



August 14, 2007

Dear S.A.F.E. Investor,

*"Out of Nowhere, Dow Jumps 150.35: It's a matter of investors gaining their emotional stability" (WSJ 8/2/07)*

*"'Long-Short' and 'Market Neutral' Funds - designed to work whether the market goes up or down: fail to live up to the promise of weathering turmoil." (WSJ 8/7/07)*

*"Blind to Trend, 'Quant' Funds Pay Heavy Price: Computer Models Failed to See Risk Increasing." (WSJ 8/9/07)*

"Turmoil," "Volatile," "Erratic" - just some of the words used to describe the current unrest in our financial markets. The Fed is not responding, hedge funds are posting losses, quantitative analysis is not making the cut and the housing market is sitting on a sub-prime mortgage problem that is the foundational equivalent of "quick-sand." It's enough to force even the seasoned professionals into the "**cash under the mattress**" savings plan!

Let's break it down, one issue at a time. There's no question the volatility is real! In July the Dow's intra-month high was 14,000 yet it ended at 13,211, a **5.6% drop** from it's high and an overall **drop for the month of 1.47%**. The S&P 500 **lost 3.2%**, NASDAQ Composite **down 2.19%** and the Russell 2000 dropped like a rock **losing 6.19%**. A true "Zig-Zag" effect with the markets reacting violently due to doubt and fear. So, the volatility is proven and the overall market is unstable.

That being determined, let's move on to issue number two: "hedge" funds and "market neutral" mutual funds. These funds operate in a fashion that promise positive returns whether the market moves up or down, making trades that take advantage of these wild swings. Based on the aforementioned "**volatility that is real**" - these funds should have strong performance! Yet, the WSJ reported a 5.6% loss in this mutual fund category for the period ending 8/3 (WSJ: "Long-Shorts Fall . . . Short" 8/7/07) while two of the largest and best performing hedge funds reported losses. "Raptor Fund" lost 9% in July and "Tudor BVI Fund" lost 3% for the same period. (WSJ: "Out of Nowhere Dow Jumps 150.38" 8/2/07)

This issue is not so easy to understand. The erratic market swings should have provided "opportunities" for "market-neutral" and "hedge" fund managers. A large move in any direction provides a trader the chance to gain on the direction of the market regardless of whether it moves up or down. *The "facts," unfortunately, state otherwise.*



There could be a logical explanation for this. Any large fund, public or private, must adhere to their trading strategies. High volatility tends to create doubt and fear, even for the *"seasoned"* fund manager. It could be the swings came too fast causing the trades to be "reactive" instead of "proactive." **The truth is - we will never know.** These funds lack what the industry refers to as *"transparency"* which is the full disclosure of the funds "trading" methods and positions. They view their fund management as "proprietary" and avoid full transparency or disclosure. ***In summary, this issue remains real although unexplained.***

Moving on, issue number three is quite disturbing, *"Computers don't always work"* (WSJ: "Blind to Trend, 'Quant' Funds Pay Heavy Prices" 8/9/07.) Many "quant" funds who rely on complex computer programs to dictate trading saw widespread losses in July indicating that computer models fail to see increasing risks in the overall market. The article goes on to state *"fund traders, in recent days, have been selling certain 'risky' positions."* This one statement sheds some light on the overall problem: Computer models do not react to fear, hysteria and market volatility. The algorithms are not concerned with short term performance or monthly returns. They are designed to calculate and recommend market trades based upon a large volume of data. It then becomes the job of the **fund manager** to *"execute"* these trades. As fear and pressure weigh on these "humans," selling and a deviation to the computer program's recommendations begin to take place. ***The outcome - losses across the board.***

***Why are we telling you all this?*** The SAFE Management team believes strongly in its trading methodology. If performance is fact, our "facts" support our beliefs.

1. Our proprietary computer program only recommends the strongest companies based upon the fundamental truth of *"cash."* In all, the algorithms recommend up to 250 of the strongest companies.
2. Our fund manager, Edward Hosinger, does not deviate from the computer recommendations. Instead, Ed uses the discretionary portion of our portfolio to *"hedge" or "balance"* our portfolios based upon daily market trends. In effect, we maintain the software recommendations and enter additional trades to protect our long positions.
3. We provide, at any time, full disclosure or *"transparency"* on our trading positions, asset allocation and holdings. Upon request, a full list of the securities we own is made available to our investors. We have also included a "fund" performance summary with this communication for your review.

***Just how well did we do?*** In July the SAFE Fund returned a ***positive 1.33%*** to our investors after expenses. Our trailing twelve month performance is ***36.5% after expenses*** for the period ending June 30th. While past performance is never indicative of future results, we believe we are on the right track! ***There is no question that the financial markets are dealing with some real issues.*** As they play out, we will continue to adhere to our overall plan.

Notwithstanding the aforementioned ***positive*** performance - in spite of market issues, the SAFE fund has some major announcements to report for the last few months! Our fund along with Ed Hosinger, our fund manager, has been featured in the *NY Post* by **John Crudele** in the *"Make us Rich"* fictitious hedge fund he runs every year at this time. We are able to make recommendations that are featured in "blogs" and Mr. Crudele's column on Tuesdays and Thursday's. Please visit [www.nypost.com](http://www.nypost.com) to view SAFE's recommendations.



Along with the impressive feature in the Post, we are proud to launch the newly designed and updated SAFE website. Our site, [www.safeinvestmentfund.com](http://www.safeinvestmentfund.com) has been redeveloped to include timely market data, press releases, articles, fund performance, and a private login for each investor so you can view account statements online: **both past and present.**

*It is an exciting time for us and our investors!* Our track record continues to be positive affording us "a history of performance." It is our intent to constantly keep our investors informed while providing leading edge communication tools. Included with this communication are the details of visiting your "on-line" account along with instructions on how to create your own password. *If you experience any issues at all, please contact us directly in the office at 732-252-0012.*

As a "private" investment fund, we rely on the recommendations of our clients to secure new investors. As the fund matures and grows, we all reap the benefits of additional capital under management. As always, we urge you to share our funds performance with colleagues, family and friends. If you know anyone who would be interested in a private presentation, please do not hesitate to contact us.

*We look forward to continuing the implementation of our strategy and the associated rewards for our investors.*

Sincerely,

Annette Raynor  
General Partner  
Secure Acquisition Financial Entity, LP (SAFE Fund)