

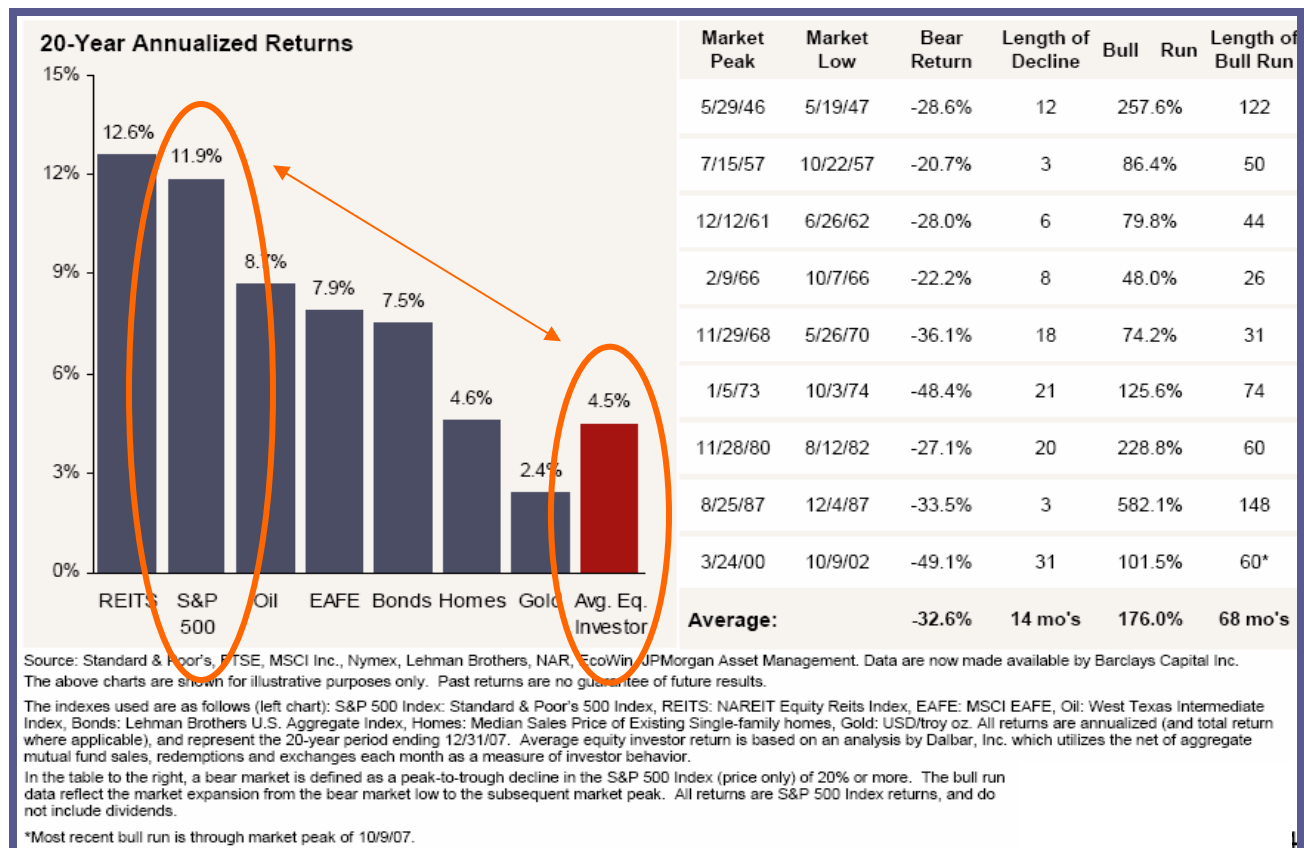


October 13, 2008

Equity Market Update Meltdown or Buying Opportunity?

Stay the course - Despite the S&P 500 returning 11.9% a year on average, the typical investor only has returns of 4.5% annually (Chart 1). The shortfall is due to selling when the market is down and returning only when the market has recovered. This point can not be reiterated enough. Market timing is not a reliable strategy. In order to reap the full benefits of an investment plan, a disciplined and long-term approach is necessary. *Please read on to hear why...*

Chart 1:

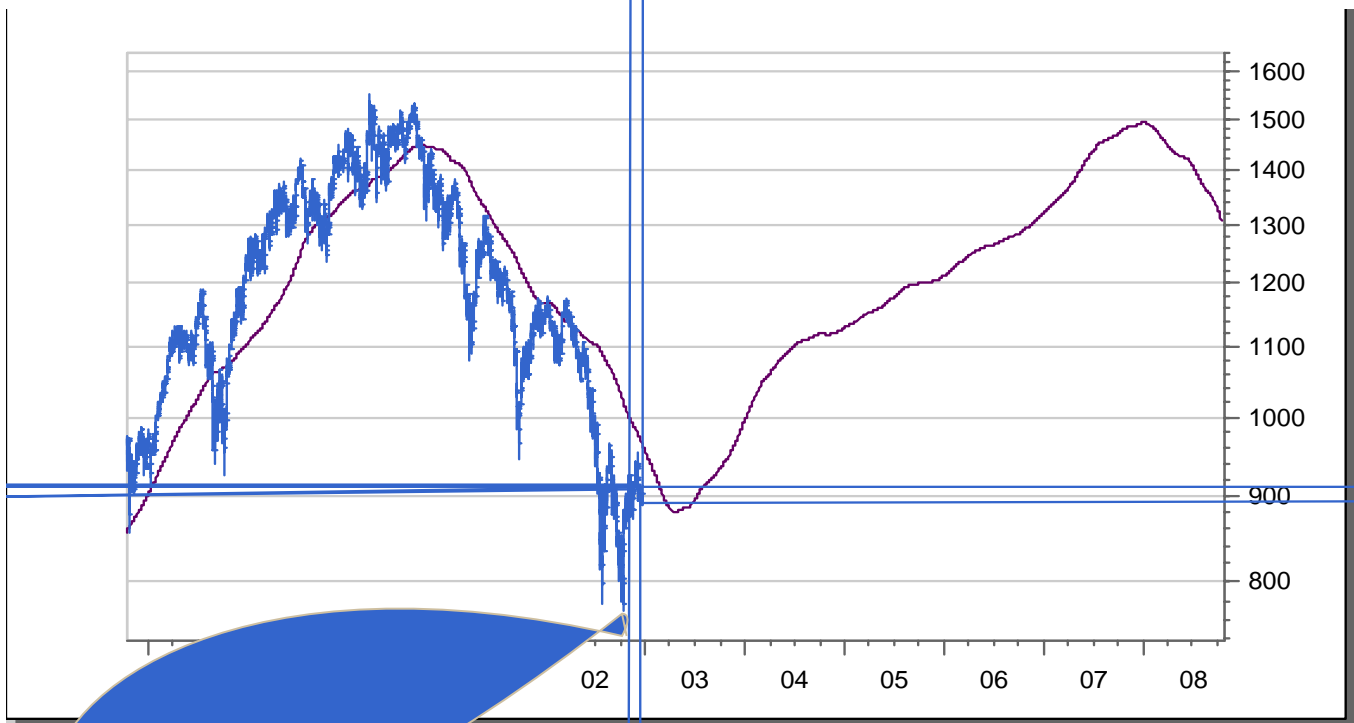


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Uncharted Territory? - The market's unprecedented and historic decline over the last several weeks has been extremely discouraging, and at times downright frightening. Since October 1st of this year the S&P 500 has dropped 22%, and is down over 42% from its high in October 2007 (Chart 2). The panic selling we have experienced was further fueled by media pundits and talking heads competing to outdo one another with the gloomiest outlook. Is the economy facing a significant challenge? Yes, no one would dispute that fact. But we have been here before. In 1974, the Dow was down 46%. In 1982, the US was in the midst of a severe recession, coupled with double digit inflation, burdensome interest rates, and crippling unemployment. More recently, let us not forget the tragic events of 9/11, as well as the Enron scandal in 2002. Yes, we have been here before. America has indeed weathered tough times and has always recovered with a stronger and more resilient economy.

Chart 2:



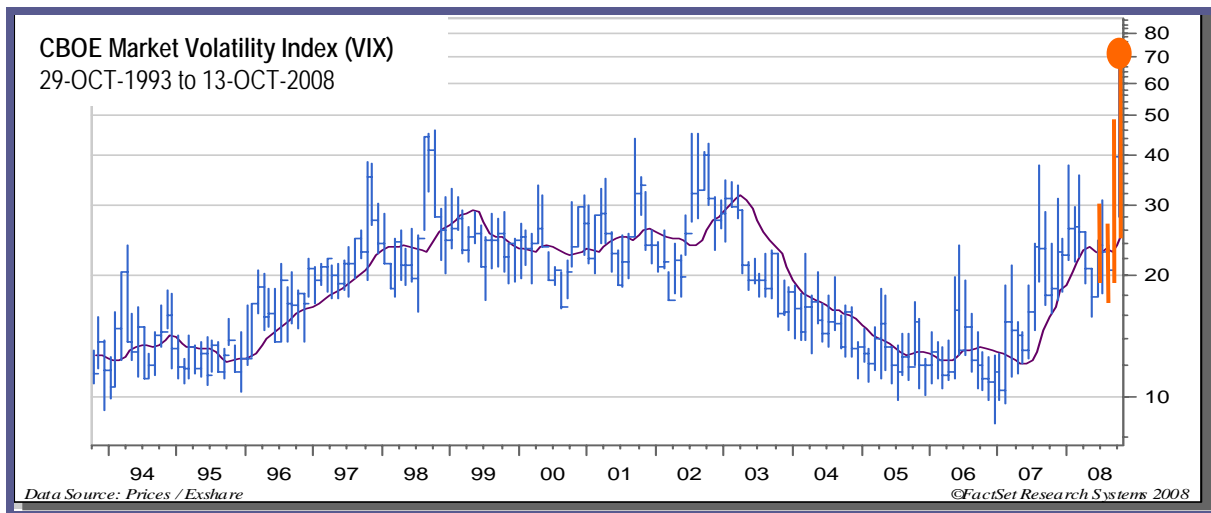
current crisis has been compared with the market crash of 1929 and the Great Depression. Many like to reference the worst economic period in modern history as a comparable era, in our opinion, it has little merit. Most historians and economists agree that the stock market crash of 1929 did not cause the Great Depression, but was instead the result of the government's response of increasing tariffs and raising interest rates. While not all of the government's recent actions have been well received, the Federal Reserve and the U.S. Treasury have lowered interest rates and increased the money supply. Given time, both actions will eventually help the economy gain its footing and are in sharp contrast to the uninformed governmental policies of the 1930s.

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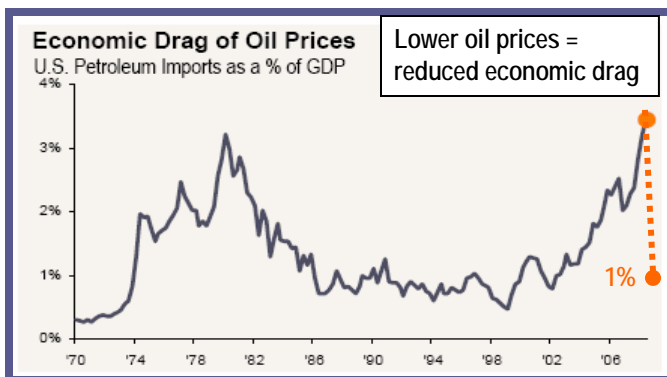
The October sell-off has largely been indiscriminate and a reaction to the frozen credit market. Not surprisingly, Financials have been hit the hardest with Consumer Staples faring the best. Overall, every sector and market-capitalization has declined in surprising tandem. As we stated in our 3rd quarter newsletter, we believe this is due to panic selling rather than underlying fundamentals. In fact, the volatility index (VIX) has reached record highs (Chart 3). On Friday, October 10, 2008, the index level was 71, indicating an extremely elevated level of fear in the market.

Chart 3:



Where do we go from here? - No one can predict with certainty that we are at the market bottom, yet like many professionals, we do believe that we are getting close. It will matter little 3-5 years from now. With Friday's (October 10) 8,466 close on the Dow in which it recovered most of the day's earlier decline of over 700 points, it appears that market capitulation may well have occurred. In addition, the price of oil has continued to dramatically fall, closing at \$80.39 and providing much needed economic relief (Chart 4). The Dollar similarly rallied to close at a 52 week high (Chart 5).

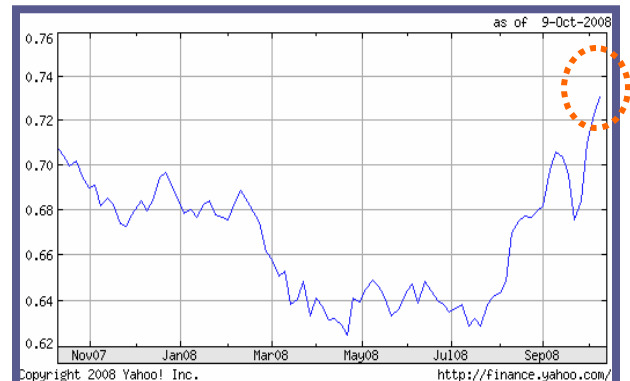
Chart 4:



Source: Bureau of Economic Analysis, U.S. Department of Energy, JPMorgan Asset Management.

Data reflects most recently available as of 9/30/08.

Chart 5:



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On the housing front, the correction process that must occur for housing to bottom has definitely begun. In fact, inventories have come down significantly and continue to fall (Chart 6).

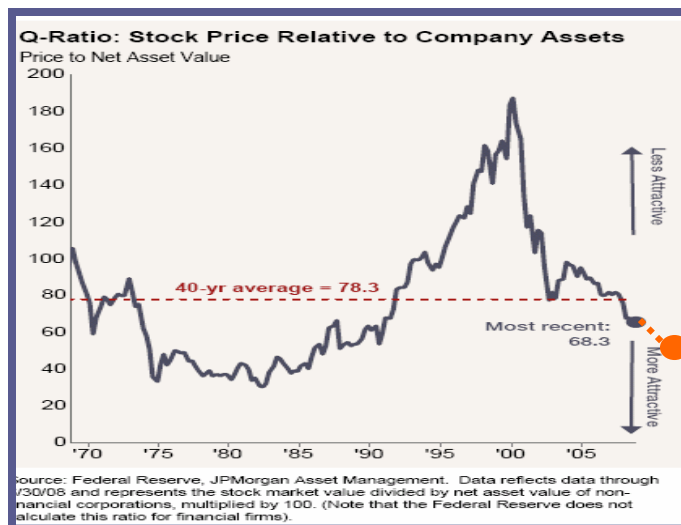
Chart 6:



Source: (top chart) Census Bureau, FactSet, EcoWin, JPMorgan Asset Management.
Data reflects most recently available as of 9/30/08.

Markets are just as irrational on the down side as they are on the upside and valuations have reached extreme levels. Analyzing market price-to-earnings ratios on a trailing basis, or with forward estimates, indicates levels rarely recorded. Chart 7 is an excellent graphic representation of the incredible valuations with Price to Net Asset Value.

Chart 7:



Source: Federal Reserve, JPMorgan Asset Management. Data reflects data through 3/30/08 and represents the stock market value divided by net asset value of non-financial corporations, multiplied by 100. (Note that the Federal Reserve does not calculate this ratio for financial firms).

Valuations continue to improve

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Credit markets remain key to a recovery. It will take time but market participants, government and investors alike, will slowly start to parse out the portion of credit assets that are truly toxic, thereby enabling higher quality assets to trade more freely. A more liquid credit market will not only benefit equity markets, but will allow day-to-day business operations to resume. Once confidence is restored in credit markets, equity markets will disproportionately reward companies with solid balance sheets and sustainable growth opportunities. We anticipate a price recovery to a higher level in the near term. At that point we will continue to deal with the recessionary economy--a fair value on the Dow even with recessionary challenges is 11,000. We may see some bottom churning next week, but likely the bottom is happening at this time.

Finally, a note regarding recessions. Traditionally recessions are not declared until after the fact, and in many cases even a year after they have begun. Chart 8 highlights recent recessions and stock market performance during them. As shown, in each case the stock market bottoms over a month *before* the official end of the recession. Also, as indicated by the "period" column under market bottoms, on average the S&P 500 bottoms about half way through the recession, and rallies over 25% from the bottom to the official end.

Chart 8:

<u>Recession</u>		<u>Market Bottom</u>		<u>S&P 500 Performance During Recessions</u>			
Start	End	Date	Period	6mo Before	Start to Bottom	Bottom to End	6mo After
Dec-69	Nov-70	05/26/70	48	-9.13%	-25.67%	25.85%	14.91%
Nov-73	Mar-75	10/03/74	65	-2.30%	-42.17%	33.85%	2.00%
Jan-80	Jul-80	03/27/80	41	3.25%	-7.13%	23.87%	7.04%
Jul-81	Nov-82	08/12/82	79	-4.82%	-21.08%	35.27%	17.22%
Jul-90	Mar-91	10/11/90	37	-0.40%	-17.82%	27.00%	2.85%
1-Mar	1-Nov	09/21/01	71	-19.21%	-16.77%	17.98%	-6.35%
Average:			57	-5.44%	-21.77%	27.30%	6.28%

Source: S&P 500 / RIA

The RIA investment process, which blends both quantitative and fundamental review, seeks companies with superior financial characteristics and earnings potential. We are confident that our portfolios are strategically positioned to capture the markets eventual upside movement. Remember, stay the course! Now is the time to add cash and take advantage of dramatically undervalued equities.

Thank you for your continued trust in RIA. We know these are difficult circumstances. We will provide ongoing analysis and commentary to keep you informed during these fast changing and opportunistic times. Please let us know if there is anything we can do to better serve you.

Sincerely,
*The Investment
Committee*

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