

The average U.S. stock fund declined 37.9% in 2008, slightly worse than the Dow Jones Industrial Average's 33.8% loss. It was the Dow's worst year since 1931, when it declined by 50%...even conservative funds declined by an average of 18.1%.

Money Management Executive 1-7-2009

In 2008, nearly every asset class performed poorly. For anyone with money in the markets, it was the equivalent of picking between living through a hurricane, tsunami, tornado, or earthquake. In extreme situations like this, one can only hope to have chosen the path of least destruction.

We do not usually tout relative performance. However, at certain times, it is the only way to convey just how effective or ineffective a manager has performed over a given period. In addition to the normal asset classes, we have included a group of well known and well respected money managers, and how they or their companies performed in 2008. We think our clients definitely made the right choice.

Portfolio / Index	Q4 (%)	2008 (%)
Regan Absolute Return Portfolio	-2.55	-8.09
Regan Aggressive Portfolio	+5.23	-2.49
Regan Managed Futures Portfolio	-2.98	+4.87
HFRX Absolute Return Index	-8.54	-13.09
S&P 500	-22.45	-38.49
NASDAQ	-24.27	-40.54
Gold	-1.67	+4.32
Commodity (DJ AIG)	-30.12	-36.61
US Dollar Index	+2.34	+6.01
Oil	-55.68	-53.55

Manager	2008 (%)
Warren Buffet	-28
Ken Heebner	-48
Eddie Lampert	-62
Bill Miller	-57
Ken Fisher	-44
Marty Whitman	-27
Bill Nygren	-33
Ron Baron	-41
Mason Hawkins	-51
David Dreman	-48

Performance numbers for the Regan Aggressive, Absolute Return, and Managed Futures portfolios are back tested with best efforts internally by Regan Investments and not audited by outside parties. Past performance of the accounts should not be regarded as an indication of future returns. Share values in the accounts will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original investment. All other performance numbers for listed indices, managers, and stocks are not verified by Regan Investments. They are taken from public sources and Regan Investments does not claim any responsibility for their accuracy. For a complete list of our sources, or a detailed explanation on how we calculate our internal numbers please contact Regan Investments directly.

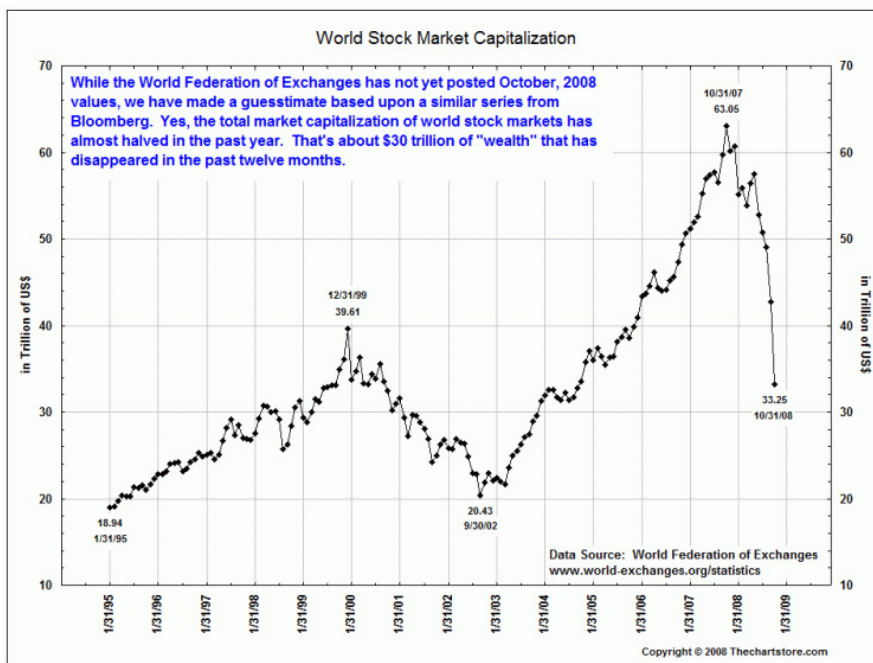
Market Review

A lot of the issues we have been discussing for two to three years are now upon us. The irresponsibility of our monetary authorities and the machinations of global financial institutions have encouraged massive debt levels by consumers, extreme leverage by investors, and off balance sheet entities that threaten the world's most prestigious institutions.

One of the fundamental problems with our economy is that as bailouts are being handed out to banks and financial institutions, the capital is not being pushed back into the economy. In fact, these institutions are tightening lending standards and pulling credit lines to ensure their own survival. This begs the question of "How are all of these bailouts going to promote growth within the economy?"

Most people were afraid to open their statements in 2008. This inaction led to part of the \$30 trillion in wealth destruction (see chart). While we did not escape unharmed, you can be sure we were on the front lines, making major portfolio adjustments, sometimes on a daily basis.

We believe the current financial situation is different than any other post WWII recession. Actions taken in 2008-2009 will have consequences that will last many years into the future. **There will be significant opportunities going forward. The key is to be able to change to circumstance as they arise on a real time basis.**



THE LOUDEST QUIET NOISE

One well respected money manager provided a list of what he describes as the "Loudest Quiet Noise." These are the events within the economy that are not being discussed, but have very positive implications. We have included this list below, and followed it with our corresponding thoughts. In fairness, this list was compiled in late September.

- ◆ US dollar rally draws capital to the US and drives down commodity prices
- ◆ Exports remain a strong component to our economy
- ◆ Oil /Commodities /CPI decline
- ◆ Unemployment near 60 year average
- ◆ SEC, Treasury, Congress, and the Federal Reserve restore confidence and liquidity
- ◆ Money markets at a 15 year high
- ◆ Earning yields very high and expected to grow

US Dollar / Exports — While we fundamentally agree with this analysis, it has not been happening recently. As the dollar has strengthened, the stock market has declined. It is our opinion that this strength in the dollar is short term and will eventually resume its downtrend. In addition, a stronger dollar will only soften demand for domestic goods. This is not good news for a retail-based economy, and will cause many retailers to shut their doors. We think that consumer spending could easily fall another 5% from 2008.

Market Review, Cont'd

Oil / Commodities / CPI — Normally, we would view a decrease in commodity prices as a huge benefit for the economy. However, we believe that the consumer will retrench significantly and this additional cash flow will be used to pay down debt and boost savings. As political tensions mount, continued global demands for food grow, and currencies are devalued, deflation, could eventually lead to increased inflation.

Unemployment — Since this list was written, unemployment has jumped from 5.5% to 7%. The Obama administration has already begun to change the wording of its election slogan of *creating* 2.5M jobs to one of *saving* 3M jobs. Our belief is that unemployment will reach 10% or higher in the future.

Actions of Congress, Treasury, SEC, and the Federal Reserve — These entities provide the most uncertainty. Each branch will endure major changes with the new administration. Federal government deficits look to explode over \$1 trillion and local government deficits look to increase to well over \$200B, leaving many municipal bonds in jeopardy. The only remedy the Federal Reserve will have to combat deflation will be to continue printing money. Also, as these entities interfere with the markets, what has worked for investing in the past may not necessarily work in the future.

High Cash Levels — Hedge fund managers are sitting in cash because of future redemption obligations, and baby boomers have lost roughly 30-40% of their retirement dollars in one year. While some of this money will ultimately come back into the market, we think that there will be a strong undercurrent of people moving into less risky investments.

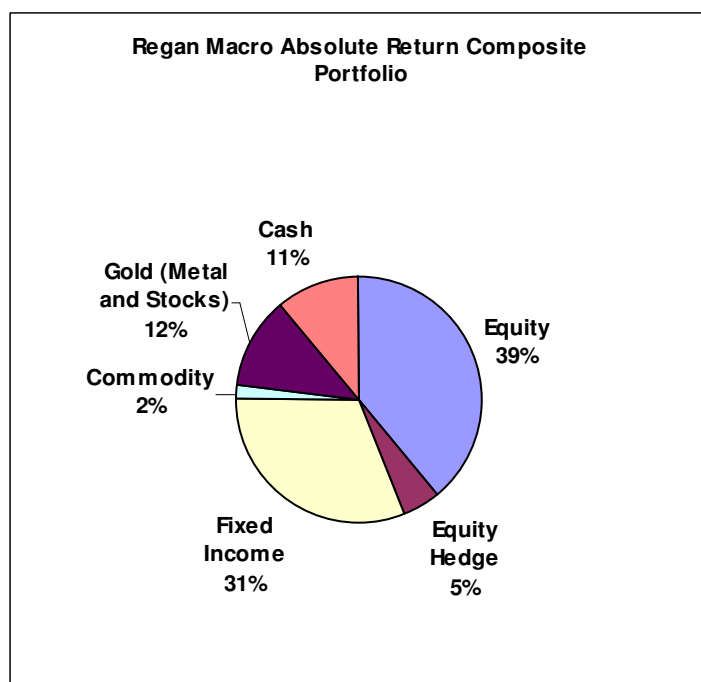
Earnings Yield — The paper suggests that the earnings yield (inverse of P/E ratio) for their portfolio of stocks is 7% and that the potential return (earnings yield + growth rate) is roughly 16% to 18%. This, compared to the returns on Treasury bonds, is the primary reason that this money manager suggests their portfolio has so much unlocked value. While government bonds currently offer little yield, investment grade corporate bonds offer very attractive yields with much less risk than equities.

PORTFOLIO

We have increased our equity exposure to 29% (Stocks minus 2X Equity Hedge) from roughly 10%. We will continue to look for names that have been hit hard but still have strong businesses and solid balance sheets. We are cautiously optimistic regarding stocks in the short term.

We continue to look for corporate bonds with one or two year maturities. While the prices aren't as favorable as they were two months ago, they continue to provide a solid anchor for our portfolio.

We added to our gold stock position. Gold mining companies will see an increase in profit margins as costs decline with energy and raw materials. This is one of our favorite sectors for the long term.



Market Review, Cont'd

IS GOLD DOING ITS JOB?

Gold has a historical record as a store of value, and has witnessed the fall of many currencies. On paper, 2008 had all the makings of a huge bull market for gold. However, gold was up only 4% and gold mining stocks were down roughly 40%. As a disaster hedge, some feel that gold failed. We would argue that the metal held up extremely well in a marketplace that saw one of the worst one-year global declines in history.

Between 1928 –1935 an 85% position in the Dow Jones Index along with 15% in gold mining stocks, allowed an investor to make a positive return. Consequently, the investor with a 100% in the Dow lost nearly 90%. The chart below shows how gold performed in the most comparable markets in recent history. Since gold was fixed for portions of time during 1928-1937, we have used gold mining stocks as a proxy for the metal. We are specifically looking at the price in non inflation-based terms.

YEAR	Total Gain	Largest Annual Decline	Largest Annual Gain	5% or Greater (years)	-5% or Greater (Years)	Between +5% —-5%
1928-1937	675%	-13%	151%	5	1	4
1970-1980	2,400%	-22%	140%	8	1	1
2001-?	225%	3%	33%	5	0	3

Bull and bear markets tend to mirror each other in length. If history rhymes, it is conceivable that after nearly a twenty year bear market, gold could run several more years. If that is the case, it is also plausible that gold's best and worst one-year performances lie ahead. If gold were to just equal its run from 1928 –1937, we would see prices of \$3800.

The US has huge debt levels that will most likely increase as we navigate the current economic waters. Our leaders will most likely sacrifice our currency by printing more dollars. As this happens, investors will likely diversify out of US dollars and into a basket of currencies, including gold. Our status as the world's reserve currency will end as foreign investors demand that we start acting in a fiscally responsible manner. Ultimately, as the world's largest holder of gold bullion, the US will need to sell its gold (likely at much higher prices) to the up and coming nations (China, India) in order to pay down our debt.

THE TECHNICAL PICTURE

One good thing that may come from 2008 is that a majority of the different markets appear to be somewhat oversold. We feel that significant rallies could develop across several asset classes over the next three to six months, and provide some decent opportunities to make money in 2009.

Our strategy going forward is to increase our positions in asset classes as they become oversold and buy more on signs of strength. High rated corporate bonds yielding 5% or more continue to be our anchor, and as always, we will be quick to exit the markets on signs of weakness.

Thank you for your continued faith and support, and we wish you a wonderful New Year!