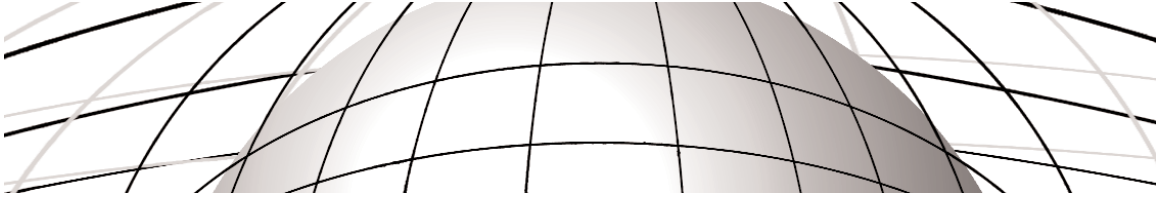


Mariner Special Report



Dramatic Changes to the Financial Landscape

September 16, 2008

Financial Crisis Hits Weekend Crescendo

In perhaps the most dramatic Sunday in market history, Lehman Brothers Holdings Inc. filed for bankruptcy, Merrill Lynch & Co. agreed to be sold to Bank of America Corp., and insurance giant AIG searched desperately for an emergency lifeline of cash. When the initial dust settled Monday afternoon, a battered Dow was down over 500 points, or 4.4%.

When it is all said and done, this remarkable bloodletting may prove to be a turning point in the ongoing financial crisis, which has spread to all corners of the globe. This is because the alternate scenario that might have played out, a U.S. taxpayer-backed bailout plan, was rejected by the federal government. In this case, unlike with Fannie Mae, Freddie Mac, and Bear Stearns, the government etched a line in the sand. Once it was clear that the treasury department and the Fed would not provide another financial backstop to a beleaguered firm, interested buyers walked away.

Much unlike the path that Lehman chose (CEO Dick Fuld is being widely blamed for the company's demise), Merrill Lynch Chairman John Thain seemed cognizant of his firm's challenges and began rapid-fire talks with Bank of America. The 48-hour negotiations led to a \$50 billion, all-stock acquisition of the investment firm by the bank.

With two different resolutions in the works for Lehman and Merrill, insurance giant AIG now becomes the focus of attention. Although the insurer received a \$20 billion liquidity cushion when New York state said it could access funds tied up in regulated subsidiaries, it still seeks a lending facility of as much as \$75 billion.

What this Means for Investors

First and foremost, investors should be aware that assets managed (brokerage, retirement plan, etc.) by Lehman are not actually held by the firm, and will not directly be affected by Lehman's liquidation. Direct owners of Lehman stock and debt obligations, however, will directly be affected. While shareholders cannot expect to recoup any of their losses, the Chapter 11 filing will allow an orderly liquidation of assets. The bankruptcy petition listed Lehman's assets at \$639 billion and debt at \$613 billion, so holders of senior debt obligations (Lehman bonds) can expect to receive a good portion of their investment back—although exactly how much remains to be seen.

Resilience of the American Financial System

While there are certainly more potential liquidations or mergers on the horizon, it is important to look at other factors surrounding these actions. Many market analysts were of the mind that this type of painful consolidation was necessary to help cleanse an industry still reeling from the sub-prime credit crunch, and we can now begin the process of moving forward.

Additionally, these actions sent oil prices plummeting down to around \$90 per barrel, leading to the first drop in consumer prices in nearly two years. The Federal Reserve is also taking positive action: this morning it infused \$50 billion in temporary reserves to the banking system, and we will likely see a drop in interest rates today—a move that was very unlikely just a few weeks ago.

Certainly, the financial landscape has changed. But through crisis comes opportunity, and with the increasing complexity of the investment world, demand for financial services expertise should only increase. Overleveraging and poor to nonexistent credit standards led to the demise of century-old firms. If lessons were learned, this pruning should lead to strong future growth for the financial services industry.