AR SCHMEIDLER & CO
INVESTMENT ADVISORS
A Hudson Valley Bank Company

The Outlook

August 26, 2008

As of August 26, 2008		
Index	**YTD % Change**	**Market Value**
Dow Jones Industrials	-14.0%	11,436.24
S&P 500	-13.4%	1,275.65
Nasdaq Composite	-10.9%	2,377.04

The urbanization and industrialization of the emerging economies, particularly those of Asia, the Middle East and Latin America, represent the key dynamic of our long-term investment outlook. The impact of this goes far beyond economic considerations, as it has important social, political, and cultural ramifications. **The rapid growth of the emerging economies is driving global growth, and it is being financed in large part by the U.S. budget and trade deficits shifting dollars abroad. The result is a major re-alignment of the U.S. economy with the rest of the world.** This secular transformation is happening while the United States' financial system has stumbled badly.

Formerly, the U.S. economy had been the engine driving global growth, but this is no longer the case, nor should we expect U.S. economic growth of the past several years to re-assert itself any time soon. As mentioned in past Outlooks, the U.S. growth was driven by questionable lending practices and the excessive use of leverage and derivatives. Consumers, representing approximately 70% of the U.S. economy, can no longer borrow and spend as in prior years. Therefore, 70% of the U.S. economy over the next several quarters will likely experience slower growth and possibly no growth at all.

Continuing Financial Stress

The ongoing financial crisis, which began with the collapse of the sub-prime mortgage market and falling residential real estate prices, has affected a broad range of loans and complex financial products whose lack of marketability has so far resulted in $500 billion of losses for banks and investment institutions. **The failure of regulatory and supervisory authorities to understand and to keep pace with the complexity and sophistication of new financial products will likely cost the financial system hundreds of billions of dollars more in the coming months.** Recent attempts to deal with these problems have been reactive and ad hoc in nature. This has had a direct impact on the volatility of the overall market and various sectors within the market. We should anticipate a continuation of this volatility. The financial sector, which at one point was 25% of the S&P 500, has lost more than 40% of its weighting in that index as many major banks and financial institutions lost 50-90% of their value.

To moderate a further slowdown in the economy, three sources of financial help have appeared: fiscal stimulus, monetary stimulus and record international cross-border wealth transference. A $170 billion fiscal stimulus program was passed by congress earlier this year. This certainly helped in the short term, but it has now largely run its course, and another package will probably be required. Also, the Federal Reserve has provided monetary stimulus by keeping short-term interest rates at 2% and will probably not raise rates any time soon. At the same time, the Federal Reserve is helping the banks with a further monetary stimulus by exchanging treasury securities for assets the banks cannot sell. Finally, the greatest transfer of wealth across international borders that has ever been experienced has been financing emerging economies through our budget and trade deficits. These economies have accumulated trillions of dollars of monetary reserves, and now those dollars are flowing back to the United States as investments in our financial institutions that currently require large capital infusions to survive.

The Secular Growth Case, Irrespective of the United States Economy

The U.S. economy is being further burdened by the underlying inflationary pressures that have been experienced over the past ten years. China, India, Brazil, and the other emerging economies have been industrializing rapidly. For the first time, China has become the most important contributor to world economic growth. **For the past several years, emerging Asian economies accounted for more global growth than the U.S., and China is now on track to grow faster than the U.S., Europe and Japan combined.** This growth has put significant upward pressure on prices of natural resources, including energy, and has affected overall inflation rates. China and India alone, with over 2 billion people, have many years of economic growth ahead, and represent a considerable portion of this global transformation.

Sovereign Wealth Funds: Middle East and Asia

According to recent IMF (International Monetary Fund) data, energy exports from the Middle East are running at an average of $700 billion a year. Middle Eastern cumulative export earnings for the past four years will approximate $2 trillion. Their foreign exchange reserves will continue to grow rapidly because the government savings rate is in excess of forty percent. This is true even as large infrastructure investments in these countries continue to be made. Sovereign Wealth Funds have been established by the governments of these emerging economies as their excess monetary reserves enable them to make investments beyond their borders. For example, China has acquired business interests in Latin America and Africa. And last January, Singapore, Kuwait and South Korea provided almost $21 billion to Citigroup and Merrill Lynch. These types of investments will continue to occur and will possibly even begin to accelerate. Clearly, the investment world has changed as U.S. assets are beginning to attract more foreign buyers.

Conclusion

Our investment policy has been to purchase the shares of companies benefiting from this global transformation. The emerging economies are now in the role of driving global growth. **We should expect overseas economies to continue to grow and acquire ever larger monetary reserves. These emerging economies must find an effective outlet for their newly-acquired wealth and investment capital. While these dynamics have been apparent over the past several years, the trend of capital appreciation of companies benefiting from this has not always been obvious or smooth. On the contrary, there have been and will continue to be significant bumps in the road.** As the U.S. economy continues to suffer financial stresses, our institutions are evolving to develop a regulatory and supervisory framework that can be more effective in an increasingly complex financial system. These conditions will undoubtedly put pressure on our currency as the dominance of the dollar diminishes relative to the currencies of countries whose wealth is rapidly growing.

For the short term, we should expect living standards to erode in the United States as companies raise prices and wages fail to keep pace. Since financial stresses in the U.S. economy will take a considerable period of time to work themselves out, the economy will face an extended period of sub-par growth. **Our slowing economy will have an impact on global growth, but world growth will continue to give long-term investors an opportunity to effectively commit investment capital for income and appreciation. For investment choices to be effective, investors must continue to confine themselves to companies that are demonstrably undervalued in terms of assets, cash flow and earnings power.**

To best achieve investment objectives, we believe a portfolio should represent global diversification by owning foreign companies whose shares are traded as ADR's (American Depository Receipts) on the New York Stock Exchange, and by owning U.S. corporations directly benefiting from non-U.S. growth, as well as participating in select opportunities in our economy.