MTB Investment Advisors

Monthly COMMENTARY

November 30, 2008

Dow Jones Industrial Average	8,829.04	90-Day Treasury Bill	0.15%
S&P 500	896.24	10-Year Treasury Note	2.96%

The Economy

November followed a tumultuous and historic October, with more of the same economic problems – and more bailing out by the government. Housing continues to be a problem, and concern is mounting over commercial real estate. During the month, a new stimulus plan to provide $800 billion to the important Consumer sector of the economy was announced by the Treasury Department. Also during the month, the original estimate of third quarter GDP was revised downward to a negative 0.5%. This gives further support to commentators declaring that the U.S. is in a recession.

Consumer confidence continues to wane, and holiday shopping appears subdued. Consumer spending was down 1% in October, and the Commerce Department reported that the third quarter of 2008 saw the largest decline in consumer spending in 28 years. These reports raise the specter of a poor economic showing in the important fourth quarter. Wall Street reacted with a testing of the low reading of 7500 on the Dow Jones Industrial Average in mid-month, and a nice rebound to 8829 by month-end. We discuss equities in our Stock Market section below.

At the end of October, the Labor Department reported a tenth consecutive monthly loss of jobs. That report showed a loss of 240,000 non-farm jobs and an unemployment rate of 6.5%. While the country is not losing jobs at the recession rate (1990-91) of 200,000 to 250,000 jobs per month, numbers of this magnitude could appear as we close out the year. An unemployment rate at the 7% level will result in a further decline in consumer confidence and an increase in mortgage defaults. On a positive note, oil prices (NY Mercantile Exchange) fell to $54.43 a barrel, and the American Automobile Association reported that the price at the pump averaged $1.84 a gallon. That represents the lowest price since 2005.

Housing continues its drag on the economy. On November 26th, the National Association of Home Builders reported that new home sales were down 5.3% in October. Housing starts are now at an annual rate of 791,000 units, or 38% lower than one year ago. More stringent qualifications for potential buyers will also have an impact on housing. Sales of previously-owned homes also rose in September, but there is a 10-month inventory of unsold homes. As we have noted in the past, this inventory will have to get back to the historical norm of 4-5 months before housing starts begin to show an increase.

According to the Office of Federal Housing Enterprise Oversight, home prices fell 6.0% between the third quarter of 2007 and the third quarter of 2008. This is the largest decline in the 17-year history of that index. The S&P/Case-Shiller Home Price Index (a broader range of home price changes in 20 major markets) was down 17% during the same period.

As we approach the end of 2008, reports from the National Bureau of Economic Research (the arbiter of starting and ending dates for U.S. recessions) indicate that a recession started in December 2007. Furthermore, negative economic news is emanating throughout the world, and there is talk of a global recession.

Stock Market

Market volatility continues, and the negative equity performance for the year is noted below. During November, and after the Treasury Department announced an additional financial rescue plan, equity markets continued to decline. By the end of November, the S&P 500 Index was down 37% from the beginning of the year. However, during the three and one-half trading days of the Thanksgiving week, that index gained a dramatic 12% for the final week.

Equity Total Return Performance as of November 30, 2008

	November	Year-to-Date
S&P 500	-7.17%	-37.66%
DJIA	-4.85%	-31.66%
NASDAQ	-10.61%	-41.60%

(Source: Bloomberg)

Our 2009 S&P 500 year-end forecast is 1200. As we look beyond 2009, our forecasted S&P 500 earnings for calendar year 2010 is $75. We are using a conservative estimate of $75 because the lack of timely fiscal and accounting/regulatory response by authorities to the de-leveraging crisis has destabilized the real economy. A 16x multiple is reasonable given low interest rates and benign inflation. We are using $55 for trough earnings and a 15x trough multiple to map a potential trough price level of 825 for the S&P 500. We continue to feel international equities represent considerable value.

Fixed Income Market

Taxable bonds rallied strongly in November, led by treasuries (+5%), agencies (+3%) and investment-grade corporates (+4%). Municipal yields were little changed. Despite a record issuance of short-term Treasuries and the November refunding of longer-term notes and bonds, the Treasury market achieved yields not seen in decades. With the continuation of new programs designed by the Fed, the Treasury, and FDIC to address liquidity, and the soundness of the financial system beginning to show progress, the market's concern began to focus on deflation. Deflationary fears pushed Treasury yields lower and flattened the yield curve. Late in the month, an ambitious plan to address the mortgage-backed and asset-backed markets boosted agency returns, as well as treasuries.

Also, banks began to issue FDIC-insured corporate bonds with 2-3 year maturities in earnest.

November's monthly and year-to-date returns are noted below:

Fixed Income Total Return Performance as of November 30, 2008

	November 2008	Year-to-Date
Barclays Capital Municipal Bond Index	0.32%	-3.88%
Barclays Capital Aggregate Bond Index	3.25%	1.45%
Barclays Capital Gov/Credit	4.43%	1.13%
Barclays Capital Intermediate Gov't/Credit	3.27%	2.08%

(Source: Barclays Capital Indices, which has assumed responsibility for Lehman Brothers Indices)

We continue to advocate purchase of spread product, including the new FDIC-guaranteed bank obligations. Corporate bonds continue to present a viable alternative to the equity markets, while mortgages and asset-backed securities should be helped by recently enacted government programs.

Closing

While acknowledging the recession scenario, investors should remember that historically, recessions last two or three quarters and then rebound. Equity markets are traditional "leading indicators" and could lead any recovery by four-to-six months. Lower interest rates, realistic valuations, appropriate government intervention, and an end to the election uncertainty should contribute to a turnaround in the economy and capital markets. More information about MTB Investment Advisors' investment process, capabilities, and solutions can be found at our website, www.mtbia.com.

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Past market performance is no guarantee of future results.

Index performance cited is for illustrative purposes only and is not indicative of the performance of any specific investment. An investment cannot be made directly into any index.

International investing involves special risks including currency risk, increased volatility of foreign securities, political risks, and differences in auditing and other financial standards.

Diversification does not assure a profit nor protect against loss.

High yield, lower-rated securities generally entail greater market, credit and liquidity risks than investment grade securities, including higher volatility and higher risk of default.

Dow Jones Industrial Average ("DJIA") is an unmanaged index, which represents share prices of selected blue chip industrial corporations as well as public utility and transportation companies.

The Consumer Price Index ("CPI") is a measure of change in consumer prices as determined by a monthly survey of the U.S. Bureau of Labor Statistics.

Nasdaq Composite Index is an unmanaged index that measures all Nasdaq domestic and non U.S.-based common stocks listed on the Nasdaq Stock Market.

The S&P 500 Index is an unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The S&P Mid Cap 400 Index is an unmanaged capitalization-weighted index of common stocks representing all major industries in the mid-range of the U.S. stock market.

The S&P Small Cap 600 Index is an unmanaged capitalization-weighted index representing all major industries in the small-cap of the U.S. stock market.

S&P Utility Index: An unmanaged market cap-weighted index of natural gas and electric companies.

S&P REIT Composite Index represents approximately 90% securitized U.S. real estate market.

The Barclays Capital Government/Credit Bond Index is an unmanaged index which includes non-convertible bonds publicly issued by the U.S. government or its agencies; corporate bonds guaranteed by the U.S. government and quasi-federal corporations; and publicly issued, fixed rate, non-convertible domestic bonds of companies in industry, public utilities, and finance.

The Barclays Capital Intermediate Government/Corporate index is an unmanaged index of government and corporate fixed-rate debt issues with maturities between one and thirty years.

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The Barclays Capital Intermediate Government/Corporate index is an unmanaged index of government and corporate fixed-rate debt issues with maturities between one and ten years.

Barclays Capital Aggregate Bond Index is an unmanaged index composed of securities from the Barclays Capital Government/Corporate Bond Index, Mortgage-Backed Securities Index, and the Asset-Backed Securities Index.

The Barclays Capital Municipal Bond Index is a market-value-weighted index for the long-term tax-exempt bond market. To be included in the index, bonds must have a minimum credit rating of Baa. They must have an outstanding par value of at least $7 million and be issued as part of a transaction of at least $75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

Barclays Capital Mortgage-Backed Securities Index is an unmanaged index composed of all fixed securities mortgage pools by GNMA, FNMA and the FHLMC, including GNMA Graduated Payment Mortgages.

S&P 500/Barra Growth Index is an unmanaged capitalization-weighted index of stocks in the Standard & Poor's 500 index having the highest price to book ratios.

The S&P 500/Barra Value Index is an unmanaged market capitalization-weighted index of the stocks in the Standard & Poor's 500 Index having the lowest price to book ratios.

The Fed Funds Rate is the interest rate at which a depository institution lends immediately available funds (balances at the Federal Reserve) to another depository institution overnight.

Duration is a measure of a security's price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

FOMC-Federal Open Market Committee creates monetary policy.

Examples of bond issuers are cited for illustrative purposes only and are not representative of any particular investment portfolio.

Bond prices are sensitive to changes in interest rates and a rise in interest rates can cause a decline in their prices.