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President

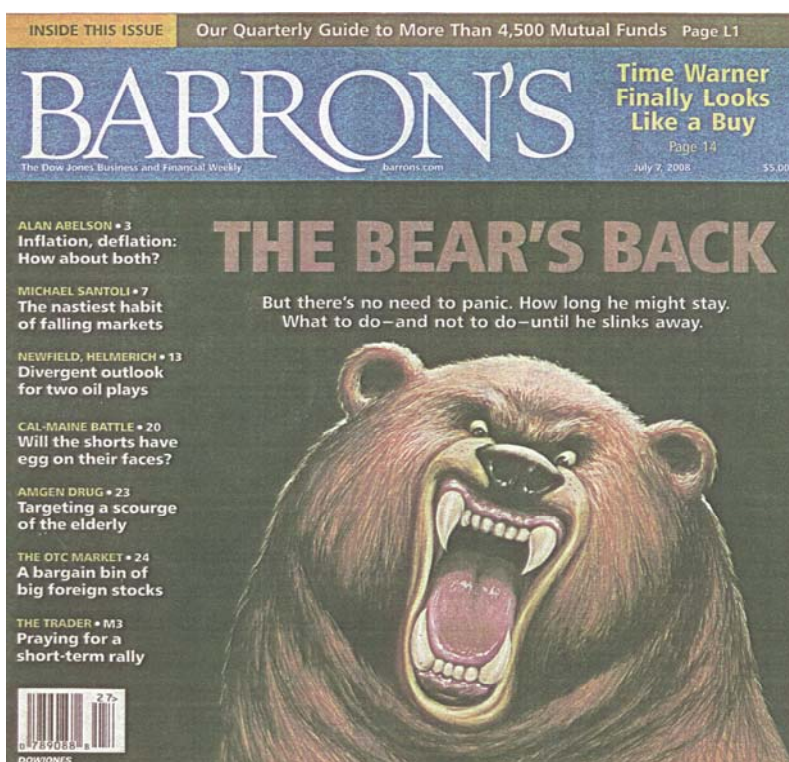
MARKET COMMENTS

August 1, 2008

Recessions and Bear Markets

The headlines are bad. Bank and financial stocks have collapsed from the credit crisis, real estate values are plunging, gas prices have gone through the roof, and consumer confidence lies near 40-year lows. Despite all the negative news, economists can't agree if we're in a recession. But we do know one thing for sure. **When the stock market drops more than 20% from its high, its official, we have a BEAR MARKET.**

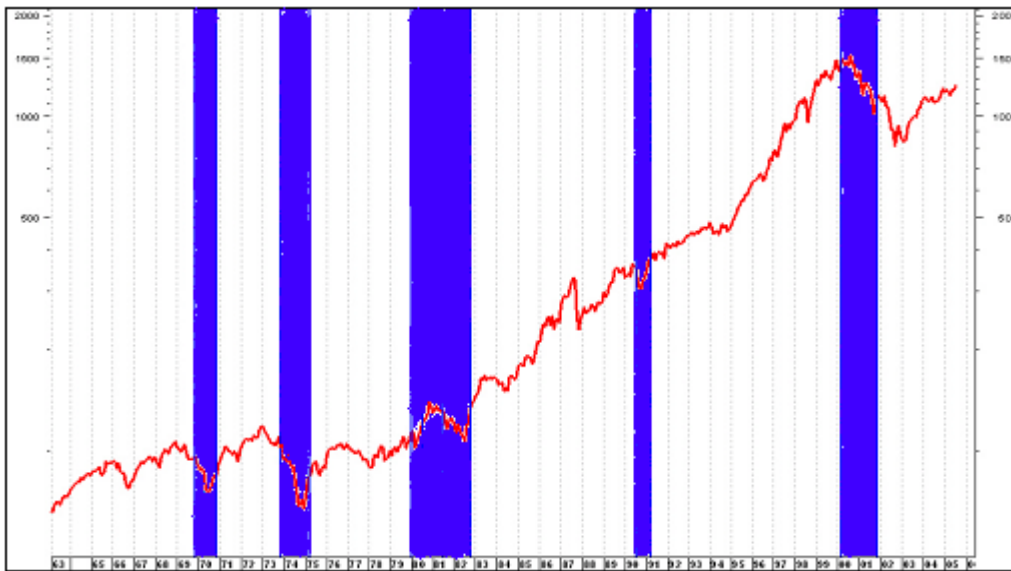
The bear market has not escaped the attention of the editors of *Barron's*, as you can see below. The good news is that once the BEAR has found his way onto the cover of a major financial publication, the worst of the down market is usually over. However, the end of the bear can produce the most volatile markets and unsettling headlines.



Before the bear market burst on the scene, we were working on a market letter about how investors can deal with recessions. **We were starting with a study we did three years ago outlining how to handle recessions, which we revisit on the next page.** Because recessions and bear markets often go hand in hand, we are addressing both topics in this letter.

Stock Prices and Recessions

As many of you may remember, in our market comments of August 2005, entitled “You can forget everything else...” we presented a study based on the recommendations of Ben Graham showing that **if investors used a combination of a value discipline (low P/E) and a long term investment horizon (5 years) they would have posted double digit returns through every recession of the last 40 years.** This even assumed one invested one year before each of the recessions, which generally was the worst possible time. Below is a summary of the study (also see appendix with back-up data).



* Blue lines denote recessionary period

Source: SCCM/May 2005

5 Year Periods / Low P/E Discipline

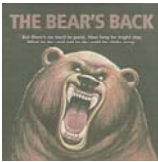
Recession Period	Investment time frame	Annualized Return for 5-year periods
1969-1970	1968-1972	9.66%
1973-1974	1972-1976	17.81%
1981-1983	1980-1984	26.46%
1991	1990-1994	10.10%
2001	2000-2004	16.01%

Source: SCCM/May 2005

Remember Both Principles

It is important to remember the study employed two principles; the first: portfolios composed of low P/E stocks, and the second: five-year time horizons. **If an investor used only the second and ignored the value discipline, the results would have been very different and in many cases, disastrous.** For example, five years after the high the NASDAQ made in 2000, it was still down 60%. The same is true for the Nifty Fifty of the late 1960s and early 1970s. The three favorites of the era -- IBM, Xerox, and Polaroid -- were still down 50% five years after making their highs. And in the 1930s, RCA, which was the leading growth stock of the 1920s, was still down 60% five years after its high. In short, to be successful, you must not only be a long term investor, but also disciplined about price: P/E, P/B, and dividend yield.

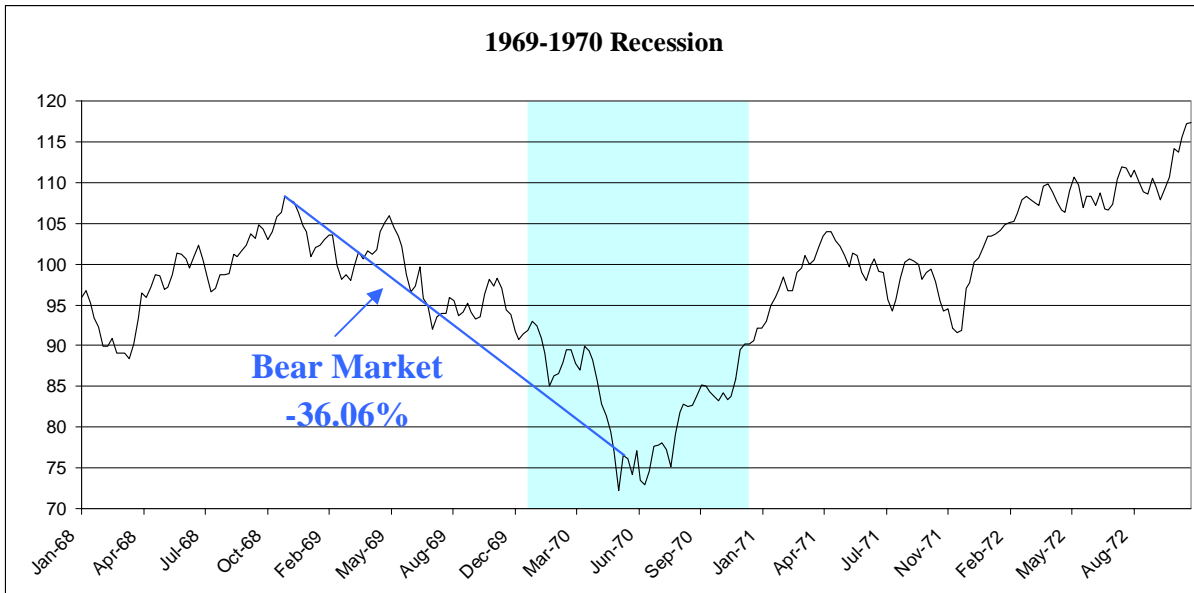
Adding Bear Markets to the Mix



Recessions tend to develop slowly. As we've said, economists don't agree whether we're in one, when it started, and when it ended. In 1992, for example, George H. W. Bush lost the election thanks to an economy perceived to be in recession by both the public and Bill Clinton – "It's the economy, stupid." But a week after the election, President Bush's own economists declared the recession actually had ended a year before the election. At which point, government economists were denying that we were going to have any recession at all.

There is no debate with Bear Markets. They blow in and out like hurricanes, leaving a lot of clean up in their wake. In the charts below we have plotted all bear markets during the last forty years, when they began and ended, and tied them to their respective recessions.

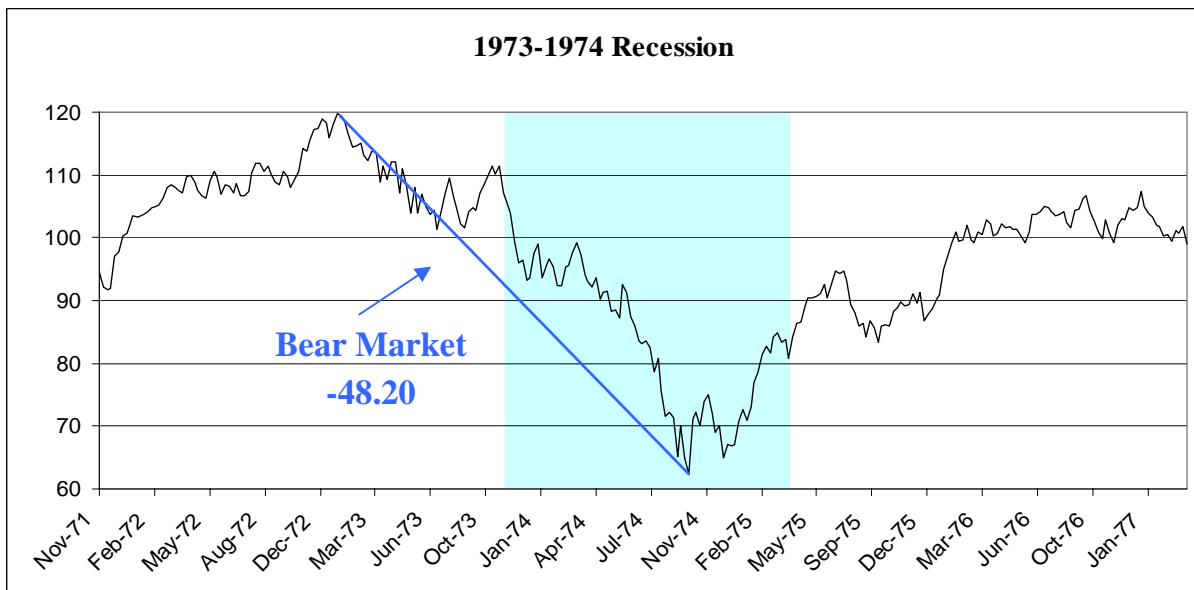
We have added some commentary and color for each of the periods because many investors today feel that that the current news is so much worse than the news of past recessions. In retrospect, when one looks at the last forty years of history from a long term perspective, it seems like it would be pretty easy to sail through all the recessionary periods. But that was not true for investors who lived through them. The bad news then was as troubling as the bad news today. I for one can vouch for this since I was in the business during this entire period.



Source: SCCM/July 2008

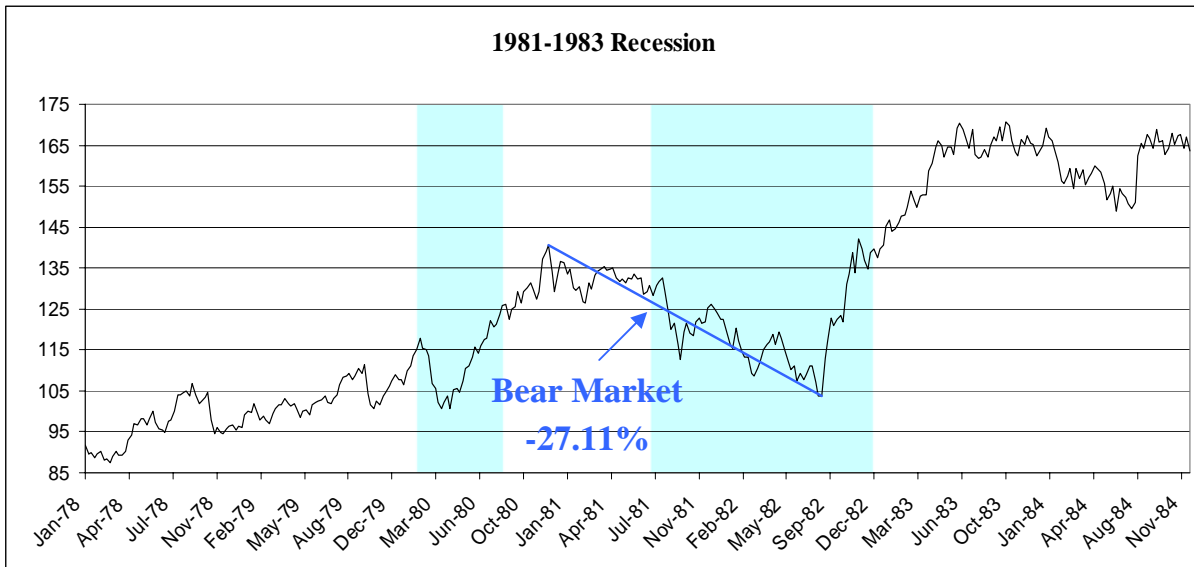
1969-1970 This was the worst bear market since the Great Depression. The conglomerates were the leading stocks of the day whose growth was based on aggressive leveraging. By the end of the recession, most of the conglomerates were out of business. Some of the companies were Leasco Data, CityInvesting, University Computing, National Student Marketing, Gulf+Western, and Solitron Devices.

* * *



Source: SCCM/July 2008

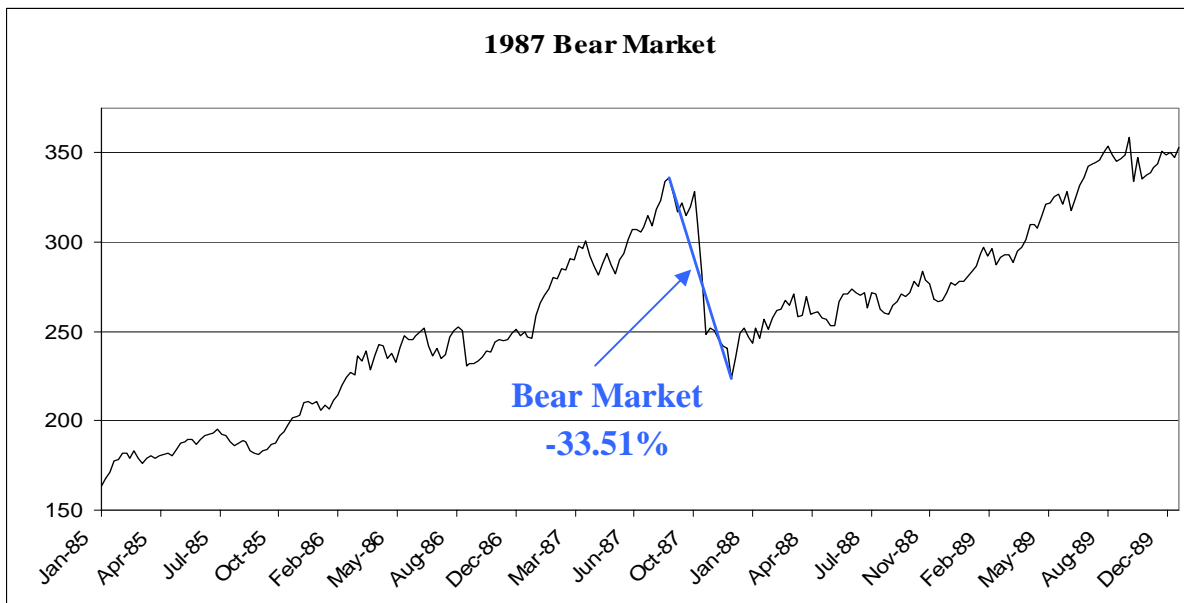
1973-1974 This was the collapse of the “Nifty Fifty” bubble, the first bubble collapse since the 1920s. Individual and institutional investors drove up prices of what were considered the best companies of the day to completely unrealistic levels. Speculation was rampant and brokerage firms became like OTB betting parlors. By the end of the recession, approximately 75% of all brokerage firms had merged or gone out of business.



Source: SCCM/July 2008

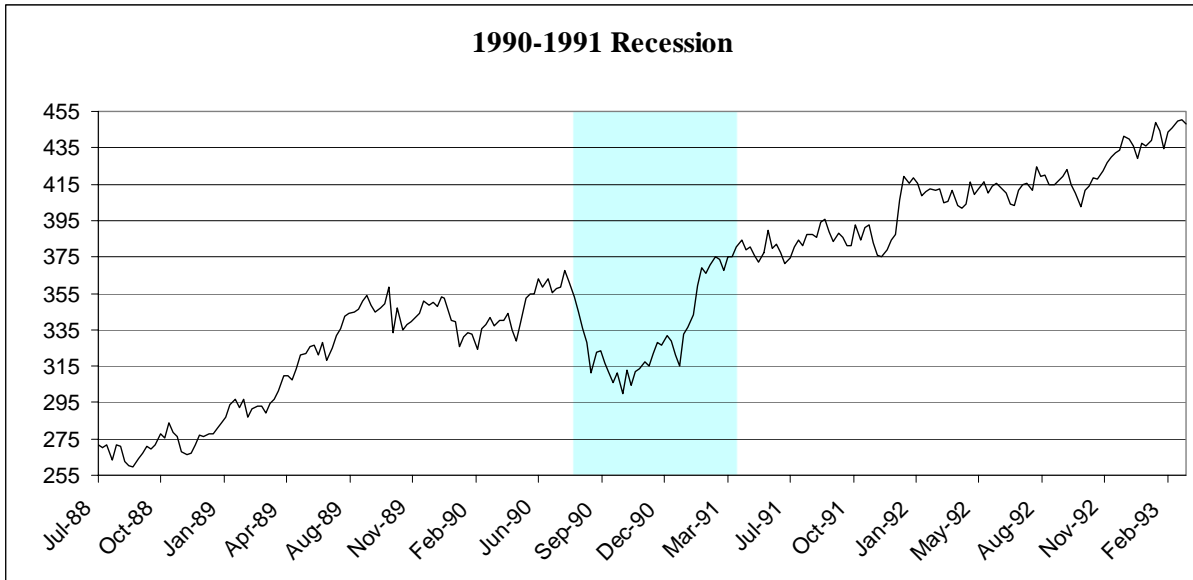
1981-1983 During the double recession of the period, Paul Volcker’s Fed pushed interest rates up to the nosebleed level of 20%. Anybody dependent on bank financing was in big trouble. More banks collapsed during this time than during the Great Depression, including Continental Illinois, the seventh largest bank in the country.

* * *



Source: SCCM/July 2008

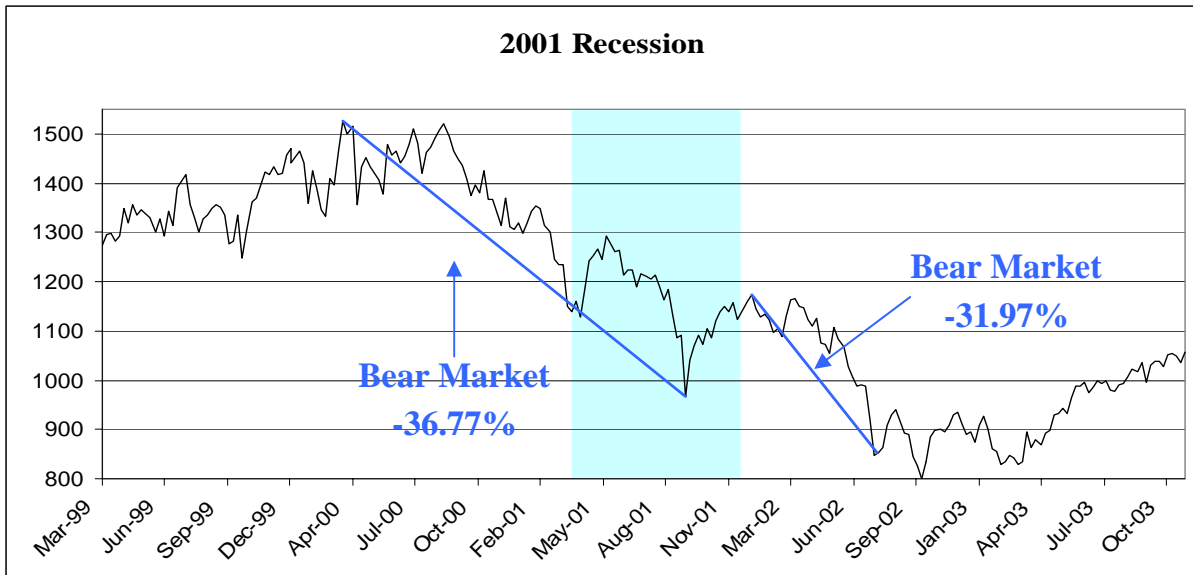
1987 Here there was no recession, but the market had become extremely over-valued. Institutions became leery of valuations and were talked into buying something called “Portfolio Insurance.” This would kick in if the market declined. But on “Black Monday,” everybody tried to get out at the same time, producing the worst one day drop, down 25%, in stock market history.



Source: SCCM/July 2008

1990-1991 There was no bear market during this recession mainly because the 1987 down market had eliminated much of the speculative froth and brought valuations down to more reasonable levels. But some 1500 S&L's and banks were forced to merge or went bankrupt during the period. It was an era of greed led by Michael Milken, junk bond king who later went to jail, as his firm Drexel, Burnham Lambert went belly up. Meanwhile, Congress was forced to set up the Resolution Trust Corporation to bail out the S&L's and hundreds of thousands of their depositors.

* * *



Source: SCCM/July 2008

2001 This was the Tech Bubble which was the third great speculative bubble and collapse of the century. The period is still pretty fresh in everyone's mind. Prices got so extended that the tech proxy NASDAQ was still down 60% five years after making its high.



Source: SCCM/July 2008

Present We are now in a bear market. Despite all the bad news the economy still has not officially gone into recession (two consecutive down quarters for GNP). The reason the economy has held up is thanks to the new global marketplace. The U.S. has benefitted from exports and U.S. companies are producing solid growth from their international businesses.

Bear Market History

As you can see from the history above, **bear markets tended to lead recessions and were over well before the recessions ended.** In the table below we track all the bear markets in the last 60 years by time and percent decline.

What jumps out of the data summarized in the table below is that the worst bear markets and recessions occurred when the “Nifty Fifty” and the “Tech” bubbles collapsed. These are highlighted in yellow. In both bubbles, market valuations had reached such extreme levels that more time than usual was needed to correct the overvaluations. For most stocks overvaluation is not a problem today.

The table shows us that the average bear market lasts for about a year and the average drop is 30%, whereas the non-bubble drop is only 27%. With the current bear market now 9 months old and having dropped 22% it would seem that we are well along in the downturn from a historical perspective.

Bear Market Start	Bear Market End	Percentage Decline	After -22% drop, percent drop to end Bear Market	Duration of Bear Market
6/15/1948	6/13/1949	-20.57%	100%	1 yr
8/2/1956	10/22/1957	-21.63%	100%	1yr 3m
12/12/1961	6/26/1962	-27.97%	79%	6.5m
2/9/1966	10/7/1966	-22.18%	99%	8m
11/29/1968	5/26/1970	-36.06%	61%	1yr 6m
1/11/1973	10/3/1974	-48.20%	46%	1yr 9m
11/28/1980	8/12/1982	-27.11%	81%	1yr 9m
8/25/1987	12/4/1987	-33.51%	66%	3m
3/24/2000	9/21/2001	-36.77%	60%	1yr 6m
1/4/2002	7/23/2002	-31.97%	69%	7m
10/09/2007	07/15/2008 to ?	-22% to date	?	?
SUMMARY				
		Average 30.4%	Average 75.0%	1yr 1m
NON BUBBLE				
		Average 27.0%	Average 84.4%	1yr 1m

Source: SCCM/July 2008

Post-Bear Market Bounce

Stock market history tells us that when bear markets run their course, stock prices tend to explode off the bottoms. (This can be seen in the charts on the previous pages.) The table below shows how the 12 months following the end of the bear market tend to make for a very good year for investors. The one exception was the bubble year of 2001.

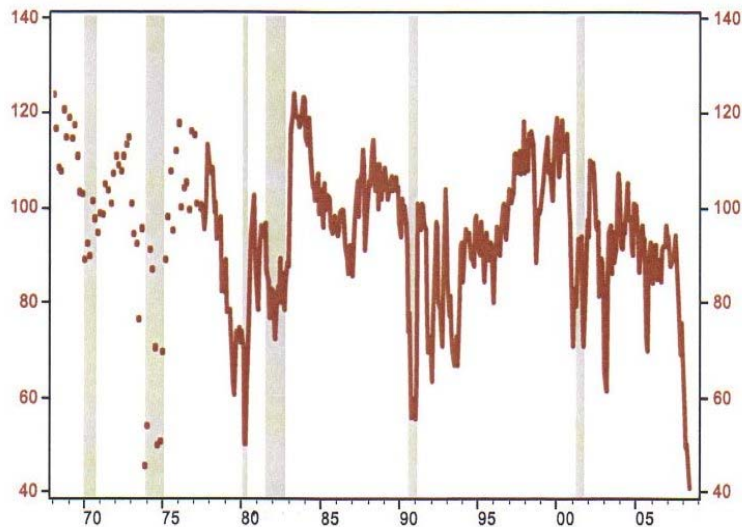
Bear Market End	Next 12 months (S&P 500)
6/13/1949	42.07%
10/22/1957	31.02%
6/26/1962	32.66%
10/7/1966	33.06%
5/26/1970	43.73%
10/3/1974	37.96%
8/12/1982	59.40%
12/4/1987	22.40%
9/21/2001	-12.50%
7/23/2002	17.94%

Source: SCCM/July 2008

The Bad News May Be Good News

When the headlines are as bad as they have been recently, there is of course an impact on consumer confidence surveys. The chart below shows that we are presently at levels that we have seen only during extreme market lows. The good news is that the stock market has historically had a big up year after all down periods when consumer confidence dropped below 60%.

Chart:



Source: Conference Board Consumer Confidence Expectations/ July 2008

Table:

Consumer Confidence Under 60%	Market Next Year S&P 500
1974	+ 37%
1980	+ 32%
1990	+ 30%
2008	?

Source: SCCM/July 2008

Summing Up

After studying all the recessions and bear markets of the last 40 years, and seeing how little time there has been between crises, it is hard to believe that if one had invested \$100,000 in the value stocks (bottom 20% by P/E) it would have grown to \$35 million over the same 40 year period.

At the end of the day, the message is clear: be disciplined about price, don't overreact to headline news and be a long term investor.

Jim Cullen
President

Appendix

The studies on the next two pages are the cornerstone of our investment philosophy. They are based on the advice of the legendary Ben Graham when he was retiring from 50 years in the investment business. He said that the key to being successful in investing was to ignore everything else and focus on two key principles. Principle number one: adhere to a discipline that will help you to avoid overpaying for stocks. The disciplines he recommended were P/E, Price/Book, and dividend yield. Since markets tend to be completely unpredictable on a short term basis, the second principle is to be a long term investor (i.e. 5 years).

Study A

Compares the performance of the S&P 500 over the last 40 years vs. the stocks with the lowest P/E, P/B and highest dividend yield. The study takes the bottom 20% of the S&P 500 on a P/E and P/B basis, and the top 20% by yield, holds the portfolio for the year, and then readjusts for the bottom 20% and top 20% respectively for the next year. This is done for each of the 40 years. The results show that this discipline certainly gives you an edge over time.

Study B

Here we take the annual performance for the lowest P/E stocks and calculate the annual returns for all the consecutive five year periods over the entire forty year period. Notice the returns are consistently high and there are no down periods.

Disclosure:

Past performance is no guarantee of future results. All opinions expressed constitute Schafer Cullen Capital Management's judgment as of the date of this report and are subject to change without notice. This information should not be used as the primary basis for investment decisions. It should not be assumed that any security transactions, strategies, holdings or sectors discussed were or will be profitable, or that future recommendations will be profitable or will equal the investment performance discussed herein. Investing in equities involves risk to your principal. Individual client account performance will vary.

THE POTENTIAL OFFERED BY A DISCIPLINED VALUE APPROACH

Comparative Rates of Return

		Return Using Selection Criteria on S&P 500		
Year	Overall Return S&P 500	BOTTOM 20%		TOP 20%
		By P/E	By P/BK	By YIELD
1968	11.1	30.5	37.3	26.5
1969	-8.5	-17.5	-20.5	-15.6
1970	4.0	7.8	4.3	11.7
1971	14.3	19.0	19.9	12.5
1972	18.9	14.8	14.3	13.0
1973	-14.7	-17.7	-10.6	-10.9
1974	-26.5	-12.8	-12.1	-10.8
1975	37.2	83.3	94.8	65.4
1976	23.9	50.3	57.3	44.6
1977	-7.2	11.0	8.4	4.1
1978	6.6	13.1	7.5	1.6
1979	18.4	26.3	30.5	19.5
1980	32.4	26.4	18.5	17.6
1981	-4.9	15.1	13.5	17.1
1982	21.4	31.0	37.0	29.4
1983	22.5	24.4	41.2	28.2
1984	6.3	34.3	1.0	10.2
1985	32.2	28.4	19.1	29.5
1986	18.5	20.5	9.3	19.5
1987	5.2	-8.0	10.5	-1.5
1988	16.8	20.8	24.7	20.5
1989	31.7	23.7	15.1	26.4
1990	-3.1	-18.7	-25.2	-17.4
1991	30.5	47.6	55.2	45.3
1992	7.7	14.0	27.9	15.8
1993	10.1	16.5	18.4	16.8
1994	1.3	1.5	3.1	1.4
1995	37.6	42.5	42.1	30.2
1996	23.0	18.7	16.4	14.5
1997	33.4	35.2	25.4	28.9
1998	28.6	-2.3	11.5	7.0
1999	21.0	3.4	5.9	-8.4
2000	-9.2	18.3	21.1	15.0
2001	-11.9	15.4	14.6	12.7
2002	-22.2	-8.6	-17.6	-7.8
2003	28.6	37.5	56.9	31.3
2004	10.9	22.5	23.8	15.9
2005	4.9	15.1	12.5	4.4
2006	15.8	18.4	20.2	21.4
2007	5.5	-3.3	-13.7	-4.8
COMPOUND ANNUALIZED RETURNS				
(40 Years) 1968-2007	10.7	15.8	15.8	13.2

ROLLING 5-YEAR PERFORMANCE: BOTTOM 20% OF THE S&P 500 BY P/E

Annualized Rates of Return

Period	S&P 500 Bottom 20% by P/E	Period	S&P 500 Bottom 20% by P/E
1968-1972	9.66%	1986-1990	6.14%
1969-1973	0.00%	1987-1991	10.53%
1970-1974	1.11%	1988-1992	15.37%
1971-1975	12.44%	1989-1993	14.54%
1972-1976	17.81%	1990-1994	10.10%
1973-1977	17.02%	1991-1995	23.17%
1974-1978	24.71%	1992-1996	17.92%
1975-1979	34.30%	1993-1997	22.01%
1976-1980	24.67%	1994-1998	17.79%
1977-1981	18.20%	1995-1999	18.22%
1978-1982	22.18%	1996-2000	13.90%
1979-1983	24.53%	1997-2001	13.26%
1980-1984	26.07%	1998-2002	4.74%
1981-1985	26.46%	1999-2003	12.14%
1982-1986	27.63%	2000-2004	16.01%
1983-1987	18.92%	2001-2005	15.39%
1984-1988	18.22%	2002-2006	15.98%
1985-1989	16.29%	2003-2007	17.3%

Source: S&P 500/SCCM Jan 2008