

Money Plans
8701 Georgia Ave., Ste. 710
Silver Spring, MD 20910
Telephone 301-589-4250 Fax. 301-589-0276
Email: pegdowney@moneyplans.com
deniseleish@moneyplans.com
Website: www.moneyplans.com

**MONEY PLANS
ECONOMIC
REPORT
(Summer 2008)**

ECONOMIC OVERVIEW

U.S. Economy

"Instead of engaging in largely futile behaviors like judging risk tolerance, stock picking, frequent rebalancing, and market timing, advisors should focus their exertions where they add value: matching client investments to client goals, seeking low expense investment solutions, maximizing diversification, and talking clients out of their own bad investment ideas, like selling out at a market bottom or chasing performance." Phil Demuth, investment psychologist and financial advisor, who has written for the Wall Street Journal, Barron's, Human Behavior and Psychology Today.

Basically, as investment advisors we at Money Plans know that we need to create a portfolio that supports your goals and then helps you endure whatever volatility is required to get there. And, basically, you are paid to endure short term volatility for the sake of long term returns that are better than T-bills—and hence increase your spending power over time. Right now we are all enduring!

Every day that a barrel of oil increases in price, global markets decline, inflation increases and material shortages surface. And when the

media sensationalizes, then a life of its own begins and a self fulfilling prophecy follows.

For instance, there are claims by federal regulators that the fall of Bear Stearns and Indy Mac Bank was caused by some unscrupulous short sellers in the market who manipulated the stocks decline for their own gain. To make sure that no manipulation is occurring, the SEC is making changes to how stocks of brokerage firms and Fannie and Freddie Mac are shorted. Regulators believe that these emergency measures are necessary to prevent false rumors that may cause other financial firms to fail. (It would also be wise if the media could exert caution instead of fanning flames – a financial institutions failure is irreversible and affects us all!)

For the 6 months ending 06/30/2008, the DJIA lost nearly 15%, the NASDAQ lost 15.4%, the S&P500 lost 14.0%, the global markets lost 14.5%, and Hong Kong lost nearly 24%. Every market lost money except for commodities. Money markets are yielding 1.85% while 3 month T bills are yielding 1.6%. A diversified portfolio's return is a blend of these numbers, depending on how conservative (risk adverse) or how aggressive the portfolio is and how value or income oriented it is. These numbers are gross returns and assume that all monies remained invested for the full 6 months of the year.

So what is the investment marketplace telling us about this market? One of the best things about the marketplace is that it tells us what's coming down the pike. The story that is unfolding now is that high inflation combined with slow growth, the formula for stagflation, will be a global problem for quite some time.

Worldwide demand for building supplies, oil, food and other

commodities is soaring. As billions of new consumers around the world work their way out of poverty, prices for basic essentials will continue to soar. Prices will not subside until the ratio of supply and demand changes. While the US and other developed nations have reduced their use of oil, developing nations are picking up the slack plus some.

China has now replaced the US as the number one consumer of oil. (With that position, they have also become the number one in carbon dioxide emissions.) All in all, without a better way to grow crops, a better way to more efficiently drive cars and heat homes, global oil demand pressures will keep supply low and prices high. Until alternative fuel sources and/or domestic drilling occur, oil demand is a major force in shaping the economy.

As the foreign governments who are suppliers of oil also threaten our existence, our nation must spend even more money on national security. And the upward spiral continues. As our nation has been dealing with an ongoing housing and credit crisis, the increase in oil costs is hurting our economy beyond normal economic downturns. The situation is such that billionaire investor T. Boone Pickens is taking on the issue himself. He is developing a game plan that will get the U.S. energy independent. What the government has failed to do over the last 50 years, perhaps a joint venture between public and private policy can accomplish.

We have become such a global environment that a typhoon in India or a flood in Missouri can add ten percent or more to the price of corn in just moments. And as corn prices go up, so does everything related to corn. Chicken feed and a carton of milk will rise just as quickly. As prices go up, consumers have less

discretionary money. The two week vacation becomes a long weekend trip, and the dinners out become dinners at home. As consumers cut back, the economy weakens. While the economies of developed nations (i.e. the U.S. and Europe) are slowing down, the economies of less developed nations (i.e. Asia and Africa) are growing rapidly. So as the world becomes more global, each country's level of development will have global consequences.

Mortgage rates were in excess of 18%, unemployment went to ten percent and the price of gasoline went from 25 cents a gallon to over a dollar in just three months. Communism was spreading, Japan was leading the U.S. in productivity and oil countries figured out how to blackmail the world. Saudi Arabia along with other oil producing countries formed an alliance and through this alliance used embargos to control the price of oil. Inflation shot up to 15% and growth was literally choked off. The stock market dropped and gold and silver rose. The way things are going, it's beginning to look like a repeat.

Are We In a Bear Market?

While there is no official definition of a bear market, many analysts agree that a drop of 20% or more in stock prices over at least a two-month period is a bear market. So technically speaking, with the market down 20%, we are in a bear market.

While many of you have experienced a market correction (usually defined as a sudden, sharp decline that may last only a few days or weeks), some of you have never experienced a bear market. On average, bear markets occur about once every five years. And bear markets impact bonds too, not just stocks. In the bear market of 1973-74, bond prices went down

nearly 21% while stocks fell around 48%. But the good news is that bear markets do eventually come to an end. While bear markets last about two years, it can take a long time to get whole afterwards. For example, it took nearly eight years for the market to reach its pre-collapse peak after the bear market of 1973-1974.

There are two common mistakes that investors make during a bear market: 1. They lose patience and sell at or near the bottom of the downturn and miss out on the extraordinary rebound that follows. And, 2. They fall prey to sucker rallies.

No market goes straight up or down, but there are long-term trends. So if the trend is down (like it is now), you don't want to be fooled into buying new positions thinking the bottom has been reached. Instead, you want to be buying investments that do well in an inflationary, low growth environment.

What We Are Doing

We see further weakness as the Dow Jones Transportation Average could not hold its recent levels. Many of the large banks and brokerage houses have said that more write-offs are expected.

So we continue to buy much of what we have been buying and we continue to raise cash. We continue to buy the metals (gold and silver), agriculture stocks, non U.S. currencies and TIPS (inflation indexed bonds) and high dividend paying oil and gas trusts. We are also beginning to look at some REITS (real estate investment trusts). Remember, your portfolio has been structured to assist in meeting your goals; we have sought to keep your investment expenses low, and to maintain overall diversification amongst all your accounts. We have

selected investments to help cushion the downturn while keeping you poised for a brighter future.

Titling of Jointly Held Accounts—what is the “Best” Way?

If you own an investment account with another individual, you have three choices in the way you title that account, and the titling has legal ramifications. Your account can either be “tenants by the entirety” or “joint tenants with right of survivorship” (JTWROS), or “tenants in common.” A tenancy by the entirety is available only to married couples.

For married individuals who hold accounts either as tenants by the entirety or in joint tenancy, if one spouse dies, the entire interest in the property passes to the surviving spouse, without going through probate.

However, unlike a joint tenant with right of survivorship, if married persons hold an account as tenants by the entirety, they have additional protections. Neither spouse can unilaterally sever the tenancy--any dealing with any part of the property requires the consent of both spouses. As a consequence, creditors of only one spouse can not get at the joint assets. Hence, “tenants by the entirety” is often the title of choice for married couples, especially if either spouse is in a job that is likely to be faced with a law suit.

For property titled as tenants in common, each owner is considered to own separate and distinct shares of the same property. This form of ownership is most common where the co-owners are not married or have contributed different amounts to purchase the property. Tenants in common have no right of survivorship,

meaning that if one joint owner dies, that owner's interest in the property will be part of his or her estate and pass by inheritance to his/her heirs. Also, as each joint owner has an interest in the property, they may unilaterally sell their interest in the property—if they can find a buyer.

Our ADV Part II is available for inspection; please let us know if you would like a copy.

By: Denise Leish & Peg Downey, Partners

6/08

A periodic review of all your estate planning should be done regularly. During that review, consider the choices you have made about the titling of any jointly held assets.

EMAIL ADDRESSES

We ask that all clients provide an email address so we can get out timely information. Send your email address to deniseleish@moneyplans.com. Please visit us at www.moneyplans.com.

Quarterly Statements

If we are managing your investments, you will find a personalized report: The "Position Performance Summary Report" which shows your performance for the period 12/31/07 through 06/30/08 (six months of 2008). The net flow column when positive shows monies used to purchase new investments after 12/31/2007 and a negative means monies flowing from the investment into the money market account either from the sale of an investment after 12/31/2007 or from a dividend payment. A positive or negative in the net flow column for cash/money market means that money flowed in or out of your money market, i.e., money flowing in from the sale of a security, money flowing out for investment purchases, management fees, etc.

All rates of return are net of fees (after Money Plans fees and all trading costs). Total return discounts all cash flows.
