Scotia Growth S&P Plus Update:
The Scotia Growth S&P Plus Program performed well again in August gaining 3.48% net of fees. Year-to-date the strategy has gained more than 70% net of fees and gained 52.63% in 2007. There are capacity limitations to this strategy and new assets are coming in quickly. If you feel that the strategy might be suitable for your portfolio, please speak with your CMG Advisor soon as we expect the strategy to close to new investors. If you have a tax deferred variable annuity investment, please let us know, as there are several variable annuity products in which we can run the Scotia Growth S&P Plus Program. Of course, past performance cannot guarantee future performance.

I see an outstanding opportunity developing. With this communication, my intent today is to simply plant a seed. Over the next few months, I encourage you to review this and other opportunities with your CMG Advisor. As with all of the strategies on our platform, you have the flexibility to adjust your current strategy allocations by adding a new manager or replacing an existing manager all within one simple, liquid managed account.

High Yield Opportunity Directly Ahead:
Over the nearly 17 years that I have been trading the intermediate term trends in the HY market, I have witnessed two significant buying opportunities (both coming off recession lows/rising defaults - 1991 and 2002). Post the 1990/1991 and 2001/2002 recession lows/rising default rate cycles, the Lehman HY Bond Index gained 60% in 1991/1992 and 30% in 2003. Although we are not quite there just yet, opportunity number three is taking shape.

The first time was in 1991 - the HY market was in steep decline. Drexel Burnham was history, the recession was in full swing and the future of the HY market was 100% uncertain. In 1991, I had started the process of forming my advisory business and the foundation of the business was to trade the high yield junk bond market. Ugh – what timing. I remember trembling when my model generated its first "buy" signal. It took all I had to pull the trigger and trade into HY's from money market funds. Of course, 1991 turned out to be an amazing year.

The second time was easier, though the back-drop was equally fear based. Enron, WorldCom, a handful of other accounting scandals and, of course, recession were on the front page of every newspaper. Yet, this time I was far more aware of the opportunity unfolding in front of me. Default rates spiked to more than 10%, prices declined and yields moved to nearly 15%. Because of the low prices, the high default rate and especially the higher bond yields, the investment risk was actually lower not higher. It was much easier to pull the "buy" signal trigger at the October 2002 low. I was so excited.

I see opportunity number three currently developing in a similar manner. We are seeing recession lows/ rising default rate cycles, banks in trouble, massive deleveraging, and, of course, fear. Below summarizes several key thoughts on the HY market and related implications to the US equity market. I hope you find this information helpful. Of course, past performance does not guarantee future success.

It is coming – Opportunity Number Three: Some key points:
"The most recent US Federal Reserve senior bank loan officer survey reveals a draconian pullback of lending to US corporate and other segments of the economy. ***Tightening standards point to an 11% default rate;*** *and spreads are trading too tight versus lending availability, particularly among Triple-C's (CCC rated paper).* ***The pace of bank credit tightening has become draconian in scope and now stands at the recessionary levels last seen in 1991 and 2002.*** *This promises a rapid increase in default rates over the next few quarters, to an anticipated 11%."* Christopher Garman, CFA. Leverage World Aug 15, 2008.

Chris recently took over Leverage World from Martin Fridson. Formerly head of HY Strategy at Merrill Lynch & Co., Chris is one of the best HY research analysts in the business; a recognition Mr. Fridson shares as well. Leverage World publishes a weekly HY Strategy research piece. http://www.fridsonvision.com/

The current default rate stands at 2.50% (still near historically low levels). It stood at 2% in September 2006 and hit a low of 1% last year. When problem companies can no longer paper over their problems with short term bank lines of credit, they fail. The available liquidity in the banking system has dried up. The available liquidity from the leveraged securitization market is dead. Defaults will rise.

If default rates explode to 11% as expected, the impact on the leveraged credit default swap market will be massive. With default rates so low for so long, there are a ton of banks/hedge funds/other investors collecting premiums on this stuff. We have already seen what the impact has been on the mortgage market. Stay tuned – more surprises to come. It is not just sub-prime problems, think about credit card debt, auto debt, and bad corporate loans as well. The leverage unwind is underway.

I believe it is unlikely that banks will lend needed survival money to troubled CCC rated companies. Banks have their own set of issues and related capital constraints. Also important to understand is the roll the securitization market played in providing excess liquidity to the lending system. Prior to the credit crisis, banks could issue loans and sell those loans to Wall Street product manufacturers. By selling the loans off their books, banks were able to write more loans than their capital balances would normally allow (they earned points and fees for originating the loans). With capital limitations, banks make fewer loans and the resulting loss of liquidity to the economic system is massive.

This from Ned Davis Research August 2008 Investment Strategy:
"The NDR Credit Conditions Index, which summarizes and measures the cost and availability of credit, fell to a record low, led by the deterioration in the consumer sector. But even the business sector has continued to erode, falling to its worst reading since the end of the last recession. Only after this index begins to reverse its slide will the markets be on the road to more normal credit conditions. ***How long will that take? No one knows for sure, but based on prior cycles, once the conditions begin to improve, it could take another two years to return to normalcy."***

HY prices have been slowly grinding lower. I believe that the big decline will come when default rates spike and investors panic out of positions. The correction, like many in the past, will likely happen in a hurry as bids/buyers are removed from the market. Currently, volume has dropped off considerably. In fact, the three-month trailing HY volumes recently hit all-time lows.

Again from Chris Garman at Leverage World:

"We find that low volume markets lead to high volatility periods for returns. ***The HY bond market is now seeing very low volumes, which suggests a bout of performance volatility and down-trades through November 2008.*** *We posit that long stretches of low volume still mean that investors become increasingly less comfortable with their positions; and holders will ultimately capitulate on their price expectations. The result is heightened volatility as investors ultimately attempt to get portfolios back in line with their expectations.* ***These post-low-volume price moves are akin to tectonic plate shifts and earthquakes – prices suddenly catch up.****"*

Like prior rising default rate cycles, as problem companies are flushed out, risk is adjusted. Prices move lower and yields higher setting the stage for the next big HY market move. Currently, HY bonds are yielding 11.50% (Lehman HY bond Index). A rise in default rates from 2.50% to 11% will likely send HY bonds down another 10+% in price sending yields higher to approximately 15%. This is a reasonable target considering that HY bonds tend to yield 10% more than Treasury bonds at recession/default rate cycle lows (the 10-Year Treasury note is currently yielding approximately 4%. An increase of 10% would point yields to approximately 14% should Treasury bond yields stay in the 4% area). In the meantime, our CMG Managed HY Program will likely spend a greater percentage of time in money market funds and we are hopeful that the Anchor Long Short HY fund catches some good trades on the short side.

Opportunity Number Three: Like the prior two recession cycle low buying opportunities, this one could prove to be equally attractive. For now, be patient and prepared… I believe it may take another two to six months to unfold.

Key Indicators to Watch:

- Default rates near 10+% (currently 2.50% est.)
- Yield spreads paying 900-1100 bps more than Treasuries (currently 750 bps over Treasuries est.). In layman's terms, with 10-year Treasury bonds yielding close to 4%, 1000 bps over Treasuries would equal a yield of 14%. Yields may go even higher. Of course, our trade exits and subsequent re-entries will be tied to our trading signals.

As for the US Stock Market:

Recession -- yes (the average correction in bear markets is approximately 30%).
Valuation -- With the most recent reading reflecting the **S&P GAAP PE ratio at 24 times earnings**, the stock market is expensive.

At best this tells me that the markets remain in a choppy long-term bear market. My two cents is simple: This is a traders' market and will likely be so for several years to come.

How to utilize our liquid multi-manager investment account platform:

We encourage you to consider blending several strategies within your portfolio. The idea behind this is what we call "correlation diversification" with the optimal goal of blending together non-correlating strategies as a percentage allocation weighting of your total portfolio. Just how much is allocated to alternative trading strategies depends on a number of factors important to you.

So with this thinking I thought I'd share one more aspect of how our investment platform is designed to work. From time to time, all investment strategies move in and out of favor. If you are looking for the Holy Grail, I believe you'll be looking forever. Yet there are opportunities out there and it is our job to find them. One of the keys to successful investing is to be forward looking and flexible. We focus on highly probable trading strategies and have structured a process that allows you to invest in and change the percentage weightings between the strategies

you have selected. You can add a new managed strategy and/or remove a strategy. It is an easy to manage and a highly fluid process all within one simple managed account.

For discussion purposes only, attached is a hypothetical tear sheet reflecting a diversified investment blend of 50% Scotia Growth S&P Plus (Scotia) and 50% Schreiner Dynamic Index Program (Schreiner). Let's assume for example that the HY opportunity I had written about begins to take shape and you want to capitalize on that opportunity. Using the example above, with our platform you can reallocate your account from your original 50% Scotia, 50% Schreiner allocation to 30% Scotia, 30% Schreiner, 20% CMG HY, and 20% Anchor L/S HY or any percentage/strategy combination you desire. Additionally, we will be adding several new strategies to the platform in the near future that you may wish to incorporate into your existing portfolio.

Of course, past performance cannot guarantee future performance. The opinions expressed here are for discussion purposes only and do not constitute a recommendation to buy or sell any security.

Finally, I have attached a couple of very short YouTube videos for you. The first is creatively tied to the Fannie Mae problems. The second is pure love. I hope you enjoy them.
http://www.youtube.com/watch?v=712kRqri2No
http://www.youtube.com/watch?v=adYbFQFXG0U

Please give me a call if you have any questions.

With kind regards,
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