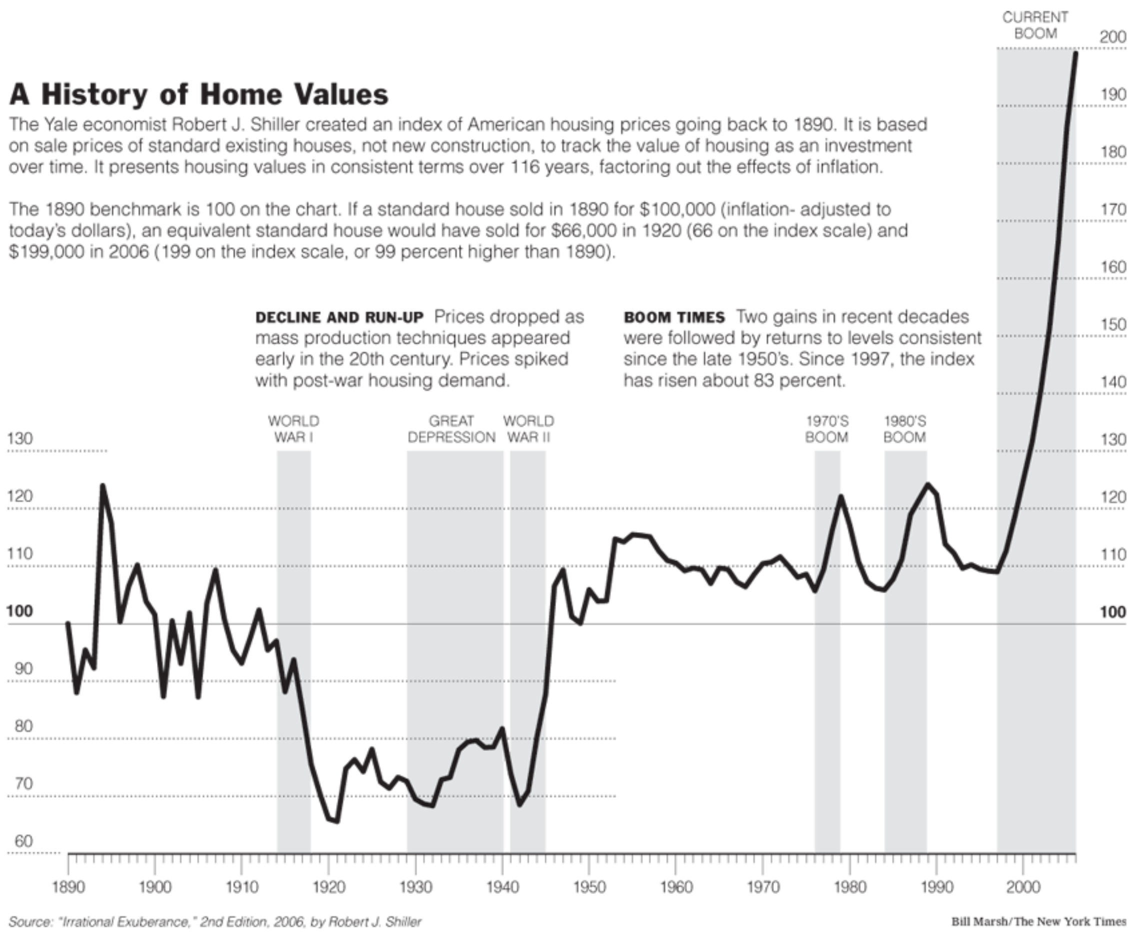
ORSUS INVESTMENTS, LLC

Investment Update - 8/30/2006

Market Commentary:

This is an exceptionally slow time of year for the markets, yet the economic data has been anything but slow. Last week we were hit with a barrage of important data. Of particular interest to us was the housing data. Single family home sales decreased 4.3% in the month of July. The year over year figures showed a 21% plummet in sales since July 2005. It's important to realize that, as the Fed has raised rates and sales have slowed, the cost of a mortgage continues to climb. So we have a very interesting situation on our hands that brings us back to the tech bubble in 2000. When the tech bubble burst the Fed was in a most precarious situation. They had raised rates extremely high in order to avoid rising inflation and the largest asset bubble in US history. When the bubble deflated faster than they had predicted, they were forced to lower interest rates extremely fast. This created a cushion for most assets (as the market was flooded with money), but started the ball rolling in another massive bubble; housing.

Low interest rates and creative financing made houses affordable for almost anyone. This created enormous demand in a housing market that was not creating supply fast enough (because the economy slowed so quickly). What ensued was one of the world's largest asset bubbles in the last century. The chart below is part of a recent study by Doctor Robert Shiller (a world renowned professor at Yale) who has been one of the greatest proponents of the housing bubble. As the housing bubble progressed consumers were essentially tricked into thinking that they were far more wealthy than they actually were. The housing bubble generated 2 TRILLION dollars of unrealized wealth in the United States.



So here we sit with a relatively healthy economy, signs of inflation and record housing prices. Sounds pretty good, right? Not so fast. The markets could certainly move higher if housing doesn't collapse, but we see very few scenarios in which that can happen. When the housing market slows consumers will spend less and businesses will begin to suffer. The US economy will then fall into a recession and European and Asian countries will quickly follow suit as the worlds greatest consumers wilt under the environment of low liquidity and higher debt. The Fed will race to lower rates and things will slowly recover over the next 5-10 years, but prices overall will appreciate very little in most asset classes. The credit driven housing bubble remains the greatest risk to the equity markets at this time.