, have been implementing solutions for eight months, since March 17th, when the Fed intervened and placed Bear Stearns with JP Morgan. Europe was late to the problem, as was Asia³. They have only been "in the game" for about six weeks, yet they are fully engaged. In our opinion, we truly believe America will emerge leaner, meaner, faster, and stronger. This is not a patriotic, flag wrapped statement; it is a statement of capitalism. Again, we have many facts with which to make this statement and will be happy to share them with you.

What should "I" do now? As we've said in the past Invest based on your comfort level. What does that mean? Only you can answer that question, but an investment exposure that allows you to sleep at night is a pretty good answer. What does The Narmi Group think? We believe that volatility may be a fact of life for the foreseeable future until the excessive leverage is unwound. We believe you are seeing an unprecedented unwinding of leverage from many different sources within a very compact time period. In a sense, however, with the commitment of the Federal Reserve and Treasury Department, the sooner the better, even though it could be painful to endure. The sooner we cleanse this situation, the sooner we get to better days, in our opinion. Again, as highlighted by Warren Buffett's New York Times editorial of October 17, 2008, many very shrewd investors see great long term potential in U.S. blue chip stocks. We do too, but it is painful to endure the process.

What is The Narmi Group plan for "the new America"? First of all, in managed accounts, we plan to take advantage of potential tax losses as is prudent. We want to put these losses "in the bank" to offset gains in future years. Why would you do that at today's seemingly low prices? Because we are "trading cheap dollars for other cheap dollars" in the equity market and we want to "bank" the losses. In what areas of the market are you going to focus? Quite honestly, everything seems like it is "on sale", but we are going to focus on quality and dividends. Why buy a Chevy when a Cadillac costs the same, it seems like a "no-brainer" to us. We built our strategies in the early 2000's to be "terror proof", with the thought that the biggest companies in America would literally survive a second terror attack. Today, our portfolio is built to be what we call survivors of the "9/11 of the credit markets". We have a mantra which is "you can't go bankrupt if you don't have any debt". Many of our companies are carrying very manageable debt levels and many are carrying cash equivalency balances of billions and billions of dollars on the balance sheet. Again, we have the names and numbers if you are curious.

What should I do if my account is not managed by The Narmi Group? Call us and we will suggest a strategy to implement.

Will this market and economy ever turn positive? In our opinion, yes, but we don't know exactly when; even Buffet says that. Speaking of Buffet and Berkshire Hathaway, as we write this letter, the S&P 500 index is down approximately 32% since September 19th and Berkshire Hathaway is down approximately 30%⁶; there simply is no place to hide when arguably the "best" investor of all time is not producing stock returns any greater than the general market.

What exactly is the market doing right now? It appears to be discounting a recession, policy uncertainty of a new administration and unwinding leverage, in our opinion. When will it end? Again, we don't know, but we are eight months into the process and nearly 6000 points down from the highs of the Dow Jones Index of October 12th, 2007. Six thousand points is a lot of "unwinding" and discounting! These facts tell us we are much closer to the end of this process than the beginning.

This letter is an "Extra". We will write again in January, 2009. In the interim, we plan to stay in contact via email, telephone, personal meetings and our client seminars, of which we have held five since October 10th. During these "fast markets", we really need your correct email address. PLEASE, email or call us with your CORRECT email address; it is absolutely imperative. Also, many of your friends and relatives are seeking advice, perhaps from you; we are here to help them if they like.

"Here's wishing you the best of market returns" and an early "Happy Holidays". Your true wealth lies in your family and friends, not with us.

Best Wishes,

Jon

Jon L. Narmi
Senior Portfolio Manager
Senior Vice President–Wealth Management

Charlie

Charles M. Narmi
Second Vice President–Wealth Management
Financial Planning Specialist
Sales Manager – Smith Barney Omaha

Austin

Austin Fearnow
Financial Advisor

Ellie

Ellie Sweet
Registered Associate

Theresa

Theresa M. Rynaski
Second Vice President-Wealth Management
Financial Planning Specialist

Nick

Nick Vondrak
Second Vice President-Wealth Management
Financial Advisor

Jim

James W. O'Laughlin
Vice President – Wealth Management
Financial Advisor

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¹ Wall Street Journal, ² New York Times, ³ Fred Sturm, Ivy Funds, ⁴ Bloomberg News, ⁵ Reuters News, ⁶ Standard and Poors