

USAW Foundation Portfolio Status- September, 2008

1. Brief Overview

The cash-in value of the Foundation is down from the value reported at the Board of Governors meeting this year. The value of the Foundation is down, commensurate with the rest of the investment market as a whole.

Since the Foundation is structured as a fixed-income portfolio, it was not invested in the financial firms that have been in the news recently. The downturn in those entities, however, caused a parallel reduction in the value of various fixed-income securities held by the Foundation.

The Foundation is invested in numerous shares of securities that continue to yield regular monthly dividends (which is the primary function of a fixed-income portfolio). The value of that portfolio will increase in value again when the whole tide of the investment market rises. All shares not held in cash or money market funds, are yielding dividends greater than 15%.

2. Background Current September Events

You may be familiar with some of the recent news about serious failures of top financial firms.

The magnitude of these failures is evident by the following examples:

-Fannie Mae (Federal National Mortgage Association) stock price went down from \$68 to \$0.45 and had to be bailed out by the Government. (Shareholders were left wiped out).

-Freddie Mac (Federal Home Loan Mortgage Corporation) stock price went down from \$65 to \$0.30 and had to be bailed out by the Government. (Shareholders were left wiped out).

-AIG (the biggest insurance company in the USA) stock price went down from \$70 to \$2.00 and had to be bailed out by an \$85 Billion loan from the Government. (Shareholders were left wiped out).

-Lehman Brothers (158 year old investment firm) stock price went down from \$70 to \$0.30 and filed for bankruptcy on 9.14.8. (Shareholders were left wiped out).

-AMBAC (the largest insurer of municipal bonds in the USA) stock price went down from \$90 to \$2.00. (Shareholders were left wiped out).

-Merrill Lynch (a global financial services firm) had to sell out to Bank of America after their stock price went down from \$78 to \$16.

-Morgan Stanley (a global financial services firm) stock price went down from \$69 to \$11 and the firm is looking for an international buyer to take up 20% of the company.

-Citigroup (a major American financial services company) stock price went down from \$54 to \$13. (The company is in merger talks with several large banks).

-Washington Mutual (WaMu including the largest Savings and Loan in the USA) stock price went down from \$36 to \$0.16 and the company filed for bankruptcy. The Government seized their assets and sold most of them to JPMorgan Chase.

-Goldman Sachs Investment Bank stock price went down from \$250 to \$85 and had to sell \$5 Billion worth of *preferred* stock to Berkshire Hathaway (Warren Buffett's company) to remain in business (with an offering of an additional \$5 Billion worth of common stock).

-By the time this status report reaches your hands, the US Government should have initiated a massive \$700,000 Billion "bailout" package for the mortgage and credit industry.

3. Recent Changes in the Foundation Portfolio

The Foundation has produced significant monthly income for the USAW, despite the very serious downturn in the investment market.

The Foundation has only had to make one major change in the portfolio since the Board of Governors meeting.

The Foundation was prepared for a reduction in the performance of the Regions Morgan Keegan portion of the portfolio, when the company announced in August that a new management company was going to take control of their investment strategy. This Regions Morgan Keegan portion of the portfolio has been our best yield producer for much more than a year. Since their inception, they would announce their monthly dividends 3 months ahead (which the Foundation used to determine whether or not to retain these funds in the portfolio).

On Thursday morning, September 4th, the Regions Morgan Keegan funds announced that they were only going to declare their dividends one month at a time and that they were going to reduce the amount of the monthly dividend. Within hours of that announcement, the Foundation began to liquidate shares in those funds. By that afternoon the Foundation Board was on a conference call with the executive management team of the Regions Morgan Keegan funds to get an explanation for the drop in dividend and to hear the investment strategy for those funds for the near future. Based on the explanations by the executive management team of the Regions Morgan Keegan funds, the Foundation immediately began to liquidate the remaining shares of those funds at a rate that would not produce a panic sell off by other shareholders. Much more than half of the stock was liquidated that day and the balance was sold over the next five trading days.

The liquidation of the Regions Morgan Keegan funds caused a realized loss of \$206,000 since the beginning of the month.

Although this is a very real loss since the Board of Governors meeting report, the Foundation Board made the decision to liquidate that portion of the portfolio in order to invest in other securities that were (1) producing regular monthly dividends significantly higher than the new Region Morgan Keegan

funds would and (2) much more likely to recover their value as the investment market recovers than the Regions Morgan Keegan funds.

4. Perspective and Additional Changes Possible

Although the Foundation has not been directly invested in the various firms that have recently foundered, the Foundation value has suffered collateral damage from the effects of those unprecedented financial failures. Because the Foundation portfolio is positioned in solid, revenue producing funds, it is expected that the Foundation value will increase along with the market and will continue to generate monthly dividends for distribution to the USAW or reinvestment for enhanced value and earnings.

Even the USOC Foundation value has already suffered significantly this year due to the decline in the investment market. It is unknown to the USAW Foundation Board how much of the USOC Foundation portfolio was invested in the major firms that have failed over the last few weeks or how much is still invested in real estate. (It should be made clear that the USOC Foundation has been structured as a growth portfolio, which gives no regular dividends and is illiquid compared with the USAW Foundation. The function of a growth portfolio is significantly different from a fixed income portfolio like the USAW Foundation.)

Without additional extraordinary year end dividends included, the Foundation will generate \$4850 per month for the last 3 months of this year, plus money market interest and any new investment yield. (The significant reduction in monthly dividend is due to the liquidation of the Regions Morgan Keegan shares, as previously stated, a major source of Foundation income for more than a year.)

The Foundation is ready to reposition another \$30,000 of securities when the price per share increases along with the rest of the market correction (if conditions become right).

Respectfully submitted,

United States Amateur Weightlifting Foundation Board