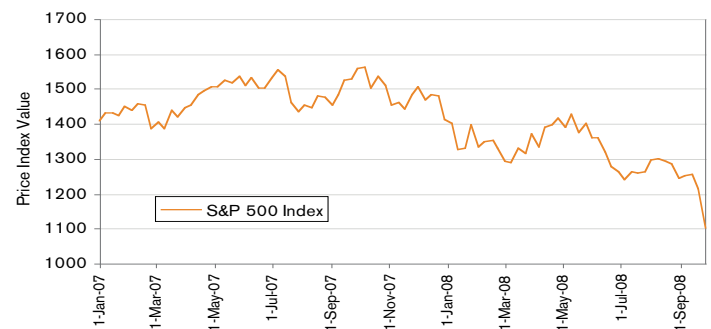
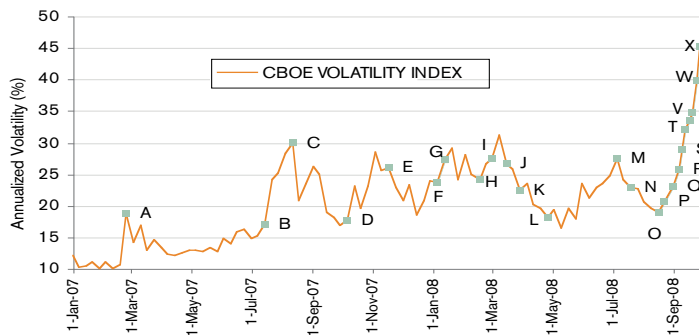


Insights into the Current Crisis: Review of Equity Performance since January 2007 and a Timeline of Key Events

Although *Synopsis* focuses on financial market conditions for a particular quarter, understanding current challenges requires context. Consequently, Segal Advisors is including a review since January 2007 in this issue in order to help explain the origins of the recent extreme volatility in the equity and fixed income markets. The graph shows performance of the Standard & Poor's 500 (S&P 500) Index in conjunction with the Chicago Board Options Exchange's Volatility Index for that 19-month period. The accompanying timeline notes key events that contributed to changes in performance.



Note: The letters in the timeline below correspond to the letters in the first graph above.

2007

- A. February-March:** Subprime mortgage spreads widen due to defaults in the subprime space.
- B. July:** Investment-grade corporate spreads widen; SEC eliminates uptick rule.
- C. August:** Quant liquidity crunch.
- D. October 11:** Dow Jones Industrial Average hits record high of 14,279.96.
- E. November:** Bank write-downs due to subprime mortgages (over \$15 billion).

2008

- F. January:** Banks announce substantial Q4 2007 losses.
- G. January 11:** Bank of America pays \$4 billion for Countrywide Financial.
- H. January 22:** Fed cuts rates by $\frac{3}{4}$ of a point, the biggest rate cut in nearly 24 years.
- I. February 13:** U.K. bank Northern Rock is nationalized.
- J. March:** Hedge funds Peloton Partners (U.K.) and Carlyle Capital (U.S.) fail.
- K. March 16:** Bear Stearns, U.S.'s fifth largest investment bank, collapses and is taken over by J.P. Morgan. Fed establishes lending facility.
- L. April-May:** Major credit losses and write-downs continue.
- M. July:** Concerns over Fannie Mae and Freddie Mac collapsing; SEC bans naked shorting of 19 financial companies.
- N. July 22:** Washington Mutual reports \$3.3 billion loss for second quarter.
- O. August 31:** German Commerzbank AG takes over Dresdner Kleinwort investment bank.
- P. September 7:** Fannie Mae and Freddie Mac effectively nationalized by the U.S. Treasury, placing them into "conservatorship."

- Q. September 14-15:** Lehman Brothers files for bankruptcy, marking the largest bankruptcy in U.S. history. Bank of America agrees to buy Merrill Lynch. Central banks inject billions of dollars into money markets. AIG downgraded.
- R. September 16:** AIG share price falls due to news of valuation of subprime MBS. The U.S. Government agrees to provide an \$85 billion emergency loan to rescue insurer AIG. Barclays PLC agrees to acquire portions of Lehman Brothers Holdings.
- S. September 17:** Halifax Bank of Scotland (HBOS) to merge with U.K. bank Lloyds TSB in an emergency rescue plan. Reserve Primary Fund (nation's oldest money market fund) falls below \$1 net asset value (NAV).
- T. September 18:** U.S. Federal Bank and other central banks inject hundreds of billions into global markets to help ease the crunch.
- U. September 19-21:** U.S. Treasury announces intention to sponsor a proposed \$700 billion "bailout" program designed to mitigate the financial crisis. Additional short selling bans implemented in Canada, Australia, and Taiwan. Goldman Sachs and Morgan Stanley become bank holding companies.
- V. September 23:** Warren Buffett's Berkshire Hathaway announces a \$5 billion investment in Goldman Sachs.
- W. September 25:** Washington Mutual fails after a \$16 billion loss in deposits, becoming the largest ever bank failure in the U.S.; J.P. Morgan announces plans to acquire Washington Mutual.
- X. September 29-30:** U.S. Congress rejects proposed \$700 billion plan to bail out the U.S. financial system. U.K.'s Bradford & Bingley nationalized. Santander to buy deposits for \$38.2 billion. German bank Hypo Real Estate Holdings AG fails. Citigroup, the world's largest bank, agrees to buy Wachovia. Belgian giant Fortis is bailed out by Netherlands, Belgium, and Luxembourg. Iceland part-nationalizes Glitnir, one of its three largest banks. Belgian Bank Dexia is bailed out by France, Belgium, and Luxembourg. Irish government guarantees safety of bonds, debts, and deposits.

Synopsis

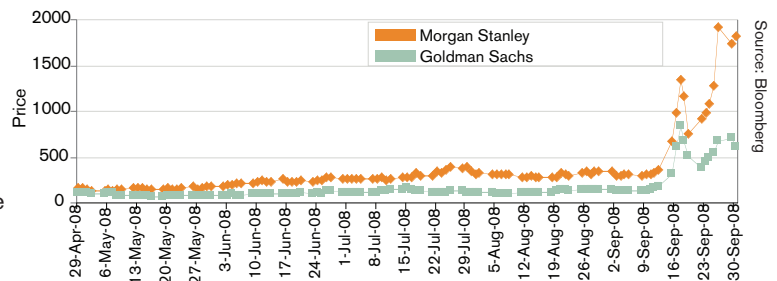
Quarterly Highlights: Noteworthy Developments

Segal Advisors finds the third quarter (Q3) 2008 developments discussed below to be noteworthy for institutional investors.

CDS Spreads

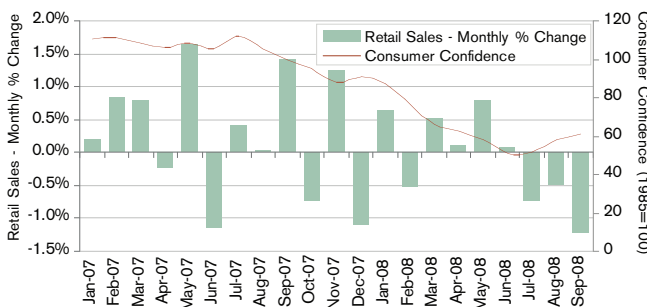
The failure of Lehman Brothers and the rescue of AIG during Q3 2008 heightened concerns regarding counterparty risk, especially the possible risks associated with credit default swap contracts. Morgan Stanley and Goldman Sachs are notable examples of the significant CDS spread widening of financial institutions during Q3 2008. The one-year credit default swap (CDS) spreads for both of these institutions started to soar following the acquisition of Merrill Lynch by Bank of America and Lehman's bankruptcy. See the adjacent graph. On September 21, both institutions filed to become commercial banks. While this alleviated concerns for a bit, uncertainty and risk aversion continued into October.

Morgan Stanley and Goldman Sachs One-Year CDS Spread (May-September 2008)



Retail Sales vs. Consumer Confidence

Retail Sales - Monthly % Change vs. Monthly Consumer Confidence

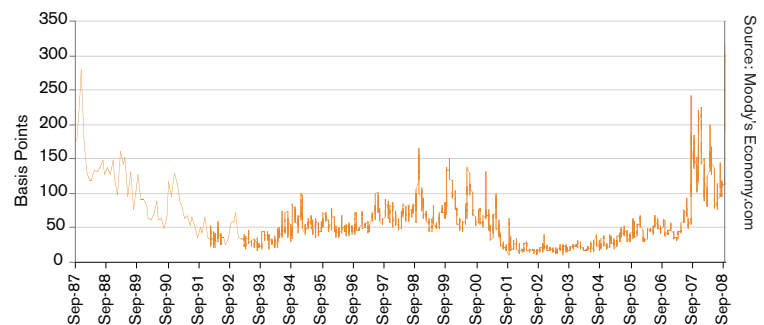


Retail sales fell by 1.2 percent in September, somewhat more than expected. Sales were negative for all three months of Q3 2008 and six out of the last 12 months. See the adjacent graph. The negative trend makes it clear that the \$106.7 billion in economic stimulus checks distributed between April and mid-July 2008 did not have a lasting effect on consumer spending. Consumer confidence inched up further in September from its 16-year low in June. However, because many of the responses were received before the recent financial market turmoil, the report will likely be subject to downward revision and the gains are unlikely to be sustained.

TED Spread

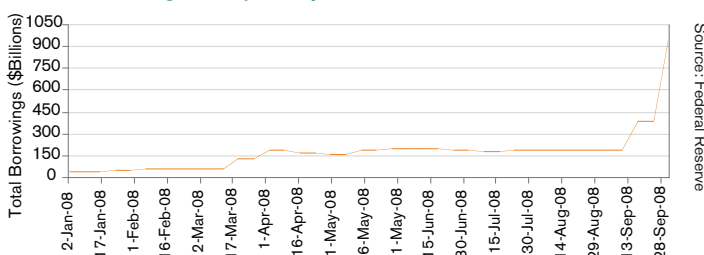
Short-term credit markets have become "dysfunctional" as a lack of confidence among counterparties and insatiable demand for liquidity pushed lending rates higher. Restrictions within the availability of credit, caused by the lack of confidence, combined with higher borrowing costs, triggered additional strain on business and consumer balance sheets. During the span dating from April 2001 until August 2007, the difference between the interest rate on T-bills and the interest rate on interbank loans known as the TED spread did not surpass 1.00 percent. After closing at 1.12 percent, on August 29, 2008, just one month before, the TED spread ended Q3 2008 on September 30, 2008 at 3.15 percent, an all-time high, before surging over +100 bps higher in October. See the adjacent graph.

TED Spread: Three-Month U.S. T-Bill vs. Three-Month London Interbank Offered Rate (LIBOR)



Fed Borrowing

Total Borrowings of Depository Institutions from the Fed



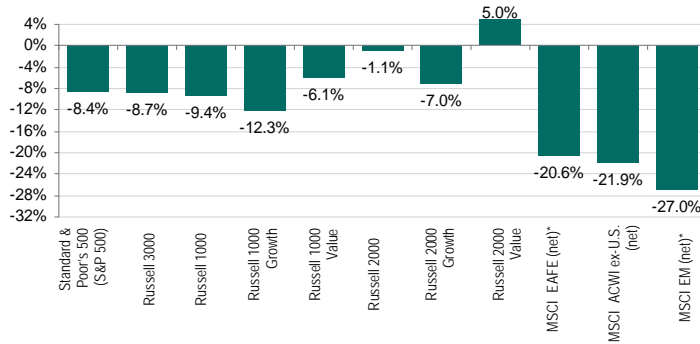
As the credit crisis intensified, financial institutions flocked to the Fed's various liquidity facilities, as illustrated in the adjacent graph. Borrowing from the Primary Dealer and other Broker Dealer Lending Facility went up from \$0 in August to \$140.9 billion at the end of Q3 2008; borrowing from the Asset-backed Commercial Paper Money Market Fund Liquidity Facility, instituted during Q3 2008, stood at \$140 billion; and Discount Window Credit of Depository Institutions ballooned from \$18.8 billion at the start of Q3 2008 to \$394 billion at the end of Q3 2008. The AIG loan had \$59.6 billion outstanding at the end of Q3 2008, which was 70.1 percent of the total loan capacity.

Investment Performance: Selected Rates of Return

This page presents rates of return for selected equity, fixed income, and other indices. The graphs illustrate returns for Q3 2008. The tables of data show returns for the latest quarter, year-to-date (YTD), one-, three-, five- and 10-year annualized timeframes. All data in the tables are percentages.

Equity Index Returns

Q3 2008 Equity Index Returns



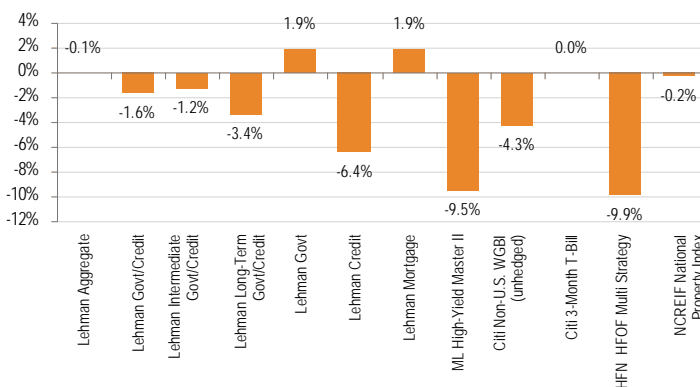
Equity Indices	Quarter	YTD	1-year	3-year	5-year	10-year
Standard & Poor's 500	-8.4	-19.3	-22.0	0.2	5.2	3.1
Russell 3000	-8.7	-18.8	-21.5	0.3	5.7	3.8
Russell 1000	-9.4	-19.5	-22.1	0.1	5.5	3.5
Russell 1000 Growth	-12.3	-20.3	-20.9	0.0	3.7	0.6
Russell 1000 Value	-6.1	-18.9	-23.6	0.1	7.1	5.6
Russell 2000	-1.1	-10.4	-14.5	1.8	8.2	7.8
Russell 2000 Growth	-7.0	-15.3	-17.1	1.5	6.6	4.7
Russell 2000 Value	5.0	-5.4	-12.3	2.0	9.5	10.1
MSCI EAFE (net)	-20.6	-29.3	-30.5	1.1	9.7	5.0
MSCI ACWI ex-U.S. (net)	-21.9	-29.9	-30.3	2.6	11.3	6.9*
MSCI EM (net)	-27.0	-35.5	-33.2	8.4	18.7	14.8*

*Index represents the return of the benchmark net of dividends paid on the stocks.

*For 10-year performance, gross returns are provided.

Fixed-Income and Other Index Returns

Q3 2008 Fixed-Income and Other Index Returns



Fixed Income Indices	Quarter	YTD	1-year	3-year	5-year	10-year
Lehman Aggregate	-0.5	0.6	3.7	4.2	3.8	5.2
Lehman Govt/Credit	-1.6	-0.7	2.4	3.6	3.3	5.0
Lehman Intermediate Govt/Credit	-1.2	0.2	3.1	4.0	3.3	5.0
Lehman Long-Term Govt/Credit	-3.4	-4.1	-0.4	2.0	3.7	5.3
Lehman Govt	1.9	4.0	7.9	5.6	4.3	5.3
Lehman Credit	-6.4	-6.8	-4.8	0.9	1.9	4.5
Lehman Mortgage	1.9	3.8	7.0	5.5	4.8	5.7
ML High-Yield Master II	-9.5	-10.6	-11.7	0.9	4.3	4.3
Citigroup Non-U.S. WGBI (Unhedged)	-4.3	1.2	5.2	5.5	5.6	5.2
Citigroup 3-Month T-Bill	0.4	1.5	2.6	4.0	3.1	3.4
Other Indices						
HFN HFOF Multi-Strategy	-9.9	-11.6	-9.7	2.8	4.8	8.0
NCREIF National Property Index	-0.2	2.0	5.3	13.2	14.2	11.8

Synopsis

Investment Performance: Equity Sector and Yield Spread Analysis

This page presents data on sector and spread analysis for Q3 2008 alongside commentary from Segal Advisors.

Equity Sector Analysis

Although fixed income securities in the Financial sector experienced significant spread widening during Q3 2008, stocks in the Financial sector produced positive returns (+0.9 percent). In fact, Financials were the second highest performing sector trailing only Consumer Staples for the quarter. Energy and Materials were the worst performing sectors for the quarter, contributing to more than half of the S&P 500 Index's negative return. The Financial sector and Energy sector performance noted above significantly hindered the long energy/short financials trade prevalent in the hedge fund community. See the adjacent table.

S&P 500 Sector Performance

	Third Quarter 2008		
	Ending Weight (%)	Return (%)	Contribution (%)
Consumer Discretionary	8.6	-0.6	-0.1
Consumer Staples	12.3	4.8	0.5
Energy	13.4	-24.6	-3.8
Financials	15.8	0.9	0.1
Health care	13.1	0.5	0.0
Industrials	11.1	-8.6	-1.0
Information Technology	15.9	-11.7	-1.9
Materials	3.4	-22.4	-0.9
Telecom	3.1	-14.8	-0.5
Utilities	3.5	-18.0	-0.7

Source: Standard & Poor's

Narrowing Yield Spreads for Non-Treasury Sectors

Credit spreads exploded to new all-time highs in September, as shown in the adjacent table. Yield spreads in the finance sector jumped 236 bps in September (613 bps vs. 377 bps in August) leading to 1,345 bps of underperformance compared to Treasuries for the month. Investment-grade bonds lagged Treasuries by 718 bps due to spreads widening by 114 bps. The relative underperformance of several sectors for the month of September surpassed prior annual records. The mortgage-backed securities (MBS) sector – all guaranteed by the Federal National Mortgage Association (FNMA), known as Fannie Mae, the Federal Home Loan Mortgage Corp (FHLMC) known as Freddie Mac, and the Government National Mortgage Association (GNMA), known as Ginnie Mae – was the lone sector that outperformed Treasuries (by 26 bps), as spreads tightened by 12 bps (135 bps vs. 147 bps in August) for the month.

OAS and Excess Returns in Basis Points (bps)*

	Option Adjusted Spreads			Excess Returns vs. US Treasuries		
	6/30/2008	8/31/08	9/30/08	Sept	3Q	YTD
U.S. Aggregate Index	129	151	176	-190	-263	-383
U.S. Agency (Non-mortgage) Sector	67	87	115	-49	-83	-147
Mortgage and ABS Sectors:						
• Mortgage-Backed Securities	127	147	135	26	-5	-29
• Asset-Backed Securities	353	451	584	-325	-569	-1072
• CMBS	288	362	480	-504	-809	-1306
Credit Sectors:						
• U.S. Investment Grade	238	271	385	-718	-884	-1169
– Industrial	226	250	325	-448	-574	-838
– Utility	232	252	335	-546	-642	-849
– Financial Institutions	315	377	613	-1345	-1616	-2060
• U.S. High Yield	708	794	1020	-855	-1111	-1488

Source: Baird Advisors using Lehman Brothers Data

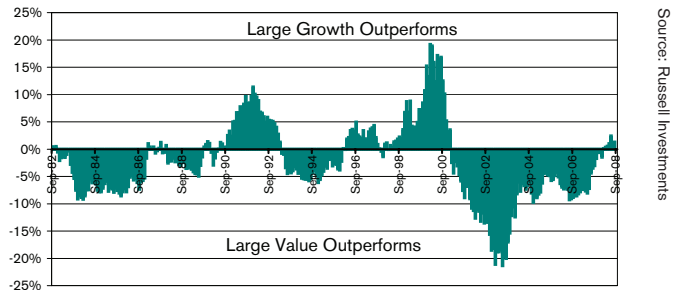
*Index represents the return of the benchmark net of dividends paid on the stocks.

Investment Performance: Long-Term Equity Trends

This page focuses on Segal Advisors' observations on the relative performance of selected indices. All of the graphs on this page show rolling three-year return deviations from September 1982 through September 2008. These graphs demonstrate the importance of diversification over the long term. Changes are expressed in terms of percentages and/or basis points (bps). As a reminder, 10 bps equals 0.1 percent.

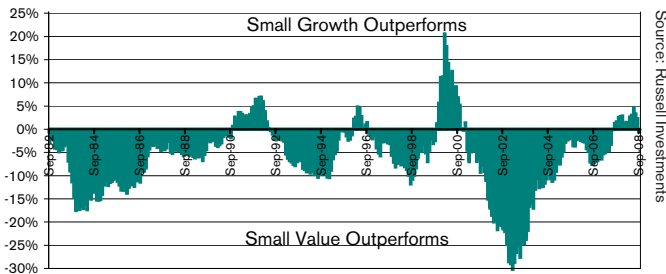
Large Growth Stocks vs. Large Value Stocks

After seven consecutive calendar years of outperformance by the Russell 1000 Value (R1000V) relative to the Russell 1000 Growth (R1000G), the R1000G was ahead of the R1000V on a trailing one-year (+270 bps) basis and flat on a trailing three-year basis. Recent volatility in the equity asset class has resulted in sharp growth vs. value reversals in monthly three-year rolling returns. The adjacent graph compares the rolling three-year returns for both indices. Since the inception of these indices in January 1979, the R1000V has increased 12.9 percent and the R1000G has increased 10.7 percent, a difference of +215 bps.



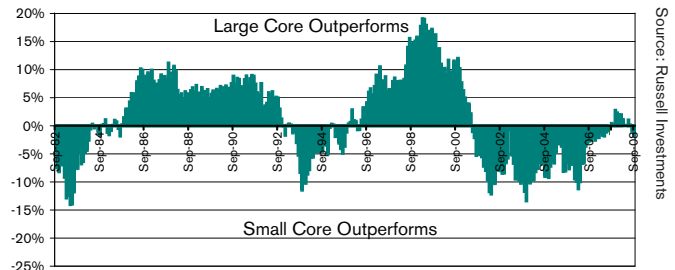
Small Growth Stocks vs. Small Value Stocks

After experiencing an “inflection point,” whereby the Russell 2000 Growth (R2000G) outperformed the Russell 2000 Value (R2000V) on a rolling three-year basis for 13 months, recent performance and volatile swings have prevented a long-term trend from emerging. The adjacent graph compares the rolling three-year returns for both indices. Since the inception of these indices in January 1979, the R2000V has increased 14.3 percent and the R2000G has increased 9.3 percent, a difference of +498 bps.



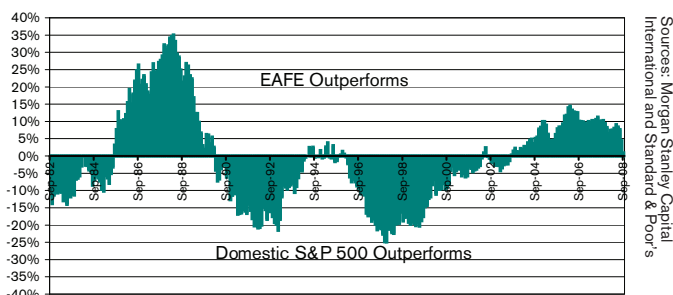
Large Stocks vs. Small Stocks

Similar to the “theme volatility” evidenced in the large and small growth vs. value equity themes, the same reversals are evident in the large vs. small capitalization theme. Over the long-term, there appears to be multiple short-term periods in which there are month-by-month reversals prior to the emergence of a long-term trend. These short-term periods tend to occur in and around recessions within the domestic economy. The adjacent graph compares the rolling three-year returns for both indices. Since the inception of these indices in January 1979, the R1000 has increased 12.0 percent and the R2000 has increased 12.0 percent, a difference of +01 bps.



Foreign Stocks vs. U.S. Stocks

The EAFE outperformed the S&P 500 in seven of last 10 calendar years, including the last six in a row. For the trailing one-year, the EAFE is behind the S&P 500 Index by 854 bps. The adjacent graph compares the rolling three-year returns for both indices. Since January 1979, the S&P 500 increased 12.5 percent and the EAFE increased 10.7 percent, a difference of +173 bps.



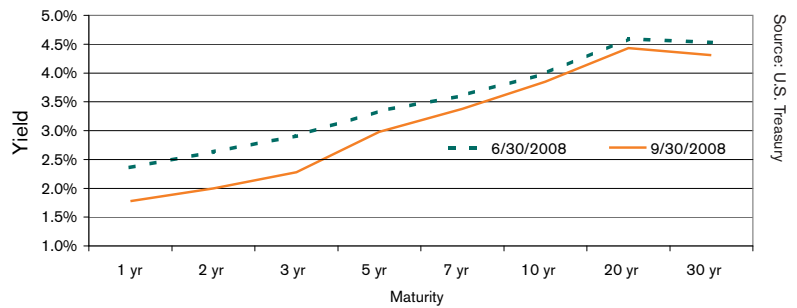
Synopsis

Investment Performance: Fixed-Income Data

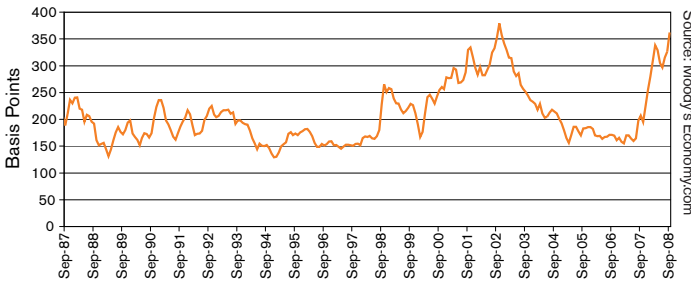
This page focuses on selected fixed-income data for Q3 2008 and Segal Advisors' commentary.

Continued Yield Curve Steepening

Inflation concerns forced the Fed to maintain its target for the fed funds rate at 2 percent at both of its Q3 2008 meetings, held on August 5 and September 16. Towards the end of Q3 2008, trading in some sectors of the market virtually halted and Treasury yields flailed wildly day-to-day with the two-year T-note yield ranging 73 bps (for September) from a high of 2.37 percent on September 1 to a low of 1.64 percent on September 17. See the adjacent graph. Treasury yields ended Q3 2008 14-98 bps lower than Q2 2008. Short-term issues experienced the largest declines.



Widening Credit Spreads



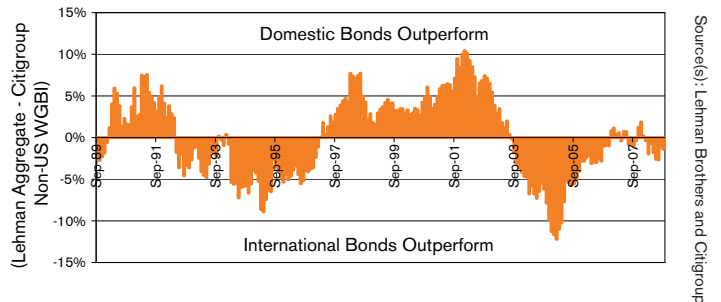
Spreads widened during Q3 2008 by 65 bps to 362 bps. See the adjacent graph.

Corporate defaults are on the rise, as corporate fundamentals continue to deteriorate. The Moody's 12-month speculative-grade default rate rose to 2.8 percent at the end of Q3 2008 from 2.3 percent at the end of Q2 2008.

International Bonds Underperformed Domestic Bonds

International bonds underperformed domestic bonds during Q3 2008 (-4.3 percent vs. -0.5 percent) for the second consecutive quarter. Despite outperforming international bonds during Q3 2008, domestic bonds continue to trail international bonds across all annualized periods studied. In addition, international bonds outpaced domestic bonds by 1.5 percent and 1.4 percent over the one-year and three-year rolling periods that ended September 30. See the adjacent graph.

Performance of U.S. Bonds vs. International Bonds: Rolling Three-Year Return Deviations September 1989 – September 2008



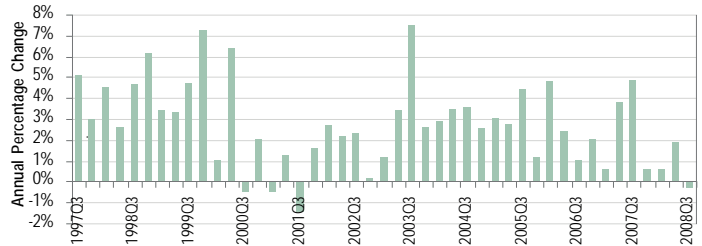
The Economy: Key Indicators

This page focuses on Segal Advisors' commentary about key economic indicators for Q3 2008.

GDP Growth Negative

As shown in the adjacent graph, Q3 2008 GDP declined at a 0.3 percent annualized rate, which was slightly better than the consensus expectation of a 0.5 percent drop. Over the past year, real gross domestic product (GDP) increased 0.8 percent. Both consumer spending and investments in business and housing fell from Q2 2008, significantly affecting the decline in GDP. Outputs of goods and services fell for the first time since Q4 2007.

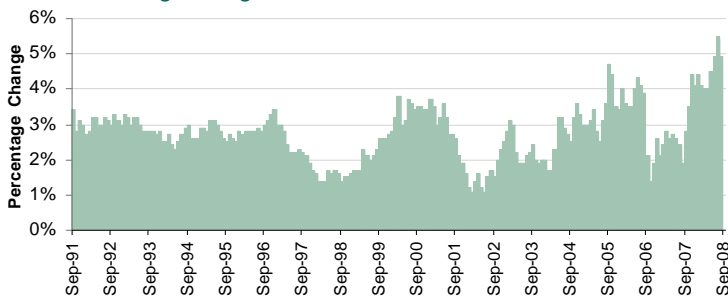
Annual Percentage Change in GDP



Source: Moody's Economy.com & The Wall Street Journal

Inflation Flat

CPI: Percentage Change Year over Year

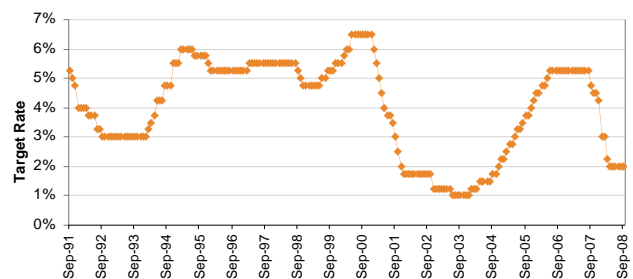


Source(s): Moody's Economy.com & The Wall Street Journal

Headline consumer price index (CPI) in September remained flat compared to August, while the year-ago percentage change was 4.9% as of September 30, 2008. The core index, which excludes food and energy prices, increased 0.1 percent from the previous month and 2.5 percent on a year-over-year basis during Q3 2008. The flat headline CPI number shows that consumer demand has fallen in all sectors in response to the current economic situation.

Fed Funds Target Rate

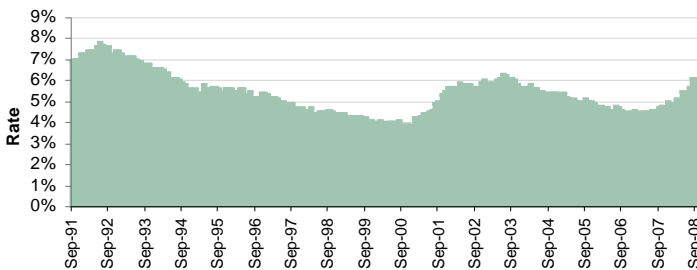
In response to prospects for lower inflation, the deteriorating economy, and intensifying financial stress, the Federal Open Market Committee (FOMC) decided to keep the fed funds target rate unchanged at 2 percent at the August 5 and September 16 meetings. In the weeks preceding the September 16 meeting, the Treasury Department took over Fannie Mae and Freddie Mac, Lehman Brothers declared bankruptcy, Bank of America purchased Merrill Lynch, and the U.S. government provided American International Group (AIG) an emergency loan. Therefore, going into the meeting, there were significant concerns that economic conditions would further deteriorate. The adjacent graph shows the fed funds target rate since 1991.



Source: Federal Reserve Board

Labor Market Contraction and the Unemployment Rate

The unemployment rate remained unchanged at 6.1 percent in September. Payroll employment fell for the ninth straight month: by 159,000 in September, with losses spread across all industries. Among service industries, the greatest losses were in retail (-40,000), temporary help (-24,000), financial activities (-17,000), leisure/hospitality (-17,000), and transportation/warehousing (-16,000). Education, healthcare, and mining were the only sectors that continued to expand throughout Q3 2008. The adjacent graph shows the unemployment rate since 1991.



Source: Bureau of Labor Statistics

Helpful Online Resources

News Web Sites

- Bloomberg
<http://www.bloomberg.com>
- Google Finance
<http://finance.google.com/finance>
- Marketwatch.com
www.marketwatch.com
- Moody's Economy.com
<http://www.economy.com>
- *The New York Times* DealBook Blog
<http://dealbook.blogs.nytimes.com>
- *The Wall Street Journal*
<http://online.wsj.com/public/us>
- *Financial Times*
www.ft.com

Government Web Sites

- The Federal Reserve Board
<http://www.federalreserve.gov>
- Bureau of Economic Analysis
<http://www.bea.gov>
- Bureau of Labor Statistics
<http://www.bls.gov>
- Energy Information Administration
<http://www.eia.doe.gov>
- Federal Reserve Bank of New York Research
<http://www.newyorkfed.org/research/index.html>

Publication Web Sites

- CFA Institute Publications
<http://www.cfapubs.org>
- *The Economist*
<http://www.economist.com>
- *Pensions & Investments*
<http://www.pionline.com>

The Segal Advisors Web site has been redesigned to include a new look and feel, improved navigation and interactive features. Please visit the site – www.segaladvisors.com – and register to receive future issues of *Synopsis* and other publications.



To discuss any of the content in this issue of *Synopsis*, contact your Segal Advisors investment consultant or the nearest Segal Advisors office from the list in the adjacent box. Alternatively, send an e-mail message to info@segaladvisors.com.

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