



Third Quarter 2008 Market Analysis and Outlook

Dear Client:

As of November 17, 2008 all three major U.S. indices were in negative territory year to date. The Dow is down over 30%, the S&P is down 38% and the NASDAQ has fared even worse; falling nearly 40%. Meanwhile, global stocks have fared even worse than U.S. stocks. They are down 45% from their 2007 highs, making this the third worst bear market of the past forty years, trailing only the 1973-74 and 2001-03 episodes. Arguably, it has been an even worse year for corporate credit, at least by historical standards, with U.S. corporate bonds down 17% from their cyclical highs and both investment-grade and high yield debt suffering their worst year on record.

But, it's not the Great Depression. In a bear market, there are always those (including the media) who, like Chicken Little, insist the sky is falling. Investors want to know **whether this recession will lead us into a depression similar to that of 1929**. Although economists disagree about how long and severe this recession will be, they do agree that it will not resemble anything similar to the Great Depression of 1929. The differences between now and then are many including:

- 1.) The stock market lost nearly 90% of its value from its peak during the Great Depression. With U.S. stocks down more than one-third from their high a year ago, many analysts believe we may have touched a bottom.
- 2.) In 1929, bank failures led to heavy losses for their customers. About 8,000 banks (or 40% of the nation's banks) failed between 1929 and 1932. Customers saw their life savings disappear because there was no FDIC protection at the time. Today, 13 banks have collapsed, with 117 on the government's watch list. The largest two, Wachovia and Washington Mutual, were taken over by bigger banks. Besides FDIC protection, most brokerages today carry SIPC protection; another safeguard that did not exist in 1929.
- 3.) Between 1929 and 1933, U.S. GDP growth declined by around 30%. According to advance estimates released by the Bureau of Economic Analysis, GDP decreased at an annual rate of 0.3% in the third quarter of 2008.
**GDP or Real gross domestic product: the output of goods and services produced by labor and property located in the United States.*
- 4.) In 1933, unemployment in the United States reached about 24%. Today, unemployment is 6.5% with most economists agreeing that it will reach 8% during the latter of 2009.
- 5.) Perhaps the biggest difference is that today's central banks and governments are totally committed to fighting the financial crises, recession and asset price deflation with a massive dose of fiscal and monetary stimulus. In the 1930s they simply were not.

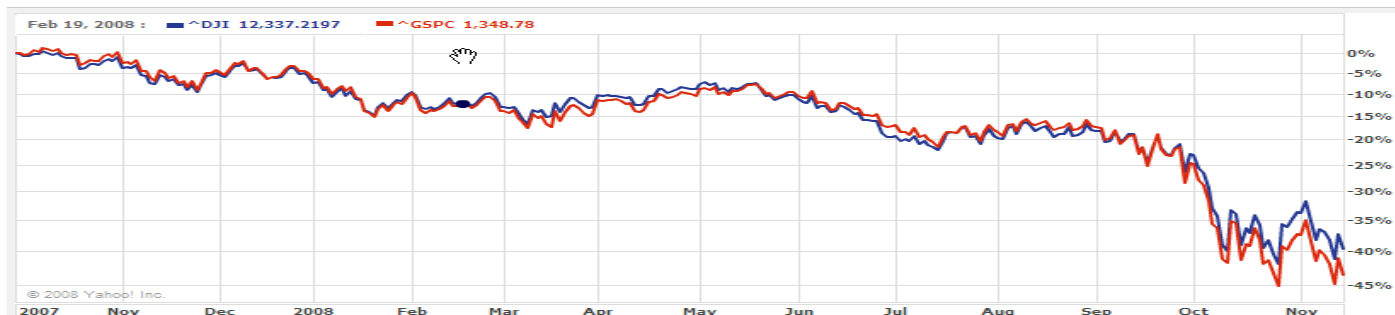
Let's take a look at the **bear market of 1973**. The graph below shows that from January 1973 to the market's bottom in October 1974, the market fell nearly 50%. It then struggled with several rallies followed by another significant bottom just before finally embarking on a sustainable rally in late 1974 (see the famous "W" below).



Similarly, many analysts believe that today's markets may have touched a bottom in October falling nearly 45%. The following chart shows that the market has struggled with a few rallies, touching the bottom again in November. From a technical standpoint, it does look promising that we may be at the third part of the "W" and may start to see



the “/” portion in the coming months. Keep in mind though, the markets do not behave in a linear fashion and we will likely see more falling markets.



During this time, it's useful to remember the saying: ***The news does not have to become good for the market to go up; it just has to be less bad than what the market already expects.*** While it's probably true that the economy will continue to deliver bad economic news, we believe the markets have already discounted a poor economic outlook. ***Can stocks rally while the underlying economy is still deteriorating?*** The answer is yes. In fact, stocks *almost always* rally on weakening growth and falling profits. Several factors support a rally in stocks, including the fact that stocks are oversold. There are hopeful signs that the credit markets (which have been at the heart of this crisis) are beginning to improve. Any sign that the credit markets are returning to normalcy is welcome news to the economy and stock markets. Finally, commodity prices have dropped significantly between 30 and 80%, with oil down nearly 60%. This will surely help struggling households battling debt, job losses and shrinking income levels.

Finally, investors want to know: ***What should I do?*** Regardless of how the economy is behaving, we recommend that you NOT make any fundamental changes to your strategy simply because economists say we're in a recession. If you insist on making a change to your strategy, all else being equal you should choose to invest more, not less. To the extent other investors jump on the "sky is falling" bandwagon, you will be able to buy at attractive prices. Use dollar cost averaging and continue to stockpile the stocks that will be the source of your future financial freedom. Even in bear markets, investors can make money but asset allocation becomes more critical than ever.

The most important thing to remember is NOT to panic. It's very easy to get caught up in the *Sky is Falling* mentality; losing out on gains. Once you've exited the market, it's difficult to assess a reentry point. Further, by the time you've determined this point, the market may have already regained several percentage points. Remember, bear markets tend to test several bottoms before finally embarking on a sustained rally. It will certainly take time for them to regain the losses they've recently suffered. However, as history shows, the markets will go back up. In the meantime, investors may have to adjust some of their spending habits, altering or postponing some of their short term goals.

If you did not have a chance to participate in our October 24 conference call with our money managers, you may listen to a replay of the call by visiting our website: www.azzad.net. Click on the [Azzad News](#) link located on the left side of the homepage. We are also passing on timely news about the markets to interested investors through our monthly newsletter. You may sign up for the newsletter on our website. As always, we urge you to consult with your investment advisor if your financial situation has changed.

Jamal Elbarmil
November 17, 2008

**Please contact your adviser if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. Our current disclosure statement is set forth on Part II of Form ADV and is available for your review free of charge upon request. You can contact us at 888-862-9923. Remember, past performance can't guarantee future results. Dollar cost averaging is when you invest the same amount of money regularly regardless of how the markets are performing. It's an investment strategy that may help reduce your risk but cannot guarantee a profit or that you will not lose money in the markets. Figures obtained from BCA Research.*