UPDATE ON GLOBAL EQUITY CORRECTION

EDGE is an independent financial firm whose objective advice helps individuals and institutions realize their goals in the areas of investment management and corporate finance. The Edge Research Team's thoughtful and timely reports are based on extensive independent research and analysis of firms, financial developments, and macroeconomic trends.

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OVERVIEW:

The global de-risking that began last week rippled through the weekend leading to significant declines across Asia, Europe, and into U.S. markets for the start of trading Monday morning. The Dow Jones Industrial Index declined 1,000 points at the open, the largest single point decline on record. U.S. equity markets were consistently volatile throughout the trading day as the major indexes rallied from the open to approach a 1% decline around noon. On average, markets closed down 4%, paring early loses in half. We estimate the Dow traveled over 2,500 points during the volatile session. Classic safe-haven assets such as U.S. Treasuries, developed market currencies, and credits have performed well. As an example, U.S. rates, euro, and yen all rallied during the day.

Including today's 4% decline in the S&P 500, the index has officially exceeded correction territory, defined as a 10% retracement. For U.S. equity investors, this is the first 10% decline in over 46 months capping the third longest stretch without a correction since the 1920's. Similar to the 2011 selloff that saw the S&P 500 decline 18% in a matter of weeks, investors are reacting to the increasing uncertainty surrounding global macro-economic events. Contributing to the selloff, the decision two weeks ago by China to devalue the yuan has sparked a broader Asian currency devaluation that again has investors questioning global growth and corporate fundamentals. During times like this, we believe it is important to send a reminder that historically, equity market corrections are frequent. In general, a correction occurs on average every 18 months making today's end to that streak as one of the longer in recent years. Accommodative Fed policy and a global push by central banks to risky assets are partly responsible for the current streak so it is not surprising that with the U.S. Fed set to lift rates for the first time in a long time, volatility would accelerate.

It is during these times that we rely on our investment process and the work our team dedicates to studying risk, asset allocation, and corporate fundamentals. On August 18th, this work led us to publish an Update on Emerging Asia where we recommended investors exit China and broadly reduce their exposure to Asian emerging markets. In our mind, weakening corporate fundamentals and increased currency volatility outweighed attractive valuations across the region. Our work also suggests that U.S. economic and corporate fundamentals remain sound. The economy continues to benefit from job gains, strong housing fundamentals, and low energy prices supportive of the end consumer. For these reasons and many others, we are maintaining our equity exposure to U.S. corporations. Outside of the U.S., our confidence in the European recovery story remains intact. European growth is tepid but our research suggests that economic trends continue to improve in

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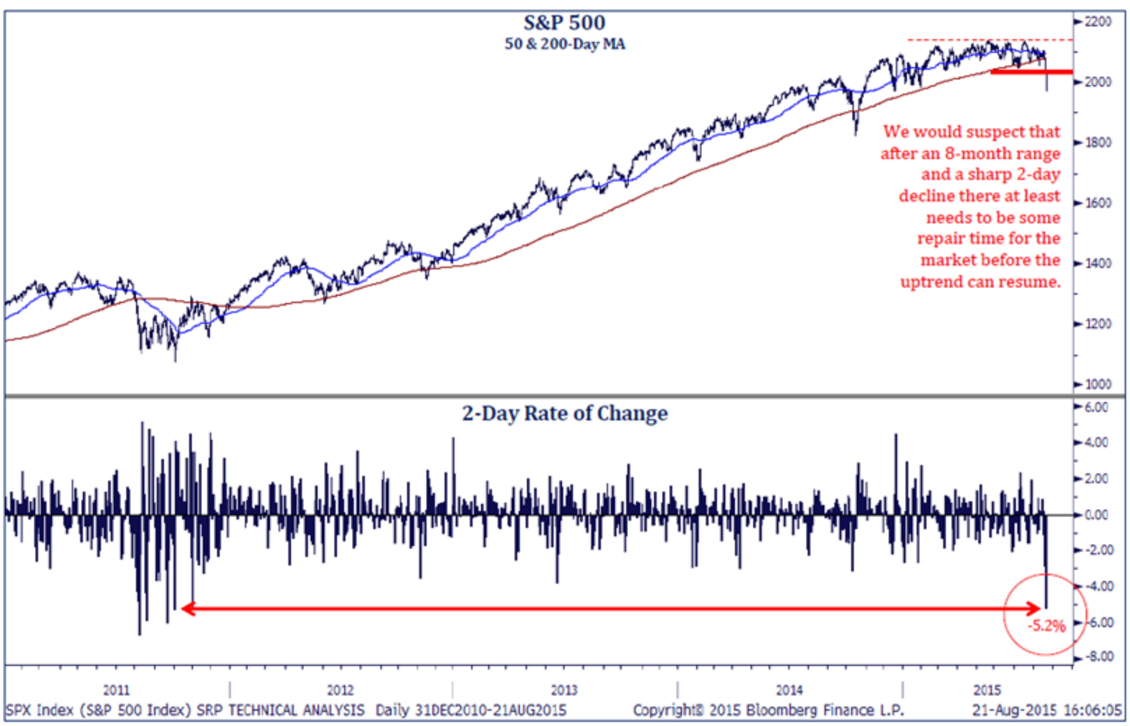
Europe and attractive opportunities remain. European revenue and earnings trends also continue to mend from the prolonged recession that has plagued the area for several years. The European Central Bank remains accommodative, and for these reasons we encourage investors to stay the course in Europe.

As always, we are monitoring the markets closely and prepared to act accordingly should new information present itself questioning our growth and fundamental beliefs. We believe the decision to reduce Asian exposure is an example of our ability to revise and adjust prior forecasts in light of new information. Two factors we are monitoring closely are China-induced economic and fundamental contagion to other regions of the world, hampering growth beyond current expectations. We are also tracking the underlying liquidity of our fixed income investments to ensure our client's "safe haven" assets are just that. Our perspective is that the current market correction will resemble previous periods of turbulence (similar to 2011), and we do not expect a deeper, prolonged drawdown or the start of a new bear market at this time. As expected, we will continually look for evidence that refutes our base-case.



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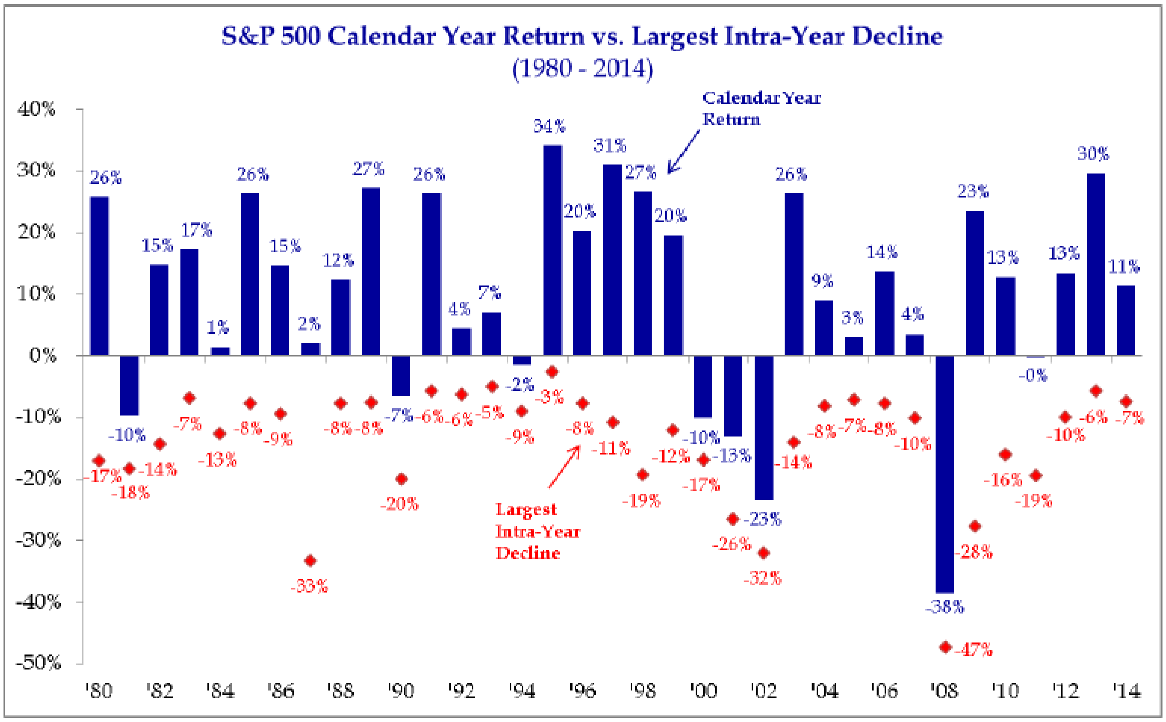

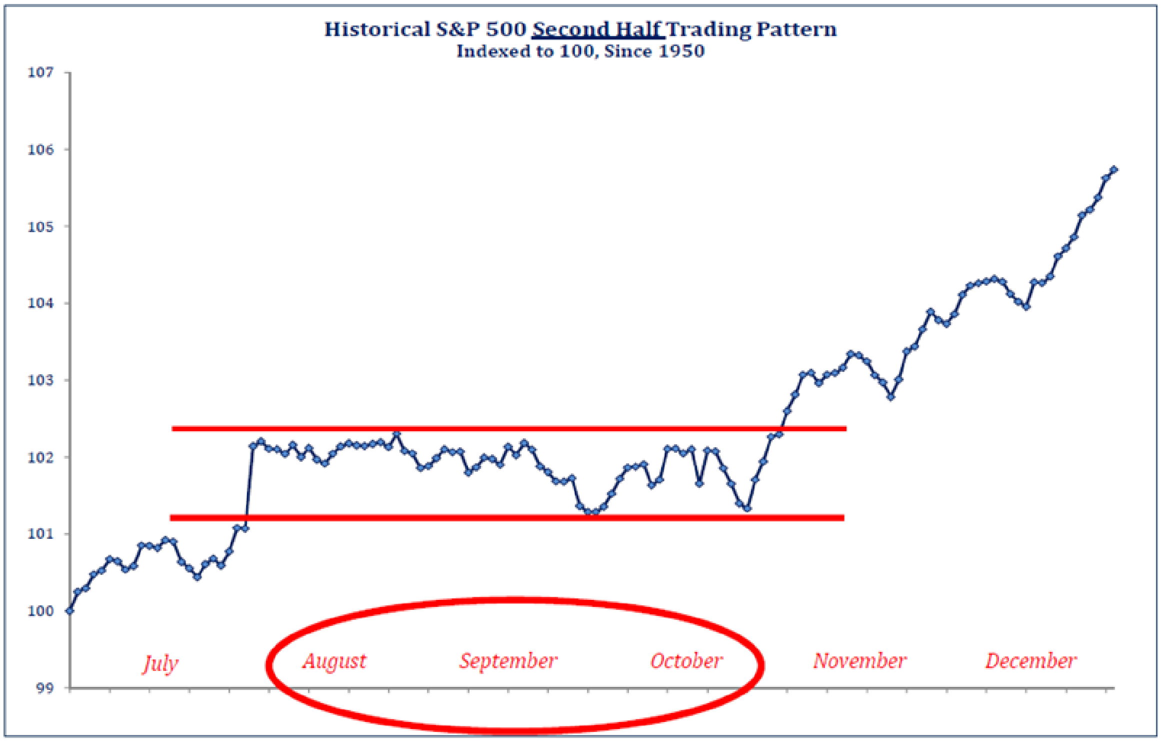

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