



PORTFOLIO UPDATE

During the third quarter, all hell broke loose. The stock market, which had been declining for months, really tumbled. Worse yet, the RCM portfolio finally got caught in the crossfire. We had been managing to avoid most of the damage by maintaining a more conservative asset mix with a risk profile well below that of the broader market. But, eventually we were pulled into the fray. By the end of the quarter, the portfolio was down 24.3% for the year. On a longer-term basis, the annualized performance is +6.2% (net of all deducted fees).

As for risk, the portfolio risk profile is now about even with the market, measuring 101 (relative to the general market which is defined as 100). This highlights the old Wall Street saying that in a bear market “all correlations got to one.” In other words, in a bear market, there is nowhere to hide.

COMMENTARY

Bad as things were in the third quarter, October has proven even worse. I won’t recount casualty statistics of the past three weeks. Everyone has seen enough of the news reports. Suffice it to say, the economy and stock market are in a deep decline, the likes of which haven’t been seen in decades.

At this point, the damage of the credit crunch is probably fully priced into the market. In fact, with the SP 500 index in the low 900’s, U.S. stocks are clearly undervalued on a historical basis. Overseas stocks are also cheap. Now is the time to think like a buyer, not a seller. However ... we undoubtedly have a nasty economic recession in front of us. That may not be fully priced into the market yet. A recession will serve to hold the market down, if not drive it even somewhat lower, for the next quarters, before this debacle is finally behind us. So, think like a buyer, but a judicious, steady buyer, not a wild-eyed shopaholic.

Bullets are still flying in the marketplace, so we largely are going to keep our head down. When things begin to quiet down, we’ll do reconnaissance, and see if any specific portfolio adjustments are desirable. For now, we are comfortable with the asset allocation we have.

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	Stocks	Income-based	Alternative Assets
Foreign ~50%	Developed Mkts Emerging Mkts	Foreign Bonds Dividends & Covered Call Strategies	Real Estate Commodities Energy/Nat Resrc Infrastructure
Domestic ~50%	U.S. Stock Mkt	U.S. Bonds	
	50-60%	30-40%	0-20%

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Dr. Rollins has earned both the Chartered Financial Analyst® designation and Certified Financial Planner™ credential. He was awarded the CFA® designation in 2004. The CFA charter is the only credential for investment analysis and management recognized worldwide. Recipients of the CFA charter have successfully completed a graduate-level educational curriculum, and have passed a series of three sequential annual examinations. Pass rates average about 50 percent at each examination level. In 2005, he also successfully completed financial planning coursework and passed the qualifying examination for the CFP® credential.

Company Profile

ROLLINS CAPITAL MANAGEMENT is a fee-only financial advisory firm serving individuals. Using a consistent, patient investment strategy, our focus is long-term, high-quality, personalized investments. Clients have their own individualized accounts. ROLLINS CAPITAL MANAGEMENT handles all the daily investment decisions.

Presentation Disclosures

1. Portfolio composite returns are actual total annual returns, including stock price appreciation, dividends, corporate spin-offs and divestitures, and other occasional cash and non-cash distributions.
2. All returns are actual annual returns for each full year displayed or are year-to-date results for the most recently displayed year.
3. Portfolio composite returns represent an asset-weighted combination of the equity components of fee-paying client accounts under management in the period specified, reported net of all withheld fees.
4. Annual portfolio composite returns and benchmark annual returns use a time-weighted calculation over the period specified.
5. Annualized portfolio composite returns and benchmark returns are calculated as the geometric mean of annual returns.
6. Portfolio and benchmark risk measures calculated using methodology provided by RiskGrades®.
7. Detailed disclosures available on request.

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