4th Quarter 2008

MARKET OUTLOOK

MISSOURI VALLEY PARTNERS

Economic Climate

Still Growing . . . Thus Far

Bolstered by the government's fiscal stimulus programs, second quarter real GDP rose 2.8%, after revisions, from the initial estimate of 1.9%. Consumer spending remained weak in the quarter, growing at only a 1.2% annual rate following the first quarter's sluggish 0.9% gain.

GDP accounts were also revised for the last three years, with a general reduction in the previously reported numbers. For example, real GDP for the fourth quarter of last year now shows a 0.2% decline, after previously being reported as up 0.6%. And for 2007 as a whole, real GDP growth was revised to 2.0% from the previous estimate of 2.2%.

CONSUMER TRENDS

After the government rebate checks stopped flowing, retail sales have softened, with a lackluster back-to-school selling season reported by many retailers. And according to the National Retail Federation, retail sales in the upcoming all-important holiday selling season are expected to be the weakest in six years.

The Conference Board's consumer confidence index unexpectedly rose in September, with the improvement coming from the survey's expectations component. However, respondents' assessment of their present condition fell to the lowest level in 15 years.

In the most-recent survey week (late September) reported by the Reuters/University of Michigan Surveys of Consumers, 79% of consumers expected bad times in the economy in the year ahead.

BUSINESS TRENDS

Continuing its string of weak readings, the Federal Reserve Board's index of industrial production fell sharply in August, the fifth decline this year.

The Institute for Supply Management's monthly index of manufacturing showed a sharp and unexpected decline in September. The index is now very close to levels characteristic of past recessions.

The Conference Board's leading index of economic activity fell in August, the third decline in the last four months. Weakness was widespread among the index's components.

GOVERNMENT TRENDS

The government's housing rescue package (the "Housing and Economic Recovery Act of 2008") was passed by Congress in late July and signed into law by the White House. Provisions of the bill included Fannie Mae and Freddie Mac receiving capital infusions (via emergency loans by the Treasury Department, the purchase of their stock if necessary, etc.); state and local government purchases and redevelopment of foreclosed homes; tax credits for first-time homebuyers; and establishing a $300 billion fund to aid ailing homeowners through refinancing into lower-rate mortgages.

Due to the weak economy and the implications of the government's massive financial system rescue package just passed by Congress, the nation's budget deficit is estimated to reach about $900 billion in fiscal 2009, topping the prior record of $413 billion set in 2004.

Financial Climate

A Litany of Incredible Events

STOCKS

What an exhausting third quarter! It began with global stock markets falling sharply in reaction to a plunge in the stock prices of the two largest U.S. mortgage finance companies – Fannie Mae and Freddie Mac – on rumors of a government takeover. Oil hit an all-time high above $147/barrel, and the government's takeover of IndyMac Bancorp cast a further pall over the markets as investors worried about a deepening financial crisis.

Lehman Brothers then filed for Chapter 11 protection (the biggest bankruptcy filing in history), Bank of America bought Merrill Lynch, and liquidity problems surfaced at American International Group, all of which contributed to the Dow Jones declining 504 points on September 15th, the worst loss since the first day of trading following the 9/11/01 terrorist attacks.

Three days later, the Dow rose 410 points (best gain in six years) following news of U.S. Treasury Secretary Henry Paulson's $700 billion plan to deal with the financial crisis. Near quarter's end, however, Washington Mutual – the nation's largest savings bank – failed and was seized by regulators, and the U.S. House of Representatives' defeat of the $700 billion bailout panicked investors, sending the Dow Jones Industrial Average plummeting 778 points on September 29th, its biggest one-day point drop ever.

For the third quarter as a whole, the Dow Jones Industrials fell 4.4%, the S&P 500 declined 9.0% and the NASDAQ dropped 9.2%. The best-performing sectors of the market in the quarter were consumer staples, health care and financials, while the worst sectors included energy, materials and utilities.

BONDS

The yield on the 10-year treasury ended the quarter at the 3.84% level, compared to 3.98% at the end of the second quarter. The bond market had one of its most tumultuous periods during the third quarter. The failure of several large financial institutions sent risk premiums soaring. Investors purchased treasuries seeking safety of principal during the credit uncertainty. The yield on the 3-month treasury bill fell from 1.76% to a low of 0.08% before rebounding to 0.91%.

MONETARY

Helped by lower energy prices, the Consumer Price Index for August showed the first monthly decline in nearly two years, while the "core" CPI (excluding the volatile food and energy components) rose a moderate 0.2%. The year-over-year price change for the CPI now stands at 5.4%, while the core CPI has risen only 2.5%.

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OUTLOOK

Key Economic Indicators	2007Act.	2008Est.	2009Est.
	------Year/Year % Change------		
Real GDP	+2.0%	+1.2%	-0.5%
Corporate Profits (S&P 500)	-2.0%	-10.0%	-5.0%
Real Consumer Spending	+2.8%	+0.8%	-0.3%
Real Business Spending	+4.9%	+3.0%	-5.0%
Consumer Price Index	+2.9%	+4.5%	+1.8%
	----------Million Units-----------		
Auto & Light Truck Sales	16.4	13.8	13.5
Housing Starts	1.34	0.92	0.75
	----------Year-end Level---------		
Unemployment Rate	5.0%	6.5%	7.2%
10-year Treasury Bonds	4.03%	3.50%	3.75%
3-month Treasury Bills	3.24%	1.50%	2.00%

ECONOMY

Things are really tough out there. These are clearly highly uncertain times for investors and forecasters. The recent whirlwind of incredible developments in the financial arena (e.g., the failure or bailouts of IndyMac, Fannie and Freddie, Lehman Brothers, Merrill Lynch, A.I.G., Washington Mutual, and the necessity of a $700 billion financial system bailout package, etc.) is all happening so fast, it's hard to know where we are, much less where we're going.

One thing seems certain: As indicated by recent data – combined with the negative implications of the ongoing credit crisis – the economy is now moving from slow growth to a recessionary phase over the near term. Economists are quickly ratcheting down their expectations for economic activity. Indeed, the majority of respondents to a recent USA TODAY/Gallup Poll said the U.S. economy was already declining: 36% felt we were in a recession, while 33% said we were in a depression. We're not in the depression camp (although we'll admit to feeling a bit emotionally upset these days!), but we do believe the odds of a recession have increased to much greater than 50/50. The economy had been somewhat artificially propped up over the summertime due to the government's $117 billion tax-rebate checks. But with the stimulus of this program now behind us, and with a credit crisis in full swing, the economy should slip into recession, if it hasn't already.

As noted by a recent comment in ***The Wall Street Journal***, "Wall Street's financial crisis has rippled across the business landscape, raising borrowing costs for corporate giants, squeezing companies that rely heavily on loans and making it harder for small enterprises to find capital and close sales." That pretty much sums up the current problem plaguing the economy: a widespread freezing up of the financial system, and it's spilling over into many foreign economies. It will take some time to work through these issues, and we see the economy remaining weak through most of next year.

On the positive side of things, the outlook for inflation has improved markedly, given the developing weakness in global demand coupled with the recent decline in energy prices (oil now at $90/barrel versus the $147 high touched just several months ago) and sharply lower prices for numerous other key commodities such as corn, wheat, copper, lead, aluminum, steel, etc. (See CRB chart on this page.) As such, we look for a significant improvement in the Consumer Price Index next year, with the C.P.I. coming in below 2% compared to an estimated gain of more than 4% in 2008.

STOCKS

Virtually all of the major global stock markets were in a bear market (typically defined as a 20% or more decline from the most recent peak) by early in the third quarter. But the U.S. Treasury and Federal Reserve's sweeping moves to contain the credit crisis and instill much-needed confidence back into the markets could turn out to be a classic "game-changer" that ends the bear market and eventually turns world stock markets around. As one market strategist put it, "Obviously, this is history in the making. I don't recall a time when so much is being thrown at the system at once."

However, Washington's emergency plan, including the $700 billion in funding (allowing the U.S. Treasury to buy up bad mortgage-related debt from financial firms, cleaning up the balance sheets and providing the flexibility for renewed lending activity), will take some time to work. It may be several months before the credit markets begin to show the positive effects from the implementation of these programs.

Thereafter, improving investor psychology, coupled with the record level of cash on the sidelines (more than $3.5 trillion parked in money market funds), could fuel a very strong rally from currently depressed levels.

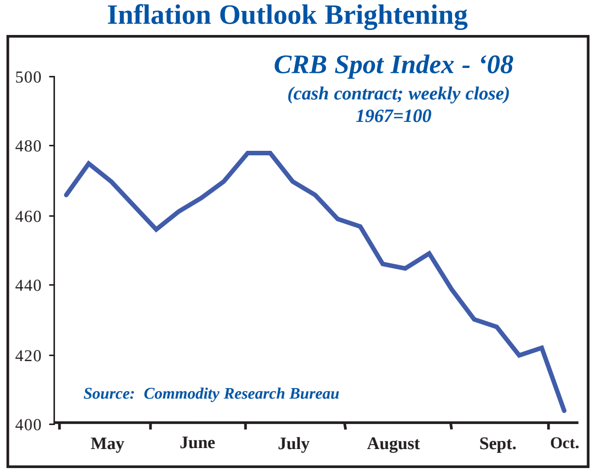
Even though housing and economic activity are likely to remain weak during most of next year, the stock market typically looks well ahead. And the U.S. economy should be showing healthier trends in 2010, given the likelihood of improved credit markets and lending activity by that time; a working down of the currently bloated housing inventories, allowing for renewed construction activity; and a likely strengthening of consumer confidence and spending levels after an expected lackluster showing in 2009.

BONDS

Long-term treasury yields have several powerful forces pushing in opposite directions: A slower economy, weak demand and lower inflation will act to push interest rates down, while the new borrowings by the Treasury (to purge bad loans from the financial system) will exert upward pressure on rates. By year-end 2009, we look for the 10-year treasury yield to be within the 3.5%-4.0% range, close to current levels, while shorter-term treasury yields will likely stay considerably lower as the Federal Reserve continues to provide liquidity to the system.

Corporate risk premiums are at multi-year highs. We believe that bargains are beginning to emerge as we (hopefully) resolve some of the liquidity problems of the past quarter.

Inflation Outlook Brightening



135 North Meramec
Suite 500
Saint Louis
MO 63105
(314) 889-1000

(845) 920-8112
(North East)