

Quarterly Newsletter

1ST QUARTER 2008 APRIL 2008

VOLUME X, ISSUE 2

Review & Summary

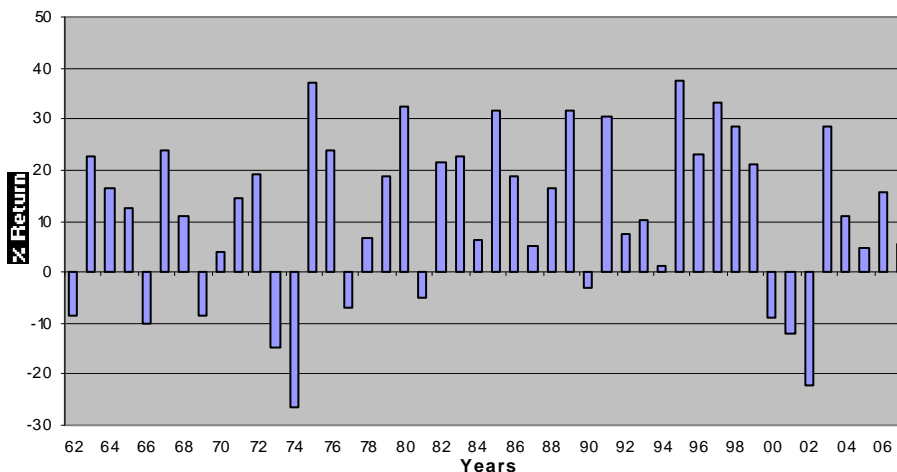


By Jordan
Gary, CFP®

The first quarter of 2008 has been the worst quarter for the stock markets since 2002, during the last bear market. 2002 followed the last recession of 2001. Most recessions cause a brief bear market which lasts a few months. This bear market began last October, and MAY have ended a month ago. The markets hit a low in early March and have been moving up for about a month now. The stock market usually starts up in the middle of a recession as optimism increases that things will be better in a few months. Currently optimism is increasing because people believe that the FED's lower interest rates will stimulate the economy as well as the income tax stimulus checks which will come out soon. Also many people are hoping that the worst of bank losses have now happened and banks will now have improved profits by the third quarter. Most economists expect this recession to be over by the end of this year as corporate profits start growing again.

In reality, the news is not that accounts are going down, as they will go up in the future. The big news since last summer was that the markets had a lot of volatility after four years of low volatility. We viewed this volatility as expected and changed our clients' portfolios before the last year, 2007, began and adjusted them during 2007 and again this last January to make good use of the changing markets. For this last quarter, the S&P 500 index was down 9.5%. The surprise to me was that the average taxable bond fund was down slightly(but less than 1%). The average balanced mutual fund showed a 5.8% loss for the quarter. Please see your performance reports to see how you have done. **We have changed performance report software and the reports look different. Please call us with any questions or suggestions.**

Annual Returns of S&P 500
Index w/ Dividends (45 Years)



Detailed Report

By Jordan Gary, CFP®

Last quarter we commented that the unknown was how much the housing market mess would spill over into other types of companies and markets. The

surprise was how much the selling from around the world of US bonds spilled over into safe bonds such as municipal bonds. This widespread selling caused muni bonds to drop in price until they became the best buys in many years.

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Please See **Forecast** on Page 2

Detailed Report (Cont'd from Page 1)

In response to this we sold clients developing markets stock funds and put them into muni bonds in January. Low rated corporate bonds have also become bargains. We sold them more than a year ago when they seemed too expensive. Now we are adding them back to portfolios and will continue this shift.

We expect there to be more negative news about the economy over the next few months. The debate is not about the presence of financial storms, but how widely they may effect companies and other markets. The graph on the first page and performance graphs of our clients' portfolios show that we do not expect any long term lasting damage in diversified portfolios.

This recession has caused a mild stock market decline as did the recessions of 1983 and 1990 or the near recession of 1994. We expect a strong rebound as has most often happened. Since stock and bond markets have been rising for the last 3 or 4 weeks, the market bottoms are likely to have been seen in Jan and March past.

At anytime some investment types are doing good and others are doing poorly. Actually in volatile stormy times, expert investment managers can really shine if they pick the winners. Volatility causes much more performance difference between the ones who pick well and those who pick poorly. Also whenever the market leadership changes, like it did change last year, then there is increased volatility, as the markets leave old favorites and look for new favorites. Storms can be, and usually are, good in weather for the renewal of the environment and in finance for healthy investment markets.

There is an old saying that healthy investment markets climb a wall of worry. I agree with this. Also in markets where there is too much optimism and too little worry then very overpriced investments result and set themselves up for a fall. This of course recently happened in real estate and home building and mortgage industries. It is happening in China and India now as their stock markets boomed and became very overpriced. I could give you examples all over the world and throughout modern history. The common methods of

successful investing involves using time proven methods of reducing risk, buying under priced investments and selling overpriced investments.

In past newsletters we explained that for 2007 we were overweighting large company and middle sized growth companies and underweighting "value stocks" and small company stocks. We also explained that we were avoiding corporate and mortgage bonds and overweighting foreign and energy and natural resource stocks in funds. We were correct in each of these decisions. Your performance reports or the fund yardstick chart can illustrate this for you. The only surprise which went against us was the poor performance of municipal bonds. There have been no real problems with municipal bonds paying dividends or principle. However the big sell off last year in sub prime mortgage bonds spilled over into corporate bonds and then into municipal bonds. Suddenly there were more sellers than buyers, from July through February, and many municipal bonds declined some 5 or 10% in value. We expect this problem to soon end and municipal bonds to go back up in value. They have been rising in value for about 3 weeks. We believe that this is one of the best places to invest now, buying safe municipal bonds when they are down in price and they have handsome dividend yields. Currently it is easy to get 6% dividends on tax exempt bond funds, which is really great.

Think about that. You can expect a high tax exempt dividend plus appreciation in a safe investment. It does not get much better than that. Much, much better than savings or a CD. Please contact us if you have any money which you can invest.

As I mentioned above, the performance reports look different now as we have changed reporting software. Most of the same information is there. We have added benchmark indexes to the report so you can easier see how your returns compare. We can also add footnotes and change the reports much more to decide what to include. Please call us with any questions or suggestions. Thanks.

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Lipper Stock and Bond Fund Benchmarks

Investment Objective	Performance					
	Mar.	1st Qtr.	1 Yr	-- Annualized --		
	3 Yrs	5 Yrs	10 Yrs			
Stock Fund Types:						
S&P 500 Funds	-0.44	-9.55	-5.59	5.28	10.73	3.03
Large-Cap Growth Funds	-0.68	-11.55	-0.12	5.85	9.31	2.29
Large-Cap Value Funds	-1.33	-9.47	-8.38	5.17	12.01	4.03
Small-Cap Growth Funds	-1.75	-14.90	-10.35	4.52	12.81	4.51
Small-Cap Value Funds	0.29	-7.04	-14.69	3.58	14.69	7.13
Equity Income Funds	-0.71	-7.94	-5.75	6.21	12.17	4.64
Utility Funds	-0.41	-10.25	-0.42	14.04	19.42	7.07
International	-0.86	-9.18	-1.33	13.64	20.56	6.31
European Region Funds	0.12	-9.36	-3.10	14.47	23.34	8.36
Emerging Markets Funds	-5.09	-11.67	17.88	27.53	33.96	12.29
Avg. U S Stock Fund	-1.26	-10.57	-6.92	5.49	12.25	4.38
Bond Fund Types:						
General Municipal Debt Funds	2.59	-1.41	-0.84	2.49	3.08	3.83
High Current Yield Funds	-0.26	-3.55	-4.56	3.86	7.39	3.32
Intermediate U.S. Government Funds	-0.09	4.00	10.82	5.34	4.52	5.43
Intermediate Investment Grade Debt Funds	-0.78	0.36	3.73	3.77	3.58	5.08
Avg. Bond Fund	-0.56	-0.12	2.72	3.94	4.29	4.59
Balanced Funds (Stocks and Bonds)						
	-0.85	-5.77	-1.68	5.42	8.70	4.15
Conservative-Allocation Fund Averages						
	-0.53	-2.71	0.14	4.23	5.87	4.38

Source: Lipper Analytical Services, Inc., Summit, NJ 07901 and Wall Street Journal OnLine— APRIL 2, 2008

These are averages of all the reported funds that have the stated objective. Average total returns based on NAV with all distributions reinvested. An investment cannot be made directly in an index, including the Lipper indices listed. Some funds are normally front end commission funds. Our clients do not pay commissions in their managed accounts. We buy shares at Net Asset Value (NAV). Past performance is not indicative of future results. The performance presented is for illustrative purposes and is not indicative of any investment.

The investment return and principal value of an investment may fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost. Investments outside the United States involve special risks such as currency

The balanced stock/bond is a moderate risk way to invest. The traditional balanced fund has a portfolio of approximately 60% Blue Chip stocks, 35% conservative bonds and 5% cash. We have highlighted the above because we suggest that you use these numbers as the benchmark we are trying to beat in many of your portfolios. Our method of out performance is that we have far more diversification into different types of stocks and bonds, and we more actively manage the portfolio choosing the best mutual funds we can find to build your portfolio. Our objective is to match or beat the performance of the balanced stock/bond return. Check your quarterly report. How have we done?



By Jordan Gary, CFP®

How Do You Feel About Money?

Money may appear to have enormous power. It may have power to dominate our lives or others. It may strike great fear or envy. It may attract many people or provide the blessings to many needy people. One thing that I have learned over my many years is that most of the power of money is only the emotional power which we or others give it. Money and wealth have very little real power. People GIVE it power by having fear or greed, lust or envy. People create within themselves these feelings or emotions. A poor person or a rich person can be content and secure or full of envy and fear. So wealth does not have the power to give these positive things. I believe that we express our deepest spiritual values, live out our emotional health, and live within our relationships that we have built-- all whether we are rich or poor. So it seems to me that money is not the real power of our lives.

I have friends who are elderly and content that they are living the last few years of their lives. They have planned their funerals, prepared their wills and financial documents. They have also given away many of their fine possessions of which they do not use any more. They had hoped to have the joy of giving and blessing their children and grandchildren with fine silver sets, china, furniture, etc. Yet so much of this joy of giving has been disrupted by one child who is very angry that SHE did not get more. She wanted the silver as well as the furniture and china which she got. Yet this particular child is personally wealthy and has more silver than she can use. Her wealth has not provided her emotional peace or closeness to her family.

I have also learned that generosity begets love and joy. When we give away our money to charities or individuals with an open and generous heart it leads us further down a blessed road of life. Last week at lunch I visited at a restaurant with a retired businessman who is an elder in my church. I am attracted to him because he always has such a generous heart. His warmth and loving nature are genuine and he has long given himself and his money to our church, the community and to others. I have no knowledge of the amount of money that he has, but I know he has a great wealth of friends, respect, love, and joy.

A few days ago I was visiting with a business friend who is struggling with his business. The day before my visit, his landlord changed his lease to turn his store front over to a restaurant who will pay more rent. The landlord told him to move to an undesirable part of the building. In essence my friend was put out of business until he can find and

move to a good retail location elsewhere. We talked about how next time he gets a lease he will need a lawyer to help him have a better lease document which will protect him. So what is my role in my relationship with my friend the businessman? I just want to be an encourager; to be a person which only wants to give and bless him when he is in need. In driving home from this sad meeting, I decided to pay for a real estate lawyer. I called a real estate lawyer and told him to help my friend and I would pay the legal bill. Why will I do this? Because I want to be a generous person in deed as well as in what I believe in. I have been blessed by God so I want to be a blessing to many others. There is joy in this for me as I live my life giving money away. There is real joy to me as I know I am a Christian in truth and not only in claim.

Related to this. I have learned that money is a mirror. Because money is linked to so many parts of our lives, how we relate to money can reflect and show us who we really are. If money fills us with fear, then, what is it showing us about ourselves? If the use of money causes us anger and resentment towards others, then what is it telling us about ourselves? (When I was like that, angry about how my wife spent money, it was telling me that I was lacking trust and appreciation for her and I was also lacking generosity with money. It also was telling me that I had too much envy of wealthy people and was wanting wealth too much.) So I am saying that each of us should look carefully into the mirror of money and see what it is telling us about ourselves. Do you like what you see? Can you change it? (I mean you, not the mirror.)

...MOST OF THE POWER OF MONEY IS ONLY THE EMOTIONAL POWER WHICH WE OR OTHERS GIVE IT.

I HAVE LEARNED THAT MONEY IS A MIRROR.



How the Tax Rebates in the Stimulus Package Works



By William Niles, CPA

Congress and the President produced what is referred to as the economic stimulus bill that provides tax rebates to most low and middle-income Americans. There has been a lot of misinformation and hearsay about the way the bill works. Here are details of the plan, which

hopefully will provide you with some answers to your questions and a better understanding of what to expect.

Under HR5140, the Economic Stimulus Act of 2008, most working people will get \$600 if they are single or \$1,200 if they file a joint return, assuming they paid at least that much in federal income tax in 2007. To help people who earn little or nothing - and might be more likely to spend their rebates - Congress said that anyone who had at least \$3,000 in income from a job, self-employment, Social Security and/or certain veterans benefits would get a flat rebate of \$300 if single or \$600 if married filing jointly, even if they don't owe income tax.

If your 2007 federal tax liability is between \$300 and \$600 (single) or \$600 and \$1,200 (married), your rebate will be equal to whatever you paid in tax. Anyone who gets a rebate of any size will get an additional \$300 for each child eligible for the child tax credit in 2008. To qualify, the child must be younger than 17 on Dec. 31, 2008.

Higher-income people won't get anything.

The rebates - including the \$300 rebate for kids - start to shrink when your adjusted gross income hits \$75,000 (single) or \$150,000 (married). Adjusted gross income includes income from all sources, but before

most deductions and exemptions have been subtracted. The rebate is reduced by \$50 for every \$1,000 you earn above the income limit. It disappears at some point which varies depending on your family size. Singles with more than \$87,000 in gross income and couples with more than \$174,000 get no rebate if they have no children. Those with children can earn a bit more before losing their rebate because it's bigger to start out with. A married couple with two kids, for example, get no rebate when their income exceeds \$186,000.

Rebates will not be sent to nonresident aliens (you must have a Social Security number to get a rebate), estates, trusts or people who are or could be claimed as a dependent on someone else's tax return. That means most high school and many college students won't get a rebate even if they earn more than \$3,000 or pay taxes.

The Internal Revenue Service plans to start issuing rebates - via check or direct deposit, if you used that in filing your return, - in early May.

...your rebate will be equal to whatever you paid in tax.

Higher-income people won't get anything.



Defining Terminology



By Oscar Jackson III

Last quarter I tried to explain the terms large, small & midcap, this quarter I would like to explain the terms growth and value. These terms apply to stocks and mutual funds. I will be dealing with mutual funds since that is our real expertise. The reason we define terms such as large cap growth funds is so that we can all agree as to what we mean when we use these terms. These terms are what allow us to diversify and to do asset allocation. People commonly divide funds into growth, value, and blend, these three being the most common. I will not address blend as it is made up of some combination of growth and value.

On www.investopedia.com, growth mutual funds are defined as follows: “a diversified portfolio of stocks that has capital appreciation as its primary goal, with little or no dividend payouts. Portfolio companies would mainly consist of companies with above-average growth in earnings that reinvest their earnings into expansion, acquisitions, and/or research and development.” These companies predict how much they expect their earnings to grow over the years to come. Stock market analysts make their own predictions and trade the stock accordingly.

Investopedia also states that “most growth funds offer higher potential capital appreciation but usually at above-average risk.

Growth funds are more volatile than funds in the value and blend categories. The companies in a growth fund portfolio are in an expansion phase and they are not expected to pay dividends.” They are most likely newer companies rather than older, well established companies. Essentially, these companies use earnings for growth and expansion.

Value funds are defined on Investopedia as “a stock mutual fund that primarily hold stocks that are deemed to be undervalued in price and that are likely to pay dividends.” Some traders believe that the stock market has what is called “inherent inefficiencies”. This simply means that some companies can be bought at a price below their actual value because some people have more knowledge than others on this company. Value investing normally believes in this inefficiency. Investment professionals spend great efforts studying companies, trends, earnings, assets, debts, revenues, management, etc. to estimate the real value of a company and comparing these estimates with stock prices to find the best values, in stocks to recommend.

I hope that I have helped explain these terms. As always, please call if you would like more information on this subject. Please call if you have any questions, period, or if you need some other type of assistance.

Mutual Funds vs. Stocks

BY SARAH BEREND EADS

Why do we invest in mutual funds when we can just buy the stocks? There are many reasons why we prefer a mutual fund over individual stock investments:

1. **Doing a lot with a little.** Even a concentrated mutual fund will have over a dozen investments; some of the most diversified ones have hundreds. This means you can buy a handful of mutual funds and own a small piece of a thousand different investments. To effectively do that with individual stocks would require that you be named Gates or Trump.
2. **Going beyond the S&P 500.** Mutual funds invest in more than the US stock market. They allow an investor to put money into bonds, international stocks, and real estate. They invest in emerging markets and other hard to reach investments that would be difficult (and expensive) for the average investor. They can also sell short to counter balance the risks of their investments.
3. **Using professionals.** I watched my husband take a course in Financial Statement Analysis where he spent three months

pouring over five years of financial records of just one company just to determine if that company's stock was undervalued, overvalued or the right price. Mutual fund companies have entire teams that spend a lot of time and energy figuring out where and how to invest in a single category. We want to use the expertise of these teams.

4. **Fitting all together.** Because mutual funds invest in so many different areas, we can fit it all together into one comprehensive portfolio designed to be both balanced and diversified. This lowers the risk of the portfolio while being able to take advantage of market trends.

It can be tempting to invest in that hot stock tip from your brother's best friend's accountant's wife's boss, but investing in a long term project and carefully selected mutual funds will get the same (and often better) returns with less risk.

If you have other questions you would like to see answered in the newsletter, please contact me at sarah@investmentplanner.net or call (940) 761-2527.



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