Special Market Commentary

BRAGG
FINANCIAL ADVISORS

October 31, 2008

Dear Friends,

October account statements will be in your mailbox soon and they will not look good. The stock market as measured by the S&P 500 is down 41% year-to-date through October 27. Most of that decline happened during the month of October; the S&P 500 Index is down a stunning 27% this month. Bonds have also had a rough month, especially corporate and municipal bonds. Take a look at the table below:

Equity and Commodity Indices	YTD through 10/27/2008 (Price)		Fixed Income Indices	YTD through 10/27/2008 (Total Return)
S&P 500 Index	-42.2%		Lehman US Aggregate	-1.1%
Dow Jones Industrial Average	-38.4		Lehman US Corporate Bond	-11.7
NASDAQ	-43.2		Lehman US Treasury 7-10 Years	5.6
S&P 400 Midcap	-44.1		US Treasury Infl. Prot. Bonds TIPS	-6.9
Russell 2000 Smallcap	-41.5		Lehman High Yield Corporate Bond	-25.7
MSCI EAFE Foreign Developed	-52.0		Lehman Muni Bond	-3.6
MSCI Emerging Markets Index	-63.5		Lehman Global Bond	-3.7
DJ CBN China 600	-68.3		Lehman Emerging Markets Bond	-29.7
India Bombay Sensex	-58.1			
DJ Commodity	-31.0			
Gold $ per troy oz	-11.2			
Crude Oil $ per barrel	-34.1			

Nowhere to Hide
In past bear markets, bonds have softened the blow of declining stock prices. From March of 2000 through October of 2002, stocks (S&P 500) declined over 45%. During that same 2 ½ years, bonds gained almost 30%. A typical portfolio holding 60% stocks and 40% bonds would have seen a decline of about 18% back then and the decline would have come gradually over a 30-month period. The same portfolio today is down about 30% over just 12 months and *most of the decline* occurred during the last three weeks! Again, this will become abundantly clear when you see your October statement. We want you to be prepared for this.

The market is still dealing with the credit crisis and recession fears that we have written about in previous communications. Click on our website http://www.braggfinancial.com/qir.html to read recent commentaries about the causes of the financial crisis that has pushed the global economy toward recession.

Our Thoughts
It appears that we will endure an economic recession in the months ahead. No one knows how long or how deep the recession will be, although you will hear plenty of opinions on the subject from your favorite media source. We do know that recessions are normal and more importantly, we know that all past recessions *have ended*. Economic activity declines for a time and then economic activity begins to expand again. We can also look at stock market performance during past recessions. The table that follows this paragraph demonstrates that the market often turns and moves up long before the bad headlines have ended. Often it seems that the market turns up just when the news seems the worst.

Snapshot of the Last Ten US Economic Recessions				
		Dow Performance		
Recession Dates	**Duration in Months**	**From Beginning of Recession to Market Trough**	**From Market Trough to End of Recession**	**From Beginning of Recession to End of Recession**
Nov. 1948 - Oct. 1949	11	-15%	19%	1%
July 1953 - May 1954	10	-6	28	21
Aug. 1957 - April 1958	8	-17	9	-10
April 1960 - Feb. 1961	10	-8	17	8
Dec. 1969 - Nov. 1970	11	-22	26	-1
Nov. 1973 - Mar. 1975	16	-39	33	-19
Jan. 1980 - July 1980	6	-8	23	13
July 1981 - Nov. 1982	16	-20	34	7
July 1990 - Mar. 1991	8	-18	24	2
Mar. 2001 - Nov. 2001	8	-20	22	-3

We do not know if stocks have bottomed. As measured by the S&P 500, the market is already down 45% (price) since its peak reached on October 9, 2007. The current decline matches the declines of 2000-2002 and 1973-1974. You have to go back to the Great Depression to find a market decline greater than these three. Whether it falls further or not, the table below suggests that at some point we should enjoy a nice bounce off the bottom.

Date of Market Low During Past Recessions (S&P 500)	**S&P 500 Gain (Loss) after**			
	3 months	**6 months**	**9 months**	**12 months**
June 13,1949	**14.5%**	**19.2%**	**26.6%**	**33.7%**
Sept 14, 1953	9.9	17.7	27.5	38.5
Oct 22, 1957	6.1	9.8	19	31.5
Oct 25, 1960	15.9	25.2	27.6	30.9
May 26, 1970	16.9	20.8	38.7	44.5
Oct 3, 1974	13.5	29.9	51.5	34.6
March 27, 1980	18.3	31.1	39.1	37.1
Aug 12, 1982	37.8	41.6	61.1	57.7
Oct 11, 1990	6.7	28.8	28.7	28.8
Sept 21, 2001	18	17.2	2.8	-13.7
Mean	**15.8%**	**24.1%**	**32.2%**	**32.4%**

Long Term Investors

We again want to say that we think it makes sense to stick with your long-term investment plan. Although market declines like this make us anxious, we are extremely hesitant to sell our stocks or our bonds at these prices. We would rather sell our securities gradually over the twenty to thirty year period that encompasses our retirement or when the funds are needed for college tuition. We could be wrong, but we think these prices are irrationally low and are in part driven by emotion. At the same time, we know that prices may go lower still. In fact we should tell ourselves they will. We do not have a crystal ball but we think we will look back in a few years and be glad we did not sell our securities at the prices they are trading for today.

A Word of Thanks

Many of you have encouraged us during these trying times and we want to tell you that we are extremely grateful. It is an honor to call you clients and to serve you and we appreciate very much your confidence in our firm. Speaking of our firm, we are happy to say that Bragg Financial Advisors is in very good shape. Unlike some of our larger competitors, we have no debt, we have a strong capital position and we will not be announcing any layoffs. There are no dubious assets on our balance sheet, unless you count Benton's stand-up writing desk -- a questionable custom purchase for sure. (If you haven't seen it, be sure to ask next time you are here.)

Our business model is strong and we are seeing a steady stream of great folks coming to Bragg, leaving the larger but less stable institutions behind. Almost all of our new clients are referred to us by our existing clients. *Thank you!* Over the last few years, we have made significant investments in our technology, processes and systems. We've also assembled a professional team that we think is the very best, anywhere. We think we are better positioned than ever to serve you and to exceed your expectations. We hope you agree with our self-assessment and we welcome your feedback.

In closing, it is important to remember that the tendency of mankind is to fix things. While we think this global economic downturn will challenge us, we are confident we will overcome it. Please let us know when you would like to review your planning and investing. Thank you.

Sincerely,

Phillips M. Bragg, CFP　　　　Benton S. Bragg, CFP, CFA