

North Atlantic Asset Mgt Ltd.

Weekly Newsletter

September 30, 2008

BAILOUT PLAN FAILS FIRST ATTEMPT

"By throwing out a deeply flawed bailout plan, the House may have created an opportunity to craft more effective response to the financial crisis." – Wall Street Journal Reporter

INDEX / CURRENCY	Week*	YTD
S&P 500	(7.20%)	(20.68%)
Dow Jones Industrial Average	(4.72%)	(18.20%)
Nasdaq	(8.42%)	(21.49%)
Toronto Stock Exchange	(10.58%)	(20.38%)
Brazil Bovespa	(10.23%)	(27.48%)
DJ Europe 50	(8.71%)	(30.97%)
UK FTSE 100	(10.43%)	(32.01%)
Japan Nikkei 225	(4.53%)	(22.69%)
Hong Kong Hang Seng	(6.63%)	(34.93%)
Australia S&P/ASX 200	(9.26%)	(34.46%)
Euro	(2.68%)	(3.50%)
Pound	(2.96%)	(10.45%)
Yen	1.07%	5.11%
CRB Commodity Index	(3.92%)	(3.68%)

*Over a week, from Sept 22nd to Tuesday Sept 30th

Past performance is not an indicator of future returns.

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Troubled Asset Relief Program (TARP) Is Rejected

Monday the U.S. House of Representatives voted to reject the TARP plan sending markets significantly lower on the day. The Dow suffered its largest point decline in history (though not its largest percentage loss) falling over 777 points or 7%. In similar fashion the S&P 500 fell 8.75% while the NASDAQ fell 9.1%. Markets did rally on Tuesday and recouped half of previous losses.

Democrats were concerned with the cost of the \$700 billion plan to the U.S. tax payer and that it gave no help to currently struggling home owners, while Republicans were concerned with the extraordinary powers it will convey to U.S. Treasury Secretary Hank Paulson. President Bush has urged to find a solution to the plan by the end of the week.

Washington Mutual Fails and Wachovia is Acquired

The crisis of confidence in the banking sector grew after Washington Mutual (WaMu) was seized by U.S. regulators. The bank was a large mortgage lender with rising mortgage defaults and when a customer exodus forced withdrawals from deposit accounts the company had insufficient funds to meet its obligations. WaMu's deposit base and certain other assets were quickly acquired by JP Morgan for very cheap valuations. In similar circumstances Citigroup agreed to acquire North Carolina based Wachovia in a \$2 billion deal engineered with the help of the U.S. government. These two deals now make JP Morgan and Citigroup the second and third largest U.S. banks behind Bank of America. These events exposed the continued frailty of the U.S. banking sector.

Are European Banks At Risk?

This week saw several European countries come to the rescue of regional banks. Ireland, Belgium, France, Luxembourg and the Netherlands all took steps towards supporting their national banking systems. This was after the capital injections given to financial companies Fortis and Dexia to keep their banking businesses operating.

What does history tell us about bear market rebounds?

Since 1940 there have been ten bear markets in the U.S. defined as when markets declined more than 20%. The average decline in the markets was 30.5%. The current loss is 29.3% signaling we could be close to a bottom. In addition in the twelve months after the end of the decline, markets have rebounded on average 30.77%, and all have posted returns above 18% with the exception of 2001.

What should clients do?

Given the study above the key is to stay invested. Make sure clients are in the right risk profile, given the length of time until the funds are needed, as well as their overall savings base and risk tolerance. Thus when closer to retirement or with less additional savings, they have to be more conservative.