Responsive Financial Group, Inc.
A Registered Investment Advisory Firm

September 19, 2008

To all our clients and friends,

The Panic of 1907, … I mean 2008.

9/19/2008 10:27 AM This was written over the course of September 17th and 18th, things are changing so fast I felt I needed to note with a date and time stamp which items I added today just prior to sending this to you.

Because I write too long I'll tell you what we are doing first, and then I'll tell you what we feel is going on, which will explain what we are doing. You don't have to read the explanation if you don't want, but if you want to question my conclusions please do read them before you call! Then have at it!

Where are we now in this process, in this year which is more like 1907 than anything else I have ever studied. I will state my opinion plainly.

They've now officially thrown the baby out with the bathwater.

9/19/2008 10:30 AM *Of course I wrote the previous sentence on the 17th and the baby has been retrieved since!*

The last time I felt this way about the markets was late October 2002. That did prove to be the bottom of the tech collapse, although the market came close to undercutting it again in late March of 2003. Point is while I do feel, (literally feel, you can't actually know these things) that we are at or very near the market bottom, some markets can have wide bottoms!

We have already put into place revised Moderate and Opportunity portfolio models and will shortly have completed the others. The bottom line will be to increase the equity exposures in the portfolios slightly to better take advantage of the recovery in asset values that will begin__? Soon I hope, but not so soon that you and we can't get more shares of good solid companies into our portfolios first. We are waiting possibly just a few more days, we don't want to sell on a strong down day. We will harvest some losses for tax reasons on the taxable portfolios and generally increase equity exposures slightly in our portfolios. We are still very wary of interest rate risk.

9/19/2008 10:26 AM Tax loss harvesting and rebalancing of the Moderate and Opportunity portfolios will begin today with re-allocations being put in place on Monday.

9/19/2008 11:31 AM Tax-Loss Harvesting and rebalancing trading has begun.

Now, on to what we feel has been going on.

Our recent conclusions have found support in two books I have just finished within the last month. *"The Myth's of Inflation and Investing"* 1979 by Stephen Leuthold,(horrible to read but important). *"The Panic of 1907",* 2007, by Robert F. Bruner & Sean D Carr is an easy read if you have any interest in history at all. For a financial geek like me it was better than a Grisham novel!

Well I have never really wondered what a "run on the bank" feels like, but now I think we all know how it feels, even if it hasn't been our own bank accounts that have been compromised. If it was a problem you DID carefully review my messages regarding FDIC insurance this February didn't you. The investment bank's accounts and any that played in any way with our reckless and irresponsible mortgage origination, securitization and sales marketplace have been severely affected. Our equity markets are suffering as a result of the leverage (lines of credit, debt) that was considered "liquidity" disappeared, just as they have in the past.

Make no mistake, this is an old fashioned bank panic. The good news is that *The Panic of 1907* taught us how to stop it. The even better news is that what is playing out in the press today is doing so like a rerun of *"The Panic of 1907"* and what stopped it.

The root of a bank panic lies in a loss of confidence in the assets of the bank. The root of this panic is a loss of confidence in the values of mortgage assets and in all the places where securitizations of those assets became collateral for investment. Please note, I'm referring to a mortgage as an asset, you do recall that it is nothing more than paper representing something someone will pay off in 30 or more years typically? Yes it is backed by a real asset. But consider the real value of that real property to the resident compared to the value of it to the collateral owner.

	Resident Owner	**Non-Resident Owner**	**Foreclosure Owner**
Cost for other housing	NA	$ (10,000)	$ (10,000)
Normal Buy/Sell Home Cost	NA	$ (30,000)	NA
Foreclose Cost/Dispose Cost	NA	NA	$ (80,000)
Actual Value	**$ 200,000**	**$ 160,000**	**$ 110,000**

It is very different isn't it? That difference, some of it leveraged (multiplied) by investment banks, brokerage firms (some) and hedge funds 30 times and more is what is unwound in a panic like this.

In 1907, the panic was stopped and markets began to return to normal not with the first bailouts, nor the first Trust Companies allowed to fail. But, in the process of deciding which banks would be allowed to fail and which not, a key single asset sale into strong hands was identified as the likely way to provide confidence again in bank collateral. It worked.

The process then has been similar to what has transpired these last months. A very few key individuals and companies, then led by James P. Morgan and a few of the National Banks. Today is led by Ben Bernanke, head of the Federal Reserve Bank and Treasury Secretary Henry Paulsen. The very nature of the crisis and the structure of the banking system gives those few at the center greater access to real time data about the holdings and transactions of the effected firms than is ever tolerable during normal times. It also gives them enormous influence. The two together, transparency and influence, in capable hands lends itself to an ability to strike at the core of collateral credibility problem, once it has gone far enough to identify its core weaknesses.

In 1907 the solution was determined to be US Steel's purchase of Tennessee Coal and Iron, in a stock swap. It took weak collateral from a key brokerage firm and gave it strong collateral, required no cash from the banking system and enabled a massive reduction in outstanding debt at the same time the collateral was made credible.

Today I believe a combination of the recent asset transfers with the linchpin being the AIG bailout has likely done the same thing. Each transfer either puts a base in collateral values directly (AIG) or puts equity assets in "strong hands". Lehman, Merrill, Constellation Energy, Bear Stearns are all in strong hands at very affordable prices.

9/19/2008 10:26 AM We are of the opinion at this point that Congresses involvement and proposals go way too far and are unnecessary and would if implemented the way they are being proposed will lead all too soon to then next and potentially deeper crisis. We are all in favor of more credible market operations, accounting and disclosures by market participants. We are very much against government guarantees of anything but the modest levels of bank deposits which currently exist. Shielding market participants from the effects of their own market behaviors leads to very bad behaviors and gives the competitive edge to the biggest liars.

There is more to come, some very good and bad days. But there is a far better upside than down to markets today and it appears to us that the economic processes and behaviors of market participants are those of a very traditional, even an old fashioned rout. If true, technical measures also back up our conclusion that we should be near the end of the rout. Leuthold Weeden Institutional Research provides us with monthly updates to hundreds of technical and historical data points every month, most of them proprietary to them as they include data well beyond what can be computer fed into a spreadsheet automatically. They also provide it with an experienced historian's eye.

The S&P 500 was down as of yesterday nearly 26% % from its peak last October, a very traditional decline.

The S&P 500 market valuation at the close of business on 09/17/08 was a Price/Earnings Ratio of 15.4 times earnings. From this third decile Price/Earnings ratio (markets cheap) the median one year total return since 1926 is 16.3%.

Their Attitudinal Index had its highest ever reading ever in September, that is very bullish for investments. What is it? It is a measure of how badly do people feel about markets.

So this is no time to sell and go away, and we won't, we will rearrange a few things to try to take better advantage of what we feel are better markets ahead. That will require a few sales today and purchases on Monday. We'll be in touch shortly with Quarter End reports.

Have a great weekend!

Ben

Benjamin G. Baldwin III, CFP®, ChFC

President

Your Wealth and Well-being…Our Purpose.

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