{Failure of the Financial Bailout Plan}

On Monday, September 29th, stock markets tumbled as the House rejected a financial bailout package that for the past week has dominated trading.

The bailout bill, which was crafted over the weekend by the current administration and senior Congressional leaders, called for $250 billion upfront to be given to the U.S. Treasury to buy troubled assets (including mortgages, securities and other financial assets), which then, subject to Congressional disapproval, could have risen as high as $700 billion. Proponents of an intervention (including virtually all of the money managers we invest with), have argued that government action is necessary reestablish a healthy financial system and to keep banks willing and able to extend credit to an array of businesses in other sectors that drive economic growth.

For rank and file lawmakers, however, the vote forced upon them unacceptable political risks with regards to a resolution that was unpopular (and anger-producing) with voters.

{Market Reaction}

Equity markets plummeted in reaction to the news of the plan's failed passage. The S&P 500 dropped 8.8%, its biggest one-day fall in percentage terms since the 1987 crash. All of the S&P's sectors ended lower, led by a 13.2% decline in financials. The Dow Jones Industrial Average, meanwhile, plunged more than 700 points, its largest point drop ever (though not near the largest single day decline in percentage terms), while the small-stock Russell 2000 fell 6.7%.

As the equity markets were sinking, investors flocked to U.S. government debt looking for safety. The yield on the three-month Treasury bill, considered the safest short-term investment, fell to about 0.14% from 0.87% late Friday. Low T-bill yields illustrate that investors are prepared to get virtually no return on an investment as long as it is secure. The yield on the two-year note dropped to 1.67% from 2.13% Friday, while the benchmark 10-year note yield declined to 3.58% as compared to 3.83%.

Other rates rose, however, including those for LIBOR (London Interbank Offered Rate), overnight loans in the repo market and commercial paper, suggesting that banks are increasingly unwillingly to lend even to each other. LIBOR for three-month euro loans soared to their highest rates ever.

{Interpretation and Outlook}

Many market participants fear that the plan's failure could potentially delay the recovery of the financial industry, which is hobbled by hundreds of billions of dollars in bad mortgage debts lingering on many banks' books. An intractable freeze-up of the credit markets could also deal a blow to the broader economy.

The majority of our managers (who generally support the passing of a bailout package), however, are confident that legislation to improve market conditions will be passed at some point in the near future. In fact, Congressional leaders on both sides of the aisle said Monday that there will be an

effort to bring back another rescue bill perhaps as early as this week, with further changes to find a middle ground.

Managers that we have heard from believe that fears based on today's events are overblown, and that markets overreacted (as they are prone to do, particularly at inflection points) to today's news. Furthermore, many feel that markets may potentially react just as violently to the upside as any future positive news that comes out of Washington.

It is also important to note that the Federal Reserve and foreign central banks remain active in their efforts to relieve the credit crisis. Prior to Monday's vote, central banks pumped billions of dollars to cash-strapped banks at home and abroad in an effort to expand the cash available to financial institutions, extending programs already in place.

Nevertheless, many of our managers believe that there is no quick fix to the financial sector's problems. Even with a bailout package in place, financial contagion may spread further before stabilization, volatility is likely to remain high, and the recovery (when it comes) will take time to work through. In the meantime, many of our managers have indicated that the next 12-18 months may provide one of the best potential buying opportunities they have seen. Their advice, as is ours, is that caution is warranted, but now is the wrong time for investors to panic.

The information contained in this summary is for informational purposes only and contains proprietary information. This information contained in this summary does not constitute an offer or solicitation for any specific investment portfolio or fund. The data, graphs, and tables (for example, index returns) making up this report have been based on unaudited, third-party data and performance information provided to us by one or more commercial databases. While we believe this information to be reliable, Convergent bears no responsibility whatsoever for any errors or omissions. The information is subject to change and, although based upon information that Convergent Wealth Advisors considers reliable, is not guaranteed to accuracy or completeness. Additionally, please be aware that past performance is not a guide to the future performance of any manager or strategy, and that the performance results displayed herein may have been adversely or favorably impacted by events and economic conditions that will not prevail in the future. Moreover, the information provided is not intended to be, and should not be construed as, investment, legal or tax advice.