

SAFE Quarterly



Investor Insight SAFE Management, LLC

*“The years teach
what the days
never know.”*

Ralph Waldo
Emerson

Dear SAFE Investor,

In preparing our first **“Quarterly Communication and Client Statement,”** we found it difficult to determine the **key** messages we wanted to share with you. To quote news articles regarding the turbulent state of the US Capital markets would be redundant and of no surprise to anyone. The only real change since our January Communication is that the Federal Reserve Bank now agrees the situation is bad and they expect it to worsen through the Summer!

The first quarter saw the demise of Bear Stearns - an 85 year old company and America’s 5th largest investment bank! This on the heels of the Société Générale fraud issue, a weakening dollar, increased unemployment, record home foreclosures, and rapidly rising oil prices. Combine this with the fact that the SAFE Fund marked additional losses for the first quarter and you may find yourself wondering, **“What message could we possibly want to deliver?”**

Clearly an **obvious** question. The answer is simple - it is the **“not so obvious”** information that leaves us optimistic about our future. We have **three “key” facts** that we need each of you to know: 1) our large, mid and small cap folios continue to **outperform** the market, 2) we hold one “special situation” security that is targeted for growth **due** to the poor economy, and 3) we own another “special situation” company that successfully completed its’ spin-off in the first quarter providing us ownership in **two companies** - each with a unique offering in the biopharmaceutical field.

So, now that the obvious is out of the way - what exactly is our key message? In a word - **“patience.”** As you read on, you may find yourself sharing our optimism or, you may find that the obvious cannot be ignored. In either case, patience is necessary to determine the true value of the companies we own.

Annette Raynor
General Partner, SAFE Management LLC

Key Fact #1

Our “core” methodology works! The Large, Mid and Small Cap “folios” outperformed the markets for the full year 2007 and the first quarter of 2008. This is important for us to keep in mind. I have included the 1st Quarter performance charts for each of the folios against the major indices to the right.

The “non-folio” holdings combined with our “dynamic” reallocation discussed in the January communication contributed to our overall down performance. However, our core position of close to two hundred fifty companies in the Large, Mid and Small Cap folios continues to provide us strength against downward trends.

As mentioned to you in January, those who would like to participate in “Folio Only” investing can do so in our second fund “SAFE Folios” which is now open and available. Please see the SAFE Folios section of this newsletter for more information.

StockDiagnostic™ Folios show Strength!



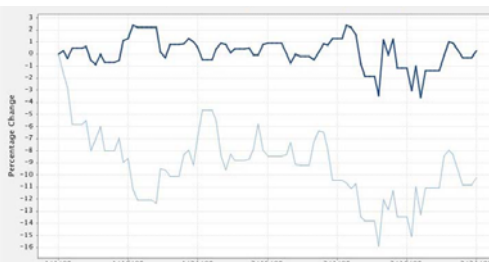
FIRST QUARTER 2008

LARGE CAP: -1.72%
S&P 500: -9.92%
 (NO DIVIDENDS)



FIRST QUARTER 2008

MID CAP: -1.21%
DJIA (DOW): -7.55%
 (NO DIVIDENDS)



FIRST QUARTER 2008

SMALL CAP: +0.28%
NASDAQ: -14.07%
 (NO DIVIDENDS)

TRES: Our On-line Financial Education Holding Sector Poised to Perform!

Key Fact #2

In March 2008, Equities magazine ran an article called “Cyber Gains.” The article begins, “Inevitably, after a major catastrophic event occurs, many investors try to guess what industry or sector will directly benefit. The direct beneficiary of the woes created by the global credit crisis is the online financial sector...”

I have reprinted two charts of importance from the “Cyber Gains” article.

Name	Symbol	Recommendation Date	Price on 12/31/07	Change
Bankrate	RATE	10/28/02	\$48.09	1870.90%
Multexx**	MLTX	02/10/03	\$7.35	54.74%
Marketwatch*	MKTW	03/31/03	\$18.03	142.34%
Investools	SWIM	11/10/03	\$17.74	1456.14%
thestreet.com	TSCM	12/01/03	\$15.92	253.78%
Bankrate	RATE	Sep-07	\$48.09	11.94%
Morningstar	MORN	Sep-07	\$77.75	21.83%
Interactive Data	IDC	Sep-07	\$33.01	18.19%
TheStreet.com	TSCM	Sep-07	\$15.92	38.68%

*Acquired by Reuters on 3/26/03
 **Acquired by Dow Jones on 11/16/04

Six companies were recommended as a “Buy” in the on-line financial education sector. There were two new additions: OptionsXpress and The Retirement Solution TRES!

“In light of the problems that have arisen in the sub prime mortgage market, we are reminded of how critically important it is for individuals to become financially literate at an early age so that they are better prepared to make decisions and navigate an increasingly complex financial marketplace.”

Chairman, Ben Bernanke
 April 9, 2008

Online Financial Sector Recommendations			
Company	Symbol	52-Week High	52-Week Low
Bankrate	RATE	57.32	32.70
Interactive Data*	IDC	33.68	22.63
Investools*	SWIM	18.23	9.29
Morningstar	MORN	85.50	44.78
Options Express*	OXPS	34.95	20.78
TheRetirementSolution.com**	TRES	0.53	0.15
TheStreet.com*	TSCM	16.74	9.57

“The biggest beneficiaries of the current sub-prime crisis are those individuals and businesses that provide education and training in investing and trading.”
 Equities Magazine, March 2008

Bankrate, Interactive Data, TheStreet.com & Morningstar all hit five year highs in the Nov/Dec 2007 timeframe - four companies from the same sector in a turbulent economy!

I would like to explain both CytRx Corporation (CYTR) and RXi Pharmaceuticals (RXII.) CytRx Corporation is a biopharmaceutical research company that researches products that can cure, manage, and prevent a variety of diseases in humans. Currently, it has a promising drug called ARIMOCLOMOL in a **late stage** clinical trial for the treatment of ALS or Lou Gehrig's disease. **Why is this promising?** For starters, ALS is a lethal progressive disease with an 80% mortality rate in five years. There is no effective treatment and the only approved drug Rilutek extends survival by only 60 days!

One financial analyst called ALS - "The disease that kills drugs!" as most drugs for ALS never make it to phase IIa trials. **ARIMOCLOMOL is in Phase IIb!** However, on January 22nd, the FDA placed a **hold** on the trial pending additional information from CytRx. The company responded to this inquiry and is currently awaiting the FDA's response.

ARIMOCLOMOL may also be used for stroke recovery as animal testing results have been completed showing promising results. **This is important because there are 700,000 strokes in the US every year and there are no therapeutic alternatives.** This drug would be a first to market for this purpose.

However, CytRx is not just ARIMOCLOMOL! We believe its **real value** is in the technology it uses to create its drugs. Just to get technical for a moment - this technology is called "molecular chaperone amplification technology." Exactly what is that? In neurodegenerative diseases such as ALS, Alzheimer's, and Huntington's - the cells that control the central nervous system die. It is believed that one cause of cell death is something called "protein misfolding." The human body has a mechanism that interacts with incorrectly folded proteins - this mechanism is called the molecular chaperone system. This system either repairs the protein or marks it for non-function. According to company research findings, CytRx's molecules **amplify or boost** the molecular chaperones which enhances the **natural cellular repair** mechanism in our bodies. This technology is exclusive to CytRx and could lead to many more products that treat degenerative diseases.

CytRx also licensed the intellectual property of a second revolutionary method called RNAi from the University of Massachusetts and one of the scientists responsible for the discovery: **Dr. Craig Mello, 2006 Nobel Prize Winner.** Why is RNAi so revolutionary? In the prior paragraph, I described the technology that helps the body **slow the development** of a disease. RNAi technology is a "gene silencing" mechanism that has the potential to "turn off" genes that **lead to disease.** CytRx recognized the profound importance of RNAi and successfully completed the spin-off of this division into RXi Pharmaceuticals on March 10, 2008.

Dr. Craig Mello, founder of RXi Pharmaceuticals will lead its RNAi research team. Company research findings suggest the RNAi method licensed by RXi Pharmaceuticals can be up to 100x more effective in certain applications than alternative RNAi methods.

Additional information on CYTR and RXII filings can be found at www.sec.gov

To continue our belief of full disclosure and investor awareness, we need to outline the risks and rewards inherent to CYTR within the SAFE Investment Fund portfolio.

On December 31, 2007, **CYTR closed at \$2.84/share** (reflected in your last statement.) The first quarter statement (which is enclosed) reflects **CYTR closing at \$1.15/share.**

Obviously, this adversely affected the overall short term performance of the SAFE Fund, yet SAFE Mgmt. made a decision to hold its shares even though the stock traded lower. Why?

First, and most important, is the fact that as long as we did not sell, we have not booked a realized loss. (See full mark to the market versus capital account balance on the last page of this newsletter.)

Second was the expectation of the spin-off of the RNAi technology into RXI Pharmaceuticals (RXII) which we believed would take place in the latter part of the 1st Quarter. We also knew that we would receive 1 share of RXII for every 20.05 shares we owned of CYTR. RXII came public on 3/12/08 at \$5/ share and immediately traded up as high as \$23.95/share and closed at \$22/ share. This substantially increased the overall value of CYTR as a company because it retained 49% ownership in RXII. (CYTR on 3/12 - Open: 1.88, High: 2.08, Close: 1.71)

What followed remains a mystery. As of the writing of this communication on 4/18, RXII is trading at \$7.91/share and CYTR is trading at \$0.90/share. **Why?**

Perhaps it's the overall market. Or, just a general lack of awareness of the typical valuations that were given to the two previously publicly traded companies with RNAi technology - Sirna and Alnylam. **We may never know.** However, stock prices must reflect the true value of a company at some point.

Third, is an understanding of how most small biotechnology companies trade. There are three stages:

1. Discovery (of a potential new drug/technology)
2. Hype (the stock price moves based on the potential)
3. Development (to exceed the "hyped" stock prices, the company must get to this stage)

If the FDA's hold is lifted, CYTR will be in the third stage. It is our belief that the true value will then be reflected in the stock price. The FDA's response is due within 30 days. SAFE Mgmt. has made a decision to wait for the FDA's response.

As we are investors, just like you, we have decided to hold our investments in the SAFE fund.

We cannot make that decision for each of you. CYTR has the ability to greatly impact our profitability, but, it has negatively affected our performance to date. As investors in the SAFE fund - we all have options. Two options for you to consider are:

1. Accept the potential risk/reward of our current allocations
2. Elect to rebalance your investment and consider SAFE Folios, LP which only invests in the StockDiagnostic folios

Risk tolerance is different for everyone making this a decision for each individual. As we see the true value of CYTR, we will systematically reduce our position over the next few quarters.

Mark to the Market vs. Capital Account Balances

You may have noticed on your recent 2007 K-1 that your **Capital Account** balance differs from your **Client Statement** balance. I think it's important for everyone to understand why there is a difference and what it means.

The SAFE Fund "marks to the market" on the last day of each month. This means we use the closing value of every security we own as the current value to the fund. This allows us to offer "30 day liquidity" to our clients because we apply the current market value to our fund assets. However, on the last day of the month, **WE DO NOT** actually sell all our positions and buy them back on the next day. We simply take the closing value and apply it for "mark to the market" purposes.

Tax reporting, on the other hand, utilizes the value based upon purchases and sales of our assets. **To actually receive a loss or a gain, one must close (buy or sell) an open position.** When it comes to K-1's and individual tax reporting, this can be a double edged sword. At the end of 2007, our mark to the market reflected in December's statement showed you a loss while your 2007 K-1 showed a much smaller loss. You might want to know why you cannot deduct the larger loss for tax purposes - because we did not actually close (sell) the position to generate that loss. On the flipside, if we had closed the year 2007 with our July statement values, we would have seen an 18% gain. You would not have to report that gain because we did not sell the position and book the profit. For more information please seek advice from your tax professional.

Now that I've reviewed "mark to the market" as it relates to taxes, let's consider its impact as it relates specifically to our investments in the SAFE fund and reporting fund performance. Every month we take the current value of the stock we hold and that value becomes our new cost. As our stocks move down, we own them at the lower price. If you understand the old adage, "Buy Low, Sell High" then you know, we currently own our stocks at a "lower" value. This creates the ability for us to see greater gains as our stocks move up providing we believe in the companies we own. **This represents a significant "buying" opportunity for all current and potential SAFE Fund investors as we believe strongly in the companies we own.**

SAFE Folios, LP is now available to all investors!

As I announced in my January letter, we have completed the formation of our second Private Investment Fund - **SAFE Folios, LP**. This fund is designed to invest in **four** folios. The Large, Mid and Small Cap folios along with a "**Composite**" folio. The "Composite" folio takes the strongest cash flow companies and adds an ETF (Exchange Traded Fund) to create a balance. The Composite folio securities are selected by Edward F. Hosinger our Investment Manager.

Just as we did with the SAFE Fund, we tested this methodology for a period of 18 months prior to the formation of the fund. The statistics for the SAFE Folios performance from October 2006 - March 2008 is as follows:

Folio	Performance Since Inception	Full Year 2007
Composite	+25.40%	+11.33%
Large Cap	+16.59%	+14.80%
Mid Cap	+16.35%	+10.14%
Small Cap	+12.68%	+ 7.09%

SAFE Folios, LP

Minimum Investment:	\$10,000.
Approved for Qualified Funds:	Yes
Annual Management Fee:	3%
Performance Fee:	15% of Profit

For more information on SAFE Folios, please contact us at 732-252-0012

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Past performance is not indicative of future results. Therefore, it should not be assumed that the future performance of any specific investment or investment strategy will be profitable or equal to past performance levels. All investments involve risk, you may lose all or part of your investment. Please refer to your Private Offering Memorandum for full methodology, disclosure and risk.



Annette Raynor
General Partner

Gina D. Romano
Investor Relations

Edward F. Hosinger
Investment Manager, CFA

SAFE Management, LLC
Registered Investment Advisor

65 Highway 34 South
Suite 204B
Colts Neck, NJ 07722

www.safeinvestmentfund.com

Toll Free: 1.888.514.SAFE
Direct: 732.252.0012
Fax: 732.889.4307

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