What a difference a year makes!

Second Quarter Report July 2007

Let us take a little trip back in time to the year of 2006. After spiking briefly above 65 dollars a barrel in the first quarter oil fell below 60 dollars for a short time before it rose sharply peaking at $78.40 on July 13, 2006. As expected gas prices also rose breaking $3 a gallon by the beginning of August last year.[i] During that same period the Dow fell from its high of 11,642 on May 6th 2006 down to 10,739 on July 14th 2006 (a decline of nearly 8%). The decline in the stock market was painful but not surprising in light of the rapid rise in oil prices. After peaking in July 2006 the price of oil and gas continued to fall through the beginning of January 2007 bottoming out at about $50 a barrel or $2.50 a gallon. Of course the market recovered to 12,463 on Dec. 30th 2006, a rise of slightly over 16%. Once again this was not surprising as it looked like the oil price rise was only temporary in nature. The inverse relationship between oil prices and the market that we experienced last year neatly fit into our rational expectations. Rapid rises in oil prices should coincide with a declining stock market.

It is now the summer of 2007 and oil is back up over $72[ii] a barrel. Yet the Dow closed yesterday at 13,650[iii] almost an all time high and 1,187 points higher than it closed last year. In 2006 rising oil and gas prices depressed the market, although we are seeing nearly the same pattern of rising energy prices this year the stock market has continued to set new records.

If oil prices are not helping the market rise what other factors might be helping? Is inflation tamed? It does not seem so. Is the war in Iraq winding down? No, according to Newsday today[iv] the cost of the war has risen to 12 billion dollars a month. Has the housing slump and the subprime bust been resolved? No, the subprime default rate is increasing, and housing supply in many markets is also increasing.[v] Is there anything else in the economy that is beating expectations to offset what we discussed above? Nothing that I have observed simply explains the markets' rise. So what can we learn from the markets' actions over the last few months? One simple but very important lesson: it is futile to attempt to predict the market especially over the short term. Anyone who believes otherwise is a fool and he and his money will probably soon be parted. What should we be doing to deal with the markets other than enjoying the good returns this year? As I said before we are most concerned about risk exposure. Therefore I am slowly taking profits off the table and over the next 6 months or so we will continue to ease back on your total risk exposure. You should not expect dramatic measures however you should expect to see more activity this quarter as I make adjustments to your portfolios.

On a different note you might have noticed new voices on the phone if you have called the office over the last month. Renee has gone back to college full time. Erin is expecting her second child and she and her husband decided to relocate to North Carolina where it is much more reasonable to set up house for a young family. Finally Tasha graduated with honors with a Bachelors degree in Finance from Old Westbury and was

fortunate enough to be able to choose between two junior analyst jobs. She elected to join the staff at Lehman Brothers in N.Y.C. we send all of them our best wishes.
I would like to introduce our new staff to you. First Adam Markowitz is our summer intern. He is an Economics major at Emory University in Georgia.
Michael Baras CFP® has over 20 years experience in financial planning and consulting he has stepped in to Erin's position and will be the senior person responsible for client service issues. Mike will also be able to help you with all account related tasks.
We have also added Dina Dimanche who received a Bachelors' in Finance from Old Westbury and has taken over Tasha's position as our administrative assistant.
Finally Lori Levine continues in her position of Junior Analyst and Paraplanner and Glenda continues as our Office Administrator.
May the rest of the year be kind to you.

Michael D. Kresh CFP®

[i] According to Wikipedia as reviewed July 9,2007
[ii] According to CNBC July 9th, 2007
[iii] According to CNBC July 9th 2007
[iv] Newsday July 10th 2007
[v] According to CNBC July 10th 2007