DB&B Financial Services, LLC

Financial Insider

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INSIDE THIS ISSUE:

YEAR TO DATE PERFORMANCE

Dow Jones Industrials:	-14.4%
S&P 1500 Composite:	-10.8%
S&P 500 (Large Cap):	-11.9%
S&P 400 (Mid Cap):	-4.6%
S&P 600 (Small Cap):	-7.6%
Int'l Developed Mkts:	-12.7%
Int'l Emerging Mkts:	-7.6%

YIELDS & RATES

2-Yr T-Bond Yield:	2.62%
5-Yr T-Bond Yield:	3.31%
10-Yr T-Bond Yield:	3.97%
30-Yr T-Bond Yield:	4.52%
30-Yr Mortgage Rate:	6.16%
15-Yr Mortgage Rate:	5.71%

Discipline and Patience are Key During Volatility

The turmoil in the financial markets, both domestic and international, has been nothing short of historic. Here are some statistics: the first six months of the year have been the worst since 1970; the last quarter was the worst since 2000; and June was the worst month since the Great Depression. For the first two quarters, as you can see below, the DOW Jones Industrial average and S&P 500 have returned –14.4% and –11.9% respectively. However, our increased diversification into mid cap (-4.6%), small cap (-7.6%), emerging markets (-7.6%), commodities (+27.2%) and gold (+10.8%) has cushioned the decline in portfolios with their better than "market" performances. There is little doubt that we are living in dramatic times with unprecedented volatility, but that is also what brings about long term opportunities. We continue to look for quality names at discounted prices when compared to their growth rates. While we won't always be right on every single choice, our philosophy and performance in aggregate have beaten the market averages both in the short term and the long term.

The market leaders in the first two quarters have obviously been energy, steel, agriculture and commodities. However, during the first two days of the third quarter we have seen this leadership group come under pressure. This is exactly what has to happen in order for the market to put in a firm bear market bottom—the leaders need to crack. Once we have cycled through all of the sectors, a bottom is typically formed and the market can move forward. We were given a head fake (for a bottom) in March as we retested previous lows and approached bear market territory, but did not pierce prior support. However, significant year to date increases in energy and food inputs (oil 40%, heating oil 36%, natural gas 39% and 20%+ moves in pork, corn, soybeans, cocoa, lumber and coffee) as well as Middle East tensions have precipitated a further decline in the markets. This negativity has also started to show up in slightly more job losses and consumer confidence decreases as well. While we remain positive with regard to the market's long term prospects (especially from where we are now), we are more cautious over the short term. Our economic view has dimmed from the beginning of the year based upon the aforementioned increases in energy and food costs. Those extreme price increases took us, and the markets, by surprise.

As we mentioned previously, however, gold and commodities continue to do well as fear and scarcity are first and foremost in the minds of institutional investors. In these turbulent times, it is important to keep things in perspective and also keep hedges in place. While the markets were down 3-4% in one week, commodities and gold held up well, both up 3-5% with gold producers pushing the Phily Gold and Silver index up 9%. Should gold reach $960 and then $1000, the metal could be off to the races due to a very robust technical picture. Again, this is a safety hedge, a dollar hedge and an overall market hedge. Typically, hard assets do well during times of uncertainty and are seen as a flight to safety.

The market seems to resemble that of the mid 1960's or early 1980's when large cap stocks bore the brunt of the inflationary or stagflationary outlook while commodities and small caps held up relatively well. We believe this may continue to be the case and our diversification among mid, small and emerging market names should fare well. Our large cap focus will remain on those companies with overseas exposure that should produce above average growth

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despite a slowing domestic economy. Again, we remain cautiously optimistic with regard to the overall markets in the last half of 2008.

That said, don't throw in the towel or become overly discouraged by the overall market's downward trend. Stocks are as oversold as they have been since 1990 or 1987, so we are due for an upward bounce. Also bear in mind that a break in energy prices would most likely produce a nice rally as well. We believe this is a distinct possibility as energy's big run has caused demand destruction and a significant change in consumer behavior. This, combined with the Saudi's recent policy change to pump more oil and increase supply may bring the price back down to the $110-120 level. This will allow for increased purchases in the oil and natural gas sector in portfolios for the longer term.

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SUMMATION:

There is little doubt that the markets have become increasingly volatile in the past 10-15 years as hedge funds, derivatives and traders have increased their presence. However, this can bring about great opportunities for savvy investors who stick to their discipline and invest in fundamentally sound companies with good cash flow, earnings and a pristine balance sheet.

Diversification among different asset classes is also a key to mitigating volatility and providing a better overall return than the S&P benchmark index. Specifically, commodities and energy will continue to play an important role in portfolios moving forward. However, careful investment is a must without chasing stock prices (let them come back to us). These investments, as well as small caps and emerging markets, will serve to diversify and temper the effects of inflation. Patience and discipline will remain key components to above average returns over the long run. Stocks are definitely on sale while bonds represent negative returns after inflation. Now is not the time to get scared out of the stock market (near the bottom) only to put your hard earned retirement and investment dollars in a negative real return asset class. Invest wisely, remain patient and stay the course.

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Ted Sarenski CPA/PFS, CFP
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Taking Emotion Out of the Decision

It may benefit the potential purchaser of long-term care insurance to take the emotion out of the decision by thinking of it as an asset protection policy. Each of us chooses the risks we are willing to accept and those we want to pay an insurance company to take on for us; it is always a personal decision. The owner of a long-term care policy is essentially deferring the risk of a future in-home or skilled nursing facility cost to an insurance company rather than accepting that risk personally.

At today's high level of health care costs, assets accumulated over a lifetime can disappear in a few years should the individual need skilled nursing care. According to the latest annual survey by the Metlife Mature Market Institute, the average private-pay cost of nursing home care in 2007 was $213 per day, or $77,745 per year, for a private room and $189 a day, or nearly $69,000 for a shared room. Some places, such as San Francisco or Hartford, CT, reported costs of more than double the national average. Moreover, costs have been increasing more than the rate of inflation and could further accelerate if the number of beds doesn't keep pace with an aging population. Between 1995 and 2025, the number of elderly people will double in 21 states, according to the U.S. Census Bureau.

"Isn't it worth the peace of mind to know that a lifetime of work and savings will be preserved to benefit future generations?"

Gail Gardner MBA, CFP, ChFC
Director of Financial Planning

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Healthier lifestyles and advanced medical care are allowing many people to live longer but with a greater chance that they will need assistance in their later years that family or friends are not equipped to provide physically, emotionally or competently.

Consider that a $5,000 annual premium for a good individual long-term care policy is only 1% of $500,000, or 0.5% of $1 million, or 0.25% of $2 million, etc. For a person with a $2 million estate, isn't it worth one-quarter of 1% per year to ensure that an individual's estate tax exclusion, currently $2 million, is protected and can be distributed upon death in any manner that the individual has planned? Isn't it worth the peace of mind to know that a lifetime of work and saving will be preserved to benefit future generations?

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Putting Retirement in Perspective in Light of the Perfect Storm

It has been estimated that in 1880 78% of men aged 65 and older were still working. By 1990 that number was down to about 20%. Over that period, retirement trends have gradually evolved from dependence on children or other relatives for a few years late in life, to full independence and leisure activity with ever increasing life spans. By worldwide standards, Americans are well-prepared for retirement, and enjoy a standard of living roughly equivalent to pre-retirement levels. So how did the shift happen?

It is likely that higher incomes and productivity led to the trend towards earlier, more independent retirement. In 1890, per capita GDP in the US was $3,430 in 1996 dollars. In 2007, per capita GDP was $46,000. Higher incomes created more potential to fund earlier retirements through savings. In addition to the role played by higher incomes, military and civil service pension plans paved the way for private sector pension plans and social security. Social security, initiated in 1935, was originally intended to cover those employees who were not covered by a private pension plan. Since the 1950s though, most of the 11 major changes to the system have in some way expanded coverage and benefits, including the initiation of the Medicare program in 1965.

Over the years, changing demographics have influenced private sector benefits and public policy. A wartime shortage of workers led many private companies to adopt pension plans, as incentive to draw more people into the workforce. Longevity and population growth in more recent years has led to a surplus of workers, allowing employers to shift more of the burden of retirement planning to their employees. The point is that periodic shifts in economic forces lead to periods of realignment that often include some degree of pain. And sometimes those forces line up to form what looks like a perfect storm. Global economic forces are causing alignment of standards of living among the world's economies that will continue to take place for decades, perhaps centuries. In the US we are coping with demographic changes that may force people to work longer or retire on less, as the aging population's income and health care needs explode while productivity is slowing. Add the crisis in the financial markets created by declining home prices, and the pressure of rising inflation, particularly in the cost of food and oil, and it all seems very depressing.

Surely some people will feel the effects more than others, but to put things in

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perspective, consider that 2007 per capita GDP for selected countries was as follows: United States $46,000, China $5,300, the European Union $32,900, India $2,700, Kuwait $55,300, Iraq $3,600, Mexico $12,500, Morocco $3,800, Australia $37,500, Jamaica $4,800, Cuba $4,500, Japan $33,800, Egypt $5,400. By world standards, we're still one of the wealthiest nations. We're also resourceful. We'll fix Social Security and Medicare; we'll figure out a way to retire; and we'll weather out the storm. No one knows for sure how bad it will get or how long it will last, but when the sun shines again, we'll probably forget it ever happened. Forget, at least, until the clouds start to roll in again!

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A reminder to all clients…..if you haven't had a chance to meet with us lately to discuss portfolio, the market or if you have other questions, please feel free to let us know. We would be happy to schedule a meeting at your convenience.

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