COMMENTS AND INFORMATION ON THE MARKETS AND THE ECONOMY

October 2008

Introduction:

I wanted to take a few minutes and talk about the current situation with the investment markets and the economy. This topic is on our minds (as financial stewards of the Congregation) and on the minds of a lot of people (worldwide and locally) including: those whom we serve, our employees, and our family members. With the severity of the changes in the stock market and the negative economic news over the last few months, people are truly worried about their future financial stability and prospects.

The financial market downturn has people worried about their personal savings accounts for retirement and their children's education, etc. It has people concerned about the declining values of their homes and their ability to make their mortgage payments, and it has business owners struggling to be able to borrow money from banks to keep their businesses going.

These circumstances have put a lot of stress and strain on people's lives. Some individuals are in positions where they need to make financial decisions, but don't know what to do. Others may be experiencing stress and strain in their relationships due to the downturn. For example, married couples whose plans (for one thing or another) may no longer be feasible because of the sudden changes to their financial situation.

Background – Market Cycles:

In order to provide you with some background and outlook specifically on the investment markets and the economy, I asked our investment consultants to prepare some information and statistics on these matters.

From what the experts say, the stock market is a leading indicator for the economy. It was approximately one year ago that the stock market (Dow Jones Industrial Average) reached all-time highs, and began to decline over subsequent months into what is referred to as a "Bear Market", generally meaning that the short-term outlook on the financial markets is negative.

We have all heard about, and experienced, Bear Markets before. They are part of the normal economic cycle. Historical records show that there have been 11 Bear Markets over the last 70 years, from the period just before World War II. That's approximately one every 7 years.

The average length of time of these events has been 20 months. So, looking at the calendar, it seems that (on average), since market highs occurred 12 months ago, we would expect to have another six to nine months remaining of somewhat negative, or stagnant, stock market returns.

The "good news" is that each Bear Market is followed by a recovery or Bull Market. Bull Markets tend to last a lot longer than Bear Markets. When recovery comes, it starts out subtly. Negative investor sentiment starts to reverse, emotions shift into positive anticipation, purchasing momentum begins to build, positive performance trends result, and market prices and valuations grow higher.

Prudent Investment Practices:

It is the continuous change that occurs over time in business, and in life, that creates dynamic, sometimes volatile, market conditions in the short-term; and more steady, but changing, economic cycles over the longer-term. Therefore, experts have created ways to manage money with a focus on minimizing risks with the intent of protecting asset values over the long-term. The following tools are considered to be part of Modern Portfolio Theory (or MPT):

- Diversification (avoid over concentration in any one asset type)
- Matching the investment time frame with your need for funds (time horizon)
- Know your risk tolerance (purchase investments that you can understand and would likely be comfortable with in Bull Markets and Bear Markets)
- Have realistic expectations about anticipated investment returns (to get higher returns you generally need to take more risks, and vice versa)
- Monitor investments ongoing using your investment plan and objective benchmarks, and rebalance the portfolio as needed to stay on track

As a Leadership Team and Investment Committee, these are practices that we have been doing for many years. We work with various professionals to help us oversee and manage our investments and follow a plan that enables us to focus on responsible stewardship including socially responsible investing. We have found that it has helped us to achieve competitive returns, minimize risks, better understand market conditions and economic cycles, and maintain a longer-term perspective regarding our investment portfolio.

The Economy:

As I mentioned earlier, the stock market is a leading indicator for the economy. As a follow up to the negative stock market performance since last year at this time, we are now seeing the long anticipated signs of a slowing economy. As of September, there is no formal confirmation that we are in a Recession (or negative economic growth), yet the majority of economists feel we will have statistical proof of this very soon

Therefore, it is anticipated that the normal negative results that have begun to occur from the economic slowdown/recession will continue, such as: consumer spending cut-backs, lower earnings, rising unemployment, more foreclosures, and more bankruptcies. Because the span of this recession is likely to be global, given the way our international markets are now closely linked, hundreds of millions of people will be impacted.

The worst part of the pending recession is expected to occur in 2009. By then the stock market will likely be recovering, but the economy will still be very sluggish, and individuals will have to get by on less for a while to come.

Reasons Why and Responses Thus Far:

The reasons for this downturn are similar to other cyclical downturns historically, which have been connected to credit (or debt) excesses, but worse. Over the last 16 years, the real estate market was booming, as more and more Americans (and citizens of some other developed countries) pursued the dream of owning their own homes.

This increasing level of demand led aggressive lenders, mortgage companies, and investment banks to create structured debt products (i.e. Sub-prime, Alt-A, etc.) which made it easier for people to buy homes. As these deals multiplied, funding levels rose and more and more structured products were developed. The money that was generated from the sale of these mortgage related debts were packaged (or securitized) into investment instruments and sold to unrelated investors around the world.

Because the level of demand growth and price appreciation of real estate was not sustainable, a slowdown was inevitable. What makes this one worse than many other slowdowns is the high volume of mortgage related debt that was sold to marginal borrowers and sometimes redistributed to unsophisticated investors without appropriate transparency or disclosure, and with additional leverage. This has been characterized in the media as "Wall Street Greed", and has greatly attributed to the lack of trust that currently exists in credit markets, resulting in banks not wanting to lend money to other banks, which has almost frozen credit market to date.

Government Central Banks from around the world have committed to doing "whatever it takes" to stop the vicious circle of asset price deflation, credit contraction, and real economic deterioration. They have cut interest rates and initiated the injection of trillions of dollars (collectively) into economies around the world to normalize the banking and business environment. This just occurred within the past couple of weeks, but there are early signs that these initiatives are helping.

In addition, governments are reviewing increased regulation and enforcement rules, on a global scale, to make sure this type of situation does not occur again in the future to this magnitude.

Conclusions:

We are blessed with many resources as a Congregation and must be good stewards over them. We have a process in place that implements prudent investment "best practices" to attempt to achieve our long-term investment goals.

We are cognizant that many people around us, and around the world, are suffering. Recent developments in the stock markets and economic environment have turned peoples' worlds upside-down. We must keep those whom we know personally, and those whom we will never know, in our prayers and ask for blessings upon them to help them make sound decisions no matter what their situations might be.

We ask God to bestow blessings of patience and love on those who are experiencing stress and strain in their relationships with loved ones during this tough financial period. Let them be made abundantly aware of the most important things in life, and not be blinded by the short-term negative financial picture.

Finally, bless those in leadership positions, including the new President to be, so that they make decisions based on good governance and stewardship principles, so that their organizations/administrations are able to endure with integrity and character in the tough times, and succeed with integrity and character in the good times ahead.