

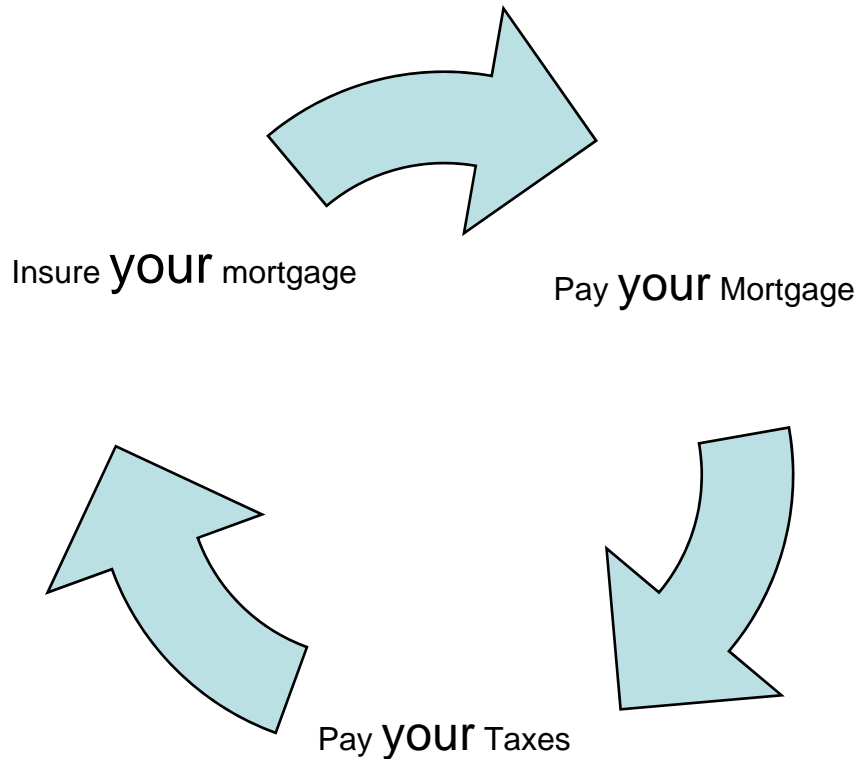
Solano EDC

What the Heck is going on?

Current Global Climate

- Liquidity Crisis
- Capital still addicted to illusory high returns
 - Massive Capital flows overseas
 - Most are seeking opportunistic +18% returns
 - Capital purchasing Debt rather than Assets
 - Secure lower basis
 - Provides a longer horizon for returns

Free Fall on Wall Street

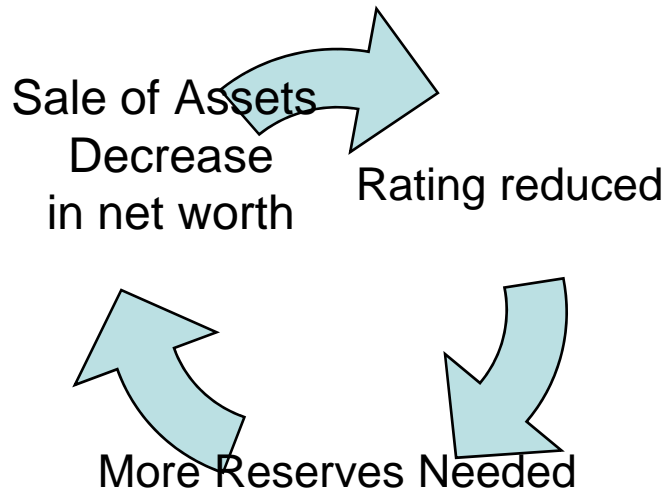


- An embarrassing cycle of doubling down
- Looking to the Fed for rescue
- Tax Payers now own FNMA and FRMAC
- AIG 80% owned by US Taxpayers

From Someone who knows a crisis

- So when you try to understand this crisis -- and hopefully by now you agree the problem is massive -- think about human nature. Think about how you feel when you lose a football bet on Sunday, or you lose \$250/\$500/\$1,000 at the Black Jack table in the first 10 minutes. The knee-jerk emotion is to double-down. The feeling and the thinking is "There's just no way I can lose 4 or 5 times in a row". The double-down emotion is what's killing many bank and broker dealer CEOs. In this crisis, YOU CAN LOSE 4-5 TIMES IN A ROW, and it continues to happen because the leverage behind this crisis makes it a foregone conclusion, that is, until the leverage is unwound.
- by Kevin Griffin, Cantor Fitzgerald Sept 10, 2008

What the Heck is Going on?



- Rating agencies cut companies ratings
- Causing the company to increase reserves
- Increasing reserves means selling assets
- Selling assets leads to a smaller asset base
- See Step 1

Consumerism

70% of US Economy

- Credit Crunch/Mortgage Market
- Foreclosures
- Higher Fuel/energy Prices
- Less disposable income
- Decline in Retail Spending

Retail Store Closings

Sector	Share of Store Closings
Clothing	48.40%
Housing	19.40%
Electronics	9.70%
Department Stores	9.70%
Sporting Goods, Hobby	6.50%
Miscellaneous	3.20%
Auto Supply	3.20%

Pension Fund Investing

- Was 80% Domestic Core investing
- Now 50% Domestic Core
- Much higher investment in Co – Mingled foreign funds
- More opportunistic less “Core” overall
- Need for moving large amounts (+\$100mill) of Capital

Pension Fund RE Investments

Invested in :

- Western Europe 59%
- Central Europe 47%
- Eastern Europe 27%
- Japan 41%
- China 37%
- India 41%
- Mexico 35%

Why Outside US

- Higher (implied) Returns
- Large Capital requirements
- Infrastructure
- Emerging middle class opportunities
- Growing Economies

What changes are coming?

- *"He who lives by the crystal ball soon learns to eat ground glass."*
- Edgar Fiedler

Development activity will hit all time low

Current year to date Fairfield housing permits – less than 40. Compared to +700

Speculative Financing will return in late 2009

India and China funds will woefully under perform.

Steps to be Taken

- The Chinese use two brush strokes to write the word 'crisis'. One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger-but recognize the opportunity.

John F.Kennedy