



MEMO

Date: 07/09/2008
From: Jonathan D. Weir, JD
To: WFR Clients and Friends
Subject: Second Quarter Economic Trends

Throughout the second quarter, markets continued to grapple with the lingering effects of credit issues, inflation, and a softening economy. As the quarter began, investors were hopeful that the worst of the “credit crunch” had passed and global equity markets rebounded. That enthusiasm was short-lived. Oil and other commodity prices continued to rise and, as the possibility of inflation increased, most equity and fixed-income markets gave up their gains to end the quarter with modest losses.

To be sure, the past several months have been difficult. The news media is quick to point out a litany of

dangers to investors. From inflation and the slowing economy to credit worries, we are aware of these issues and take them quite seriously. As mentioned in the previous quarter’s letter, discipline and perspective are in order in times like these. Bear markets (defined as a 20%+ loss in the DJIA) are disconcerting but not uncommon. One has occurred about once every three years since 1900.

Domestic Equities: Most equity indexes lost ground for the quarter. The S&P 500, an index of 500 large U.S. stocks, declined 2.73%. For the trailing 12 months the loss was more substantial at 13.12%. Smaller stocks did a little better. The Russell 2500 index managed to post a small gain of 1.39% for the quarter. The trailing 12 month performance, however, was a 14.28% loss.

International Equities: Foreign stocks for the most part followed the lead of U.S. Equities as they surged early in the quarter only to slump as the quarter ended. The MSCI EAFE index

<u>% Return as of 6/30/2008</u>			
<u>Equity Indexes</u>	<u>2ndQ</u>	<u>1 Yr</u>	<u>3 Yrs</u>
S&P 500	-2.73	-13.12	4.41
Russell 2500	1.39	-14.28	4.94
MSCI EAFE	-1.93	-10.15	13.34
Emerging Market	-0.80	4.89	27.52
DJ Wilshire REIT	-5.39	-15.27	4.90
<u>Bond Indexes</u>			
TIPS	-0.28	15.09	5.59
Aggregate	-1.02	7.12	4.09
Governments	-1.91	9.68	4.60
Mortgages	-0.49	7.83	4.82
Intermediate Credits	-0.90	3.81	2.75
Long-Term Credits	-0.61	1.69	0.83
High Yield	1.76	-2.26	4.54
Municipals	0.63	3.23	2.93
<u>Cash Equivalents</u>			
3-Month T-Bill	0.43	3.08	4.23

which measures the performance of developed overseas markets slid to a modest loss of 1.93%. For the trailing 12 months the international index produced a loss of 10.15%. The emerging markets were more of a mixed bag. Earlier high-fliers like China and India continued to be pressured as investors worried about their extended valuations. Other areas like Central America were more resilient. In the end, the MSCI Emerging Markets index posted a small loss of 0.80% for the quarter. For the past year, the gain was 4.89%.

Real Estate: Publicly traded real estate also posted a loss for the quarter as credit and valuation issues continued to spread through the sector. REITs fell 5.39% for the quarter as measured by the Dow Jones REIT index. For the trailing twelve months REITs fell 15.27%.

Fixed-Income: High yield bonds were able to post a modest gain for the quarter as credit issues began to settle a bit. The Lehman High Yield index was up 1.76%. The past 12 months, however, showed a 2.26% loss. Higher quality bonds dropped a bit in the last quarter as the Federal Reserve indicated that further rate cuts may not be necessary. The Lehman Aggregate, a measure of the broad bond market, dropped 1.02% for the quarter. For the past year, however, the index increased a strong 7.12%. Treasury Inflation Protected Securities, or TIPS, have performed strongly due to inflation concerns. The Lehman TIPS index declined just 0.28% for the quarter but advanced a powerful 15.09% for the past year. Some investors think bonds are dull. Sometimes, dull is good!

Difficult markets can make for trying times. It can be unpleasant to see hard earned capital erode. It can even cause one to question long held assumptions. It is vital, however, not to lose sight of the value of planning, diversification and mathematics. We understand your goals because we asked you about them and have planned for them. While the overall equity market is down, we design portfolios that typically contain several asset classes. These allocations may include not only equities but multiple types of fixed-income and other holdings. We design these portfolios using mathematical principles and discipline *in advance* of market volatility, not in response to it. It is during times like these that solid principles demonstrate their value.

Thank you again for your confidence in me. I look forward to meeting with you in the near future. Until then, please call with any questions you may have.

Please contact us with any questions you may have – 716.854.3343 or jweir@weirresources.com

Source of data – *U.S. Department of Commerce; Bureau of Economic Analysis. Wall Street Journal, Rothschild Market Review, Bureau of Economic Analysis, Lehman, NAREIT, Bloomberg, mpi Stylus, Markit ABX indexes. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. There can be no assurance that the investment objectives will be met. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. Investing in emerging markets can be riskier than investing in well-established foreign markets.

CRN200807-2018299