C Y P R E S S

ASSET MANAGEMENT, INC.

MARKET COMMENTARY **October, 2008**

When we cautioned in our January market commentary that we might be in for a rough ride in 2008, we had no idea that a historic global bear market awaited investors. The last three weeks (September 22 – October 10) have been the most difficult in our twenty-five years in this business. Many economists, long time investors, and market historians believe it has been the most severe financial crisis and market selloff since the great depression in the 1930s. Financial crisis and frozen credit markets led to a global deleveraging that proved unmanageable. The paradox of deleveraging is that if everyone tries to do it at the same time, it can't be done. Yet there are reasons to believe we have now finally administered the "necessary and sufficient" medicine to stabilize the patient and begin the healing process.

The good news is that the crisis and market panic has now been met by both an unprecedented government policy response and unprecedented global cooperation. The passage of the $700 billion U.S. banking recovery plan on October 3rd, after much drama in Congress, has been followed by comprehensive programs in the U.K. and in Europe. Europe's coordinated plan is an impressive achievement that many thought would be almost impossible for a Euro Zone still in its political infancy. While the U.S. housing bubble is the primary fundamental underlying cause of the economic crisis, world leaders ultimately realized that it was a global problem requiring a global solution. The finger pointing stopped and has been replaced by a remarkable show of global cooperation extending from the U.S. to Europe to China and the major Asian economies. Virtually every industrialized nation has adopted a plan – drawing on the U.K. plan as a model – that provides a powerful menu of policy responses: direct capital injection into banks, direct provision of liquidity (e.g. the U.S. Federal Reserve is now funding commercial paper), guarantees on bank debt including inter-bank loans, and increased guarantees on bank deposits.

In fact, the U.S. Treasury has decided to use the authority granted under the Troubled Asset Relief Program or TARP to directly inject capital into U.S. banks rather than purchase troubled assets (this still could be done later). Direct investment maximizes the positive impact to the capital base, more effectively strengthening banks. Warren Buffett employed this strategy in his recent investments in Goldman Sachs and GE, and most economists strongly favor this approach as providing much more "bang for the buck" than outright purchase of troubled mortgage assets. An enormous number of policy steps have now been taken, and it can be argued that the actions of the last few days have finally brought the brute force necessary to deal with the global crisis and panic. While all these steps should ultimately have a powerful impact, government policy works with a lag, and the results will take some time to judge.

It is very difficult for anyone to gauge the extent of the impact of the financial crisis on the real economy at large. We are in unchartered territory. Investors' focus and concerns should increasingly turn from the financial system to that of worldwide economic recession. Consensus is that the U.S. economy has entered a deep recession of 3-4 quarter duration, joined by Europe, resulting in significantly slower growth in the developing world. It could be worse than that, or, as we saw with the Asian Financial crisis of 1997, prove surprisingly brief and the underlying economy resilient.

U.S. and international corporations, including the ones we own, have already seen their business effected by frozen credit markets and increasingly uncertain business conditions. But for long term investors, this is probably a good opportunity to invest. A lot has changed in the last 3 and 12 months, but one thing that has not changed is that you own good companies positioned for long term growth in the global economy. We may be in unchartered territory, but these remain strong, well positioned, and well capitalized companies.

We will close this letter with some words of wisdom and encouragement from Warren Buffett, spoken just a few weeks ago: *"You know, five years from now, ten years from now, we'll look back on this period and we'll see that you could have made some extraordinary (stock market) buys. That doesn't mean it won't get more extraordinary a week or a month from now. I have no idea what the stock market is going to do next month or six months from now, I do know that the American economy over a period of time, will do very well, and people who own a piece of it will do well."*

IMF Estimate of $1.4 Trillion in Collateralized Loan Losses

Credit Losses ($ Bil.)

Region	Americas	Europe	Asia	Worldwide
3Q07	28.2	14.2	0.3	42.7
4Q07	75.8	78.7	11.0	165.5
1Q08	69.2	88.5	9.7	167.4
2Q08	70.4	40.8	3.7	114.9
3Q08	89.1	1.1	-	90.2
Total	332.7	223.3	24.7	580.7

TARP $750 Bil.

Britain & European Bank Rescue $2.0 Tril. *

Capital Raised ($ Bil.)

Region	Americas	Europe	Asia	Worldwide
3Q07	0.8	9.1	-	9.9
4Q07	30.1	14.9	-	45.0
1Q08	59.8	22.2	3.6	85.6
2Q08	70.9	80.5	13.7	165.1
3Q08	73.5	47.3	5.3	126.1
Total	235.1	174.0	22.6	431.7

*Direct Investment; Purchase of troubled assets; Deposit, Debt, & Loan Guarantees. Certain G7 Govts. have pledged "as much as necessary".

Source : Bloomcerg, ISI