

# GREY INVESTMENTS FAMILY FIDUCIARY SERVICES, INC.

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## Investment Letter

Second Quarter, 2008

### Portfolio

Despite the sharp drop in equity values around the world in the first half of 2008, your portfolio generally declined by about half the market drop. Investments in hard assets, U.S. and high-quality municipal securities contributed positively to our returns, while investments in U.S. and international equities declined along with the market. Other changes we made to your portfolio included reducing our exposure to equities in some accounts and increasing our exposure to a basket of commodities (which include oil and agriculture) while reducing positions in gold.

### Past Quarter

The U.S. economy is clearly in a recession that began early this year. Housing prices continue to decline, consumer credit has tightened, unemployment has risen and escalating food and energy prices have constrained consumer discretionary spending. At the same time, the Federal Reserve Board has moved in extraordinary fashion to provide capital to troubled financial institutions and to sharply lower its target federal funds and discount rates. In addition, the U.S. government has passed stimulus programs aimed at minimizing the effects of a recession. The economic slowdown might be softened somewhat, however, with an increased risk of rising inflationary pressures longer term.

### Outlook

The sharpest stock market rallies in history have typically occurred during recessions and bear markets, as stimulus programs are implemented and/or as investors sense a point of maximum pessimism and hope to invest at the market's bottom. While sometimes such a rally turns into the beginning of the next bull market, often these "bear market rallies" are sharp but short-lived, followed by renewed declines. We believe that the risk of a continued stock market decline going forward is still high enough to preclude a more aggressive allocation to equities. We also remain vigilant to the possibility of stagflation, and we believe it is especially important at this time to maintain a highly diversified portfolio, including investments that hedge against inflation.

Please do not hesitate to contact us to discuss our investment strategy, results and outlook in more detail. Also, please let me know if any circumstances have changed in your present situation that might necessitate a change in your investment strategy or if you have any specific questions about how your account is managed.

David L. Grey  
President & Chief Investment Officer