ECONOMIC & INVESTMENT OUTLOOK – 1st Quarter 2008

During 2007 the growth style of investing outperformed the value style. Over the past eighty years, however, value has fared better than growth during every single full bull-bear market cycle. Thus, FMG tactically overweights value more than growth in order to reap the long-term performance benefits. It is also important that every investment approach be evaluated on both the "cost of being wrong" basis and the "benefit of being right" basis. There are times in the short run when it is better to be "wrong" in order to be "right" in the long run. Accordingly, we remain steadfast in our value style of investment, which is consistent with our long term "win by not losing" investment approach.

The typical investment performance pattern for growth is to shoot up like a rocket during a bull market only to experience a devastating financial crash during a bear market. The timing for when the full pattern will occur cannot be predetermined with accuracy. The performance pattern for value, however, is less volatile throughout almost every part of a full market cycle, thus providing more downside protection during market downturns, and therefore compounding on higher dollar values for more wealth accumulation over time. The following is an actual performance comparison of the Russell 1000 Growth and Value Indexes through a full bull-bear market environment. It dramatically illustrates the merits of our approach, which is to forgo some upside growth in an effort to not give up too much on the downside, and to come out ahead at the completion of a cycle:

($100,000 Initial Investment)

	Growth Style Investing Russell 1000 Growth Index		Value Style Investing Russell 1000 Value Index	
1996	+23.1%	$123,100	+21.6%	$121,600
1997	+30.5%	160,646	+35.2%	164,403
1998	+38.7%	222,815	+15.6%	190,050
1999	+33.2%	296,790	+ 7.4%	204,114
2000	-22.4%	230,309	+ 7.0%	218,402
2001	-20.4%	183,326	- 5.6%	206,171
2002	-27.9%	132,178	-15.5%	174,215
2003	+29.8%	171,567	+30.0%	226,479
2004	+ 6.3%	182,376	+16.5%	263,848
2005	+ 5.3%	192,042	+ 7.1%	282,581
2006	+ 9.1%	209,518	+22.2%	345,314
2007	+11.8%	234,241	- 0.2%	344,623

The quiet millionaire™ is not influenced by short-term investment performance and stays patient, realizing that there are times when a particular asset class will have its thriving performance moment. What counts in the end is the higher amount of wealth accumulation experienced by maintaining a well-diversified investment portfolio with multiple asset classes, structured to perform in accordance with the individual investor's personal tolerance for downside risk.

We continue to be critical about what we feel is prolonged irresponsible monetary policy on the part of the Federal Reserve. It began when the previous Fed Chairman Alan Greenspan's policies promoted excessive borrowing and created a credit bubble, which has finally burst. Even in the midst of this, the Federal Reserve continues to feed the credit mess it has created by keeping interest rates artificially low. Moreover, in December the Fed announced a new temporary term-auction-facility that enables banks to borrow for liquidity needs beyond the traditional Fed discount window. This action indicates that cutting the Fed funds rate is no longer sufficient for providing the monetary liquidity required to stimulate a fundamentally weakening US economy. Furthermore, we believe that the Fed's intent to bail out lenders and their insolvent borrowers is not sustainable.

In our opinion, the financial disarray has only just begun and we are just starting to feel the pain of the years of over indulgence as evidenced by the fact that 1.8 million adjustable rate mortgages are due to reset at sharply higher interest rates in 2008. Because of the Federal Reserve's attempts to band aid the economy versus taking responsible actions, borrowers and investors have assumed more risk than is appropriate. Moreover, they mistakenly believe that the Federal Reserve's monetary policy intentions will protect them from experiencing the repercussions of an economic downturn, when in fact a consumer-driven recession is unavoidable.

Making matters worse, the Fed currently appears to be more concerned about pacifying a jittery Wall Street than addressing the economic realities. Accordingly, the investment community has been lulled into a false sense of security that is becoming increasingly fragile. We expect more turbulent volatility for the equity markets in 2008, and have therefore strategically overweighted the portfolios with safe money market US Treasuries to serve as an anchor to windward, as well as to maintain cash liquidity for investment opportunities when they manifest.

As we have emphasized many times before, our portfolio rebalancing is not market timing, but rather a strategic tuning process to overweight and underweight asset classes in accordance with our independent economic assessments. Those clients who have been with FMG during previous uncertain investment periods remember the comfort they felt when they experienced the preservation of portfolio values derived from this "win by not losing" approach.