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## Market Commentary



Sokolowski Investment Advisors  
Shelburne, Vermont

I think that in general we've done a good job staying out of the way of the major pitfalls in our current market. We went into the fall without direct exposure to real estate or builders in our portfolios. We had trimmed out the small banks to avoid mortgages and had left a modest exposure to the largest money center banks. We have held some exceptionally strongly performing energy stocks throughout the period and we have held a variety of consumer non-durable stocks that have bucked the downward trend in real estate and financials. We tended to have increasing and substantive holdings in the safety of cash as the fall and winter progressed; our bond positions were of high quality and at or above

our required allocations. I think all of this has helped our portfolios. Our goal has been to prudently "step aside" a little from the equity markets as the economy worked its way through a recession and I think that by and large our proactive management has helped.

That being said, we have continued to churn through a raft of mostly non-financial problems in the economy since I last wrote you a quarter ago. While the mood on both Main Street and Wall Street has been decidedly negative lately, the market actually rose from the end of the first quarter through mid-May. I think the continuing problems in real estate/mortgages and oil caught up to the stocks markets by mid-May and it is in the last 6 weeks of the quarter that the damage has been done. In round number terms we ended the 2nd quarter at the January/March lows and at -20% from the very top of the current market last October. Thus we are midway between a correction (-10%) and a bear market (-30%). I think we got a little ahead of ourselves last fall.

The mental picture I had been carrying until several weeks ago was of a market bouncing along somewhere in the trough of a recession, destined to be choppy and not upwardly committed until the late fall of 2008. As

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**Special points of interest:**

- 2008 Privacy Policy enclosed with mailing
- Markets Closed July 4th and September 1 (Labor Day)
- Summer Vacation week: July 21-25 (offices closed)

## Second Quarter 2008 Market Wrap

**Market Indexes % Change from 3/31/08**

S&P 500	-3.2%
DJIA	-7.4%
NASDAQ Comp	+ .6%
MSCI EAFE	-3.5%
KLD Domini 400	-4.3%

**Mutual Fund Yardsticks % Change in Q2**

Equity Income	-3.9%
Large Cap Growth	+1.6%
Balanced	-1.1%
Gen US Taxable	-0.9%
Intermediate Bond	-1.3%



## Market Commentary (cont.)

the real estate/mortgage bubble continues to deflate and oil remains stubbornly expensive 6-9 months into the crisis, my picture has been modified. I still think the markets are working through the valley of a recession but the floor is slightly lower and the valley is wider than I had previously anticipated.

Basically, I think we are living through an oil price shock recession very similar to the ones we (or our parents, depending on your age) faced in the early 70's and again in the early 80's. I graduated from high school in 1975 and college in 1979 and I remember those years well. It was very difficult to find jobs as new hires to the work force in the early 80's. The stock market was a disaster in 73-74 thanks to OPEC and we hadn't made much progress by 1982. We all muddled through. It wasn't the

end of the world. The economy was poised for the tremendous wealth creation of the 80's and 90's, we just didn't know it in 1981.

I continue to believe that we will work our way through the excesses of over supply in the real estate market, that "economic evolution" will weed out the banks and brokerages that deserve through their own greed to die, and that oil will remain as cyclical as it always has been. It appears to me that we have currently reached the tipping point in oil prices—the point at which the high cost of oil in relation to everything else be-



gins to reduce the demand for oil and ultimately reduces its cost. Demand in the U.S. is beginning to fall at \$4+ per gallon as it is in the rest of the world at \$140/barrel. China is artificially pumping up demand by subsidizing fuel prices and

inflating supply ahead of the Olympics this summer. Look for all that to end by the fall. High prices in

the oil markets eventually beget demand destruction which will inevitably increase supply and decrease price. I am also sensing that the Federal Reserve and Treasury are beginning to realize the damage done by their weak dollar policies and may be

on the verge of supporting the dollar. Because oil is priced in US dollars worldwide, a resurgent dollar or even the threat of it could break the back of high oil prices.

I'm no Pollyanna about our current economy. We have some serious structural issues to work through and I've taken some serious defensive steps in our portfolios to address them, but neither do I subscribe to the Armageddon theories that are currently so popular. While history doesn't necessarily repeat itself, it does indeed rhyme. I think we're going to make it. I'm not betting against the energy and creative spirit of the American people, and I can't wait to discover the great new investments to come.



*"Working one additional year boosts annual retirement income by an average of 9%."*



*"Three quarters of retirees have less than \$25,000 in savings and investments."*

## Investing in our Graduates

We have made it through another school year and like us, some of you may have children graduating from elementary, middle, high school or college. Are you prepared for the increasing costs of higher education? Is it worth it? How much debt can you (or your child) afford?

We strongly believe that a college education is worth it. From a financial perspective, the average male college graduate earns about 77% more than his high school diploma counterpart and women earn a whopping 86% more. Furthermore, a college education can add intangible benefits such as quality of life, goal fulfillment and happiness.

So what is the price of this ticket? Well, the "average" 4-year college education costs \$100,000 with the price of many small liberal arts schools closer to \$200,000. Yet, in a May 28th news release Fidelity

research found that parents of high school seniors had only \$13,000 saved towards this goal. What can be done to bridge this enormous gap? If you have time, start saving early. We recommend using 529 plans which grow tax free and allow tax free distributions when used for qualified higher education expenses. Families with 529 college savings plans are on track to cover 52% of the average college expense.

It is reasonable to assume that your children should pay for some of the cost, but the family should make an informed decision before taking on extensive debt. Remember that no one will give you a loan for retirement and that a heavy debt load can be a huge burden for a young adult. Give consideration to state colleges and universities where there are still relative "value" plays.

Call us for specific help with your situation.



## MARKET TALK

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## Wealth Management & Financial Planning

Know a friend who  
could use our services?  
Our best referrals  
come from our wonder-  
ful clients.



## Value of an Advisor

In speaking with a client recently it struck me how difficult it is for people to grasp the value of what we do. After all, anyone can buy a mutual fund or ETF and research and free advice abounds on the internet. So why do you need an investment advisor? Here are our top ten reasons.

**1. Trust.** We are fiduciaries, not sales-people. Therefore, we are committed to working in your best interests.

**2. Service.** It is our mission to take care of you financially and will go to great lengths to meet your individual needs accurately and professionally.

**3. Custom solutions.** We have no “standard” answers. We treat each of our clients as individuals with unique issues and circumstances.

**4. Reporting.** Most amateur investors don’t figure returns at all. We provide you with a quarterly picture of your results so you can see how you are doing.

**5. Expertise.** We have 32 years of combined experience in the financial business. This gives us the ability to analyze the market with perspective and create an informed strategy for

you.

**6. Goal Driven.** We take the time to get to know you and tailor our actions around the needs and desires of your life, formalized in the IPS.

**7. Plan Based.** Most of our existing clients and *all* of our new clients start with a comprehensive financial plan that takes into account all aspects of your financial needs.

**8. Discipline.** The 2003 Dalbar study puts a fine point on the value of discipline. Average equity mutual fund investors underperformed the market by 10% per year from 1984 to 2002! Our discipline counteracts the normal investor emotions of fear and greed which leads to...

**9. Superior Returns.** We strive to deliver returns that exceed what you would get on your own, and, we generally do so with less risk.

**10. Asset Allocation.** Over 90% of your return is based on this. We consolidate your accounts, monitor the asset allocation and rebalance as necessary.



## Healthy Living

We have decided to fight getting older.

With both of us over the magic “50” mark, we have reviewed our lifestyle and made some positive changes. Healthier eating has enabled Roy to lose 16 pounds. Pat has joined Shelburne Health & Fitness and after a 10+ year hiatus, Roy is playing more golf. We have also decided that to reduce some of the inherent stress of our profession, we need to schedule more vacation time. In the past 10 years we have averaged only 1-2 weeks per year. We feel that it would be healthier for us to increase this to 3-4 weeks per year (staggered, of course). When we are refreshed we find that we make better decisions and our work improves. We hope that you agree.