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Even though the credit crisis began to unfold in August 2007, it was not until the failure of Lehman Brothers on September 15 that the financial markets and global monetary officials began to realize the magnitude of the credit bubble's ability to bring down the global financial system. Within days the Treasury had made an \$85 billion loan to AIG, the global insurer, in order to stave off the collapse of the credit default swap market. Many observers were puzzled by the importance of this esoteric credit derivative market until it was revealed that many European banks had been padding their capital accounts with these instruments.

Speculation combined with excessive leverage is usually a dangerous combination, and once again this proved to be the case as the credit bubble burst. Even conservative, long only investors who had nothing to do with risky mortgage or leveraged investments were caught in the downdraft of equity prices. This decline was caused by margin calls, hedge fund liquidations, forced asset sales, and unprecedented volatility. The credit crisis in turn has led to a global economic downturn, and the depth and length of the current recession is a widely debated topic.

While America has been dubbed "Bailout Nation", we think that the Treasury, the Federal Reserve, the Administration, and Congress had to take immediate and drastic actions to stabilize the financial system. We believe that it is the job of our government to take action or intervene in times of crisis or great stress. As the financial crisis eases, there should be a return to a more normal form of free market capitalism with a stricter regulatory scheme and more transparency for financial companies that are deemed too big to fail.

The massive flight to quality during 2008 has driven the 3 month T-bill yield to nearly zero, and the 10 year Treasury yield to 2.5%. This decline in rates, in combination with the policy interventions by the Treasury, has finally allowed mortgage rates to fall. The healing process in the credit markets will involve a combination of write-downs, write-offs, sales, and refinancings. This freed up capital will need to be invested and with cash earning no return, investors will eventually be enticed to take on more risk in a search for more return. This tension between risk and return will be the indicator to watch in 2009 for improved equity performance.

Thank you for your continued confidence, and we look forward to meeting with you at your convenience.

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