Review for the 3rd Quarter 2008 and Future Outlook

Recent Market Events

When the financial crisis started 13 months ago, no one anticipated that problems with sub-prime mortgages would spread to where it took down some of America's oldest and most prestigious institutions. It is now apparent that we have entered a new and more serious phase.

September 2008 will most certainly go down in history as one of the worst in U.S. stock market history. We saw the bankruptcy of Lehman Brothers, Bank of America's purchase of Merrill Lynch and the U.S. Government takeover of Fannie Mae, Freddie Mac and insurer AIG (American International Group).

On September 19th the U.S. Government realized that a comprehensive strategy was needed and initiated its boldest rescue plan since the 1930's. The government proposes to create an entity similar to the Resolution Trust Corporation (RTC) that was formed in the late 1980's. The RTC took over failed banks and sold off their assets. If approved, the new entity will function in a similar manner (as of this writing the entity does not yet have a name).

At Carl P. Sherr & Co., LLC we support the action of the U.S. Government in creating this new entity. While we are strong believers in the rescue plan, the details of implementing it will be left to the future President - McCain or Obama. More work needs to be done and more regulation is needed but we believe the rescue plan will be seen as a defining moment in getting our economic institutions back on track.

Investor Protection

We feel that it's important for you, our client to know that the securities industry has multiple layers of protection to ensure customer accounts are safe. We want to take this opportunity to educate you, our clients, about these safeguards.

Under Securities and Exchange Commission (SEC) rules, broker-dealers must keep customers' securities and cash segregated from their own so that customers' assets will be safe. The SEC also requires broker-dealers to maintain adequate net capital to reduce the likelihood of insolvency.

The worst case scenario: While Lehman Brothers Holdings Inc filed for protection under Chapter 11 of the bankruptcy laws, the firms U.S. regulated broker-dealer operations and its investment management unit is still solvent and functioning. The broker-dealer operations have not filed for bankruptcy and are expected to close only after an orderly transfer of customer accounts to other registered and SIPC-insured broker-dealers. The bottom line is that investor accounts were not closed or forever gone because a firm went belly up.

Client Safeguards and Insurance

Carl P. Sherr & Co., LLC does not physically hold your securities, investments or cash. Client accounts are held at our clearing firms; Fidelity, Morningstar and Pershing LLC (a division of Bank of New York).

Carl P Sherr & Co., LLC and its clearing firms do not have an investment banking business and we do not pursue proprietary trading strategies. Declines in the mortgage market and other markets have led to losses in certain types of fixed income securities which have contributed to the difficulties faced by other financial firms.

To learn more about investor protection please visit the Financial Industry Regulatory Authority (FINRA) at www.finra.org and the Securities Investor Protection Corporation (SIPC) at www.sipc.org . In addition to SIPC coverage, our accounts at Fidelity and Pershing have supplemental coverage called "excess SIPC coverage" which is not subject to a dollar limit. Please visit the Customer Asset Protection Company (CAPCO) at www.capcoexcess.com to learn more about excess coverage.

Credit Default Swaps and the Domino Effect

The latest trouble spot is an area called credit-default swaps (CDS). If you have never heard of a CDS, chances are you will soon. A CDS is a private, unregulated contract that transfers risk and let firms bet on whether a borrower is going to default. When a default occurs, one party pays off the other. American International Group (AIG) was one of the largest purveyors of this product.

CDS's did not cause all of the problems in the markets, but they certainly made the situation worse. The sheer volume of CDS contracts outstanding – and the fact that they are basically unregulated – created a situation where the fate of institutions and brokerages were intertwined. This created the potential of a domino effect on the U.S. and world economy if a larger company, like AIG were allowed to fail.

What Should You Do?

1. *Don't panic*. The worst financial decisions are made under stress.
2. *Call us.* If you have questions or concerns, we are here for you.
3. *Have a plan*. Are your investments suited to reach your goals? Have your goals changed? Are you concerned about volatility? Call us to schedule a review – or to learn more about our financial planning services please visit www.carlpsherr.com