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High Pointe

DATE: October 17, 2008
TO: Clients
FROM: Gautam Dhingra
RE: Third Quarter 2008 Review

1 Lost Decade + 4 Tumultuous Weeks =
Fear + Opportunities (?)

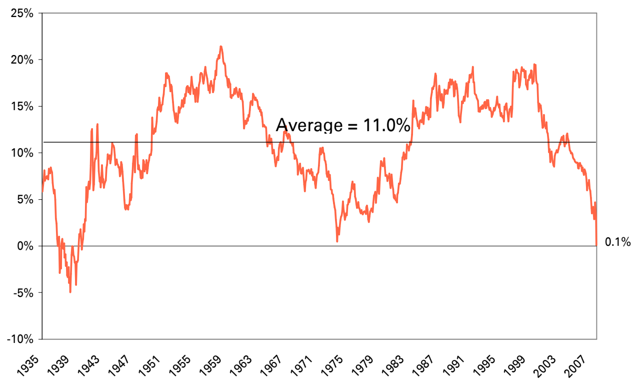
The first decade of the 21st century so far has been a lost decade for investing in stocks. From January 1, 2000 to October 17, 2008, the S&P Index has lost 3% of its value per year, for a cumulative loss of about 25%. Foreign stocks have not fared much better losing about 14% during the same span. The climax of this downturn occurred recently in a short span of four weeks from September 15, 2008 to October 10, 2008. On September 15th, Lehman Brothers filed for bankruptcy. Since that debacle a number of extraordinary events have occurred, some of which are listed below.

- The S&P 500 Index lost 28% of its value in four weeks bringing year to date loss to 38%.
- Foreign stocks declined by 29% during the same four weeks, with year to date decline of 45%
- The commodities bubble burst and commodity prices fell over 25%.
- Investment grade corporate bonds year-to-date losses exceeded 12%.
- Municipal bonds, a haven for conservative, taxable investors declined by over 9%.
- VIX index, a measure of perceived stock market risk, rose to unprecedented heights.
- Bankers' aversion to lend to one another, measured by the spread between LIBOR rate and Treasury-bills rate, exceeded any level seen before.
- Governments and central banks worldwide initiated massive financial rescue operations.

These events have instilled fear in the mind of the average investor who is now afraid to open his 401k statement. Some investors are withdrawing money from the stock market and many others are becoming apathetic in the face of a constant stream of bad news.

We would say to all investors that now is not the time to be apathetic, and a good case can be made as to why now might not be the time to become risk averse either. To understand our viewpoint, it is worthwhile putting the recent data in historical context. The chart on the next page shows rolling ten-year returns on the S&P 500 Index going all the way back to 1926. This chart shows that on average stocks have provided an 11% return per year. Only on three occasions -- 1929-38, 1965-1974 and 1999-2008 – ten-year returns have been close to zero or slightly negative.

S&P 500 Average Annual 10-Year Performance



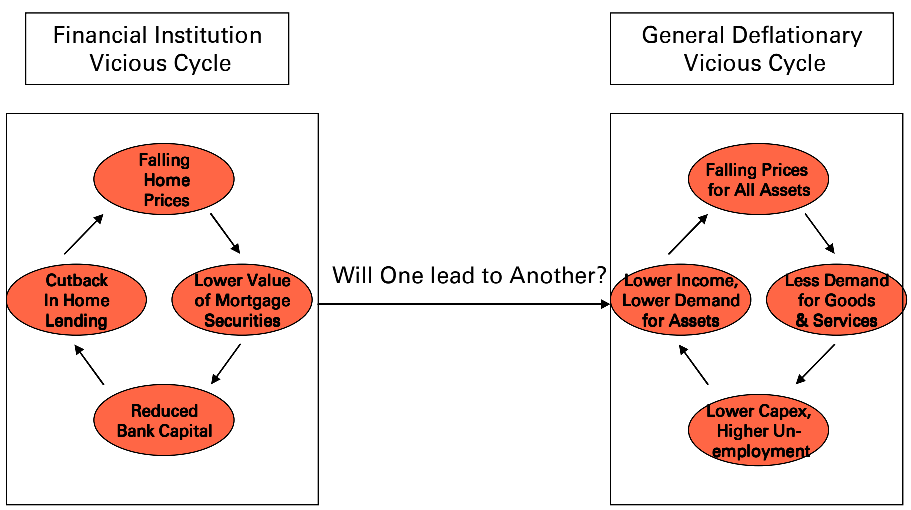
Total return data on a monthly basis updated through October 17, 2008.

In the past, weak 10-year returns have been followed by strong recoveries because of two reasons.

(1) The low valuations provided a good entry point for investing
(2) The problems plaguing the stock market were ultimately sorted out.

If history is any indication, this chart does not advise anyone to become risk averse *after* a weak 10-year period has already occurred.

One question that investors have been asking is – Is it *different* this time? Is it possible that the problems are more serious than in the past and that we may not see a recovery in stock prices for a long time? To address this question one has to understand the malaise currently inflicting the stock market and judge whether it can get worse. The chart shown below on the left depicts a vicious cycle that is currently tormenting the financial markets. The chart on the right shows a potentially worse vicious cycle that could develop, if the efforts to break the cycle on the left are not successful.



All the evidence says we should anticipate a very weak economy and the negative headlines that will go with it. However, the stock market is a forward looking mechanism and it should already reflect the *anticipated* bad news on the economy. Also, note that potential rewards for investing have increased significantly as a result of price declines. Assets such as corporate bonds, municipal bonds, high yield bonds are offering yields that are much higher then Treasury yields by any historical standard. And, stocks, when measured by their price-to-book-value ratio, are cheaper than at any time since 1990.

All things considered, we think investors will be well-served by continuing to take judicious risk, consistent with their investment time horizon, rather than by shunning all risks. And if you need support for this stance from someone better known than us, then check out Warren Buffet's piece in the op-ed section of *The New York Times* dated October 17, 2008. It is entitled *"Buy American. I am".*

Investment Returns

The returns of our three main products are summarized below and a discussion of our investment strategy follows in the next section.

High Pointe Capital Management
Investment Performance (Net of Fees)[1]

For Periods Ending September 30, 2008

	3rd Quarter	*Year-to-Date*	*5 Years*	*10 Years*	*Since Inception[2]*
Large Cap Value	-8.3%	-19.4%	1.3%	10.1%	8.7%
Russell 1000 Value Index	-6.1%	-18.9%	7.1%	5.6%	5.1%
Large Cap Growth	-8.5%	-15.2%	3.6%	N/A	6.5%
Russell 1000 Growth Index	-12.3%	-20.3%	3.7%	N/A	-2.6%
Small Cap	-6.5%	-15.2%	3.8%	9.2%	7.8%
Russell 2000 Index	-1.1%	-10.4%	8.2%	7.8%	5.5%

[1]Performance for the latest quarter is preliminary and subject to change
[2]Inception Dates: Large Cap Value - January 1, 1998; Large Cap Growth – August 1, 1999; Small Cap – January 1, 1998.

Performance results are shown net of management fee, and are based on composites of all fee-paying, fully-discretionary accounts. Returns for the periods presented are time-weighted. Results shown include the reinvestment of dividends, capital gains and other earnings. The currency used to express performance is U.S. dollars. High Pointe's fee schedules are disclosed in Part II of the firm's Form ADV. All fully discretionary, fee-paying accounts have are included in at least one composite, and no accounts have been terminated since the inception of each of the composites. No alterations of the composites as presented in this report have occurred because of changes in personnel or for any other reasons at any time. The composite results portrayed during the period are compared to the performance of their respective indices because the securities purchased for each of the composites are most closely aligned with the securities comprising these indices.

High Pointe Capital Management, LLC has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). A complete list of firm composites and performance results is available upon request. The CFA Institute has not been involved with the preparation or review of this report. Returns represent past performance and are not indicative of future results. Investment may result in the loss of principal.

*The unmanaged **Russell 1000 Value Index** measures the performance of those securities in the Russell 1000 Index having lower price-to-book ratios and lower forecasted growth values. The unmanaged **Russell 1000 Growth Index** measures the performance of those securities in the Russell 1000 Index having higher price-to-book ratios and higher forecasted growth values. The unmanaged Russell 1000 Index is comprised of 1,000 of the largest capitalized companies that are traded in the United States.*

*The unmanaged **Russell 2000 Index** measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell 3000 Index is comprised of the 3,000 largest U.S. companies based on total market capitalization.*

These indices do not reflect fees and expenses associated with the active management of separate account portfolios.

Investment Strategy

Large Cap Value

High Pointe's Large Cap Value strategy produced a return of -8.3% which was 2.2% less than its benchmark, the Russell 1000 Value Index. Relative performance was hindered by underweighting of the Financials sector and an overweighting of the Technology sector. Even though financial sector stocks performed well last quarter (despite deteriorating fundamentals), we are likely to remain underweighted in them. This is because balance sheets of financial stocks are extremely weak and they will likely get weaker because the asset write-down process is far from over.

Late in September, the market witnessed indiscriminate selling of good stocks along with the bad ones, perhaps because hedge funds and other forced sellers reduced leverage and prepared for redemptions. It impacted our portfolios negatively and we gave up the lead we had on the benchmark during the first two months of the quarter. However, this indiscriminate selling has created extraordinary opportunities. It has allowed us to rotate out of some of our lower quality holdings into higher quality holdings without having to pay a premium for them. Examples include our sale of industrial and financial stocks in favor of stocks in the pharmaceutical, education, and pharmacy businesses. We also sold a few stocks in the investment management, biotech, and rent-to-own industries that had performed well relative to the market and met our price objective. Proceeds were invested in the insurance, low-end retail, and HMO industries.

Large Cap Growth

High Pointe Large Cap Growth strategy produced a return of -8.5% during the last three months, outperforming the Russell 1000 Growth Index by 3.8%. Sector selection was positive as our overweight to Healthcare and underweight to commodity-oriented sectors (Energy, Materials) proved beneficial. Stock selection was also positive as we benefitted from our position in the generic drug industry being acquired at a significant premium, and our positions in education and computer industry held up well in a slower growth environment.

Small Cap

High Pointe's Small Cap strategy produced a return of -6.5%, putting it behind the benchmark, Russell 2000 Index, by 5.4% for the quarter. Sector selection was negative as financials stocks performed well relative to the broad index and our portfolios are underweighted in financials. Security selection was mixed, with positive security selection in the consumer discretionary sector more than offset by weak security selection in health care and technology sectors.

During the quarter we sold our holdings in two companies that are being acquired. We also sold a few other companies that had performed well relative to the market and met our price target and those that had come up short of meeting our expectations. We used the proceeds to invest in beaten-up stocks in lodging, low-end retailing, shipping, education, biotech, and funeral homes industries. Most of our companies generate significant free cash flows and are reasonably valued relative to the broad market.

The small cap universe is now littered with good stocks that have been sold indiscriminately, in our opinion, along with lower quality stocks. We believe this has created significant mispricing in certain securities and we are adjusting our portfolios to take advantage of such mispricing.

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Thank you for the opportunity to manage your assets. Please call me if you have questions about our investment strategy.