

## Investment Perspective

Second Quarter 2008

“Usually a person has more faith in their fear than faith in their future” Doug Firebaugh

SFP Core Strategies*	Quarter 2	
	2008	One Year
US S&P 500	-2.73%	-13.12%
US Large Value	-3.12%	-20.14%
US Micro Cap	-3.47%	-22.62%
US Small Value	-4.83%	-25.34%
US Equity Real Estate	-5.54%	-16.13%
International Large Value	-5.89%	-15.90%
International Small Cap	-2.93%	-14.52%
International Small Value	-5.15%	-17.45%
International Real Estate	-13.44%	-25.95%
Emerging Markets	-3.36%	-0.39%
Emerg Mkts Small Cap	-6.71%	-13.59%
Emerging Mkts Value	-4.01%	-1.42%
Ultra Short Fixed Income	0.66%	4.03%
Shrt/Inter Global Fixed Inc	-0.74%	3.29%
Inflation Protected Sec	-0.56%	16.44%
<b>Model Portfolios</b>		
SFP Balanced Portfolio	-2.96%	-8.64%
Non SFP Std Balanced	-2.73%	-4.50%

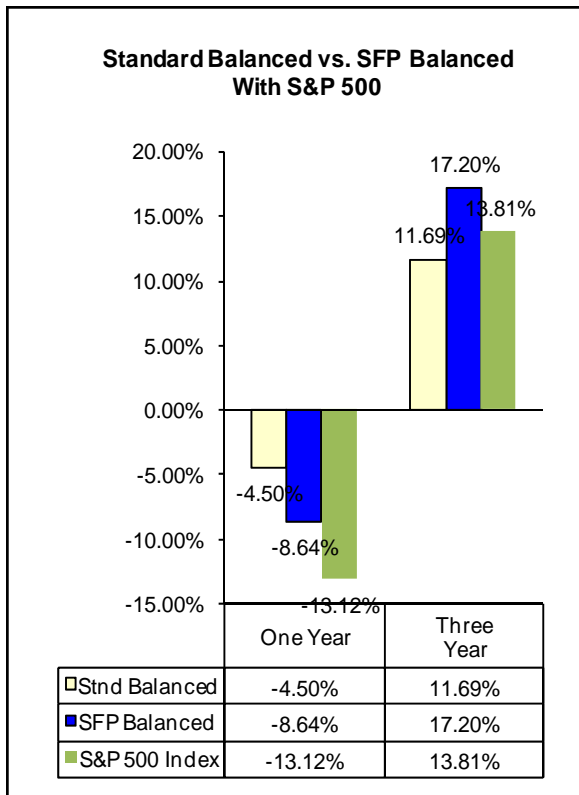
There is no doubt the second quarter was another tough one, adding to what's clearly been a challenging year for the net worth of Americans. Wealth has been attacked on the housing front with the lower values, while a weaker dollar has made the price of imports higher. The dollar's slide, along with demand - and perhaps speculation - has driven up prices of oil and energy in general. Inflation appears to be on the march, and the markets have responded by hitting the price of stocks worldwide, depreciating our portfolio values. To add to the damage, we are facing job losses and a slowing economy. The Fed is talking about raising rates, which could put further pressure on profits and the economy.

It is pretty dismal, but I promise a little good news later in this letter.

Like much of the market, nearly every Skaggs Financial Planning, LLC (SFP) strategy produced losses for the quarter, and if you included inflation, it would be a shut-out. Results ranged from a meager 0.66 percent gain for our Ultra Short Fixed Income strategy, to a significant 13.44 percent loss on our International Real Estate portfolio. Most strategies gave up three to five percent.

While there are some bright spots in the Fixed Income returns over the last one year, they were far outpaced by steep losses on the stock side, as high as 26 percent for our international real estate and U.S. small value stock strategies. Most strategies fell between thirteen and twenty-two percent. This translated to losses for our model SFP Balanced Portfolio of 2.96 percent for the quarter, and 8.64 percent over the last 12 months. While significant, these are not too severe given the current environment. The stock market as measured by the S&P 500 was down just over 13 percent for the year. (Please see the performance table.)

The relative performance of your portfolios has been hurt over the last quarter and the last one-year period by our weightings in small, value and overseas-based companies. The 8.64 percent decline in the SFP Balanced Portfolio compares to a loss of 4.5 percent in the Standard Balanced Portfolio, a portfolio that is more typical of the average investor. While the one-year relative performance is disappointing, these periods are not uncommon. Our portfolio has still provided significantly higher gains for the three-year period, 17.20 percent versus 11.69 percent for the balanced funds. The overall stock market as measured by the S&P 500 is up 13.81 percent over the last 36 months. (Please see comparison chart.)



Ready for some good news? The fee structure of SFP, unlike commission based brokers, is aligned with your interests. When your portfolios appreciate, our total fee revenue increases and with declining values, our revenues decline. We are hurt just like you from declining portfolio values. Still, we feel very fortunate that in these tough times SFP has continued to grow. This is largely due to your confidence and your much appreciated referrals. As a gesture of thanks and as an expression of understanding of these turbulent times, **management fees for the third quarter will be cut across the board by ten percent.** Most of us are tightening the belt these days as are we. Your billing statement will reflect the change.

As for the markets, it is important to remember that the United States, or the rest of the world for that matter, is not going to shut its doors for business and simply close down. We've been here before and while things are challenging, there are still profits to be made. Providing loans (owning bonds) or equity (owning stocks) will continue to be valued. Yes, the markets may price those assets at different values over time, just as the value of real estate fluctuates, but there is also some natural value underlying prices.

Recently, there have been some comparisons between today's financial woes and those of the late 1970s. While not a perfect comparison, it is interesting to note that the S&P 500 ultimately gained about 77 percent during the turbulent seventies. More importantly, the two decades that followed saw some of the best stock market returns in history. The S&P returned an annualized 17.55 percent for the eighties and 18.21 percent for the nineties. If \$10,000 was invested in the S&P at the beginning of 1970, it would have grown to a staggering \$474,300 by the end of the millennium. While we're not predicting these gains for the future - and there could be an additional downside to come - but it is important to remember that the darkest days are often followed by positive change.

We also believe that the current troubles may provide a real opportunity. Since the seventies, we have experienced a dramatic increase in affordable computing power. This led to many booms including those in personal computing, health sciences, and the Internet. Energy technology has largely stayed the same. Now we are seeing movement.

Look at the auto industry. Gone is the huge market for big SUVs. Now the Prius Hybrid has sold over one million units and Toyota is moving production to the United States. Volkswagen will put a car named the 1L into limited production for 2010. This little two seat gas powered car, expected to cost around \$35,000, will get upward of 235 MPG!

That is the beauty of markets. High prices signal a need. Then the market rushes capital and brain power to develop solutions. The structure and broad diversification of our portfolios will ensure a portion of those capital resources will be our own. You will participate in any booms, and if they end with a fizzle, diversification will help protect portfolios from melt down.

Have a safe and wonderful summer!

*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.**