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YEAR TO DATE PERFORMANCE

Dow Jones Industrials:	-7.01%
S&P 1500 Composite:	-9.00%
S&P 500 (Large Cap):	-9.45%
S&P 400 (Mid Cap):	-8.85%
S&P 600 (Small Cap):	-7.46%
Int'l Developed Mkts:	-8.91%
Int'l Emerging Mkts:	-11.32%

YIELDS & RATES

2-Yr T-Bond Yield:	1.75%
5-Yr T-Bond Yield:	2.50%
10-Yr T-Bond Yield:	3.50%
30-Yr T-Bond Yield:	4.38%
30-Yr Mortgage Rate:	5.65%
15-Yr Mortgage Rate:	5.23%

Signs Point to a January Market Bottom

There was an enormous amount of statistical data that came out at the end of the quarter that should be viewed by all as encouraging with regard to the overall economic picture. The final read on fourth-quarter GDP was +0.6 percent, went unrevised from the last estimate and was better than analysts had expected. Although this is a rather weak number, it's by no means disastrous. Consumer spending also rose by a revised 2.3% annual rate in the quarter which is up from a previous estimate of 1.9%. This proves again that, when the going gets tough, Americans go shopping! Claims for unemployment declined by 9,000 in the last week of the first quarter to 366,000 and is still somewhat of a benign number. If this number sharply jumps over 400,000—which it could—for a sustained amount of time, it would be worrisome. However, readings in the current vicinity have typically suggested that any slowdown would be short and/or shallow.

With regard to the overall stock market, our belief that the January 21-22 lows will hold has gained more steam with four different (successful) retests and subsequent rallies. The 11,634 intraday low in the DOW 30 Industrials and 1274 low in the S&P 500 seem to be (at least) a short term floor that is becoming more and more reliable. The first quarter of the year, however, has not been kind with a decline 7-12% for most of the major averages (including international emerging markets). The few exceptions have been the (Developed International) EAFE index, the S&P 600 Small Cap Index and commodities (actually up over 11%) bolstered by oil and gold among other soft commodities. Bond prices have skyrocketed (yields plunged) because of the flight to quality and the volatility in world financial markets. As a result, we are revisiting the dismal interest rate picture of the 2002-2003 period. Current yields on Treasury securities are 1.75% for two year, 2.50% for five year and 3.50% for ten year. By contrast, the yield on the S&P 500 is 2.2% meaning that you could outperform a two year bond by almost 0.50% in the next two years if stocks were flat for the next two years. Consequently, fixed income investors are going to have a decision to make when currently held bonds mature: move to equities or endure low yields. This conundrum for bond investors suggests that risk has shifted from the stock market to the fixed income market (believe it or not—it's true). Some on Wall Street have even commented that there may be somewhat of a bubble in bonds at this time. To go one step further, inflation is in the area of 3-3.5% and may continue going higher. Therefore, buying a ten year treasury bond would result in a 0-0.5% real return (3.5% yield minus inflation of 3-3.5%). This will continue to be a definite challenge for bond investors and their purchasing power.

In that same vein, we continue to believe that inflation will be problematic in coming years. The rapidly growing emerging countries of the world continue to drive up prices for oil, steel, wheat and corn (and other soft commodities) while the falling dollar exacerbates the rise. The increase in the use of ethanol has a staggering trickle down effect on other commodities as well. The case for higher and higher oil in the long run continues to gain credence as the world's consumption increases at 0.5-1.5% per year while we continue straining to maintain the current capacity/output. The saving grace in the rise of crude has been the fact that it has

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seen a steady rise and not spiked significantly. This would be a real concern to businesses and consumers alike, as a sudden shock (as opposed to a steady rise) tends to crowd out discretionary purchases by consumers while impeding the ability for businesses to pass on price increases.

Our inflation investments/hedges continue to be an important part of our portfolios. We still like diversified exposure to gold (and other precious metals), energy and other soft commodities. We have seen some rather dramatic moves in this sector lately due to profit taking and rotation into beaten down sectors of the market. This selloff was to be expected after the tremendous move in recent months, but was a little steeper than anticipated. Although gold could fall further to \$850 (from the current \$940 and a high of \$1040) and crude oil could fall to the low to mid \$90's during the second quarter (if our economy slows further), we view this as a long-term buying opportunity in the commodities arena. This belief stems from the fact that virtually every metal is in scarcer supply in the U.S. -- still by far the world's largest economy -- than it was five to eight years ago. The same is true for oil and agricultural commodities as they are experiencing supply-demand constraints that will most likely continue going forward. Even if we have a mild recession in the US (still not a certainty), the global economy will continue to grow, with upward pressure on commodities being a given.

Although the Federal Reserve's rate cuts have worsened the commodity picture (through a lower dollar) they should begin to help the economy in the second quarter. It normally takes five to six months for rate cuts to filter through the economy, and we are now moving into the sixth month of the first cuts. It may even be a few more months before the full influence will be felt in our economy. The Fed has continued to add significant liquidity to the financial system (making

it easier for banks and broker-dealers to borrow money from the Fed). Subsequently, we have FINALLY started to see banks begin to lend again and borrowing rates decline somewhat. However, more conviction to lend is definitely needed in order to get our economy moving once again and help with the financial crisis.

Summation: Recall that the stock market is a forward looking indicator and it typically starts heading higher six to nine months before the economy. We have seen increasing stability in the stock market and a commitment of the Federal Reserve to pull out all stops to avert a disastrous financial and/or liquidity crisis. While it is certainly possible that the housing and financial calamities may last through the end of the year, it's likely that economic growth will remain low, albeit positive, followed by a healthy swing upward once these two problems are in the rearview mirror. In the meantime, however, the Fed will likely leave rates low which will mean lower bond rates, higher inflation and no support for our currency.

As remarked earlier, it's a good sign that the January lows have continued to hold despite all of the bad news that has come to the fore. The Dow Transportation average is up close to 20% from its lows, as these economically sensitive stocks infer that good times aren't too far off. Furthermore, interest-sensitive utilities have taken a beating lately (down 14% from their highs) also signaling that economic growth should pick up and that inflation will be a problem.

Signs are pointing toward a higher stock market, a continuation of lower bond rates, higher inflation and low, but positive, economic growth. As we thought at the beginning of the year, we saw a tremendous amount of volatility in the first quarter and we continue to stick with our forecast of a less volatile second quarter followed by better third and fourth quarters.



Gail Gardner MBA, CFP, ChFC
 Director of Financial Planning

*“Having a plan
 can keep you
 focused because
 planning is
 strategic.”*

Planning Eases the Stress of Market Challenges

The first quarter of 2008 has admittedly been a frustrating time to be an investor. In an election year with no clear front runner, in the midst of a war, and with a housing/lending crisis in progress, the Federal Reserve has to reinvent policy to cope with the challenges presented by an increasingly global marketplace. Thus far, 2008 has been dominated by questions. Should I stay invested? Where can I get the income I need when interest rates are so low? What can I invest in that's safe? Should I invest in the market now? Indeed the investment landscape seems to be dominated by uncertainty.

While it may be true that this particular set of circumstances is unique, we can always benefit from the lessons that history has provided. Remember the end of the “new economy,” back in the early 2000s, when the tech bubble burst and dot-coms became dot-nots? It probably seemed like the end of the world then too. If the past tells us anything, it's that crises tend to come along at fairly regular intervals. In fact, since 1929, the stock market has had a positive return in only about 3 out of every 4 years. But investor memories are short. We tend to react to each new crisis as though it's the “big one” and, once the bulls start running, we quickly forget that markets periodically experience turmoil. So how do you keep from making emotional decisions? Have a plan, and stick to it!

While having a plan isn't exactly newsworthy - indeed, it can be downright boring - it can help keep you focused during turbulent times, and alleviate the temptation to act on emotions. Everyone has heard the adage on equity investing: How do you make money in the market? Buy low, sell high! The great irony is that the best buying oppor-

tunities usually come when things look their very worst. It's easy to rationalize, “This time it's different.” But hindsight usually proves otherwise. If you're acting rationally, and you're already in the market, you would stay invested. If you're not yet invested, now is the time to do it! Buy low! If you're thinking anything else, then you're envisioning a scenario where we should have a lot more to worry about than which way the market is headed. That doesn't mean you have to jump into the market with all your idle cash today. Investing a lump sum in installments over a period of 6 to 12 months can be a prudent strategy when markets provide no clear direction for the immediate future.

Having a plan can keep you focused because planning is strategic. If you have a plan, you know that your income needs are covered for at least the next five years, so you don't have to touch your equity portfolio when the market is down - you can ride it out. You also know what inflation can do to your income if you don't invest in equity for the long haul. Or, if you've planned really well, you know that you have enough money that you don't have to take on the risk of being invested in the equity markets, and you are feeling pretty good right now. If you have a plan, and you're already invested in the equity markets, you know that your portfolio diversification will alleviate the worst of the market cycles. You know that the level of risk you are taking should allow you to outperform the equity indices on the downside. You know you aren't invested in anything crazy that's way above your risk tolerance. And you know, when you watch the news, that the people who are panicking probably don't have a plan.



**Ted Sarenski CPA/PFS, CFP
President, CEO**

“Based on your feedback, our main goal is to increase communications with our clients.”

Thank You to Our Clients!!

Gail and Kevin were kind enough to leave me a bit of space on the last page to thank you for the continued confidence in us as your portfolio managers, and also to introduce our new four-page format for the quarterly newsletter, now named *Financial Insider*.

Thank you to those who responded to the our recently mailed survey. We asked for your feedback and you graciously provided it. We reviewed each and every response with the goal of learning what we need to improve upon to make our services more valuable to you, our clients. Then, our financial services team met off-site for a day to discuss our operations and how we can better serve our clients. Your survey responses were very helpful in guiding our direction for the meeting and the future.

Based on your feedback, our main goal is to increase communications with you, our clients. We plan on accomplishing this task in the form of additional meetings, letters, phone calls and a more informative and inclusive quarterly newsletter. We welcome your continued comments and questions going forward and ask that if there is a topic you wish to know more about, an investment position you do not understand, or you just want to talk about a topic you came across in the media, please don't hesitate to call. You will find our direct contact information below, and we have included pictures of our team as well. Our team at DB&B Financial Services is always ready to help you.

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