INVESTMENT LETTER

A PUBLICATION OF CALDWELL TRUST COMPANY

MARKET SNAPSHOT: SEPTEMBER 30, 2007 DJIA: 13,895.63 NASDAQ: 2,701.50 S&P 500: 1,526.75 10 YEAR TREASURY NOTE: 4.58%

EMERGENCE OF THE INTERNATIONAL ETFS

Ten or more years ago, the S&P organization decided to start an unmanaged fund in which investors could buy shares. Each share represented a proportional, fractional interest in the fund which in turn held shares in each of the stocks included in the widely-used S&P 500 Index. S&P did the bookkeeping so that the market value of the shares could be quoted and traded at any time at a price that exactly matched the equivalent market value of all of the traded shares of the 500 companies in the index. The fund's symbol is SPY (Standard and Poor's Depository Receipts), and its shares have since become best known as "*spyders*."

This fund was the start of a whole new world of investing. What made it so special was its ground-breaking ability to enable investors to conveniently buy the "whole market" by simply buying one share of the fund. With 500 stocks in the index, it would have been out of the reach of average investors to own shares of each, thus the reason for its huge popularity. Today, it is one of the largest index funds in existence, and trades in many billions of dollars.

Parenthetically, it may come as a surprise to some to learn that Caldwell Trust Company was one of the very first to find and use this unique fund. Our clients were among its pioneer investors for many years before Wall Street and others discovered its merits. In fact, *spyders* were backwater on the financial scene for quite a long time and remained quite small in size for a number of its early years. During that time we had many conversations with its principals who confirmed to us their own confusion at its sluggish progress, especially considering its many attractions including low administrative costs. That is all now history, of course.

Not long after the S&P took action, the Dow Jones people decided to do likewise by offering a new fund of their own. This fund also used investors' money to buy stocks, but in this case only the stocks of the 30 companies included in the Dow Jones Industrial Average—still the single most followed stock index in the world. For this fund, the symbol is DIA and it's shares became known as "*diamonds*."

Once again, Caldwell Trust was among the first to find and recommend DIA shares to its clients. It is this fund that CTC still uses heavily in accounts more suited to diversification through such an indexing approach.

Today, index funds have grown in popularity and proliferated dramatically. They have morphed into a vast array of fund types in what are now referred to as *exchange traded funds* or ETFs, which are also low-cost, unmanaged funds whose sponsors invest shareholder monies in some targeted sector of the economy, both here in the U.S. and abroad.

John Bogle, founder and principal of the well-known Vanguard mutual fund group, has been preaching the merits of indexed unmanaged funds for too long to remember, even though his own fund group offers many managed funds of its own. His regular reports to the financial world are widely sought and well received, and have most certainly had an impact on the general investing public, who

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are heeding his experienced words by moving more and more of their assets into indexed funds and ETFs that have low costs and produce excellent performance.

Today, foreign or international ETFs are now among the most attractive fund sectors, both due to and because of the emergence of so many economies around the world into today's financial picture, and the superior performance they have provided recently. Some might even claim that it was only the flow of so many new ETF dollars into then-backward countries that enabled them to get the capital they needed to emerge at all. CTC falls into the camp of those who believe in what capitalism can do for nations that are willing to open their markets to the free world of investors looking for higher returns with relative safety, as both China and India are doing most noticeably.

From our vantage point, we see no letup in that surge in popularity of ETFs, especially those in the international sector. These new markets have produced spectacular performance compared to U.S. domestic returns over the last five years. They have been able to exceed U.S. returns so dramatically primarily because their economies are so small compared to the U.S. When starting from their rock-bottom levels, improvements have a much greater percentage impact than can be obtained in our more stable U.S. economy.

The addition of an international allocation to a portfolio not only can add to its overall diversification and safety, but can also enhance its performance. Accordingly, we continue to advise investors to review their overall allocations with their financial advisors and determine if an allocation to international equities is appropriate. If it is, the current crop of international ETFs is the most economical and productive way for the average investor to build his or her international exposure.

CONCLUSION:

Despite its volatility, the overall market refuses to buckle and has now surpassed the 14,000 level on the DJIA. Stocks continue to be the investment of choice for investors, and because of the rapid proliferation of ETFs, the average investor can now more fully diversify his or her portfolio by adding an appropriate level of international equity exposure using international ETFs.

Our advice as always is to keep your eye on the big picture—namely an expanding Economy, strong corporate profitability, low inflation, and decent government fiscal policies. And on this score, so far so good.

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