



Market Commentary
Fall 2008

HENNION & WALSH

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2008 Year-to-Date (“YTD”) Market Review

2008 is unfolding as a year of great volatility and uncertainty shaped by the seemingly never ending rise of oil prices and the continuing fallout from the housing downturn and sub-prime mortgage meltdown.

The first two quarters of the year saw financial stocks fall under continued pressure from non-performing loans and tightening credit availability. This was highlighted in the first quarter by the rapid liquidity deterioration of Bear Stearns which was ultimately purchased by JP Morgan for \$10/share. In addition to overseeing the purchase of Bear Stearns during the first quarter, the Federal Reserve Open Market Committee (“FOMC”) has lowered the Federal Funds Target Rate by 225 basis points from 4.25% to 2.00% so far this year. This has led to a weaker U.S. dollar and a positive total return scenario for Bonds (i.e. as interest rates decrease, bond prices generally increase). This has also led many, including us, to question whether or not the Federal Reserve should now be shifting their focus to containing inflation given the sustained increase of certain commodity prices (i.e. energy and agriculture commodities – see chart below) and, in doing so, raise interest rates by the end of 2008.

Commodity	2002	2007	% Change
Aluminum (\$/Ton)	\$1,365	\$2,661	+ 95%
Copper (\$/Lb.)	\$0.70	\$3.22	+ 360%
Corn (\$/Ton)	\$100	\$170	+ 70%
Gold (\$/Oz.)	\$310	\$697	+ 125%
Nickel (\$/Lb.)	\$3.1	\$17.1	+ 452%
Oil (\$/Barrel)	\$26	\$72	+ 177%
Steel (\$/Ton)	\$256	\$555	+ 117%
Zinc (\$/Lb.)	\$0.35	\$1.45	+ 314%

Source: Economist Intelligence Unit

There was a glimmer of hope for the markets early in the second quarter of 2008 with the S&P 500 and the Dow Jones Industrial Average (“DJIA”) posting positive returns for the month of April but then quickly retreating primarily due to rising oil prices, weaker consumer confidence and continued noise in the financial services sector across such names as Countrywide Financial, Washington Mutual, IndyMac Bank, Lehman Brothers, and even the government sponsored entities of Fannie Mae and Freddie Mac. This perfect storm of negative events concluded with a 10.04% decrease for the DJIA and an 8.43% decrease for the S&P 500 for the month of June. The 8.43% decline was the biggest decline in the month of June for the S&P 500 since the Great Depression and the biggest monthly decline overall for the S&P 500 since September 2002ⁱ.

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ⁱ“June bug”, Daily Record, July 2, 2008.

The combination of the first two quarters, as illustrated by the charts below, produced a loss of 11.91% for the S&P 500 and a loss of 13.38% for the DJIA. The losses have been widespread across many different asset classes, sectors and geographies.

In terms of asset classes, International Equities, while still negative, have outperformed U.S. Equities again while U.S. Mid Cap is outperforming U.S. Small and U.S. Large Cap. With regard to the ongoing battle between Value stocks and Growth stocks, Growth stocks won in 2007 for the first time in several years, and Growth stocks are outperforming Value stocks for the first half of 2008.

There were not too many bright spots for the markets during the first two quarters of 2008 outside of Energy stocks, certain Emerging Market stocks (i.e. Latin America), Commodities and Bonds. To underscore this point, 55 of the 79 Morningstar Indexes posted negative returns for the 1st half of 2008. The best performing Morningstar Index over this timeframe was the Long-Only Commodity Index with a YTD return of 32.51% while the worst performing Morningstar Index over this timeframe was, not surprisingly, the Financial Services Index with a YTD return of -29.14%.

2008 YTD Major Index Performance Summary

Index	2008 YTD % Rate of Return
S&P 500 Index	-11.91%
Dow Jones Industrial Average Index	-13.38%
NASDAQ Composite Index	-13.55%
MSCI EAFE Index Net (USD)	-10.96%
MSCI Emerging Markets Index Net (USD)	-11.76%
Lehman Brothers Long Government/Credit Index	-0.71%
Lehman Brothers Aggregate Bond Index	1.13%
Lehman Brothers Municipal 1-10 Year Index	1.14%

2008 YTD U.S. Style Index Performance Summary

Index	Asset Class	2008% Rate of Return
Russell 1000 Index	U.S. Large-Cap Core	-11.20%
Russell 1000 Growth Index	U.S. Large-Cap Growth	-9.06%
Russell 1000 Value Index	U.S. Large-Cap Value	-13.57%
Russell Midcap Index	U.S. Mid-Cap Core	-7.57%
Russell Midcap Growth Index	U.S. Mid-Cap Growth	-6.81%
Russell Midcap Value Index	U.S. Mid-Cap Value	-8.58%
Russell 2000 Index	U.S. Small-Cap Core	-9.37%
Russell 2000 Growth Index	U.S. Small-Cap Growth	-8.93%
Russell 2000 Value Index	U.S. Small-Cap Value	-9.78%

Source: All index performance information provided by the Russell Investment Group as of June 30, 2008. Past performance is not a guarantee of future results.



2008 Remaining Market Outlook

As we focus on our outlook for the remainder of 2008, which can be best characterized as cautiously optimistic, we believe that it would be prudent to focus on those areas that have plagued the markets during the 1st half of the year which will likely also be the same areas that grab much of the attention for the balance of the year. We list these in order of importance from our perspective:

- The Price of Oil;
- Weakness in Financials;
- What will the Federal Reserve do next;
- Bear Markets – Is this the Next Crash;
- Recession, Inflation or Stagflation - are we back to the 1970s; and
- Upcoming Presidential Election

Finally, we will also provide some portfolio management ideas to consider seeing that with all of the uncertainties listed above, one thing is certain – now is the right time to revisit your strategic asset allocation and make adjustments as necessary. We strongly recommend that investors seize the opportunity to review their portfolio holdings with their financial advisors to ensure that they have the proper overall asset allocation and diversification in place to help withstand the expected volatility for the 3rd and 4th quarters.

The Price of Oil

Consider this - the price of a barrel of crude oil and a gallon of U.S. gasoline on May 5, 2006 was \$70.19 and \$2.91 respectively. In contrast, the price of a barrel of crude oil and a gallon of U.S. gasoline on June 6, 2008 was \$138.54 and \$3.98 respectivelyⁱⁱ. That represents a 97% increase in the price of a barrel of crude oil and a 37% increase in the price of a gallon of U.S. gasoline in just over 1 year! What led to such a dramatic increase in such a relatively short period of time? To answer this question, let's start by first understanding that it is not the President, nor Congress, nor the Organization of the Petroleum Exporting Countries ("OPEC") but rather commodity traders that actually determine the price of oil by buying and selling futures on oil. Traditionally, some of the factors that oil traders look at when entering into such futures contracts include:

- Current supply of oil in terms of output - including the production quota set by OPEC;
- Oil reserves; and
- Demand for oil

ⁱⁱ"Why It's Worse Than You Think", *Newsweek*, June 16, 2008

Additional factors such as seasonality, geopolitical tension in oil exporting countries – such as Iran – and weather related catastrophes can also have an impact on oil prices. However, there has been another factor added within the past year that has had a great impact on the price of oil: Oil related Exchange-Traded Funds (“ETFs”) such as the iPath S&P GSCI Crude Oil Total Return ETN (Ticker: OIL). The ability of investors to speculate in the oil market, by either going long or short, with such a convenient and low cost trading vehicle as an ETF has brought many additional retail and institutional investors into the oil market. Some have even suggested that market speculation accounts for between 30% - 60% of the current price of a barrel of crude oil. Increased speculation seems to be here to stay but likely not at these levels.

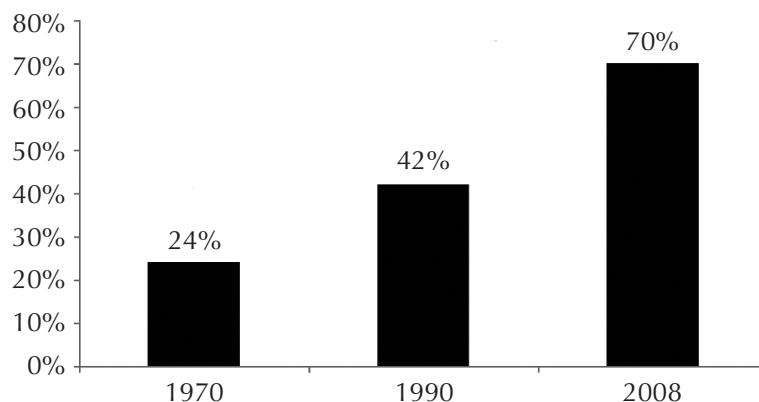
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Looking at the other factors listed above, demand for oil continues to increase around the world particularly among developing countries such as China and India. The supply of oil has not increased significantly in recent years – particularly in the U.S. – despite the need to meet the increased global demand for oil. Increased demand and limited supply generally leads to price increases in any commodity. Finally, oil reserves are not increasing due to increased demand and lack of new supply.

We believe this leaves us in a new world economy where crude oil prices will remain at “elevated” levels driven partly by psychology and partly by reality. For the United States, it means that we will have to continue to look for ways to be less dependent on foreign oil especially considering “The percentage of U.S. oil consumption coming from foreign oil increased from 24% in 1970 to over 70% in 2008ⁱⁱⁱ.” ~ Oil replacement alternatives that may warrant and demand further consideration are off-shore drilling areas, ethanol and natural gas (Natural gas is our country’s second largest energy resource and 98% of the natural gas currently used in the United States comes from North America).

Percentage of U.S. oil coming from foreign oil.

Source: www.pickensplan.com



ⁱⁱⁱwww.pickensplan.com



Away from oil, we need to also aggressively explore other new energy alternatives on our own soil such as wind power, solar power, water power, geothermal energy and even nuclear power (France derives over 75% of its electricity from nuclear energy presently^{iv}). The cultivation of new alternative sources of energy will not happen overnight so oil will continue to serve as an emergency brake for a global economy that is attempting to recover from its current credit crisis.

Hence, do not expect oil prices to recede significantly on a sustained basis, anytime in the near future. Crude oil prices in the \$140 - \$150 a barrel range in the next year, as predicted by General Motors CEO Rick Wagoner recently, are not inconceivable.

Weakness in Financials

No sector has received as much scrutiny as Financials so far in 2008. To illustrate this point, one need look no further than the Morningstar Financial Services Index or one of the ETFs that track the Financials (Ex. Financial Select SPDR ETF – Ticker: XLF). As of June 30, 2008, the Morningstar Financial Services Index is down 29.14% and XLF, according to ETF Trends, is down 30.3% YTD. 2008 has also been witness to the demise of one of the Country's largest investment firms, Bear Stearns; the demise of the Country's largest mortgage lender, Countrywide; the second largest bank failure in U.S. history, IndyMac Bank; and recently the rapid declines of such financial powerhouses as Washington Mutual, Lehman Brothers, Freddie Mac and Fannie Mae. Let's review the YTD performance of some of the more recognized Financials:

Company Name	Ticker	12/31/07 Closing Price	06/30/08 Closing Price	Price Return %
Citigroup	C	29.44	16.76	-43.07%
Merrill Lynch	MER	53.68	31.71	-40.93%
Goldman Sachs	GS	215.05	174.90	-18.67%
Lehman Brothers	LEH	65.44	19.81	-69.73%
Morgan Stanley	MS	53.11	36.07	-32.08%
UBS	UBS	43.81	20.66	-52.84%
JP Morgan	JPM	43.65	34.31	-21.40%
Bank of America	BAC	41.26	23.87	-42.15%
Wachovia	WB	38.03	15.53	-59.16%
Wells Fargo	WFC	30.19	23.75	-21.33%
Washington Mutual	WM	13.61	4.93	-63.78%
IndyMac Bank	IDMC	5.95	0.62	-89.58%

Source: Reuters

...we do not believe that all of these venerable financial institutions will go out of business...

^{iv}World Nuclear Association, May 2008

How much of these setbacks are based on fact rather than perception and, perhaps more importantly, how close are we to hitting a bottom for this beleaguered sector? Let's start by looking at the fundamentals.

The Financial Services sector, including finance entities such as investment banks, regional banks and mortgage lenders, have expectedly suffered the biggest losses that arose on the heels of the housing downturn and credit crisis. However, we do not believe that all of these venerable financial institutions will go out of business as a result. Many investors have not shared our viewpoint thus far this year. Once investors observed the rapid deterioration of Bear Stearns and their fire sale price to JP Morgan, they started to look for the next proverbial shoe to drop. Unfortunately, this has led to many rumors and media speculation that has created great volatility and brought the short sellers out in force.

Let's look at Freddie Mac and Fannie Mae as a case in point. These two government sponsored entities ("GSEs") are responsible for more than \$5 trillion in mortgage debt – almost half of the nation's \$12 trillion in home mortgages - and currently have over \$90 billion in credit reserves collectively^v. Hence, they have about 2% in reserves to cover their outstanding portfolio of loans. To some, this may seem like a small amount. However, further consider that to date, these two entities have already lost more than \$11 billion on mortgages but raised more than \$20 billion in capital to offset those losses. We do not believe that these firms will lose 9 times as much as they did during the peak of the credit crunch in the near future. Certainly, these two firms need assistance, and perhaps more stringent oversight, but an outright failure of both firms does not appear to be highly likely from our perspective.

...these two entities have already lost more than \$11 billion on mortgages but raised more than \$20 billion...

On Wall Street, perception can often trump reality when rational thinking does not overcome unsubstantiated pessimism. We believe this to be the case for the most part here and believe that the Financial Services sector will likely start to reverse course during the second half of this year and into the first quarter of 2009 once two more earnings cycles have passed and the current dust settles.

What will the Federal Reserve do next?

When the Federal Reserve Open Markets Committee ("FOMC") met on June 24-25, many expected them to stand firm on interest rates even though mounting inflationary pressures and a weak U.S. Dollar suggested to many that interest rate increases might be appropriate. This begs the question as to what the FOMC looks at when making decisions on monetary policy and what they are likely to do next.

^v"Fannie smack: Street fears firms' failure",
New York Post, July 11, 2008



The FOMC typically holds eight regularly scheduled meetings during the year – although they may schedule more meetings as they determine necessary. It is often the Federal Funds Rate - the interest rate at which Banks lend balances to other Banks on an overnight basis - that is most commonly associated with the FOMC. However, the FOMC essentially has three other tools in their arsenal to control monetary policy:

1) **Open Market Operations** – are purchases and sales of U.S. Treasury and Federal Agency Securities.

2) **The Discount Rate** – is the interest rate charged to banks on loans they receive directly from their regional Federal Reserve Bank facility.

3) **Reserve Requirements** – are the amount of funds that a bank must hold in reserve against deposit liabilities.

In using these three tools, the FOMC can alter the Federal Funds Target Rate (currently 2.00%) – not the Rate itself - as it sees fit which, in turn, has far reaching interest rate repercussions throughout the U.S. and Global economies. With this in mind, here are some of the factors, certainly not all, that the FOMC considers when deciding whether or not to take action in directing monetary policy:

a) **Real Gross Domestic Product (“GDP”)** – is generally seen as a measure of the size of the U.S. economy adjusted for price changes and inflation.

b) **Unemployment Rate** – is generally seen as a measure of the health of the U.S. economic work force. Full employment is generally viewed as being evident when the unemployment rate is between 4% – 5% in the United States. At present, the U.S. unemployment rate stands at 5.5%.

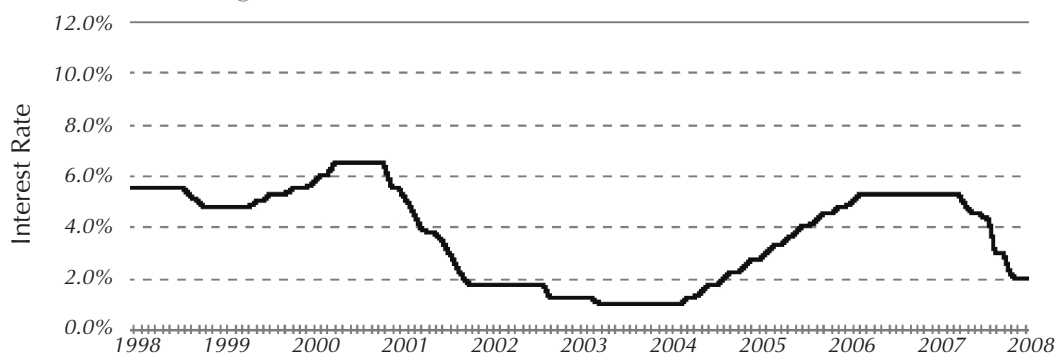
c) **Consumer Price Index (“CPI”)** – is generally used as a measure of the current value of money and can also be a good barometer of inflation. Inflation is a key area that the FOMC focuses its attention on due to the negative impact that inflation can have on the U.S. economy as a whole.

d) **Personal Consumption Expenditures (“PCE”)** – is generally used as a measure of overall price inflation.

e) **Money Supply** – is generally used as a measure of the amount of money in the system and is made up of M0 (i.e. all physical currency), M1 (i.e. M0 + those portions of M0 held as reserves or vault cash + the amount in demand/checking accounts) and M2 (i.e. M1 + most savings and money market accounts).

As has been the case for all of 2008 to date, the FOMC is trying to balance fighting the damaging impact of inflation with the need to provide liquidity and help stimulate economic growth within a U.S. economy that is trying to overcome the lingering impacts of the housing slowdown and subprime mortgage meltdown. Throw in the fact that 2008 is a presidential election year, and we don't anticipate the FOMC increasing interest rates anytime soon. However we believe that they should have started to already, and will likely do so by the end of the year – at the earliest.

Federal Funds Target Rate



Source: MoneyCafe.com, 2008. Past performance is not an indication of future results.

Bear Markets – Is this the Next Crash?

Many define a Bear Market as a decline of greater than 20% over at least a two month period while others use a 30% decline as the barometer of a Bear Market. Such markets are usually accompanied by widespread pessimism. Typically Bear Markets and Market Corrections are often confused whereas Bear Markets are often associated with larger declines and are longer lasting while Market Corrections are generally associated with smaller declines that are shorter in duration. So does the 2007-2008 DJIA decline of 19.87% from its high on October 9, 2007 of 14,164.53 to the closing level on June 30, 2008 of 11,350.01 represent a Bear Market or a Market Correction? In addition, where would this performance rank in terms of historical stock market crashes and should this recent time period even be considered as a crash at all? Let's look at the 10 worst market crashes since 1900 based on the DJIA.

...Bear Markets and Market Corrections are often confused...



Rank	Date Started	Date Ended	DJIA % Performance
10	01/15/2000	10/09/2002	-37.8%
9	11/21/1916	12/19/1917	-40.1%
8	9/12/1939	4/28/1942	-40.4%
7	1/11/1973	12/06/1974	-45.1%
6	6/17/1901	11/09/1903	-46.1%
5	11/03/1919	8/24/1921	-46.6%
4	9/03/1929	11/13/1929	-47.9%
3	1/19/1906	11/15/1907	-48.5%
2	3/10/1937	3/31/1938	-49.1%
1	4/17/1930	7/08/1932	-76.0%

VS.

Rank	Date Started	Date Ended	DJIA % Performance
N/A	10/09/2007	06/30/2008	-19.87%

Source: Dustin Woodard, About.com

Clearly, the 2007 – 2008 DJIA performance, while nothing to write home about, does not rank among the largest historical stock market crashes and should likely not be considered a crash. The performance experienced during this time period has now crossed the Market Correction level and put us at the very beginning stages of a potential Bear Market that we do not expect to last for long or be too deep if it even reaches the technical two month definition of a Bear Market.

Recession, Inflation or Stagflation - are we back to the 1970s?

Remember when.....Time® Magazine's cover story had an illustration of a resolute looking U.S. President, with his sleeves rolled up, standing behind the following headline:

Trying to Fight Back

- * Inflation
- * Recession
- * Oil

Guess the date of this issue?

- A. May 30, 2008
- B. July 15, 1984
- C. October 14, 1974

If you guessed “C”, you win! Back then, Gerald Ford’s campaign to “whip inflation now,” was in its last stages, but the rate of inflation did not actually relent until approximately 1983, after Paul Volcker aggressively raised interest rates. However, many of us, particularly those of us with less market experience, might have guessed “A” – because there are some parallels between the problems of the seventies and today. Back then, as we are also witnessing now, oil prices were soaring, food and other commodity prices were skyrocketing and economic growth was slowing. So the question is, “Are we back to the seventies or not?”

We would suggest that we are not. The global economy and investment marketplace are far different now than they were in the seventies. To understand this viewpoint, let’s look at some of the similarities and some of the differences between these two time periods.

The primary driver behind higher energy prices is competition for limited resources, as it was in the seventies, is now, and will be in the future.

In terms of similarities, incremental demand for energy from the rapidly industrializing “BRIC” countries (i.e. Brazil, Russia, India and China) at present is certainly more than a flash in the pan so the global demand for energy will remain high for the foreseeable future. The primary driver behind higher energy prices is competition for limited resources, as it was in the seventies, is now, and will be in the future. While supply can be increased beyond the current provable reserves, in absence of alternatives to oil, the lengthy and costly process of discovery to distribution practically insures that, at least for the intermediate term, the imbalances will continue, so prices, even if they may have temporarily peaked, will probably stabilize and then resume their sustained upward trend for some years to come. Hopefully this will not lead to the long waiting lines at the gas stations we experienced in the seventies.

While this heightened level of competition limits the abilities of firms to raise prices, it does allow firms to keep wages under control.

However, there are some significant differences between the seventies and today. One notable difference between then and now is the apparent lack of increased input costs in today’s economy which can translate into spiraling wages. Today, companies cannot simply pass on increased production costs to the consumer, largely due to a higher degree of global competition. While this heightened level of competition limits the abilities of firms to raise prices, it does allow firms to keep wages under control. This is important seeing that employee costs are still arguably the most critical input to the cost structures of most firms – especially in the most developed countries, like the United States, where the economies are moving to be more service oriented than manufacturing driven. All of this has helped fuel productivity gains – which is typically a function of technology and wages. To this point, Federal Reserve Chairman Ben Bernanke commented recently that sharply higher productivity growth has been the key to our economy’s strength since the seventies and has generally helped keep inflation in check.



So, the inflation that we are experiencing now is different from the inflation we experienced in the seventies but it still remains a concern and a risk to a U.S. economy that is trying to find its legs again. As inflationary pressures intensify, U.S. consumers tend to save more and spend less. Recognizing that consumer spending now accounts for over 70% of U.S. Real Gross Domestic Product (“GDP”), inflation could have the same drag effects on the economy that many feared a U.S. recession would. We are not in a recession as the academic definition dictates (i.e. more than 2 consecutive quarters of negative growth), but we would suggest that we are now experiencing a new kind of recession as U.S. consumers are operating in a recession mindset due to the triple threat realization of rising energy prices, declining home prices and declining equity prices.

Upcoming Presidential Election

We will be heading into peak election campaign season this summer, so expect this to add a dose of additional volatility to the markets by the fall of 2008. Without actually trying to predict a winner, we do recognize that certain sectors of the markets will price in the perception of which party will likely win the Presidential election, as well as which party will likely control Congress. The prospects of an Obama victory may have more of a negative impact on the stock market relative to a McCain presidency. We generally consider Obama’s stated views on increasing taxes on dividends and capital gains as bearish - at least on a short term basis. Additionally, history shows us that the first two years of a Presidential administration are generally associated with lower stock market returns than the second two years (i.e. pre-election year and election year). Consider these facts from the Stock Trader’s Almanac:

- 1) The last 44 Presidential administrations since 1833 produced a total net market gain of 746% during the second two years of the administration while the first two years produced a total net gain of 243% over that same time period. This trend may be reversed with the current administration given how the market has performed in its fourth year so far.
- 2) We have not experienced one losing third year of a Presidential administration since 1939 - nor did we in 2007.

We believe that the primary reasons behind this phenomenon are that significant legislation changes, the start of wars and the beginning of bear markets have historically occurred during the first two years of a Presidential administration. The types of uncertainty associated with these events can lead to volatility which generally depresses markets but can lead to significant stock market rallies when new legislation is received positively in the market, war prospects turn positive and bear markets turn into bull markets. Coincidentally, the latter have generally occurred during the last two years of a Presidential administration. We are not suggesting that Presidential administrations are the only factor that moves the stock market but this long of a consistent trend should not be discounted entirely.

Portfolio Management Ideas to Consider

2008 has been witness to a great deal of volatility in the markets but is it unprecedented by historical standards? As you will see from the chart below, for the period 1928-2007, the S&P 500 had daily moves of more or less than 1% sixty times each year on average. So far in 2008, the S&P 500 has already experienced daily moves of more or less than 1% forty-nine times through June 30, 2008.

S&P 500 Volatility & Performance Summary, 1928-2007

S&P 500 Average Annual Total Return	10%
Average # of Days per Year Where S&P 500 Ended > + 1%	30.2
Average # of Days per Year Where S&P 500 Ended < - 1%	29.8
Average # of Days per Year Where S&P 500 Ended > + 1% or < -1%	60
Average # of Days per Year Where S&P 500 Ended > + 2%	7.8
Average # of Days per Year Where S&P 500 Ended < - 2%	8.4
Average # of Days per Year Where S&P 500 Ended > + 2% or < -2%	16.2

Sources: Global Financial Data and Thomson Financial Datastream for the period 1928 – 2007. The S&P 500 is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. You cannot invest directly in an index. Past performance is not an indication of future results.

So, yes, 2008 has been a year of great volatility even according to historical standards. This does not necessarily mean that you should panic if you have a strategic asset allocation in place that is re-balanced regularly, as needed, and contains a degree of non-correlated asset classes (i.e. asset classes that do not all move in the same direction with market moves). In terms of adding additional diversification through some tactical allocation weightings within your current portfolios, in addition to our previously stated views on Financials, here are some of our thoughts on areas where we see value for the remainder of 2008.

So, yes, 2008 has been a year of great volatility...

1) Commodities still seem to be going strong despite the meteoric rise that they have experienced over the past year. Commodities are also exhibiting some of the negative correlation characteristics to the U.S. stock markets that we historically have seen with asset classes such as REITs and International Equities – the latter which is now becoming more correlated to the U.S. stock market in the new global economy. As a result, having some allocation to baskets of Commodities (just as with stocks be careful to not necessarily try to pick the “hot commodity” or time the commodity market) in your portfolio could not only help with return potential but could also serve as an inflation hedge while also providing for some volatility dampening.



2) Given that we do not anticipate any further changes to U.S. interest rates for the balance of 2008 while certain foreign countries are actually raising interest rates, expect the U.S. Dollar to remain weak and at historic lows versus certain major currencies (Ex. EURO). While this should help U.S. Large Cap Multi-nationals who export their goods abroad, it will also help the growth of international markets. For these reasons, allocations to International Equities, including a slight allocation to Emerging Market Equities, still seem warranted for the balance of 2008.

3) Bonds represent one of the few asset classes that have had positive total returns so far in 2008 and will likely still provide a safe haven for the rest of the year. Bonds can also add diversification to growth portfolios and still represent the most predictable income stream potential, in our opinion, for income-oriented portfolios.

4) Growth stocks (i.e. stocks, typically with higher Price-to-Earnings ratios, of companies which are growing earnings and/or revenue faster than their industry or the overall market) have outperformed Value stocks (i.e. stocks, typically with high dividend yields, low price-to-book ratios and/or low price-to-earnings ratios, that tend to trade at a lower price relative to their fundamentals and are thus considered undervalued) for U.S. stocks so far in 2008 despite the volatility in the markets. This is somewhat surprising to us seeing that we would expect better returns for value oriented investment strategies in an environment with lower U.S. growth. Hence, an overweighting towards Growth versus Value, neutral at worst, as the market begins to rebound still seems worthy of consideration for the balance of 2008. The overweighting towards Growth will become even more significant if the chances of tax changes increase. Changes to the tax treatment of dividend income will have a negative impact on value-oriented investments that tend to be associated with higher dividend yields.

We do not believe in market timing but rather believe in staying fully invested according to an asset allocation strategy that is suitable to both your short and long-term investment objectives. Our investment philosophy has not changed despite the volatility we have seen in the markets so far this year and will not change for the remainder of this year or in the years ahead. Our goal is always to strive to maintain core capital in down markets and help keep pace with the benchmarks in up markets. Following a long-term strategic asset allocation plan and making tactical adjustments, as suggested above, when warranted is how we look to achieve our goal. If there is anything we can do to help you better understand the risks in the markets and/or your current portfolio, please do not hesitate to contact us.

Sincerely,

Kevin Mahn
Chief Investment Officer

Bill Walsh
Partner

Rich Hennion
Partner