

RAYMOND JAMES®

September 23, 2008

Dear Valued Client,

These are perilous times in the world's financial markets. We are in the process of witnessing the worst global financial crisis since 1973-74, far surpassing the meltdown in October 1987. The subprime mortgage debacle was caused by a combination of a large increase in the percentage of subprime mortgages, the absence of underwriting standards in commercial and mortgage banks, unprecedented investor demand for the higher yields generated by securitized mortgages, the inability to value securitized pools, and lax governmental regulation. In essence, investors and underwriters alike assumed that escalating real estate prices would cure all ills. As a result, banks, insurance companies, and other domestic and foreign institutions as well as retail investors lost \$600 billion, which triggered illiquidity, destroyed bank, corporate and institutional net worth, and severely tested the stability of the world's financial system.

Fortunately, Treasury Secretary Paulson and Federal Reserve Chairman Bernanke and their staffs have been working around the clock to devise proactive responses to the series of financial failures arising from the crisis. They identified a buyer for Bear Stearns and provided some financing. They rescued Fannie Mae and Freddie Mac, and provided more financing for the mortgage market. They facilitated a bankruptcy filing for Lehman Brothers. They arranged for an \$85 billion loan for AIG to enable it to have time to dispose of illiquid assets on terms that should result in profits for the government. After a bear attack on Morgan Stanley and Goldman Sachs, as well as a run on various institutional money market funds and a general lack of credit availability for credit-worthy corporations of all types, they announced a plan to create an entity reminiscent of the Resolution Trust Corporation used for the Savings and Loan crisis or the Reconstruction Finance Corporation utilized in 1932-39. The objective is to provide a \$500 billion to \$1 trillion fund to buy mortgages at prices more reasonable than the current vulture bids, but at prices that should enable the fund to make a profit. Consequently, more liquidity will be injected into the system. Actual operating plans will become clearer in the near future. Legislators should quickly enact a bill without baggage and entrust the details to the government's professionals.

The equity markets rallied dramatically from the lows on Thursday and again on Friday. On Sunday night, Morgan Stanley and Goldman Sachs agreed to convert their industrial savings banks to national banks and to be regulated by the Federal Reserve Board, which was happening anyway as a result of the agreement to provide them with access to the Fed window. Consequently, leverage will continue to be reduced and there should be more public confidence that they will survive long term under Federal Reserve supervision.

Although Secretary Paulson and Chairman Bernanke have been criticized for not being consistent in the use of government funding, their actions have been appropriately flexible given the changing circumstances. Various politicians have argued that the government shouldn't have intervened. I would argue that these critics simply

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don't understand how fragile the whole system has been. Unprecedented times required unprecedented actions. I was in Washington, D.C., with 50 financial institutions' top executives September 17-19 and witnessed the stress on individual institutions first-hand, as well as consulted with many regulators and legislators including Secretary Paulson. I assure you that last week's actions were well-conceived and necessary.

A number of you have asked our financial advisors about the safety of our depositories. That's understandable in these chaotic times. In theory, it is possible for all financial institutions to fail, in which case the government will provide funds to support the obligations of FDIC insurance. Similarly, SIPC and excess SIPC insurance may be drawn upon for brokerage firms that fail. Although it is possible that those funds could be depleted, the government already indicated that it will take action to avert a system collapse. Thus, while it is possible to lose money on individual securities, it is unlikely that deposits would be lost.

At Raymond James, we have three primary depositories. Raymond James Bank is the largest. Raymond James Bank has an excellent long-term record of avoiding losses like those experienced by others in mortgage portfolios as we didn't participate in subprime loans and generally eschew risky business practices. Although banks do experience some actual charge-offs, reserves at Raymond James Bank approximate \$100 million and actual cumulative charge-offs over the life of the bank have been less than 15% of that. In addition, the bank is generating record profits in these difficult times. Of course, Raymond James Bank deposits are also supported by FDIC insurance.

Heritage Cash Trust (both taxable and tax-free portfolios) employs extremely conservative investment strategies and are AAAM rated. Again, while there is a risk that an individual security could go bad, the funds' assets are invested in very high-quality securities and are well-diversified. The funds' credit review procedures are extremely rigorous. Furthermore, the government has at least temporarily insured existing accounts in money market funds.

The third depository is the Client Investment Program at Raymond James & Associates. These deposits are general obligations of Raymond James & Associates and are loaned to other Raymond James clients through margin accounts or invested overnight at only the largest and best managed banks in accordance with regulatory requirements. In the unlikely event of a failure of Raymond James & Associates, SIPC and excess SIPC insurance coverage would be invoked.

In short, while there are no guarantees that a loss couldn't occur, these depositories are very safe. My own cash balances are invested in these accounts.

Raymond James Financial has not experienced any major write-offs and has continued to be profitable during this financial crisis. Although we make mistakes, we are primarily involved in the agency business and avoid high leverage and large principal trading risks. We continue to be guided by conservative business principles.


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In my view, the aggressive government actions taken thus far imply that it will continue to protect the stability of our financial system. Consequently, you should maintain confidence in our financial system. It has absorbed a major shock but most of the economy is still healthy. On many prior occasions, the United States economy has demonstrated its resiliency. This is not the first time we have experienced problems in real estate and related financing. While it may take two or three more years for the real estate market to recover fully, I believe that the financial system is already beginning to recover. The stock market, especially securities in the financial services area, will probably continue to be volatile, but there are good values in the group at these prices.

I sympathize with all who have suffered losses and are experiencing fear related to the safety of your financial assets and the instability of our financial system. However, we have experienced and thoughtful leaders at the helm. Have confidence in the system. Continue to utilize professional asset management and practice the discipline to adhere to your diversified asset allocation models. Although there are still risks on the downside, equity markets have always been rewarding in the long term and market rallies often occur in short time frames. Maintain a conservative bias and communicate regularly with your financial advisor.

Thank you for choosing to do business with us.

Sincerely,



Thomas A. James
Chairman & CEO
Raymond James Financial, Inc.

Standard & Poor's, a widely recognized independent authority on credit quality, rates certain money market funds based on weekly analysis. When rating a money market fund, Standard & Poor's assesses the safety of principal. According to Standard & Poor's, a fund rated AAAm ("m" denotes money market fund) offers excellent safety features and has superior capacity to maintain principal value and limit exposure to loss. In evaluating safety, Standard & Poor's focuses on credit quality, liquidity and management. The rating is subject to change and does not remove market risk. Past performance is not indicative of future results.

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