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Bursting the Real Estate Bubble

- **August 2007 New Home Sales Drop to 40% below October 2005 levels**
- **Median House Price Decline of -7.5% Year-Over-Year, Worst Since 1970**
- **Unsold Housing Inventories Rise to 18 Year High**
- **Former “Bubble Markets” of California, Florida, Nevada and Arizona and “Rust Belt” areas of Michigan, Ohio, and Indiana Real Estate Prices will likely Fall 30-40%**

These are just a few of the many real estate headlines and statistics I've accumulated over the past 8 weeks. I'm not being subjective here to prove a point either—it's nearly impossible to find a positive real estate headline. If you've been paying attention, you've seen the headlines too and if you've read the articles you know the statistics are gloomy. The problem that I sense anecdotally in my admittedly little universe is that there is at best a xenophobic outlook about the state of one's own backyard, or at worst denial about the value of our real estate.

Either way, it strikes me that the full import of the real estate/sub-prime ugly twins is being underesti-

mated.

I was re-reading the e-mail/letter that I sent out on August 13th when the market was going down in reaction to the “sub-prime surprise”. I believe I basically got it right. Despite the bleakness of the moment I spoke about the Fed adding liquidity and the probability that the Fed would cut rates leading to the likelihood that the “animal spirits” of the equity market would return. The speed of the market's resurgence is surprising as is the fact that the Dow has hit an all-time high in the last few days. This is all fine and well and I love to make money, but it puts us once again at a level where we should be considering where we go from here and how much the real estate /mortgage mess should factor into our thinking.



The truth is, it seems that we are ignoring the likely consequences.

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Special points of interest:

- Markets closed- Veteran's Day, Thanksgiving and Christmas.
- Maximize your company retirement plan contributions before year-end!
- Make fall your time to review your finances.

Third Quarter 2007 Market Wrap

<u>Market Indexes</u>	<u>% Change in Q3</u>
S&P 500	+1.56%
DJIA	+3.63%
NASDAQ Comp	+3.78%
MSCI EAFE	+1.69%
KLD Domini 400	+1.27%

<u>Mutual Fund Yardsticks</u>	<u>% Change in Q3</u>
Equity Income	+0.72%
Large Cap Growth	+6.19%
Balanced	+1.98%
Gen US Taxable	+1.56%
Intermediate Bond	+2.18%



Planning to Retire?

We were recently visited by our representative from Fidelity Investment Advisers who was just back from a seminar on retirement planning. Like so many firms, Fidelity is focusing on the growing issue of 50-60 year olds who are approaching retirement. In their recent Research Insights Report "Structuring Income for Retirement" they note that in 2008, the first baby boomers (born in 1946) will be turning 62, the current average age of retirement in the US.

Are we ready for the wave of 76,000,000 boomers to retire? More importantly are we asking ourselves the key questions like—**when and where do we want to retire? How much money will we need in retirement? How will we manage getting older? What is our vision of retirement? What is our estate plan?** If your family hasn't answered these questions, you are not alone. Only 38% of retirees surveyed by Fidelity said they worked together on finan-

cial planning for later life.

Retirement preparation planning can be useful at any age but we highly recommend it when you are within 12-15 years of your retirement goal. We have the expertise, the education and the tools to assist you in your pre-retirement income analysis. After retirement we can provide you with annual "tune ups" to make sure you are still on track. Call us today for more information.



Pat Sokolowski, CFP®



"The average individual spends less time planning for their retirement than planning their annual vacation."

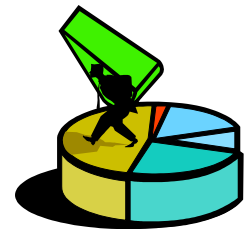
New Reports are coming

We are beginning the process of rewriting our quarterly reports. Although they are currently "chock full" of information, our sense from talking to you is that there may be too much to easily digest. Our goal, therefore, is to simplify the reports without losing the important information

that you need and want to analyze your account.

We would like your feedback. If you have reports from other firms that you like or if there are specific graphs or charts that you would like to see, please let us know. We will do our best to

compile the data in a way that is meaningful and clear. Thanks for your help and participation!



Bursting the Real Estate Bubble (cont.)

The financial side of the ugly twins is the sub-prime mortgage and correlated hedge fund debacle. We've talked about it and I do believe the markets will work through it without a major mess, but we are discounting the long-term effects to the economy too heavily. The real estate ugly twin is much more than just the direct loss of home sales—it is the financial decline that the realtors, the mortgage brokers and banks, the builders, plumbers and electricians, the lumber wholesalers and the raw materials companies will face. All of these will suffer because of the headlines I started out with. The real estate business is an octopus with arms that stretch throughout the economy. I think that before we're done we'll lose a huge number of jobs in the real estate/ sub-prime correction. I also think it will be a longer and deeper correction than we're conceding right now.



Housing Bubble

MARKET TALK

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Wealth Management & Financial Planning

Need more reading material? Our updated Form ADV is available upon request. Call us for a copy of the latest report.

Coming to the web! At
www.siawealthadvisors.com

Intangible Wealth

I read a fascinating op ed piece by Ronald Bailey in the September 29-30 *Wall Street Journal* entitled “The Secrets of Intangible Wealth” the gist of which I’d like to pass along to you.

When World Bank researchers set out to discover what financial inputs actually contributed to a country’s level of income they discovered that the sum total of the “normal” inputs—non-renewable resources (like oil, gas, coal, cropland, etc.) plus produced capital (like machinery, structures, and roads) didn’t begin to explain income levels. A great deal of “wealth” was missing from the equation.

What the World Bank found was that the bulk of a country’s wealth came rather from “intangible resources” - human capital and the value of a country’s institutions. Remarkably, the bank found that fully 80% of the wealth of rich countries and 60% of the wealth of poor countries was intangible in nature. Foremost among these intangible assets the World Bank research attributed 57% of intangible wealth to the rule of law and 36% to education.

The concept of intangible wealth that the

World Bank has put numbers to begins to explain the answers to so many of the nagging geo-political/ economic questions of our time. What economic reason does a Mexican migrant have for coming to the U.S.? Because upon crossing the U.S. border he has access to over 12 times the intangible assets in the U.S. as he had in Mexico (\$418,000 per person vs. \$34,000) and will likely raise his income accordingly. Why does oil rich Nigeria have one of the lowest per capita income levels in the World? Because its lack of education and rule of law create a mere \$2748 of intangible wealth per person vs. an average of \$354,000 in intangible wealth for the 30 richest nations. Will natural resource rich Russia or productive China overtake the U.S. economically? The answer would appear to be unlikely until or unless they develop such intangibles as trust among citizens, an efficient and trustworthy judicial system, clear property rights and effective governments.

Perhaps Thomas Jefferson was really an unheralded economist— having valued personal and property rights and the rule of law so highly.



Harvest Time in Vermont



We love the fall! The crisp autumn days and cool blue skies are a perfect foil for the changing leaves. Mentally we start to prepare for the winter ahead making sure that our chores are done and things are buttoned up before the snow flies.

We also find fall to be an excellent time to schedule “economic chores” and review your financial picture. The kids are back to school and it is a great time to meet with us. We will review your quarterly reports, talk about changes in your financial picture and help you plan for the year ahead. If we haven’t met with you in the past 12 months call us to schedule a meeting. We are available Monday through Friday in our convenient new Shelburne offices.