

## Investment Perspective

Second Quarter 2007

"The entire essence of America is the hope to first make money -- then make money with money -- then make lots of money with lots of money." - [Paul Erdman](#)

SFP Core Strategies*	Quarter 2	
	2007	One Year
US S&P 500 (Enhanced)	6.02%	19.99%
US Large Value	6.76%	21.08%
US Micro Cap	4.35%	15.98%
US Small Value	3.89%	17.11%
US Equity Real Estate	-9.46%	11.49%
International Large Value	7.81%	35.07%
International Small Cap	5.25%	31.13%
International Small Value	4.49%	33.45%
Emerging Markets	15.30%	50.17%
Emerg Mkts Small Cap	19.65%	69.03%
Emerging Mkts Value	19.47%	62.09%
Ultra Short Fixed Income	1.28%	5.34%
Shrt/Inter Global Fixed Inc	0.82%	5.20%
<b>SFP Model Portfolios</b>		
SFP Income Portfolio	2.65%	11.83%
SFP Balanced Portfolio	3.66%	15.98%
Non SFP Std Balanced	3.21%	13.37%
SFP Aggressive Growth	4.66%	20.01%

We established the Skaggs Financial Planning, LLC Model portfolios nearly four years ago and have kept those portfolios unchanged - until now. But before we discuss those changes, let's look at the second quarter performance.

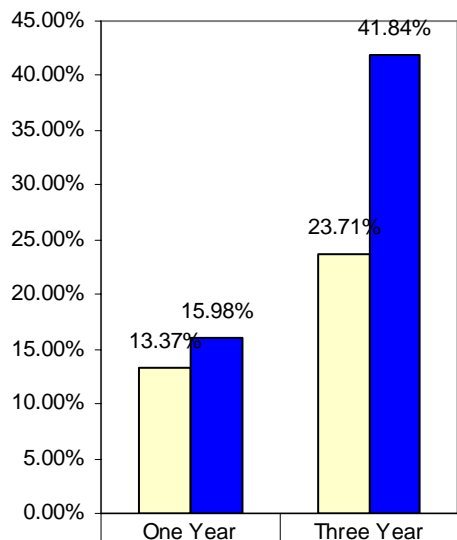
Despite the concerns over subprime mortgage losses and increasing interest rates, the capital market returns for the second quarter were quite strong. Our strongest strategies were in the emerging markets, which returned between 15.30 and 19.65 percent for the second quarter. The markets in developed countries outside the United States staged nice rallies as well, to post gains between 4.49 percent and 7.81 percent. And large U.S. stocks made headlines with new all time highs and posted gains of more than 6 percent during the second quarter.

An exception to the trend was the commercial real estate markets. After seven years of strong performance, these securities have been on a slide. Our Skaggs Financial Planning, LLC (SFP) U.S. Real Estate strategy was down nearly 9.5 percent during June alone and it appears headed for an overall loss for 2007. (Again, this is a lesson for diversity. Even in our Aggressive Growth Portfolio, only 6 percent is committed to this strategy.)

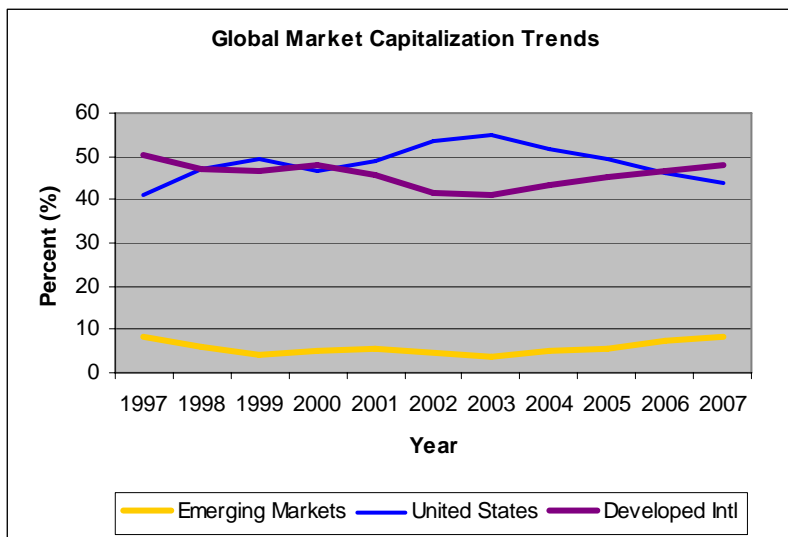
On a relative basis, our SFP Balanced Portfolio edged out the Standard Balanced Portfolio, returning 3.66 percent vs. 3.21 percent for the second quarter. That's quite surprising, considering the relatively weak performance of small U.S. stocks during the quarter (around 4 percent), the model's overweighting in this area and the fall-off in real estate. Our model, however, benefited from the emerging markets' positions as well as a more conservative mix of bonds. And, despite what you may have heard about growth stocks outperforming value, this was not true for our strategies. Please see the performance chart to the left.

**On to the model changes.** The most significant change we are making to our model portfolios involves a shift from 30 percent of our stock market funds being targeted overseas to a new 35 percent target.

Standard Balanced vs. SFP Balanced



The chart to the right shows the share of total market capitalization that is represented by U.S. markets, developed foreign markets and the emerging markets. There is no clear trend over the last decade, but since the U.S. peak in 2003 at 55.1 percent, the percentage of total world stock market value in the U.S. has declined to 43.9 percent. This is partially due to the outstanding performance of overseas stocks, but we also believe that this trend will transcend the ups and downs of the markets. With Boeing rolling out a new plane revolutionary for the fact that its components are being built around the world and Microsoft adding an additional offices overseas, we can see examples of this globalization close to home.



Additionally, we'll be allocate about 15 percent of the non-SFP Standard Balanced Portfolio's stock positions overseas to better reflect a typical portfolio. A recent study showed that most Americans now allocate about 87 percent of their stock money domestically with 13 percent overseas. We'll use the DFA Large Cap International Fund to represent this area.

We will be adding two new asset classes, inflation-protected securities and international real estate securities. Treasury Inflation Protected securities were introduced in 1997 and there's an increasing number of fund choices in this area.

Finally, we're dropping the Enhanced U.S. S&P Fund strategy (DFELX) and replacing the current Ultra Short Term bond strategy, DFA's One Year Portfolio (DFIHX).

The Enhanced strategy's objective is to outperform the S&P 500 by about 1 percent with the same overall volatility. The strategy has so far failed to achieve this goal and our patience has come to an end. It will be replaced with the same U.S. Large Cap strategy currently incorporated into the Standard Balanced Portfolio.

The One Year Portfolio (DFIHX) will be replaced by the Global Two Year Portfolio (DFGFX). While we're happy with the One Year Portfolio, the new addition has a bit more flexibility in security choice and maturity levels.

We're also adding two new portfolios, the SFP Growth Portfolio with a 70 percent stock allocation and the SFP Equity Portfolio with 100 percent stocks. This will create a track record in case we want to use them for future comparisons. The ratio of stocks to bonds is the only real difference here.

Please see the attached Model Portfolio Update for complete details and keep in mind that these portfolios are not recommended portfolios. They don't represent any actual client portfolios. A key factor in their construction is the availability of timely tracking data, a factor never considered when building your portfolios. These portfolios are merely for illustrative purposes. They allow Skaggs Financial Planning, LLC to discuss past performance in a general way and allow us to discuss market movements in a consistent fashion. Our recommendations are only made in the context of our interactions with you. Ideally, we build your portfolio to enhance your individual financial goals.

Enjoy the summer,

Sincerely,

*Brian J. Skaggs, CFP*

The information in this newsletter should not be construed as investment advice. Investment advice is only given in the context of individualized interactions that ideally result in the development of a continually evolving financial plan. \*Total returns as measured by the performance of associated DFA funds - advisor fees not included in strategy performance. Advisor fees are subtracted from model portfolio performance at 8.3 basis points per month. This information is believed to be reliable, but we do not guarantee the accuracy of the information. **Past performance is not an indication or guarantee of future performance.**



## Model Portfolio Update July 2007

The following chart outlines the breakdown for our model portfolios. All distributions are assumed to be reinvested. Rebalancing is performed on a quarterly basis, and 8.3 basis points (about 1% per year) are deducted monthly from each position to simulate the fees an investor is likely to pay for advisory fees.

These portfolios were created on September 30, 2003 for comparison & illustration purposes only. The returns of these portfolios may serve as an approximation of the returns that may be realized by an actual investor, but they are not recommended portfolios. We are not making a judgment about their appropriateness or inappropriateness for any particular person. We only give advice and recommendations in the context of individualized personal interactions that ideally result in the development of a continually evolving financial plan

SFP Model Portfolio Allocations 10/1/2003 - 06/30/2007						SFP Model Portfolio Allocations 07/01/2007 -						
Strategy	Symbol	Non SFP Standard Balanced	SFP Income	SFP Balanced	SFP Agg. Growth	Symbol	Non SFP Standard Balanced	SFP Income	SFP Balanced	SFP Growth	SFP Aggr Growth	SFP Equity
Enhanced US S&P 500	DFELX		10%	15%	20%	DFELX		0%	0%	0%	0%	0%
US Large Cap	DFLCX	60%				DFLCX	50%	9%	14%	17%	19%	24%
US Large Value	DFLVX		7%	10%	13%	DFLVX		6%	9%	11%	12%	15%
US Micro Cap	DFSCX		3%	5%	7%	DFSCX		3%	5%	5%	6%	8%
US Small Value	DFSVX		5%	7%	10%	DFSVX		5%	7%	8%	9%	12%
US Real Estate	DFREX		3%	5%	6%	DFREX		3%	4%	4%	5%	6%
Intl Large Cap	N/A	N/A	N/A	N/A	N/A	DFALX	10%					
Intl Large Value	DFIVX		4%	5%	8%	DFIVX		4%	7%	8%	9%	11%
Intl Small Cap	DFISX		2%	3%	4%	DFISX		2%	3%	3%	4%	4%
Intl Small Value	DISVX		2%	3%	4%	DISVX		1%	2%	2%	3%	4%
Intl Real Estate	N/A	N/A	N/A	N/A	N/A	DFITX		2%	2%	3%	3%	4%
Emerging Markets	DFEMX		2%	3%	2%	DFEMX		2%	3%	3%	4%	4%
Emerging Mkts Sml	DEMSX		1%	2%	3%	DEMSX		2%	2%	3%	3%	4%
Emg Mkts Value	DFEVX		1%	2%	3%	DFEVX		1%	2%	3%	3%	4%
Ultra Short Bond	DFIHX		20%	15%	10%	DFIHX		15%	10%	6%	5%	
Short/Int. Bond	DFGBX		40%	25%	10%	DFGBX		30%	20%	18%	10%	
Intermediate Bond	DFIGX	40%				DFIGX	40%					
Inflation Protected Securities	N/A	N/A	N/A	N/A	N/A	DFIGX	0%	15%	10%	6%	5%	
<b>Total Allocation</b>		100%	100%	100%	100%		100%	100%	100%	100%	100%	100%