

July 2007

For the second quarter of '07, the S&P 500 returned 6.28% and the Dow returned 9.11%.

The Need for a Steady Hand

Investors seldom have it easy. They belong to what can be a brutally unforgiving vocation, in which decisions have to be made and lived with. They don't have the foresight to determine when precisely the "right" time to buy or sell is (regardless of what a co-worker at the water cooler may tell you). All they can do is make the best decision with the knowledge and experience at their disposal.

This is where personal, unbiased, and proactive management of your account is especially valuable. Despite the fact that it is all but impossible to foretell the market's direction, a steady hand will go far to ensure that your portfolio is adequately poised to benefit from growth and protected against significant performance swings. It is crucial that your retirement savings receive the best possible care and attention, and during the current uncertain times we're experiencing, we are making sure that each portfolio we manage is cautiously positioned.

How Much Higher Can The Markets Climb?

At StraightLine, we realize that it is impossible to know the future; as a result, we deal with facts to draw our conclusions about where the markets may be headed. Here's a sample of what we know as of the second quarter of 2007:

- The Dow Jones Industrial Average and S&P 500 Index reached their all-time highs during this period.
- The Housing Market Index, published by the National Association of Home Builders, fell to its lowest point since 1991.
- There is growing debate over the Federal Reserve's decision to keep its target interest rate steady—despite fears that it may be too high for economic growth to continue at the current pace.
- There was (and continues to be) significant concern over so-called "sub-prime" borrowers who have shown a tendency to default on their loans. This has had an adverse effect on not only the institutions that sold the loans, but also on many of the major banks that underwrite the collective loans.

In June, the Housing Market Index fell to its lowest level in 16 years.

We also know that there is continued disquiet over such issues as global oil supply disruptions, inflation, and uneasy geopolitical situations. It is for these reasons that our clients' portfolios were recently positioned to reflect a defensive stance. While still invested in both the U.S. and global equity markets, we have allocated a significant proportion to fixed income and stable value securities, which we expect will serve to reduce volatility should equities see a correction.

As we discussed in our most recent communication to our clients, we believe that the probability of losses in the equity markets outweighs the potential for significant gains. In our view the equity markets will see their seemingly tireless performance finally checked by economic reality.