HANLON
INVESTMENT MANAGEMENT, INC.

Quarterly Report – September 30, 2008

One of the challenges with writing this newsletter is that by the time you receive it the markets may have moved, perhaps considerably, and we may have since made transactions in your account. I am writing on October 2, 2008 and at this time we remain 100% invested in money markets in all our allocations. Please check your account for the most up-to-date information. Clearly this year has been a good example of the value of the investment strategies used in your account by Hanlon Investment Management. These **active investment management strategies** have kept your account from the significant drops in value in asset classes worldwide that have occurred this year. We continue to be invested safely in money markets. ***Cash Is King!***

Equity Markets

For most of us, the task of beating the market is not difficult; it is the job of beating ourselves that proves to be overwhelming. In this sense, beating ourselves means regulating our emotions and attempting to think independently as well as not being swayed by those around us. This is one of the reasons why your Financial Advisor referred your account to Hanlon Investment Management for professional portfolio management. We attempt to remove the passion and fear and greed from the investment process by following our daily measurement and analysis of the markets. This year these daily measurement and analysis have led us to be as cautiously invested as we have ever been with our client portfolios. The table below shows this year's results.

Index	YTD as of 9/30/08
All HIM Allocations Approximately*	Range of +1.00% to -4.00%
Dow Jones Industrials Average	-16.56%
S&P 500 Index	-19.43%
NASDAQ Composite Index	-21.49%
Russell 2000 Index	-11.29%
MSCI EAFE iShares	-26.94%
MSCI Emerging Markets iShares	-31.03%

Source : Yahoo Finance

Table 1 – Major Equity Indices YTD 2008

So what happens now? Well, there are those who point out that September has lived up to its reputation as a bad month for stocks, and the positive news is that we are headed for October, traditionally a better month for stocks. We all know that the current driving force behind stock market and bond market moves is the bailout legislation and the corresponding assistance it should provide to the ailing credit markets. However, soon we all will be refocused on the primary driver of equity valuations – corporate earnings.

In the meantime, a quality bailout deal is important and in the best interests of the country. Even Warren Buffet has offered to invest alongside the government for 1% of the deal they proposed. A successful arrangement means we probably avoid a potential systemic collapse of the financial system. But an economic panacea is not what this legislation will bring. Once structured, the bank-rescue plan will take months to implement and clear. We all should expect to see below trend economic growth into at least 2010. It will take time (up to four years) to fully revitalize our economy. Remember, we have now witnessed in a short period of time the collapsing of the four bubbles – Housing, Credit and Leverage, Equities, and Commodities – and each of these may have a ways to go! This mess started with housing and it will end with housing, but unfortunately housing is a slow moving asset class, so we should expect this recovery to be slow.

Chairman Bernanke and Secretary Paulson have done a very poor job in conveying to Congress and the American people why a "bailout" is required. Talk about a public relations disaster! Policy makers failed to link the government's rationale for action to an individual citizen's economic welfare. The effects of the bank-rescue bill would be felt far beyond Wall Street by potentially making mortgages available and more affordable, supporting stock values (and therefore values of investments owned in IRAs and 401Ks) and "unfreezing" credit markets worldwide. There is considerable correlation in markets worldwide these days, one of the basic premises of the Hanlon Investment Management portfolio management philosophies. This is not just an American problem, as our markets lead and affect the world markets.

Paulson, unlike Congress, wants to throw everything the United States has into fighting the deflation afflicting American banks right away. "Helicopter Ben", a scholar on monetary policy, understands the cost of inaction from examples like the Great Depression (when the Fed failed to address deflation until the latter half of the 30's) and Japan's lost decade (more on that below). History strongly suggests that any delays or lack of sufficient funds committed to blasting away at deflation can be painful. So in my mind, one powerful bailout package could potentially help us find the bottom of this crisis at least in the short-term. However, for now, this is not the time to bet the farm on stocks.

As opposed to the inflation alarm sounded by many others, we have been cautioning against deflation and now it is firmly in place. Deflation - the environment of rapidly falling prices and the contraction of lending - will continue to inhibit earnings growth and domestic consumption for the next several months, quarters or longer. Deflation is here and it's real, just as we predicted. What is a very good investment during deflation? Cash, precisely how your portfolio has been invested for most of 2008.

The Japanese Experience with Deflation

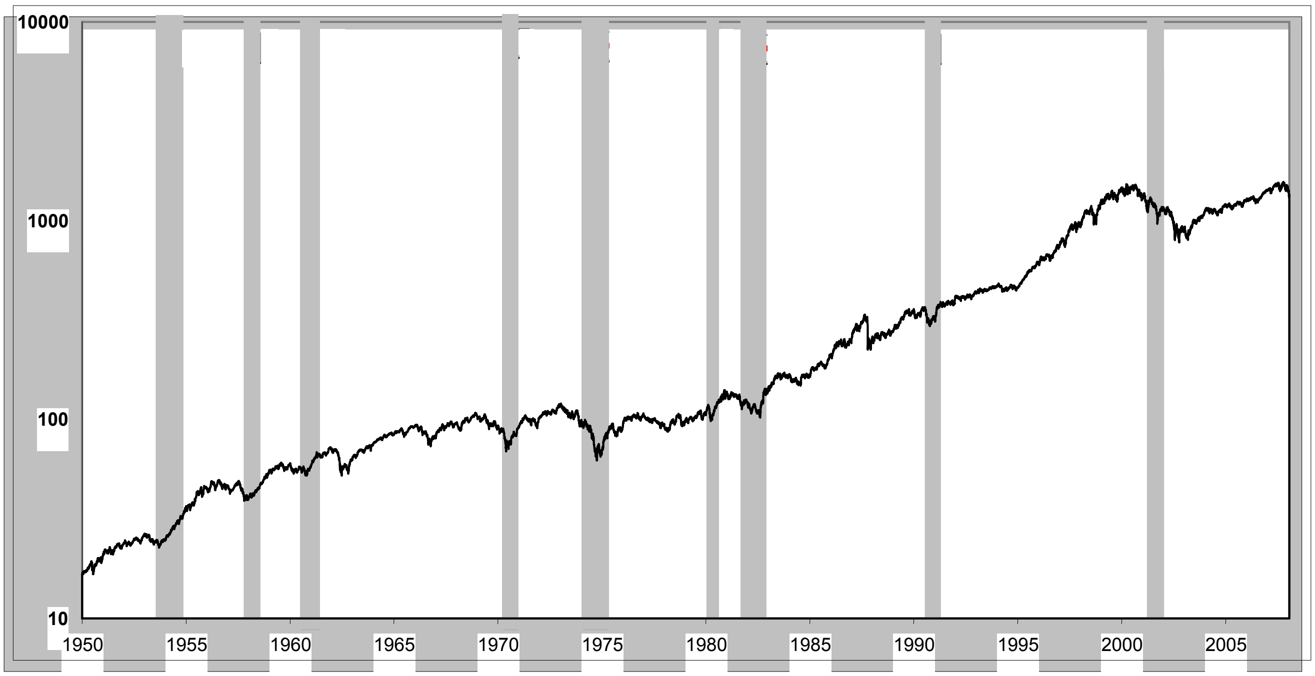
Similar trends in Japan show the long-term effects of price deflation and the Japanese government's inability to grow inflation during the "lost decade" of the 1990s. In some ways, Japan has been "lost" since the Nikkei peaked in early 1990. Can the same phenomenon happen in the United States after this credit crisis? Hopefully not, but clearly the United States is fighting an incredible bout of deflation right now, much like Japan in 1990. Real estate deflation is especially difficult to stop because it affects the entire economy, including individuals, corporations and especially the banking system. This is exactly what happened in Japan. Despite incredible printing and money-supply growth over the last 15 years, the Japanese haven't completely licked deflation. Prove it you say? Remember those "almost zero percent" loans the Japanese banks had been making for years and years? That hardly budged their economy. Am I suggesting that we are

Japan? Absolutely not. For one thing, we "have" population growth wherein the Japanese are faced with a "declining" population, a scary thing indeed. Fewer customers to sell your products and services to in the future is not a good thing. Not the case here in the USA. But to avert severe deflation important action by our government is critical here because the major difference between what happened in Japan and our situation now is Congress' ability to act fast.

Where Do We Go From Here?

The question everyone has been asking is "where do we go from here?"

S&P 500 Index 1950 to 2008 with Economic Recessions shaded



www.finance.yahoo.com

From the chart above and the table below you can see that the S&P 500 Index average decline during a recession is -24.39%, and the median decline is -19.85%. Presently, the S&P 500 Index is down 27.80% from its peak in October 2007. If history is a guide, the S&P 500 Index is certainly indicating a recession and perhaps getting close to a bottom.

S&P 500 Index % change source: www.nber.com

Business Cycle		Peak of S&P 500		Trough of S&P 500		S&P 500 % Change
Peak	Trough	Date	Level	Date	Level	Peak to Trough
Jul-53	May-54	Jan-53	26.66	Sep-53	22.71	-14.82%
Aug-57	Apr-58	Jul-57	49.13	Dec-57	39.38	-19.85%
Apr-60	Feb-61	Jan-60	60.39	Oct-60	52.20	-13.56%
Dec-69	Nov-70	May-69	106.16	May-70	69.29	-34.73%
Nov-73	Mar-75	Jan-73	120.24	Dec-74	65.01	-45.93%
Jan-80	Jul-80	Feb-80	118.44	Mar-80	98.22	-17.07%
Jul-81	Nov-82	Mar-81	137.11	Aug-82	102.42	-25.30%
Jul-90	Mar-91	Jul-90	368.95	Oct-90	295.46	-19.92%
Mar-01	Nov-01	Sep-00	1,520.77	Sep-01	965.80	-36.49%
?	?	Oct-07	1,565.15	Oct-08	1,130.50	**-27.80%**

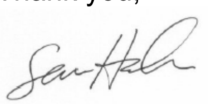
Fixed Income Markets

High yield bonds, one of the types of securities that we use for the fixed income component of our allocations when we are offensively and fully invested, have clearly been in a downtrend. We did see some firming in prices in high yields during the third quarter but not enough to warrant investing in them. We remain 100% defensively invested in money markets for the fixed income portion of our portfolios. Our investment strategy in this area is to attempt to be invested during periods of positive trend, when the bonds are appreciating in value. When they are appreciating in value they provide a very nice return due to the handsome interest that they pay as well as the price appreciation – a double benefit. The interest rate on these bonds is now approaching 14%+ and so when we get reinvested they could be very productive. But we remain cautious for now. Long time clients of HIM are aware of the valuable benefits that our investment management in the fixed income area has provided over the years. We will attempt to have another very good experience when we re-enter the high yield bonds, hopefully soon.

Final Thoughts

Being invested in **money markets** during this turmoil has served our clients well. Our non-correlated strategies, not abiding by the conventional "wisdom" that you should be fully invested at all times, have served us well this year. If other portions of your overall investment portfolio do have components that remain fully invested in stocks or bonds, kudos to your Financial Advisor for instituting a good diversification strategy by including in your overall portfolio the Hanlon non-correlated strategies. This is good Financial Advisor advice. Be sure to stay close to your Financial Advisor during these volatile times, reassessing your risk profile, time horizon and investment objectives. As the CEO and Chief Investment Officer (CIO) at Hanlon Investment Management your overall portfolio returns are very important to me and our team at HIM. Hopefully the markets find their footing soon, we re-enter the markets and proceed to have a profitable experience. Until then we remain very cautious, just as I believe you would want us to be.

Thank you,



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