The current problems are caused by the Federal Reserve sitting there and letting credit growth go out of bounds…We have to see very clearly that the cause of the problem was excess leverage. The biggest hedge funds were Fannie Mae and Freddie Mac, they had leverage of one over 150 and under the eyes of Congress and the SEC…nobody did anything about it.

Marc Faber

We wish to make it clear that even the most seasoned of professionals…even the most touted of hedge fund mavens...even the most public of bears are having difficulties in this environment. Berkshire Hathaway, run by Warren Buffett, is down (7.2%) for the year. In this environment, staying even is a very, very real triumph. Being ahead is nearly unheard of.

Dennis Gartman

According to Morningstar, of 3400 balanced mutual funds, the Regan Absolute Return Portfolio is in the top 1% by performance in both 2008 and over the last 5 years. In addition, the average balanced fund is down nearly 18% YTD.

Portfolio / Index	Q3 %	YTD %
Regan Absolute Return Portfolio	-5.3	-6.09
Regan Aggressive Portfolio	-2.2	-7.18
Regan Managed Futures Portfolio	+7.4	+8.0
HFRX Absolute Return Index	-3.7	-5.2
S&P 500	-7.9	-20.7
NASDAQ	-7.9	-21.5
US 10 Year Bond	+.62	+.99
Gold	-5.1	+5.4
Commodity (DJ AIG)	-28.0	-2.0
US Dollar	+9.63	+4.1
Oil	-28.11	+18.09

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Market Review

As Marc Faber suggests in our front page quote, this is a credit crisis that began with easy money created by the Federal Reserve. A homeownership society was encouraged by congress and the current administration. This led to a lack of oversight by lenders/appraisers/insurers. The problems grew enormously when financial firms securitized poor quality loans and dumped them off on investors under the guise of AAA ratings. Sprinkle in minor details like an estimated $65-85 trillion credit default swap market with no regulation, spikes in LIBOR, a stalled credit market, highly leveraged speculation in commodities, unwinding in the Yen carry trade, and a global race for cash by such pillars of the US economy (Lehman, AIG, WAMU, etc.)… we have the makings of an epic blow off as the world begins the process of necessary deleveraging.

Looking back at some of **our old newsletters**, we found the following:

- **Winter 2003**

  We believe the downside in stocks over 3-5 years could be as much as 40% from current levels which would just return the major averages to their long term (100 yr.) uptrend line.

- **Winter 2005**

  The main point is that until substantial changes occur within our economy and markets, we will not subject our clients' portfolios to what we feel is a very speculative marketplace. The chance for big losses remains high.

- **Summer 2007**

  If the individual continues to fear losses from 2000-2002, continued weakness in the housing markets, and rising inflation, the ensuing blow-off could be of epic proportions.

  As we've stated many times, we are more concerned with the possibility of a meltdown in the markets at some point in the future.

We were not the only ones predicting such an event. Several economists have been talking about the dangers of this market. In a market that is causing investors to lose confidence in the system itself, even the most conservative investors have been hurt. The only winners are those that lose the least. ***Ultimately, the markets will bottom and provide great opportunity for those who were able to preserve capital.***

GOVERNMENT BAILOUT

We assume a bill will have been signed by the time you read this newsletter. The big question is, will it be enough? It could ultimately take $2-5 trillion to stop the bleeding. While politicians posture for the right sound bites to appease their constituent base and ensure reelection, the financial markets continue to respond negatively.

While we fundamentally believe that the taxpayer never should have been put in this situation in the first place, we do not see very good alternatives unless some sort of bill is passed. The free market should reign, but without assistance, a lot of innocent people will be hurt.

The bill passing will provide short-term strength for the markets, but ultimately will lead to more downward pressure. The government cannot effectively manage all the groundwork needed to take ownership of foreclosed properties. They have proved, through the most recent debates, of having little clue as to what is really at stake. In an environment where there is little room for error, how comforting is it that the same leaders are in place that allowed this mess to get out of hand in the first place?

In the financial sector alone, the proposal covers only 2% of total assets. This bailout does nothing for capital, which the financial companies will need in order to continue to lend. It is the main reason why the economy will have a tough time in the future.

Market Review, Cont'd

ECONOMY

The economy has probably been in recession since late 2007, and we continue to believe that there will be significant pressure in the following areas going forward:

Consumer Spending — The current credit issues will add pressure to an already strapped consumer. With credit availability becoming more difficult, additional constraints such as high fuel costs, lower wages, and higher unemployment will have severe effects on an economy that is 70% consumer driven. This does not bode well for consumer discretionary companies, auto manufacturers, and travel/leisure companies.

Trade and Government Deficits — The trade deficit should contract and help corporate profits but the downside to this contraction is that dollars will be removed for investment, and cause lower liquidity that will be felt on a global basis. Government deficits will explode over the next 3-5 years to offset the loss in liquidity. The bad news is that we will see higher interest rates on intermediate and long term bonds.

State and Local Governments — Since they cannot run deficits, they will face pressure to cut services and employees as tax receipts decline. Some weaker municipalities will see their bonds continue to suffer.

Inflation/Deflation — Inflationary price rises for food and oil should slow. However, disinflation will emerge as the next problem with the potential for all out deflation. The Federal Reserve and the Government will try to offset deflationary pressures by expanding fiscal and monetary programs such as building up infrastructure, bailouts, and printing money.

ASSET CLASSES

Real Estate — We feel that the bottom on residential housing may not be seen until the middle of 2009 at the earliest. With credit tightening, rising long rates, and banks afraid to lend, it might be a longer process. If some of the excesses can be absorbed by the system, we could begin to see positive signs within a year. Commercial real estate should see continued declines as shopping centers lose renters and consumers slow spending. Office centers will continue to see pressure as small businesses close their doors. The deleveraging that is taking place on the residential side will be even more painful on the commercial side.

Stocks — Most are down roughly 20-25% depending on the index, and many investors are down 30% or more in their portfolios. On a technical basis, 9500 on the Dow could provide a short term rally. Stocks could ultimately bottom around 8000 on the Dow, but we would be willing to buy at higher levels if the fundamental and technical picture were to change. We talk more about our longer term stock prognosis on the next page of this newsletter.

Bonds — Fear will continue to drive investors to the safety of treasury bonds which will drive short term yields to potentially negative rates. Corporate bonds will most likely decline and yields will rise. Shorter maturities are favored over the next few years, as longer dated bonds continue to see a rise in yield and a decline in prices.

Commodities — We continue to believe that oil and most other commodities will fall over the next couple of years as the global economy slows. Oil could ultimately hit $50 per barrel but is more likely to see a range of $75-90 per barrel.

Gold — This looks to be the best investment over the next two to three years. The pressure on the US dollar as the reserve currency will continue, and all paper currencies will decline against the value of gold. $1500/oz is a conservative price for gold over the next two to four years.

Stock Market

Many clients ask us after days like the 777 point decline, if we should buy stocks. While that is the right strategy in a bull market (Buy the Dips), it can be devastating in a bear market (Sell the Rallies).

The chart to the left is the Dow Jones Industrial Average during the great depression. We have numbered the five significant rallies. Buying the dips was a portfolio killer until the market bottomed in 1932. These rallies averaged three months in length and fooled most investors.

The MACD lines on this monthly chart gave fantastic signals as to when to sell (yellow line crosses blue on the downside) and when to buy (yellow line crossing blue to the upside). Currently we have a strong sell indicator from the MACD lines.

Now is not the time to go overboard shopping for values. While we do think that extreme values will exist at some point, we think the downside is another 20%. With that in mind, we have lightened up our stock holdings and will continue to hedge our equity exposure.

Looking at the great cyclical bear markets of 1929, 1973, 1987, and the NASDAQ of 2000, we note the following in the chart below:

	1929-1932	1973-1974	1987	2000-2003 (NASDAQ)	2008
Duration	2.75 Years	2 Years	4 months	2.75 Years	1 Year +
Loss	88%	38%	27%	75%	21% (So Far)
Avg. Annual return 5 years after market bottom	58%	8.5%	13.5%	26%	???

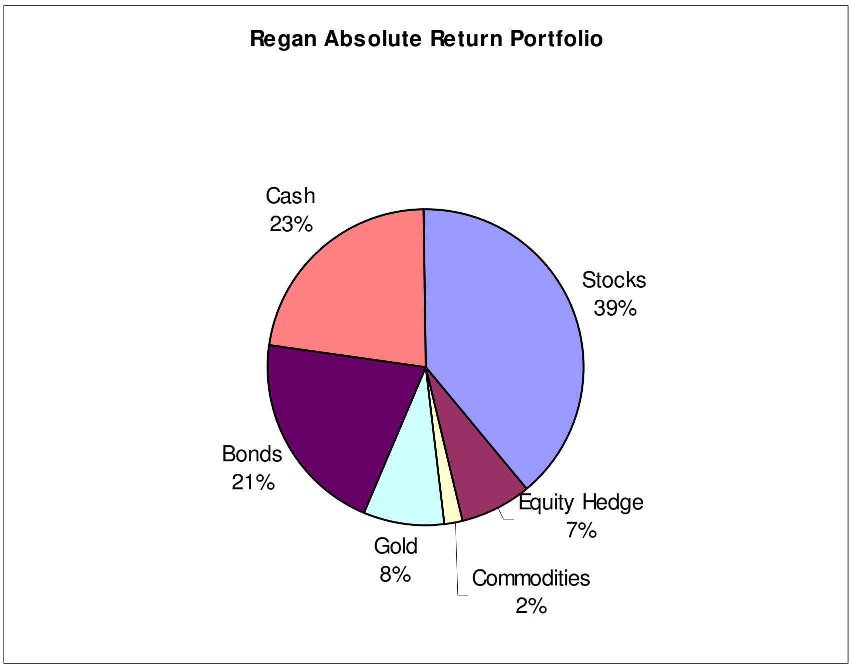
If this market cycle is going to end anything like 1929, the world is in trouble. However, these four bear markets in stocks from peak to trough did not last three years. The ensuing returns afterwards were enormous. If we project that this might be a two-year event, we are halfway through it already. Now, we are not indicating that people should go dancing in the streets. We are only implying that the notion that the current stock market downturn continuing on for more than two years is probably unlikely. By preserving capital, we will be in a very good position to partake in the upcoming opportunities.

Performance

Our portfolio did very well against the major indices. While we are not happy with our performance this year, most investors would surely trade places with us.

We had two poor investments in our average accounts over the first half of the year including our WAMU bonds and our American General Finance (AIG) bonds. In our attempts to be conservative, we were caught up in the mess that ultimately led the government to loan AIG $85B. We recently sold our WAMU bonds, but are forced to continue to hold our American General bonds due to decreased activity in the bond market. The story is not finished for American General, and we hold out hope that a buyer will come in for the company, and allow our bonds to reach a price closer to par value. In the event that we see a decent price on these bonds, we may exit to limit our loss.

Our Portfolio



We made several defensive moves that have limited our downside and protected us against a meltdown. First, prior to all the news about money markets, we moved a large portion of our cash holdings into a T-Bill ETF. While we are confident that the money markets used for our accounts are safe, we felt it prudent to limit our risk. In addition, we trimmed some of our stock holdings including Altria, Comcast, and Intel. We still like these names, but as the market gets weaker, we do not mind swapping out for safety.

We are still very defensively invested with about 25% net exposure to high-grade stocks (Stocks minus 2X Equity Hedge) which have low to fair valuations and a few high growth issues. Our stock exposure is currently at historical lows, and we may change our exposure mildly over the quarter as the picture becomes more clear.

We will continue to look for short, high grade, corporate bonds with decent yields. We believe that the returns in stocks will be historically low over the next one to three years and we would like to lock in more return. While the credit markets are still somewhat frozen, we are starting to see some attractive yields in very safe names. We like this space much more than CDs or short-term government bonds that yield very little.

Commodities continue to look weak, and we are not ready to start buying any energy, agricultural, or industrial metal positions. Gold has been very volatile over the last month. After this technical pullback, gold looks very good as the odds for a significant rate cut gain traction and fear remains present in the market psychology. We may begin buying small positions in gold stocks in the next month.

We continue to invest with caution as we believe that there will be downside pressure for the markets in general. We hope to recoup some of our losses over the last quarter, and feel we are well positioned for a move in either direction.

Thank you for you continued faith and support, and we wish you a wonderful Autumn!

REGAN INVESTMENTS

Philosophy

Investment Objective - Most importantly, our goal is to preserve capital in poor markets and increase account values with low risk in favorable markets.

Investment Strategy - Our primary focus is to find intrinsic value in investments across all asset classes and buy at reasonable prices.

We invest in a broad spectrum of asset classes, including stocks and bonds (foreign and domestic), commodities (including gold), currencies, and money funds. We also take positions that move inversely to the selected stock, bond or commodity market when we think a more conservative posture is appropriate. We believe our attention to *Intermarket Analysis* is what contributes to our superior performance

Our investment process begins with a broad overview of economic trends followed by country, industry, and specific company metrics. In addition, we utilize a proprietary indicator known as Conscious Trend Analysis (CTA) to determine market sentiment.

Managed Accounts

Investment Guidelines -

Portfolios under $2M with less appetite for risk may want to consider our strategy as a core position for their assets. In larger or institutional portfolios, our approach fits within the framework of an alternative investment strategy.

Management

The *Absolute Return* portfolio is managed jointly by Robert M. Regan and Robert M. Regan Jr.

Robert M. Regan

Robert has been managing money for over 50 years. He began his investment career as a research analyst for the Wells Fargo trust department and a portfolio manager for Kidder Peabody. Robert has served as Finance chairman of The Archdiocese of Saint Paul and Minneapolis, and trustee of the Franciscan University of Steubenville, St. Thomas Academy, and Trinity Schools. He has a B.S. in Finance from the University of Notre Dame.

Robert M. Regan Jr.

Robert Jr. has been managing portfolios for over 10 years and has worked in several investment related fields including as a Research Analyst with Thomson Financial, an Investor Relations Analyst with Ashton Partners and Honeywell Intl., and as a Portfolio Manager with Merrill Lynch.

Robert Jr. has a B.A. in English from the University of St. Thomas and an MBA from the University of Notre Dame.

Performance

Averaged Annual Total Return in % -

	2000	2001	2002	2003	2004	2005	2006	2007	YTD (9-30-2008)	Value of $100,000
Absolute Return	10.4	2.3	2.4	17.8	-1.7	13.60	17.23	6.2	-6.4	$177,280
S&P 500*	-9.1	-11.89	-22..1	28.69	10.88	4.91	15.79	3.5	-20.7	$88,761

Investment Suitability -

- Lower risk of negative performance
- Below stock market risk
- More stable annual performance
- Focus on *Absolute Return* rather than *Relative Performance*

* Dividends reinvested

Performance numbers 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.