

October 2007

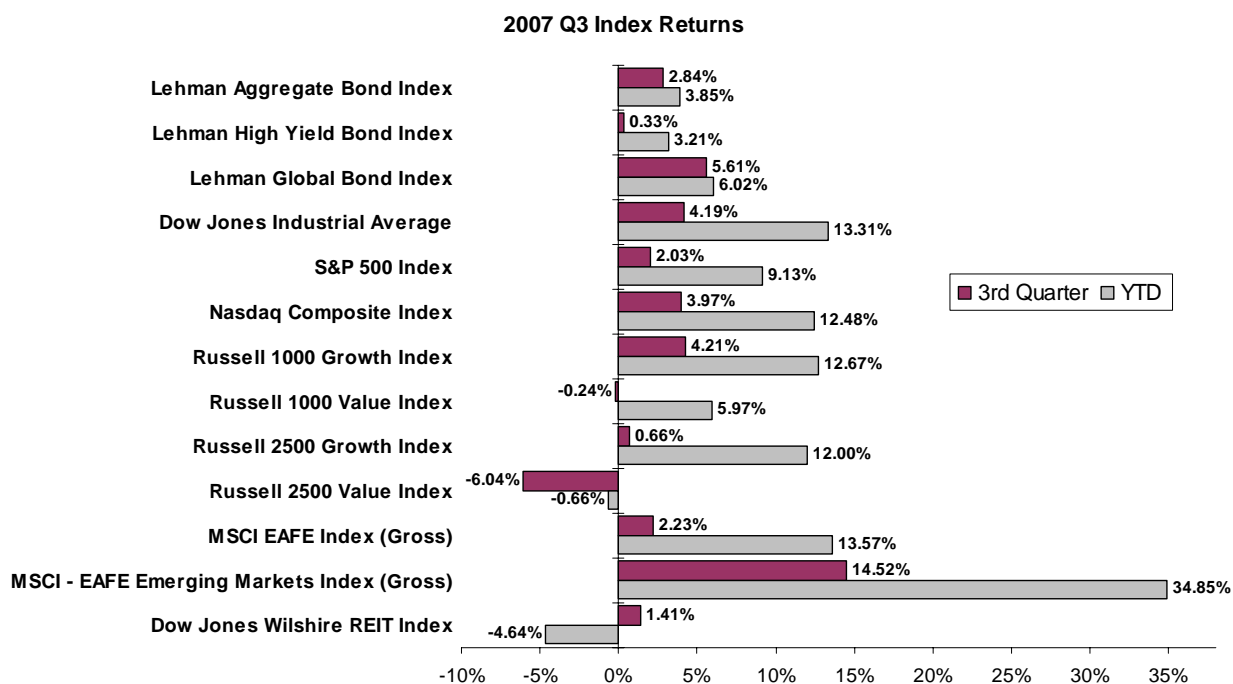
Dear Client,

The third quarter of 2007 was certainly a wild ride. In July, most major equity indexes reached or approached all time highs, only to decline sharply in August as sub-prime lending concerns and the ensuing liquidity crisis worried investors. Then in September, the Federal Reserve (Fed) cut the Fed Funds rate by a surprising 50 basis points. Equity indexes surged in response and for the most part ended the quarter in positive territory.

While the market may have reverted to normal levels of volatility and adjusted to the higher cost of borrowing, the third quarter has had a lingering effect. Most notably, there was a “flight to quality” as investors reassessed how much risk they were comfortable carrying. Many turned toward high quality growth companies with low debt levels and treasury securities as likely to weather the storm.

### Third Quarter Index Returns

The graph below shows third quarter and year-to-date returns for the major indexes.



An index is a portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indexes are unmanaged with no associated expenses, and investors cannot invest directly in an Index. Past performance is no guarantee of future result. The index returns are all "Total Return" with dividends reinvested, which means the return includes not only the change in price for the securities in the index, but any income generated by those securities. Source: Bloomberg, Lehman Brothers, Wilshire Associates.

Here are a few of the trends and returns that we think are particularly noteworthy:

- Within the U.S. equity markets, large-cap stocks continued to outpace small-cap stocks, and growth stocks outperformed value stocks.

- International markets outperformed US equities as the weakness of the US dollar helped boost returns. The MSCI EAFE Index (a proxy for developed international markets) was aided by strong returns from the Asia Pacific region.
- The Emerging Markets were the outright winner in terms of performance for the quarter as Brazil, Peru, China, India and Turkey all provided returns in excess of 20% for the quarter.
- With real estate performance being driven by fundamentals again instead of privatization deals, the Dow Jones Wilshire REIT Index bounced back after the correction in June and July.
- The bond market yields plunged but started to stabilize after the Fed reduced both the discount rate and Fed Funds Rate. By the end of September, the 30-day T-Bill yield fell to 3.46% from 4.52% at the end of the second quarter, while the 10-year note yield decreased to 4.59% from 5.02% and the 30-year bond yield declined to 4.84% from 5.12%<sup>1</sup>.

## **U.S. Economic Report**

The U.S. Economy remained relatively strong despite the slowdown in the housing industry and record-high energy prices. Continued consumer spending, along with the combination of solid demand for US goods abroad and a weak dollar have helped keep the economy buoyant.

The second quarter's GDP was 3.8% - significantly above the 2.6% forecast. Expectations for the third quarter, according to a current Bloomberg survey, are for GDP to check in at 2.4%. Growing concerns about higher interest rates clouded money borrowing activities and slowed Merger and Acquisition (M&A) activity slowed. The recent Fed actions provided new enthusiasm for M&A players, especially for companies with generally strong fundamentals.

### **Staying on track**

The recent volatility in the market has clearly emphasized the need for diversification and a focus on the longer-term objectives rather than reacting to short-term events. As we have seen, despite the drama the third quarter showed positive returns.

However if you would like to reassess the level of risk in your portfolio, please contact me at (561) 798-4565. We welcome the opportunity to spend time with you reviewing your financial objectives and any questions you may have.

Sincerely,

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Thomas B. Carreras, CLU, ChFC, LUTCF, CFS, CFP  
President

<sup>1</sup> Bloomberg