The Lam Group
Investment Management

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The Big Picture: Seems Like Old Times
Only 10 years ago (1998), the collapse of hedge fund Long-Term Capital Management caused a credit crisis that required unprecedented action by the Federal Reserve to stabilize the global financial markets. During this time, many financial institutions failed or needed large capital infusions to stay solvent, thousands of Wall Street professionals lost their jobs, and there were widespread proclamations in the media that "this time is different" and this was "the worst things have ever been".

Almost 20 years ago (late 1980s/early 1990s), due to lax lending standards, poor asset/liability management, and inadequate regulation, the nation's savings & loan industry collapsed, requiring the US Government to form a special federal agency (The Resolution Trust Corporation) to handle the liquidation of, and provide funding for, the insolvent thrift industry. Ultimately the RTC closed or resolved over 700 financial institutions with total assets of almost $400 billion. During this time, thousands of financial professionals lost their jobs and there were widespread proclamations in the media that "this time is different" and this was "the worst things have ever been".

Around 30 years ago (the 1970s), our federal budget and trade deficits were at record levels. The Federal Reserve severed the "gold standard" that pegged the US dollar to gold at a rate of $35/ounce. As a consequence, the value of the US dollar plummeted while the value of gold rose to over $800/ounce. The weakened US currency allowed for commodity prices, especially oil, to spike with harsh consequences for the overall economy (stagflation). During this time, there were widespread proclamations in the media that "this time is different" and this was "the worst things have ever been".

With the current crisis in the global financial markets, while we are empathetic with those who believe that *"this time is different" and this is "the worst things have ever been"*, we beg to disagree. History has shown it is unlikely that any financial crisis or economic instability, no matter how severe, can ultimately defeat the financial system or can cause lasting negative effects to a well-diversified investor with a long-term investment horizon.

Nevertheless, at times like these, patience and discipline are essential. In practice, "buying low and selling high" is never easy or obvious, and some of today's best long-term investments may, when contemplated in the short-term, seem like insanity.

As our equity strategy has a value-orientation, it is likely that we will be increasing our exposures to sectors that have performed poorly, such as financials, during this difficult period of higher uncertainty and volatility. While this "value-tilt" may negatively affect our near-term results, this broad-based and passive approach to buying the market's cheapest stocks should provide with a meaningful return premium to value-oriented investors over the long-run.

It is worth noting the recovery from financial crisis requires the large scale injection of liquidity into the financial system. This time is no different; in addition to keeping domestic interest rates low (2%), the Fed has expanded the number of financial institutions who can borrow at its discount window to include investment banks as well as quasi-federal agencies such as Fannie Mae and Freddie Mac. To date the level of this type of borrowing has been record-setting and unprecedented. Further, the Fed has extended the period in which member institutions can finance non-conforming collateral (asset-backed securities and non-agency debt) into 2009.

Without further lowering rates, the Fed has provided massive amounts of additional liquidity which will eventually have to be revealed in our already staggering budget and trade deficit numbers. Despite the recent strengthening of the US dollar in July, this most recent "printing of dollars" cannot go unacknowledged. A weakening currency creates a highly inflationary environment.

The Lam Group:
Concentrated Positions in Company Stock

During this period of higher volatility and uncertainty, we have received a larger number of phone calls, not only from clients, but also friends, colleagues, and the financial press to discuss our investment strategy in the context of the global financial crisis. While most of these calls emphasized the inability of anyone to predict the markets and focused on the importance of portfolio diversification, some of the calls were from old friends and former colleagues from the financial services industry whose personal investment portfolios were concentrated in company stock.

As the majority of compensation of many senior executives in the financial services industry has been heavily-weighted in company stock, these phone calls had a sad tone reflective of the devastating effects portfolios with high single-stock concentration can have on overall personal wealth. Bear Stearns, IndyMac and Fannie Mae are just a few examples of the many unfortunate stories.

While single-stock concentration can be a wonderful way of creating/accumulating wealth, it is risky. Once a certain level of wealth is achieved, a diversified and balanced portfolio strategy is the best way to mitigate risk and preserve wealth. This is particularly important as investors' age and their investment horizons shorten. The last thing a retired (fully, semi, or early) investor wants to do is to have to leave the golf course to return to work because a highly-concentrated stock position was affected by a crisis in the financial services industry.

Tax-Loss Harvesting

When the markets give you lemons, it is important to make as much lemonade as possible. *Tax loss harvesting* is an important element in the ongoing process of optimizing after-tax portfolio returns.

In a properly structured portfolio, the majority of the most risky equity exposures should be held in an investor's taxable accounts. To the degree there are losing positions in a given year (like this one), these losses should be harvested/realized to offset year end taxable distributions and/or capital gains realized in the process of periodic portfolio rebalancing. Tax-loss harvesting is a wonderful risk management tool as it allows the manager to offset gains captured in winning asset classes as well as allowing for the opportunity to reassess the commitment to a losing asset class.

The Lam Group continues to focus on designing and managing globally-diversified investment portfolios and overseeing our clients' risks by only including investment asset classes which have low relative correlation in the context of an aggregate portfolio. Our asset allocation approach employs a highly-analytical process to determine the appropriate combination of asset classes to build investment portfolios and strategies that realistically and optimally reflect the needs, risk tolerances, and investment horizons of our clients.

The Lam Group is an independent, fee-only, SEC-registered investment advisory firm with over $255 million in assets under management with clients in Oregon, Washington State, California, Connecticut, New York, and New Jersey. We offer both investment management and portfolio consulting services for taxable investors, family offices, and foundations.

In 2008, we will continue our policy of considering new clients on a referral-basis only with a $5 million initial portfolio minimum.

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Archives for The Lam Group Newsletter are available at our website: www.thelamgroup.com

Asset Class Investment Results:
All portfolios constructed and managed by The Lam Group are designed for an individual client's specific risk tolerances, income requirements and investment horizon. Our investment management approach includes the design of a customized asset allocation plan, the research and selection of the most appropriate and cost-effective asset class investments for the client's specific investment policy, and the on-going monitoring and disciplined rebalancing of the aggregate portfolio to optimize return, manage risk and minimize taxes.

As different clients have different goals, risk profiles and investment horizons, it is not useful to publish a track record of specifically-managed portfolios. The investment performance data below illustrate the returns of some of the actual mutual funds utilized by The Lam Group for specific asset class allocations in the construction of investment portfolios we manage.

All data is as of 6/30/08

Equity Asset Class Category	**2Q 2008**	**2008 YTD**	**3 Year Annualized**	**Correlation w/ S&P 500***
Domestic Total Equity Market				
-Wilshire 5000 Index (Total Dom. Eq. Market)	*- 1.48%*	*-10.95%*	*+ 5.07%*	*+0.99*
US Total Market Fund	- 1.78%	-11.06%	+ 4.90%	+0.99
Domestic Large Cap Stocks				
-S&P 500 Index	*- 2.73%*	*-11.91%*	*+ 4.41%*	*+1.00*
Domestic Large Cap Value Fund	- 3.12%	-10.56%	+ 3.83%	+0.94
Domestic Small Cap Stocks				
-CRSP 6 -10 Index	*- 2.25%*	*-12.68%*	*+ 2.09%*	*+0.86*
-Russell 2000 Index	*+ 0.58%*	*- 9.37%*	*+ 3.79%*	*+0.85*
Domestic Small Cap Value Fund	- 4.84%	-10.43%	+ 1.55%	+0.81
Real Estate Investment Trusts (REITs)				
-Wilshire REIT Index	*- 5.39%*	*- 3.36%*	*+ 4.91%*	*+0.58*
REIT Fund	- 5.54%	- 3.37%	+ 4.05%	+0.58
Real Estate Fund	- 7.79%	-13.65%	+ 2.40%	+0.77
International Real Estate	-13.44%	-17.18%	N/A	N/A
International Large Cap Stocks				
-MSCI EAFE Index	*- 2.25%*	*-10.96%*	*+12.84%*	*+0.83*
International Large Cap Value Fund	- 5.89%	-13.61%	+14.19%	+0.87
International Small Cap Stocks				
-MSCI Small Cap EAFE Index	*- 4.52%*	*-10.48%*	*+9.36%*	*+0.67*
International Small Cap Value Fund	- 5.15%	- 8.62%	+12.18%	+0.67
Emerging Markets Equity				
-MSCI Emerging Markets Free Index	*- 1.58%*	*-12.72%*	*+24.37%*	*+0.71*
Emerging Markets Value Fund	- 4.01%	-13.14%	+30.01%	+0.74

* 5 yr correlation using monthly data

All data is as of 6/30/08

Fixed Income Asset Class Category	**2Q 2008**	**2008 YTD**	**3 Year Annualized**	**Correlation w/ S&P 500***
Domestic Investment Grade Bonds				
-Lehman 1-3 year Govt Bond Index	*- 0.84%*	*+ 2.11%*	*+ 4.70%*	*-0.38*
Short Duration Domestic Inv. Gr. Bond Fund	+ 0.76%	+ 1.44%	+ 4.05%	-0.12
Short Duration Domestic Muni Bond Fund	+ 0.12%	+ 0.80%	+ 2.58%	-0.04
-Lehman Aggregate Bond Index	*- 1.02%*	*+ 1.13%*	*+ 4.09%*	*-0.16*
Domestic Investment Grade Bond Fund	- 1.31%	+ 1.97%	+ 4.97%	-0.16
Domestic High Yield Bonds				
-CSFB High Yield Bond Index	*+ 1.81%*	*- 1.14%*	*+ 4.85%*	*+0.68*
High Yield Bond Fund	+ 0.30%	- 2.10%	+ 3.29%	+0.65
Inflation-Linked Bonds				
-Lehman TIPS Index	*- 0.28%*	*+ 4.88%*	*+ 5.59%*	*-0.31*
- Dow Jones AIG Commodities Index	*+16.08%*	*+27.22%*	*+19.84%*	*-0.05*
TIPS Fund	- 0.56%	+ 5.72%	N/A	N/A
Commodities-Linked Fund	+14.28%	+30.71%	+20.53%	-0.27
International (non-US $) Bonds				
-Citigroup Non-$ World Govt Index	*- 4.72%*	*+ 5.70%*	*+ 6.65%*	*-0.11*
Non-$ Bond Fund	- 5.03%	+ 4.99%	+ 5.56%	-0.10
Emerging Markets Debt				
-JP Morgan EMBI+ Index	*- 0.82%*	*- 0.19%*	*+ 9.08%*	*+0.29*
Emerging Markets Debt Fund	- 1.53%	- 0.03%	+ 7.10%	+0.32

* 5 yr correlation using monthly data