

## Summary of Russell Investments Special Conference Call

**On September 16th, Russell Investments hosted a special conference call featuring Ernie Ankrim, Chief Investment Strategist and Mark Eibel, Director, Multi-Strategy Solutions, to discuss recent market events. This update addresses issues discussed in the call as well as events that have developed in the last 24 hours.**

Recent market volatility, including Monday's severe drop in equities, has resulted in heightened anxiety and concern by investors. While we believe that risks do remain in what might ultimately go down as one of the most significant crises in financial markets history, monetary authorities appear to be making calculated responses to each complex situation as they unfold.

The Federal Reserve's recent interaction with several of Wall Street's largest institutions illustrates the complexities that are involved. In the case of Bear Stearns, the Fed faced a choice as to whether or not to intervene. The Fed judged that it was in the market's interest for this institution to survive, albeit via a takeover by JP Morgan. The issue here seemed to be counterparty risk, i.e., the risk that if Bear Stearns were to collapse, the parties holding the other side of their investment contracts would also be severely affected. In the end, the Fed judged that this was simply not a risk worth taking.

The case of Fannie Mae and Freddie Mac illustrates a similar, if somewhat different point. In this case, given the implicit promise of U.S. government backing for these two entities, the Federal Reserve judged that it would have been untenable to let them fail. Similarly, news is just breaking at the time of this writing on an AIG resolution which has the Fed putting together an emergency loan package in exchange for the government assuming an 80% ownership position in AIG. The view is that had these entities failed, it could have had dramatic consequences on an already fragile financial system.

In the case of Lehman Brothers, it appears that the Fed wanted to send another message to the marketplace. That is, the U.S. government will not support all institutions impacted negatively by this financial crisis. In their minds, to do so over the long term could result in investors taking on more imprudent risk, not less. Here the Fed allowed capitalism to function more or less unconstrained, resulting in a negative outcome for Lehman and its investors.

On the upside, yesterday's announcement that Barclays PLC will purchase Lehman's North American banking operations (as well as its New York and New Jersey facilities) may indicate that we're closer to the end of this crisis than we are to the beginning. Historically, private institutions have stepped up in cases like this when 1) they've felt reasonably certain about what federal authorities are going to do relative to the entity in question and 2) they're confident in the potential value of the company (or parts of the company) they're buying.

Lastly, Ernie was correct when he predicted on Monday that despite very high probabilities in the futures market, the Fed would not cut short-term interest rates on Tuesday, relying instead on more specific injections of liquidity as the coming days unfold. The market closed the day higher despite an initial negative reaction to the news.

Looking ahead, it may be the case that the current credit crisis causes business conditions to tighten, which may result in a drag on gross domestic product. It remains uncertain, however, whether the market will look past this period and anticipate improving conditions in 2009. In our view, this seems somewhat likely. As always, the market is a forward-looking mechanism. Once investors believe the worst has passed, they may be inclined to take on risk in equities (including financials) again.

Broadly speaking, we believe the recent crisis highlights the importance of several of Russell's investment tenants. First, recent market action has obviously spoken to the danger of insufficient diversification. From our perspective, the meltdown in the financial sector illustrates the necessity of broad diversification not just among securities, but among managers and investment styles.

Lastly and most importantly, we believe this period of crisis highlights the need for a long-term investment perspective. While the last year has been difficult and Monday's sell-off was substantial, there have been worse days in the market. For those patient investors with a long-term perspective, this too shall pass. Broadly speaking, our advice to clients is to stay diversified, stay invested, and to match their level of risk with their long-term investment objectives. We believe this is a rational strategy for consistently building wealth over time.