

March, 2008:

***“Do not confuse motion and progress.
A rocking horse keeps moving but does not make any progress.”***
- Alfred A. Montapert

When I was a child we had a rhyme: “When in trouble, when in doubt, run in circles, scream and shout.” That is what the market, our government and the securities industry have been doing for several months! It is an effort not to join in. And, to date, motion is the primary accomplishment.

At FBB Capital Partners we have been working hard (and it is hard work) to stick with our convictions and wait for the dust to settle. We have continued to keep our clients “cash” in Treasury money market funds; accepting less return in the short term for avoidance of the securitized vehicles that are prevalent in the convention money market funds. We have not purchased bonds unless they are investment grade and can be expected to generate a reasonable return - which means we have purchased very few bonds. We continue to review our equity holdings, and are keeping some powder dry.

We are awaiting the following outcomes:

1. The housing market needs to stabilize. We need to see the inventory stop climbing.
2. The major banks need to “mark to market” the securitized investments they have on their books. It will mean they must take hits to their reserves but they will be healthier after the medicine goes down. There may be some smaller banks that will be forced to fold because of real estate loan issues.
3. Freddie Mac and Fannie Mae need to not only get the right to increase their debt (already done) but permission to move their jumbo loan limits from approximately \$400,000 to \$700,000.
4. The Fed needs to drop the Fed Funds rate well below 3%, and at the same time continue to increase the ability for banks to borrow (using perhaps dicey securities as collateral.)

The economy will eventually recover from its malaise and the credit crunch will eventually be resolved. We don't know when either will happen. We do expect the markets to begin recovering before the situation is clear. After all, ours is an industry that places its pride on prediction, and the markets generally react in anticipation of things to come.

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As we have each quarter since January 2007, FBB Capital Partners will donate a portion of our revenue to a charitable cause. This quarter we have chosen Jubilee Jobs, an organization that since 1981 has been a place of hope and support for disadvantaged job seekers throughout metropolitan Washington DC. It costs Jubilee Jobs approximately \$1,000 to counsel, train and place an applicant. Our gift will help seven individuals connect with market-place jobs!

We greatly appreciate your trust and business. As many of you know, all of our new clients come to us via referrals. If you know someone who could use our expertise, please tell him or her about us. Thanks!

Truly yours,

Susan B. Fulton