Executive Economic Outlook & Summary

Spring/Summer 2008

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Markets go up, markets go down, and like a rare coin flip sometimes they stand on end. This is referred to as a "sideways market" and it comes with varying degrees of volatility. The financial planning department here at Multop Financial did an outstanding job of giving the market outlook in 2007 and beginning of 2008. We have attended several national and international conferences, and listened to various economists, all with their own take on domestic and global economies. Results varied dramatically -- two years of hard times, 10 years of no real gain, a bear market turning bullish and last, but not least a "sideways market".

The Multop Financial economic outlook for the remainder of spring and summer is "choppy equity markets coupled with an uncertain economic horizon." What does that mean? Put simply, we think traditional equity investments may only offer paltry rates in the near future coupled with increasing market volatility. The normally robust U.S. economy is confronted with a myriad of challenges, but the traditional measures used by the Fed to determine whether or not we are in a recession indicate we are not, however, energy and food prices are not factored into this equation. If they were, we would see that we are in a recessionary environment, which by our definition means "economic slowdown."

- Gross Domestic Product (GDP) growth has been slowing (bad) which is helpful for controlling inflation (good). With the exception of escalating food and energy prices, inflation seems to be under control, although the 3.94% rate for April is above Fed's 2% comfort level.
- Getting back to the point of GDP, there was a slight growth of 0.9% for the first quarter, 2008. It's underwhelming, but at least it's on the positive side of zero. Durable goods orders (excluding cars and planes) rose 2.5% in April which helps to explain why U.S. factories are resisting the economic "slowdown" to some degree.
- Although the unemployment rate for April remains unchanged, as of May 10th the total number of people collecting unemployment benefits is reported at slightly over three million which, according to Bloomberg statistics, is a four-year high.

- Prices on commodities have touched record highs with gold rising to a one year high of $1,003.70/oz. This is indicative of "uncertain times". Within the last year the price of wheat has nearly doubled. Oil is up $55 per barrel since our last economic outlook, now reaching $135/barrel. The peak driving season is ahead which will add further pressure.
- The Dow fell from its 14164 peak on 10/9/07 to a low of 11740 in March 2008. Since then, it has been in a trading range of 12300 to 13000.
- The Federal Reserve took an aggressive stance by slashing the Federal Funds rate from 4.75% to 2% since the Federal Open Market Committee meeting (FOMC) on 9/7/07.

At one of the conferences I attended in May, there were 50 privately invited financial advisors from around the country. The conference leader split the room in two, and said that looking forward on the near horizon (the remainder of 2008) he wanted all the "bears" to go on one side of the room and the "bulls" on the other. The group was split exactly in half. If they allowed a middle line, I would have sat on it. Since we had to pick a side, I sat with the bears. Here's why: Regarding spending, the trade deficit is in our favor but government spending is out of control. There is no end in sight for the sub-prime market problem and the same goes for the housing situation. U.S. growth is predicted to be 1.9% or less, and there is continued failure in the financial markets. Some short-term relief could be afforded by way of the stimulus package (rebate checks).

What does this mean for you, the investor, our client? Of course each family's situation is unique and you should consult with us for a personalized recommendation, but I am safe in saying that for the majority of cases we recommend to position or reposition into lower- volatility investments including up to 40% of a non-market correlated portfolio mix. Of all the economists and industry leaders we have heard over the past year, the most negative outlook came from an expert with over 35 years of experience. He said in the next 10 years the U.S. market will experience plenty of volatility but will ultimately go nowhere. He may be dead wrong, but if he is right, wouldn't it be a smart hedge to have at least some of your assets positioned in non-market correlated investments? We think so.

Given energy prices today, direct participation in oil and gas investments appear to be very attractive for those who qualify. And just like an investor with mutual fund investments, we would review the asset allocation and make sure that your funds invested in the energy sector are of an appropriate amount. Regardless of the economic climate, we respect the time-tested theory of appropriate asset allocation and a true balanced portfolio. Our four foundational portfolio models are available for viewing on our website, and our Morningstar portfolio analysis report will determine how you are currently allocated. If ever there has been a time to consider an investment evaluation, it's now.