

# GURUN *Report*

A timely message from GURUN INVESTMENT ADVISORS, INC. for its valued clients

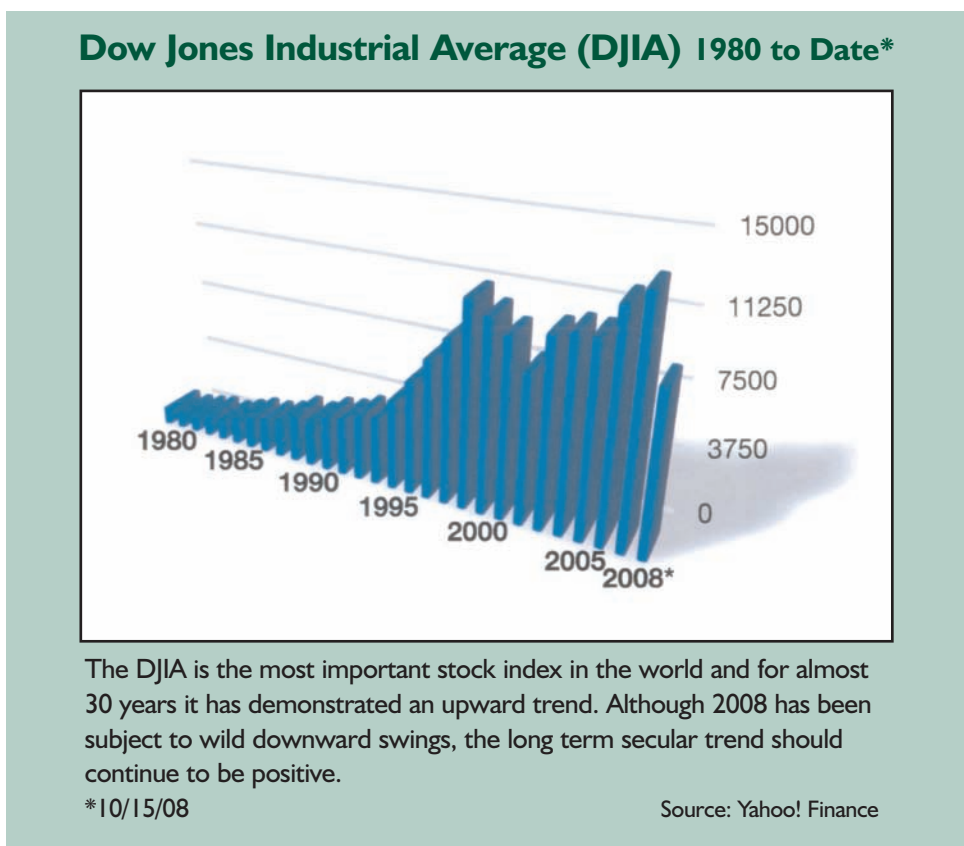
## Preserving Capital

Unprecedented events in the capital markets have unsettled even the most casual observer. Bank collapses, government seizure of financial institutions, money market fund's "breaking the buck" have collectively raised serious questions about the safety of investors' financial assets. It is important the clients of Gurun Investment Advisors understand the controls in place designed to protect your investment portfolios. These safeguards include account coverage protection and conservative investment management designed to mitigate market risk.

### Account Coverage Protection

Our firm employs Southwest Securities to provide clearing services for our clients that include custody of financial assets, processing account activity (trade execution, cashflows, etc.) and providing monthly statements and tax-related documentation. Each account at Southwest Securities is protected up to \$500,000 (including up to \$100,000 in cash) by the Securities Investors Protection Act ("SIPC") of 1970.

Additionally, Southwest Securities has purchased from underwriting syndicates at Lloyd's of London security pro-



tection to cover net equity of customer's accounts up to an aggregate of \$100 million. Finally, each account is segregated and identified by the unique tax identification number of the account holder that facilitates a seamless transfer to another financial institution in the unlikely event of a dislocation at Southwest Securities.

### Investment Management

Our firm's investment style is designed to preserve capital and generate a rea-

sonable rate of return over an extended timeframe. We strive to achieve this objective by defining the amount of market risk suitable for each client relationship. By carefully quantifying the amount of the portfolio to invest in common stocks, we can more effectively manage market risk and the associated volatility in the equity markets.

The common stock allocation is diversified across different industries and

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# GURUNReport

has been prepared by

**Gurun Investment Advisors**  
to help you understand and achieve your  
long-term financial objectives via  
conservative investment management.

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issuers and is generally restricted to high quality, established companies that pay a dividend and raise the dividend every year. The portion of the portfolio allocated to fixed income is treated as sacrosanct and invested only in investment grade obligations such as FDIC-insured Certificates of Deposit.

Although it is disconcerting to see a decline in the value of your investment portfolio, the most prudent approach for investors with a long-term time horizon is to stay the course. By properly quantifying the mix between stocks and bonds, prudent investment management and ensuring the safekeeping of the financial assets, we strongly believe the portfolios are properly protected to withstand the current dislocation in the financial markets.

## Financial Sector Shocks

Seismic shifts that would normally play out over decades have rocked the financial sector in a matter of weeks:

- 1 The downfall of Bear Stearns and Lehman Brothers.
- 2 The implicit U.S. Government guarantee does not protect Freddie Mac and Fannie Mae shareholders.
- 3 The Reserve Primary Fund; a \$62 billion money market fund, “breaks the buck.”
- 4 American International Group; the nation’s largest insurer, is brought to the brink of bankruptcy by derivatives trading.
- 5 The pending takeover of Merrill Lynch by Bank of America.
- 6 Investment banks Goldman Sachs and Morgan Stanley to become bank holding companies.
- 7 With \$307 billion in assets, Washington Mutual became the biggest banking failure in America’s history.
- 8 Wells Fargo to acquire Wachovia Bank.
- 9 On September 29, the Dow falls 778 points, the largest point drop in history.

## Government Support

What began as an ad hoc approach by the U.S. Government to prevent a financial meltdown has evolved in a coordinated global effort.

- 1 The creation of federal insurance for money market funds.
- 2 Direct U.S. Government purchases of commercial paper.
- 3 The U.S. Government seizes control of mortgage titans Freddie Mac and Fannie Mae, two publicly traded companies that hold or guarantee about half of the nation’s mortgage loans.
- 4 The Securities and Exchange Commission bans some aggressive forms of short selling.
- 5 U.S. Government extends an \$85 billion emergency loan to rescue AIG and assumes a 79.9% equity stake.
- 6 A \$700 billion plan for the U.S. Government to purchase troubled assets from U.S. banks and direct capital investment in financial institutions.
- 7 The U.S. Government facilitates the merger of major financial institutions.
- 8 Coordinated rate cuts by Central Banks around the world.

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**GURUN** *Conservative Investment Management*  
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