



BROADWAY INVESTMENT MANAGEMENT GROUP

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REVIEW AND OUTLOOK *Third Quarter 2008*

Market Overview

The third quarter of 2008 ushered in an unprecedented level of turmoil in the U.S. financial markets. During the quarter we witnessed the loss of household names on Wall Street, the take over of the largest insurance company in the U.S. by the government and the largest bank failure in U.S. history.

Two of the most recognizable names on Wall Street ceased to exist independently on September 15, as Lehman Brothers filed for bankruptcy and Merrill Lynch sold itself to Bank of America. Clients and trading partners withdrew money from these firms as concerns grew that the illiquid mortgage related securities on their balance sheets would hinder their ability to borrow the short-term funds needed to run their daily operations.

Then on September 17, the Federal Reserve announced they were providing American International Group an \$85 billion loan and the government was taking an almost 80% ownership interest in the company. AIG was connected to the subprime mortgage market through its financial products unit which wrote protection on a decline in value of mortgage debt derivatives. As the value of the derivatives declined AIG began recognizing losses. Many other large financial institutions purchased protection on mortgage securities from AIG and therefore letting the company fail would have sent a ripple effect throughout the financial sector. The Fed decided AIG was too large to fail and the ramifications could have meant a collapse of the U.S. financial system.

Other major financial events of the third quarter included the announcement the FDIC had seized Washington Mutual Inc. after its depositors had withdrawn \$16.7 billion and it was no longer a sound financial institution.

With \$188 billion in deposits Washington Mutual made history as the largest bank failure the U.S. has ever experienced. Their financial troubles stemmed from the demise of the real estate market on the west coast. The bank's mortgage portfolio was primarily concentrated in California and Nevada which have some of the highest mortgage default rates in the country.

The third quarter ended with news of another large bank merger as Citigroup announced they would purchase the banking operations of Wachovia with help from the FDIC. While this transaction was announced on September 29th it remains in limbo after Wells Fargo offered a higher bid to purchase all of Wachovia stating they could do so without government assistance. Wells Fargo and Citigroup remain in negotiations which may end in a split of Wachovia between the two suitors.

In an effort to end what is perceived by many as the largest financial crisis since the Great Depression, Henry Paulson, the Treasury Secretary introduced the \$700 billion relief plan under which the U.S. federal government would purchase illiquid mortgage securities from financial institutions in an effort to restore confidence in the financial system, allow banks to clean up their balance sheets and reestablish functioning credit markets.

The initial draft of the legislation was defeated on September 29 due to a lack of support in the House of Representatives which resulted in a decline of almost 780 points in the Dow Jones Industrial Average. Then on October 3, a revised plan garnered enough votes in both houses of Congress and was signed into law by President George W. Bush. We believe that a government assistance plan was necessary in order to get the financial system back on a road to recovery.

Investments are not FDIC Insured • Not guaranteed by the bank • Not a deposit • Not insured by a federal government agency • May lose value



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We would like to take this opportunity to advise you of or remind you about the capital strength of Broadway Bank. We have never participated in the origination of subprime loans. Our loan and investment portfolios continue to reflect our prudent nature, diversification and excellent quality. Our financial position continues to earn the highest ratings for capital safety and soundness.

The Wealth Management Division has employed some of the same themes in the management of your investment accounts. Rest assured we are focused on using high quality investments that fit into well diversified investment plans designed specifically with your needs and risk tolerance in mind.

Our equity portfolios have been designed to include defensive characteristics and therefore have outperformed the general market over the past year. A decision to underweight the financial sector almost a year ago has paid off and this remains our position for the near future. The technology sector has been a top performing sector for our portfolios outperforming the S&P 500 Information Technology Index by almost 8% over the last year.

We have remained prudent within our bond portfolios holding steadfast in our investment philosophy to only purchase bonds rated 'A' or better, not giving into temptations to chase higher yields in the marketplace, limiting the amount we invest in any single issuer, and diversifying in a variety of ways. These time tested practices have proven valuable in limiting the negative effects of the worst credit crisis in over half a century.

In addition for client portfolios where tax-free fixed income is appropriate we have focused our bond purchases on Texas municipalities. The economy in Texas has been far more resilient in terms of our real estate markets and economic growth than regions on the east and west coasts which have experienced dramatic drops in real estate values and little or no growth in their local economies.

We want to take this opportunity to thank each of you for your business and to let you know how grateful we are that you have chosen Broadway Wealth Management as your investment manager. These are undoubtedly among the most difficult times in the financial markets in the post WWII era. However, they are certainly not the only difficult times we have experienced as a nation. We stand firm in our belief that this is still the strongest and most financially sound country in the world and we will see prosperous times again. We are committed to working diligently to position your portfolios to address your goals, needs and objectives throughout the myriad of challenges we might face together.

Index	YTD	1 Year	3 Years
Dow Jones Industrials	-16.60%	-19.86%	3.33%
S&P 500 Index	-19.29%	-21.98%	0.22%
EAFE*	-28.93%	-30.13%	1.64%

*EAFE = Europe, Australia, & Far East International Index

2 Year Treasury Bond Yield as of 9/30/08	1.97%
2 Year Muni Bond (AAA) Yield as of 9/30/08	2.49%