

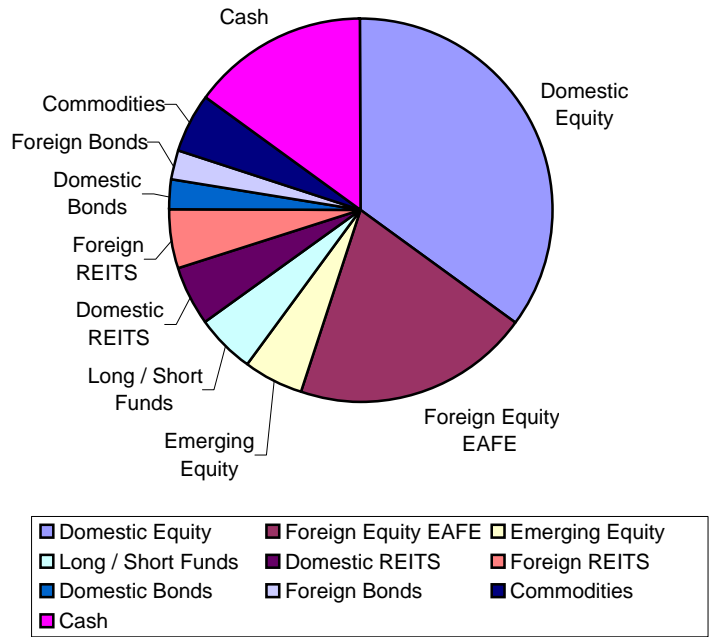
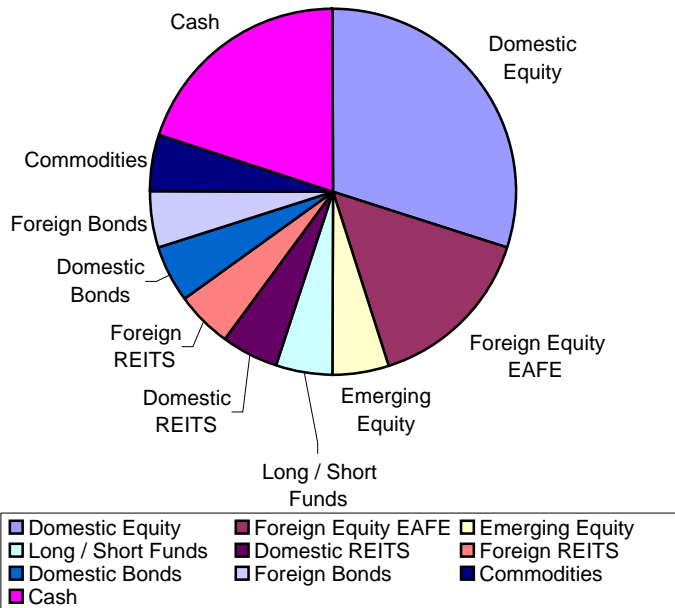
**Cojo Bay Advisors**  
**Strategic vs. Tactical Asset Allocation**  
**September 2008**

**Cojo Bay Advisors Market Review**

<u>Asset Class</u>	Long-Term Strategic <u>Allocation</u>	Short-Term Tactical <u>Allocation</u>	<u>Overweight</u> <u>Underweight</u>
<b>1 Domestic Equity</b>	<b>30%</b>	<b>35%</b>	<b>5.0%</b>
<b>2 Foreign Equity EAFE</b>	<b>15%</b>	<b>20%</b>	<b>5.0%</b>
<b>3 Emerging Equity</b>	<b>5%</b>	<b>5%</b>	<b>0.0%</b>
<b>4 Long / Short Funds</b>	<b>5%</b>	<b>5%</b>	<b>0.0%</b>
<b>5 Domestic REITS</b>	<b>5%</b>	<b>5%</b>	<b>0.0%</b>
<b>6 Foreign REITS</b>	<b>5%</b>	<b>5%</b>	<b>0.0%</b>
<b>7 Domestic Bonds</b>	<b>5%</b>	<b>2.5%</b>	<b>-2.5%</b>
<b>8 Foreign Bonds</b>	<b>5%</b>	<b>2.5%</b>	<b>-2.5%</b>
<b>9 Commodities</b>	<b>5%</b>	<b>5%</b>	<b>0.0%</b>
<b>10 Cash</b>	<b>20%</b>	<b>15%</b>	<b>-5.0%</b>
	<b>100%</b>	<b>100%</b>	

**Strategic Portfolio Allocation**

**Tactical Portfolio Allocation**



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**Portfolio Discussion**

**1 Domestic Equity - OVERWEIGHT**

After a long wait, US stocks are finally undervalued! Although the road ahead will be bumpy, we believe that long-term investors will look back to the current market levels and say "that was the best time to buy this decade."

The market was off roughly 20% through September 30th from its highs and the latest Investors Intelligence survey recorded only 22% of investment advisors are bullish. It is Christmas for contrarian investors!

**2 Foreign Equity - OVERWEIGHT**

Although we are still bullish about the long-term prospects for Japan, we admit that we have been early in our call. However, we continue to believe that the world's second largest economy, Japan, has great potential.

Europe has faced the credit crises and a potential recession along side the US. Their poor stock market performance demonstrates that when panic takes over the market, diversification doesn't help. At this point, Europe is cheap and the appreciation potential is great.

**3 Emerging Markets Equity - Neutral**

We still believe in the developing markets around the world although their volatility and their exposure to a US slowdown keeps us neutral on the sector. China and India will drive global growth even though their specific growth rates will be cut in half in 2009 and 2010. 6% growth is a lot better than what is forecasted for the "rich world." The Latin American markets are still growing but the pull back in commodity prices have hurt their stock markets.

**4 Long / Short Funds - Neutral**

Our belief in the Hussman Strategic Growth Fund has paid off this year. With the S&P 500 down almost 20% this year (through September 30), HSGFX was up 4.5%. The fund is performing as advertised and we continue to be pleased with the results. However, due to its risk adverse nature, this fund will underperform the market on the upside so we have changed our rating from overweight to neutral.

**5 Domestic Real Estate - Neutral**

Although we still do not feel that the worst is over for REITS, the market has priced this sector for disaster and the value is compelling. Investing in this area will take courage and a focus on long-term returns.

**6 Foreign Real Estate - Neutral**

Foreign real estate has taken it on the chin along with their US counterparts. The value is enticing but it may be a very bumpy ride until stability returns.

**7 Domestic Bonds - UNDERWEIGHT**

Our investment philosophy continues to dictate a focus on closed-end mutual funds when investing in fixed income securities. We continue to fear the fixed income market as US Government bonds are fully valued and corporate bonds are suffering from a lack of liquidity and a recession. High Yield bonds are attractive but the risks are high as defaults will continue to grow as the recession takes hold.

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**8 Foreign Bonds - UNDERWEIGHT**

Most foreign bond exposure is realized via Government Bonds and most governments in Europe have followed the US lead by spending billions on securing their banking sectors. This spending will need to be financed through debt, flooding the market with bonds and, hence, lowering the value for fixed income securities.

**9 Commodities - Neutral**

Commodities prices have corrected substantially but the right levels for these products are difficult to determine. For oil, is \$65 per barrel the new \$25? It wasn't that long ago that most people believed that oil would never hit \$65 per barrel, now we consider it relatively cheap. As always, we consider an investment in this sector an important part of all portfolios but we are not bullish on the sector at this time.

**10 Cash - UNDERWEIGHT**

As stated above, equity markets are undervalued and this is time to put some cash to work. Cash has been king for a long time and it feels good to finally remove the overweight rating.