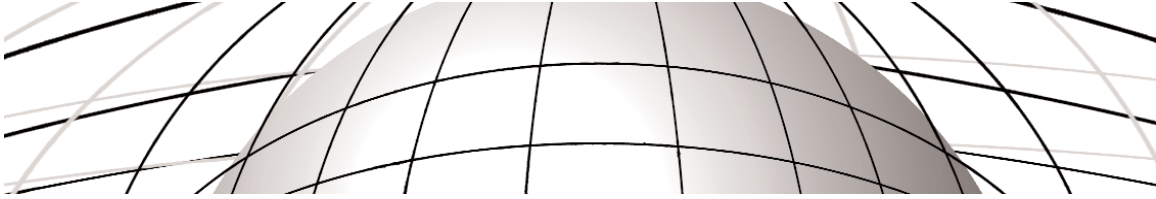


Mariner Economic Report



The Current Crisis of Credit

March 14, 2008

A Brief 20-Year Look Back

Most of us at Mariner are into our second decade (some of us into our third) of being in the business of wealth management. We have seen the crash of '87, two Gulf wars, and the price of a barrel of oil rise from \$12 to \$110. We have watched as the most devastating terrorist strike on U.S. soil occurred, and have seen meteoric fortunes made and lost as the “tech bubble” grew—and then burst. We witnessed the Russian banking crisis, the Latin American public debt crisis, and the fall of Enron. Through all of these crises, from the crash of '87 on, the S&P 500 index has grown approximately 655%, a rate averaging 10.09% per annum.

Constructing a House of Cards

The current crisis is concerning, and it is truly a crisis of credit. From 2004-2007 a massive leveraging of the financial markets took place. There were several factors driving this massive increase in leverage, chief among them:

- The Japanese yen declined nearly 20% against the U.S. dollar; this decline allowed investment banks and hedge funds to borrow in yen at very low rates and lend in dollars at higher rates.
- Inflation remained benign, even in the face of significant growth in the developing markets.
- Interest rates remained historically low.
- Asset prices trended up, void of wild swings.

These four primary issues drove investment banks, hedge funds, and private investors to borrow more and more, and purchase increasingly risky assets with the borrowed funds.

They essentially were able to put up a small amount of capital (real money), borrow against that capital, buy more assets, borrow against those assets...and so on. A house of cards was being built. Big institutions made a lot of money leveraging their assets this way, and as long as those four issues remained constant trouble was kept at bay. The profits they made were reflected in their stock prices, as witnessed in the market value of financial stocks relative to the overall market.

Unwinding the Excess

There is a phrase in our industry that goes “pigs get fat, hogs get slaughtered,” and the excesses of the investment banks are now being played out. Investment banks, hedge funds, and private investors are now being forced to sell assets at “fire sale” prices to pay off loans. We believe it will take some time to unwind these excesses. However, as noted earlier, the market has lived through many of these crises. A key to navigating through them is to rotate into sectors that may experience less pain, while preparing to take advantage of sectors that may outperform as the crisis subsides.

Managing Sector Rotation

As evidenced by recent moves in the market, both up and down, it can be costly to try and “time the market” by moving in and out of cash. However, it is possible to hedge bets, resize positions, and shun portions of the market that have excesses or poor earnings visibility. At Mariner, we rotated out of financial stocks to a large degree in the summer of 2007. Our strategies have remained solid over the course of this crisis as we have focused on material, oil, healthcare, and industrial positions, while underweighting financial and consumer stocks. As we tactically manage these portfolios, there will be a time when we rotate back into these sectors. But for now, we believe there will be more pain in financial and consumer stocks as they deal with the crisis of credit.

Before investing in a portfolio, consider its objectives, risks, charges, and expenses. The portfolios may not be suitable for all investors.

Contact Mariner Wealth Advisors at (913) 647-9700 to obtain prospectuses on investments inside the portfolio you are considering.

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