Quarter Notes
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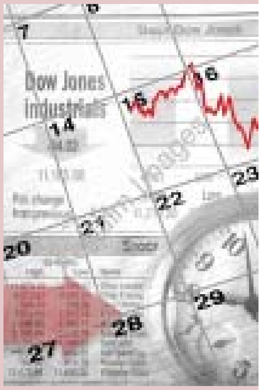

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**Fed: No Move on Rates**
The Federal Reserve has now left interest rates unchanged for the last year, and the board's most recent statement gives little reason to expect that rates will be lowered anytime soon. The Fed continues to be more concerned about inflation than about a slowing U.S. economy.

**Quotes**
"It doesn't help in the long run to be spectacular in bull markets if you crash in bear markets." Jon Lovelace, chairman emeritus of Capital Research and Managment Company

"Stocks are about the only thing people avoid when they go on sale." Warren Buffet

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# US Growth Might Slow, But Global Growth Continues

After a weak first quarter, the stock markets recovered during the second quarter. The markets posted healthy gains in both April and May only to give back some during June. For the quarter, the Dow Jones Industrial Average rose a robust 8.5%, while the broader S&P 500 index was up 5.8%. The NASDAQ Composite index gained 7.5% . The small stock Russell 2000 index had a 4.1% increase.

| | 6/30/2007 | % YTD |
|---|---|---|
| Dow Jones Ind. | 13408.62 | 7.6% |
| S&P 500 Index | 1503.35 | 6.0% |
| Nasdaq Comp | 2603.23 | 7.8% |
| Russell 2000 | 833.69 | 5.8% |
| MSCI EAFE | 2262.24 | 9.1% |
| 10 Yr Treasury | 5.03% | -0.45% |

International stocks showed continued strength with a 5.6% quarterly return. The AIG commodity index fell 2% for the quarter after a nice gain in the first. Since the first of the year the price of crude oil has risen nearly 15% but other commodity prices have fallen.

Fixed-income investments caused concern for long-term bond-holders, as the yields on the 10-year Treasury rose to just over 5.0%. The Fed continues to hold the Fed funds rate at 5.25%, slightly above the longer-term rates. With short-term yields still higher than long-term, we remain in an inverted yield curve environment.

## Social Security Planning

With more Americans approaching retirement age than ever before, failing to take Social Security benefits seriously is a common planning mistake. Social Security has been a frequent target of political and media attention. While changes in the program are inevitable, Social Security is still projected to last for the next 40 years. If you are approaching retirement today, then you should count on receiving your benefits.

A second mistake is the misconception that Social Security was meant to be the only source of retirement income. This is definitely not the case. Social Security is intended to be a retirement income *supplement*. For those born between 1943 and 1954, Full Retirement Age (FRA) is now 66. A worker who has paid into the system over many years may be eligible for $20-25,000 per year benefit. A non-working spouse of a retired worker can receive an additional 50 percent of the primary earner's benefit, potentially pushing the couple's total benefit to somewhere in the neighborhood of $30,000 per year. Assuming life expectancy in the 80s, that $30,000 per year income stream has a value in excess of $300,000 in equivalent savings. Keep in mind that there is a cap on the total benefits received by the family: 150% to 180% of the primary earner's benefit.

When considering how to take benefits, you have two kinds of choices to make: (1) which benefits to claim and (2) when to claim them.

If you are single, you can only claim your own benefits, but you still have to decide when to claim them. Statistically, men have a shorter life expectancy, so it might make sense for men to claim their benefits earlier than women. For a worker whose FRA is 66, retiring at 62 cuts the benefit by 25 percent. That may sound like a large reduction, but the benefits are actuarially designed so that their expected total value should be the same regardless of when they are claimed between the ages of 62 and 70.

Personal circumstances should enter into the retirement equation. A single man in poor health should claim benefits as early as possible since he is likely to die at a relatively early age. A healthy single woman might be better off waiting until her full retirement age (66 in this example) to claim 100 percent of her benefits.

*(Continued Page 2 Column 2)*

**Where are your Documents?**

Where are your most important documents, and who knows where to find them? We advise all our clients that keeping their estate-planning documents complete and current is one of the most crucial aspects of keeping their financial lives in order. These documents usually include a current will drafted by an attorney in the state of residence, a health-care surrogate, a living will, and a power of attorney. In some cases, trusts also make sense. But having proper estate-planning documents is not sufficient to help your loved ones at a time of crisis if they do not know where those documents are stored.

In addition to estate-planning documents, important papers such as birth certificates and insurance policies need to be accessible by someone other than you and your spouse. Often people place items in a safe-deposit box at a bank, but the only people authorized to open the box might be incapacitated at the crucial time.

We provide a worksheet to help our clients detail where vital information and documents can be found. If you want this worksheet, please contact us. We suggest that you go over the worksheet with your spouse or partner and give a copy to a trusted friend or family member.

## Market Reacts to Anticipated Interest Rate Changes

Uncertainty about where interest rates are headed is a principal cause of near-term volatility of stocks and bonds.

Low interest rates, and the liquidity that they foster, stimulate business activity and consumption. They also create an environment for asset bubbles. This happens because interest rates are really the price of money. Cheap money allows investors to chase any asset with the potential to return anything in excess of the cost of borrowing. We've seen it in the stock market bubble and the housing bubble, and experts say they have seen it in the price increases in collectibles such as works of art.

The inflated prices of investable assets, however, have not really been translated into inflation for consumer goods. This is a benefit of the new global economy and the increase in the productive capacity of the world. Opening of markets worldwide has created a larger supply of goods to fulfill demand. This increased supply of goods and services has curtailed world inflation despite the environment of low interest rates and high liquidity. Thus, worldwide productivity gains have allowed us to experience relatively low inflation in goods we consume, concurrent with a huge run-up in prices of financial assets.

In the past three months, core inflation (Consumer Price Index excluding food and energy prices) has actually declined. But increases in food and energy prices influence inflation expectations, and that alone can kindle more inflation. If consumers fear pending inflation, they try to buy things now before a price increase takes effect. Tempering this influence is the housing recession. Decreases in the inflation of rents and owner-equivalent rents, two components that account for a large segment of core CPI, should keep inflation close enough to the Federal Reserve's "comfort zone" of 1-2% to keep the Fed from raising interest rates.

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### Interest Rate Expectations

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The bursting of the housing bubble might even slow US growth enough to cause the Fed to lower interest rates slightly. This speculation about which direction the Fed might move interest rates and when a move might occur seems to have increased the volatility of the markets for both stocks and bonds, with some daily swings in excess of 1% to 1.5%. Despite this volatility, it is our opinion that global growth will remain strong even if our domestic economy slows. We believe the Fed moves will be moderate and will keep us in a reasonable investment climate.

### Social Security Planning

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Social Security does not differentiate life expectancies between genders. As women generally live longer than men, they are more likely to live beyond the break-even point. The break-even point is the age when the present value of taking 100 percent benefit at Full Retirement Age exceeds the present value of a 75 percent benefit at age 62. Usually, this point is in the early 80s.

Married couples face more complex issues, as spouses can claim three different benefits: (1) their own; (2) spousal benefits, which can be 50% of the primary income earner's benefit; and/or (3) survivor benefits of 100 percent of the deceased primary earner's benefit.

Choosing a combination of these claims affects whether social security benefits are maximized for the couple or maximized for the surviving spouse.

Married couples looking to maximize their benefits as a couple might want to wait until Full Retirement Age to claim benefits. Waiting for full benefits can yield the couple 150 percent of the higher earner's benefit. (100 percent for the high earner, and 50 percent for the spousal benefit; or even higher if benefit claims are delayed beyond FRA.)

If the goal is to maximize the survivor's benefit, and the husband is the high earner and older than the wife, then the wife should begin taking her benefit early and the husband should delay his claim to full benefit age, or later.