WOLVERINE
INVESTMENTS
YIELD-ENHANCED STRATEGIES

October 8, 2008

To Our Clients & Friends,

As we noted in our letter to clients and friends dated October 1, 2008, the current markets are in distress. On the bright side, the high level of extreme volatility is illustrative of the conclusion of a major market move, and not the beginning of a new trend.

While more reasoned minds ultimately prevailed in Congress, the market reaction has been anything but reasoned. Investors have been somewhat startled at the financial crisis's sudden expansion within Europe, as governments there staged emergency interventions to help rescue banks in Germany and the Netherlands. In the U.S., last week's passage of the $700 billion financial bailout bill didn't calm investors. In fact, it may have had the opposite effect, as heated rhetoric about the legislation drew attention to the scope of the strains in the credit markets.

Many investors hoping to ride out the storm have begun selling, and we feel this could mark the beginning of a process known as *"capitulation,"* market lingo for the moment when a critical mass of investors give up on hopes of recouping losses, and instead sell. It is during capitulation that a selloff starts to run its course, and prices begin to feel for the bottom.

Lowry's Reports, a pre-eminent market research firm based in North Palm Beach, Florida, has advised clients that we need to see the market getting knocked down to a *"climactic capitulation, where people who aren't feeling good about holding their stocks finally sell, so stocks can turn up."* In a true capitulation, Lowry's advises, investors *"don't jump in during the day to snap up beaten-down stocks…instead, they keep selling and selling."* As of this writing, the key signals that we are looking for tell us that the selling isn't yet exhausted.

As was stated in our recent letter, we feel strongly that it would be a mistake to liquidate securities in these times of severe distress. On the other hand, we adhere to and manage our portfolios by employing the so-*called "prudent man rule,"* which, loosely interpreted, involves the use on non-correlated assets to create a more diversified portfolio. During the past couple of weeks, in my conversations with clients, several have asked me if there was some way to protect against such a violent capitulation, or even profit from this kind of market event.

As a matter of fact, we have given this matter a great deal of thought and analysis and recently instituted a protective action across all our portfolios to profit from the threat of capitulation. As opposed to remaining in a solely invested in *"long"* stocks, bonds and cash, we recently purchased a uniquely structured exchange-traded fund that is inversely correlated to the overall market – the ProShares UltraShort S&P 500 Fund (symb: SDS). In other words, this new investment vehicle is designed to go up in value should the stock market goes down.

The SDS seeks daily investment results that correspond to twice the inverse daily performance of the S&P 500 Index. As most investors are aware, the S&P 500 Index is a measure of large-cap U.S stock market performance. It is a capitalization weighted index of 500 United States operating companies and real estate investment trusts selected by an S&P committee through a non-mechanical process that factors criteria, such as liquidity, price, market capitalization, financial viability and public float. The SDS takes positions in securities and/or financial instruments that, in combination, should have similar daily return characteristics as –200% of the daily return of the Index. The fund has an extremely low expense ratio of 0.15% annual, or about 1/100 of one percent for a one month holding period.

While we can't hope to protect or recover all of the temporary losses that might be incurred during a capitulation phase, we can certainly develop tactics to mitigate loss over and above that of our core risk management strategies. Once the distress in the market abates, we intend to quickly exit the position by selling our SDS position. Again, all of our client accounts maintain safe, secure cash reserves, and our portfolios otherwise remain very well-diversified.

Please don't hesitate to call or e-mail us with any questions or to review portfolio strategy, and feel free to visit us at our firm's web site at <u>www.wolverineinvest.com</u>.

Sincerely yours,

John M. Babyak
President & Chief Investment Officer