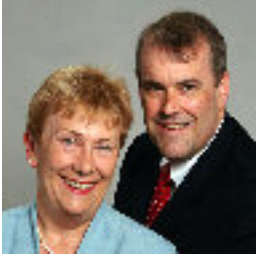




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DIALOGUES

FINANCIAL STRATEGIES FOR DISCUSSIONSM



Choosing a team signals the necessity to have multiple skilled advisors help you address the complexities of managing wealth. Our team can help you to navigate complex financial matters and guide you toward reaching your goals. This is the commitment we pledge to each valued client.

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Looking Beyond Short-Term Volatility

Whether you get your news from the papers, television or the Internet, you know how quickly the financial markets can change. Some days are euphoric (a key economic report may bolster consumer confidence or a company reports better-than-expected earnings for the quarter, igniting market indexes). Other days, however, aren't as sunny—and some of them may be downright unnerving. So what are some of the possibilities when an inevitable downturn occurs in the market?

An important piece of advice to keep in mind during a market slide is one you've no doubt heard before: Do not overreact. Even though your instincts may be telling you to try to protect your investments by switching to a more conservative approach or to liquidate your positions in hopes of buying them back at lower prices when the worst is over (an approach known as "timing" the market), it's important to keep your emotions in check—and your eyes on the long-term horizon. History tells us that over the long run the stock market can be quite resilient. From wars to natural disasters to economic meltdowns, the market has seen it all—and over time has shown remarkable capacity to bounce back.

While it's not always easy to maintain long-term perspective, overreacting to events as they unfold may compound the damage—and you may end up selling at the bottom or missing part or all of a subsequent market recovery. To help protect against short-term volatility and the anxiety it may create, together, we can help develop a diversified investment plan that reflects your long-term goals and tolerance for risk. By reviewing the investment plan on a periodic basis, we can try to alter it as needs change. At Smith Barney, our primary focus is ensuring that your wealth continues to work hard for you day in and day out.

Past performance is no guarantee of future results. Diversification does not ensure against loss.

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Coping With Volatile Markets

What Long-Term Investors Need to Know

Periodically, investors are given a sharp reminder that stock prices can go down as well as up—and can do both very quickly and with relatively little warning. These sudden market movements can raise doubts about the wisdom of a long-term commitment to equity investing.

Investors are often tempted to overreact in such situations. Their first instinct may be to sell holdings, particularly stocks that are highly susceptible to market moves. Or, they may try to “time” the market—liquidating positions in hopes of buying them back at cheaper prices when the worst is over. This is usually a mistake: Even professional money managers can’t often guess the market’s next move.

When markets turn volatile, it’s more important than ever for investors to keep a clear head and a cool hand. The middle of a sudden correction—or an upswing—isn’t the right time to be making impulsive emotional decisions about your portfolio. As the saying goes: Act in haste, repent at leisure.

Risk and Reward

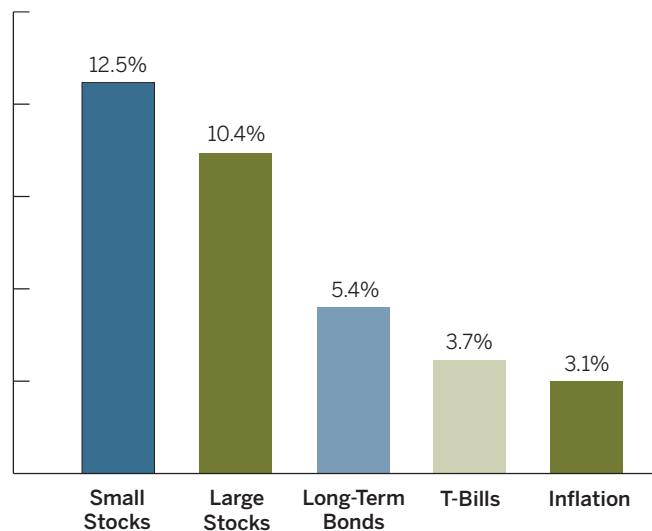
Short-term volatility is a fact of life in the stock market, a risk equity investors have to be prepared to accept. While diversification and prudent portfolio management may reduce this risk, it cannot be eliminated entirely. However, a review of more than eight decades of market history suggests long-term investors in U.S. stocks typically have been well rewarded for the risks they have taken—particularly when compared to supposedly “safe” investments such as government bonds and money market instruments. How well? Consider this:

- **A dollar invested in large-cap U.S. stocks** at the beginning of 1926 could have grown to almost \$3,250 by the end of 2007, according to Ibbotson Associates.
- **By comparison, that same dollar invested in long-term Treasury bonds would have grown to only \$77**, while \$1 invested in short-term Treasury bills would have been worth just \$20, according to Morningstar, a financial research firm.
- **The annualized return on large-cap stocks over the past 82 years has been just under 10.4%**—almost twice the average return on long-term U.S. government bonds, according to Ibbotson. T-bills, meanwhile, have barely kept ahead of inflation over that same period.

Equities have not only outperformed over the long run, they’ve done better over most shorter-run periods as well.

Large-cap U.S. stocks (as represented by the S&P 500 Index) have delivered higher returns than either T-bills or Treasury bonds in 36 of the past 62 years—or about 58% of the time, according to data from Ibbotson and Smith Barney. The same data shows that since 1945, stocks have outperformed bills and bonds in 43 out of 58 rolling five-year periods (or more than 74% of the time) in 44 out of 53 rolling ten-year periods (more than 83% of the time) and in every 20-year rolling period.

Annualized Returns: 1925 through 2007



Past performance is not a guarantee of future results.

Source: Citi Smith Barney, Ibbotson Associates/Morningstar. Please see important disclaimers at the end of this report.

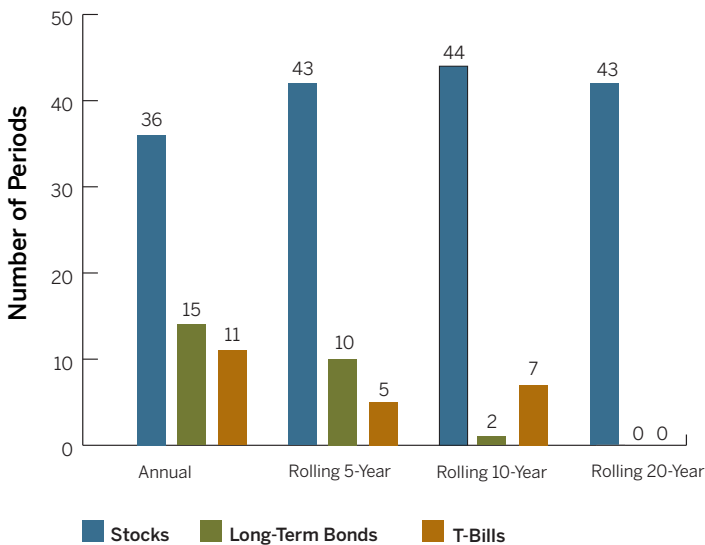
Equities have not only outperformed over the long run, they’ve done better over most shorter-run periods as well.

The Odds Favor the Long-Term Investor

On a monthly or quarterly basis, stocks historically have been more volatile than bonds, T-bills and most other fixed-income assets. The market has also experienced deep and prolonged downturns, such as the 49% decline seen during the 2000 – 2002 bear market. However, these events have been less common than many investors might think:

- Returns on the S&P 500 have been positive in 59 of the past 82 years—or almost 72% of the time.
- During that same period, there have been only ten years in which the market lost more than 10%, and only five years in which it lost more than 20%.
- On the other hand, returns have been greater than 10% in 47 of the past 82 years, and greater than 20% in 31 of those years—or almost two years in every five.

Top-Performing Asset Class 12/31/45 through 12/31/07

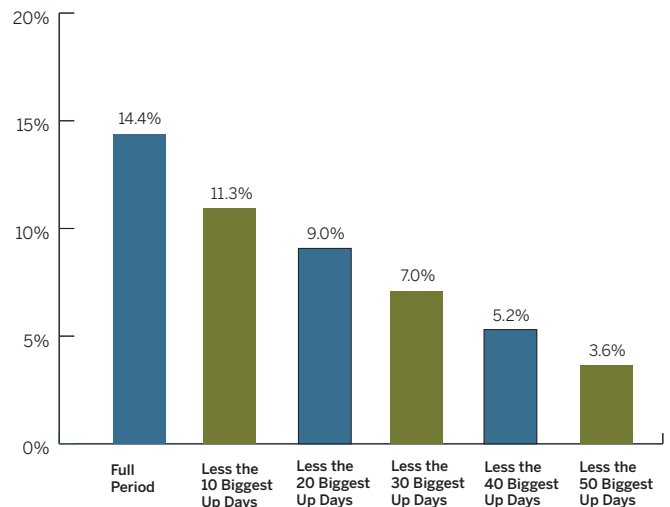


Past performance is not a guarantee of future results.

Source: Citi Smith Barney, Ibbotson Associates/Morningstar. Please see important disclaimers at the end of this report.

Many studies have suggested equity returns are actually higher than what the market's historical volatility otherwise would suggest. In other words, investors are demanding—and, on average, getting—unusually high returns to accept

Annualized Increase in the S&P 500: 1980 through 2007 Net of Dividends



Past performance is not a guarantee of future results.

Source: Citi Smith Barney

the risks associated with owning stocks. This extra return (sometimes known as the equity risk premium) is one of the reasons the stock market has proven so attractive for long-term capital accumulation.

The Risks of Market Timing

In theory, investors could boost returns even more by avoiding—or successfully timing—market volatility. However, as mentioned earlier, this is extraordinarily difficult. And the costs of being out of the market at the wrong time can be enormous.

From 1980 through December 2007—a period containing more than 7,000 trading days—an investor who missed the 50 biggest up days would also have sacrificed more than 75% of the increase in stock prices during that period—converting a 14.4% annualized rise into a gain of only 3.6%.

Of course, if an investor could figure out how to catch the biggest up days in the market, while missing the biggest down days, he or she could add, not subtract, from long-term performance. The problem is that the biggest up days often come immediately after the big down days. Jump out of the market after a big decline, and there's a good chance you'll miss at least part of the rebound.

The costs to long-term investors of putting money to work in the market at the wrong time—i.e. right before a market top—have been relatively small, at least over the long run.

On the other hand, the costs to long-term investors of putting money to work in the market at the wrong time—i.e., right before a market top—have been relatively small, at least over the long run. An investor who put \$10,000 in large U.S. stocks at the tops of the last eight major bull markets could have had a portfolio worth more than \$2.7 million by the end of 2007. By comparison, the same amounts invested in T-bills at the same times could have grown to roughly \$503,000 over that same period.

Conclusions

Taking a long-term perspective on market volatility isn't always easy. However, overreacting to the latest market events can easily compound the damage, by forcing investors to sell at the bottom or miss all or part of a subsequent recovery. It can also lead them to forget the powerful long-term case for equity investing.

Investors can best protect themselves from short-term volatility by developing prudent, diversified investment strategies—ones that reflect their long-term goals and tolerance for risk. They can and should review these strategies periodically to see if they still match their financial needs. However, changes shouldn't be based on the latest dip or surge in the market—or fear of where the next one might lead. Because the most critical danger most investors face isn't the risk of short-term volatility, it's the risk of making decisions they will regret later.

Love, Finances and Your Money Personality

No matter how deeply you and your partner love each other, money is probably a loaded subject. An individual's reaction to how it's invested, spent, shared, passed down or donated is often filled with personal history and emotion. And if you and your spouse come from different geographic, economic, ethnic, educational or religious backgrounds, it can be even harder.

At the risk of oversimplifying, psychologists and planners have identified a handful of money personalities that tend to predominate. Read below to see if you can identify which one—or ones—best describe you and then find your partner's. The more you know about each other and your money styles, the easier it is to work things out.

Shoppers believe that life is meant to be enjoyed—and that retail therapy is a great way to savor it. They take pleasure in spending and hate a spouse questioning or keeping tabs.

Power suits pride themselves on hard work and its results, and they like to take financial risks. They may be drawn to financial accumulation for the sake of power.

Avoiders try not to think about money at all and consider financial details boring. They may not know their financial life is out of control, and they never want to face the chaos head-on.

The more you know about each other and your money styles, the easier it is to work things out.

Worriers are preoccupied with money in a negative way, dreading an uncertain future. On the positive side, sometimes their hoarding leads to good financial organization.

Ascetics are Spartan types who may feel conflicted and guilty about money. They believe in living simply and in socially responsible investing.

Money Talks: A Step-by-Step Plan for You and Your Spouse

When you are married, differing attitudes toward money are inevitable—but conflict doesn't have to be. Here are some top techniques for improving your marital communication and achieving peace of mind when you and your spouse are at odds over finances.

1. Speak honestly. Whether you're newly married and just encountering the emotions finances can pique or are in a 40-year marriage and revisiting a familiar dispute, you have to unburden yourself before you can make decisions. "I don't believe couples can negotiate until they've really shared their feelings with empathy," says couples therapist and financial author Olivia Mellan. "Lighten up your emotional load."

2. Declare independence. While your Financial Advisor can craft the specific arrangements that make the most sense for legal, tax and planning purposes, couples—generally speaking—should also arrange to have some assets separate to foster each partner's autonomy and security.

3. Meet often with your spouse. You may find that set, weekly times are necessary at the beginning. Initially, your Financial Advisor can set up a monthly meeting. Eventually, after reaching agreement on goals and strategy, he or she can make those conversations part of your quarterly meetings. Communication is key.

4. Reward yourselves. After the weekly, monthly or quarterly hard work is done and you've negotiated, discussed and planned, pat yourselves on the back. Recognize your distinctive financial partnership with a celebratory dinner or another activity you enjoy, recommends author Victoria F. Collins.

5. Accept help. Because many beliefs about money are so deeply rooted, the emotions can be hard to figure out. If you find you can't discuss finances without blowing up or blaming, if it's an especially difficult stretch in your life or marriage or you just can't articulate your concerns, seek professional help.

Potential Left Turn Ahead

By Edward M. Kerschner, CFA, Chief Investment Strategist, Citi Global Wealth Management

As campaigning heats up for the 2008 U.S. presidential election, Democrats seem to have the advantage, with polls showing that negative opinion of Republicans is at a 15-year high.

While there is plenty of political jockeying yet to be had, the party that in the end wins this hotly contested race will face a complex slate of issues—not the least of which is fiscal stewardship of the world's largest economy. This is an especially important issue this election cycle, as a number of key tax provisions are scheduled to expire at the end of 2010.

History shows that the average and median stock-market performance is similar during Democratic and Republican administrations, suggesting that the party in power generally doesn't dictate the stock market's direction.

History shows that the average and median stock-market performance is similar during Democratic and Republican administrations, suggesting that the party in power generally doesn't dictate the stock market's direction. However, there have been more periods of stock-market decline under Democrats (eight) than Republicans (four), although the single-biggest market decline (the four-year period beginning in 1929) occurred with a Republican in the White House.

Below, we review possible implications of a Democrat winning the presidency.

Foreign exchange: the dollar. There is a risk that foreign investors, who have been significant buyers of US financial assets in recent years, may choose to play it safe amid uncertainties about the impact of a new administration and curtail purchases of US assets (or trim existing holdings).

It's hard to see how this would be positive for the greenback, which has weakened against major global currencies in recent years.

Equities vis-à-vis fixed income. Any new initiatives that adversely impact private equity firms, such as a change in tax treatment, could negatively affect stocks, considering private equity has been a significant source of stock-market demand in recent years.

It is important also to note that stocks are long-duration assets. That means they are highly sensitive to changes in inflation and interest rates (just as the price of a 30-year bond is more sensitive to these factors than the price of a 10-year bond), making stocks poor hedges against inflation.

High-quality bonds—most notably US Treasury securities—could benefit from any flight to quality that might result from heightened volatility. Thus, it seems that selected fixed income securities would be more attractive than equities in the event that a Democratic election win spurs a flight to quality.

Traditionals versus alternatives. Traditional investments—such as equity mutual funds—do not seem as well positioned as some alternative investment options if certain policy changes are enacted. Specifically, US equity mutual funds would be hurt by any increase in the capital gains tax or by an economic slowdown that leads to diminished equity-performance expectations. That said, in an environment of heightened volatility, active equity managers might perform better than passive investments—such as index funds or exchange-traded funds—given their ability to trade on opportunities and to manage risk more effectively.

Heightened volatility also could allow hedge funds to profit from perceived asset-pricing inefficiencies. Hedge fund managers who see an opportunity in a particular sector have the flexibility to make a concentrated bet, unlike a mutual fund that is constrained by sector weights. Likewise, if a hedge fund manager perceives an unusual amount of risk, he or she can move to cash. Equity mutual funds, on the other hand, are often required by a prospectus to maintain some equity exposure.

Relatively speaking, private equity could face greater risk than hedge funds, given that private equity is “long only.” The ability to go short enables hedge fund managers to offset some risk. Of course, any re-pricing of risk—as reflected in a widening of credit-market spreads—could make it difficult for private equity firms to obtain financing and potentially cost hedge funds more to use leverage.

As for real estate, a couple of points are worth bearing in mind. First, real estate has performed well in prior periods of high inflation (such as 1979), but—as was the case in the early 1990s—such investments have not always done well in periods of moderate inflation (the likely risk of any Democratic win election scenario). Second, real estate investment is a lagging economic indicator since leases are typically signed for multiyear periods. The state of the economy when leases roll over is the critical factor in determining investors’ return on real estate. For these reasons, real estate may not be affected—positively or negatively—in the immediate term.

For the record. Even though the poor standing of Republicans seems to bode well for Democrats in their pursuit of the presidency, no northern Democrat has won the White House since John F. Kennedy’s victory in 1960. What’s more, no sitting senator has won the White House since JFK.

With that in mind, two of the leading Democratic contenders today are sitting senators from northern states: Hillary Clinton (the junior senator from New York, who hails from Illinois) and Barack Obama (the junior senator from Illinois, who spent most of his childhood in Hawaii). Their lack of a natural base in the southern US and their policy positions gleaned from Senate voting records might work against these Democrats in a contest against a Republican who doesn’t have a voting record to account for with the public.

Even if a Democrat is elected president in 2008, some of the more bearish investment-risk scenarios outlined above may not come to pass. After all, Bill Clinton learned that it was tough to push a liberal agenda in Washington, even with Democrats controlling Congress. His political fortunes improved early in 1996 when he proclaimed that, “the era of big government is over.” Clinton ultimately created a favorable environment for investors.

Neither Democrats nor Republicans have been bad historically for markets. Nevertheless, should a Democratic victory have a deleterious impact, some investments would seem to have an edge.

In sum, neither Democrats nor Republicans have been bad historically for markets. Nevertheless, should a Democratic victory have a deleterious impact, some investments would seem to have an edge. First, Europe and most of the BRICs (Brazil, Russia and India, and less so China, which has relatively high US trade exposure) appear favored over the US and its neighbors, Canada and Mexico, which also have substantial exposure to US trade. Second, select US fixed income investments could have an advantage over US equities. Third, certain alternatives (such as hedge funds) could outperform traditional investments.

Call or schedule an appointment at any time to learn more about the impact the upcoming election may have on the investments you hold or to schedule a portfolio review.

The Kindest Cut

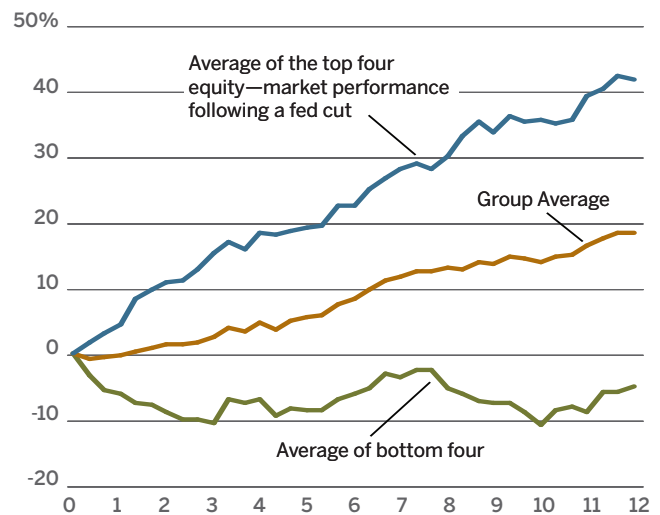
Conventional wisdom holds that US and global equity markets should rally when the Federal Reserve cuts interest rates, thanks to the anticipated benefit to economic growth and, thus, future earnings.

The experience of the 14 Fed rate-cut cycles since 1974 (prior to the Sept. 18 cut) suggests that conventional wisdom is correct. **Global equity markets have tended to rally in the 12 months following an initial Fed easing by an average of 18.4%.** However, Robert Buckland, head of global equity strategy for Citi Investment Research, notes that the immediate reaction has often been much less enthusiastic, with global equity markets largely flat to down in the first month following an initial Fed move.

He explains that the response of some to the first cut is often couched in uncertainty because investors worry about why the Fed is lowering rates. However, as additional interest-rate cuts are made, equity markets tend to stop fretting and start enjoying the cure, he says.

The data also show a tendency for the US market to underperform European and Asian markets in the wake of an initial Fed easing, possibly because those markets are not as exposed to the economic problems triggering the Fed's move.

Equity Performance Following Interest-Rate Cuts (by month)



Data Source: Citi Investment Research as of 14 September 2007

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