

PERSPECTIVES

...thoughts and commentary on today's financial issues

Fall 2008

MARQUETTE ASSET MANAGEMENT, INC.



Investment Management and Trust Services · Trust Services provided by Marquette Trust

FEATURED

Economic Update *John Beuerlein*

Pages 1-2

Client Communications *John Pohlad*

Page 2

IN THIS ISSUE



THOUGHTS ON RECENT GOVERNMENT ACTIONS

John C. Beuerlein
*Managing Director,
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We live in historic times. What started as a problem with sub-prime mortgages has now evolved into a worldwide crisis that threatens global economic growth for the foreseeable future. Government and central bank responses have become more aggressive as the impacts of the crisis have become more pronounced. Recently, global policy makers have initiated unprecedented steps to unfreeze the banking system and get credit markets functioning.

On October 13 and 14, financial leaders of the 20 largest economies in the world, representing 90% of global Gross Domestic Product (GDP), announced plans to inject capital into their countries' banks, widen the insurance coverage of bank deposits, guarantee certain bank debt, and in some cases, to nationalize their banks.

Specifically, in the U.S., the Treasury will use up to \$250 billion from the \$700 billion financial stabilization package to purchase senior preferred shares in banks. The preferred stock will carry a 5% annual dividend for the first 5 years – rising to 9% thereafter, thus giving the banks an incentive to buy back the preferred stock from the government once the crisis abates and their balance sheets stabilize. Nine of the largest U.S. banks will receive \$125 billion with the remaining \$125 billion available to smaller banks

who apply. At the same time, Europe has earmarked \$300 billion for their bank recapitalizations.

The Federal Deposit Insurance Corporation (FDIC) will guarantee 100% of newly issued senior unsecured debt of banks, thrifts, and some holding companies for three years. The FDIC will also provide unlimited insurance for bank accounts used by small businesses through December 31, 2009. The size of interest-bearing accounts covered by FDIC insurance was increased earlier to \$250,000/account from \$100,000/account.

Finally, the Federal Reserve will buy high quality three-month maturity commercial paper through April 30, 2009, thus providing liquidity in a market used by major corporations to pay for day to day operations. In addition to this action, the Fed has provided \$1.2 trillion to commercial and investment banks through special lending facilities created over the past twelve months.

The primary objective of these moves is to get the credit markets functioning again. Over the past twelve months, the ability of corporations, individuals, and even banks to access the credit markets has been restricted as concerns about the creditworthiness of the borrowers has been called into question. Banks have tightened their lending standards for all types of loans. At the same time that their appetite to lend has diminished, the value of some of the existing loans on their books has been written down. Accordingly, banks have been holding on to any available cash to stabilize their balance sheets, instead of lending it out.

The absolute magnitude of these recent government actions is unprecedented, but when measured as a percentage of GDP,



the actions are less than what has been needed in banking crises throughout the world over the past forty years. It is, therefore, reasonable to assume that the final cost to stabilize and reenergize the economy will be greater than the commitments already articulated.

Policymakers will be monitoring credit spreads and interbank lending rates (e.g. Libor) to assess the efficacy of these current actions and determine whether further actions are required.

If needed, the most likely next steps would include further coordinated interest rate cuts, and the creation of a clearinghouse

for the interbank lending market and the credit default swap market.

Finally, most measures taken to date have targeted the supply side of the credit markets. At some point, it may also be necessary to address the demand side of the market by providing fiscal stimulus targeted at distressed homeowners whose deteriorating home values are the primary collateral that is stressing the banking system.

**A NOTE ON CLIENT COMMUNICATIONS
FROM JOHN POHLAD**

It is always our intention to communicate with our clients. The most important criterion is to be proactive in the most timely manner possible. This has been particularly true during these difficult economic conditions. Marquette Asset Management has recently provided its thoughts on the economy via webcasts, an interview in the Pioneer Press and one-on-one client meetings.

Please visit www.marquetteam.com under the “News & Press” section for audio recordings of our recent webcasts and articles.

**INDEX PERFORMANCE
THROUGH OCTOBER 31, 2008**

Domestic Equity Indices

	QTD	YTD	TTM*
S&P 500	-16.79	-32.83	-36.08
Dow Jones	-13.79	-28.09	-31.23
NASDAQ	-17.73	-35.11	-39.81
Russell 1000	-17.46	-33.56	-36.80
Russell 2000	-20.80	-29.03	-34.16
Russell 3000	-17.74	-33.22	-36.61

International Equity Index

MSCI EAFE	-20.24	-43.58	-46.67
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Domestic Fixed Income Indices

Lehman Aggregate Bond	-2.36	-1.73	0.31
Merrill Lynch 1-12 Yr Muni	0.12	1.11	2.59

*Trailing 12 Months

OUR GUIDING PRINCIPLES

Integrity	The core of who we are and the way we live
Expertise	Knowing our profession and practicing it with passion
Advocacy	Being active champions of our clients’ financial interests
Confidentiality	Ensuring client privacy

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