

Weekly Commentary

August 8, 2005

The Markets

It's August and hot here in So. Georgia. It usually means many Wall Street investment titans are heading for the Hamptons and spending the waning days of summer plying the coastal waters in their sailboats. Coincidentally, sailing and rowing skills may come in handy in the financial markets over the next few years... As for Stephen, Jill, the girls and me...summer ended on Friday. Back to school... Abby (my youngest), attacked Kindergarten with enthusiasm and my last "little girl" began her journey...Time flies.

For the three years ending August 5, 2005, the S&P 500 index rose at a very respectable annualized rate of 13.7% as indicated below. In that type of market environment, investors may prosper by holding a broadly diversified portfolio that looks similar to the overall market. This is akin to throwing up the sail and letting the wind blow your boat to its desired destination.

So far this year, the S&P 500 is up only 1.2%. This relatively weak performance may be traced to rising oil prices, rising interest rates, rising market valuations, concerns about inflation, slowing earnings growth, and terrorism. Because of these potential "wind stoppers", simply throwing up the sail and letting the wind blow your boat to its desired destination may no longer work. Instead, we may need to do more tacking.

Tacking, as it relates to investing, simply means we may have to be even more vigilant in monitoring your portfolio and in seeking investment opportunities. Like the wind, the market changes directions and when it does, we will do our best to be prepared with the appropriate investment strategy.

Returns through 8/5/05	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	-0.8%	-2.1%	7.6	7.7%	-0.6%	8.4%
Nasdaq Composite	-0.3	0.1	22.6	16.4	-12.6	8.0
Standard & Poor's 500	-0.6	1.2	15.3	13.7	-3.7	8.2

Source: Yahoo! Finance, Barrons

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

3, 5 and 10-year returns are annualized. Assumes dividends are not reinvested.

INTEREST RATES IS ONE AREA where the wind may be changing directions. Since June 2, the yield on the 10-year Treasury bond has risen by half a percentage point according to data from Yahoo! Finance. Rising interest rates is not new news but what may have changed last week was investors' perception of how long the Federal Reserve may continue to raise short-term rates. A strong employment report released last week by the Department of Labor has caused some market analysts to raise their target for how high the Federal Reserve will raise the federal-funds rate. The logic is, strong job growth

may lead to inflation and since the Federal Reserve focuses on keeping inflation under control, they may have to raise rates for a longer period than previously expected to make sure inflation stays in check. Of course, if interest rates get too high, it may spoil the real estate party and put a damper on that segment of the economy, which has been strong in recent years.

Last week's employment report also spooked inflation watchers because it showed that average hourly earnings rose 0.4%, which was the biggest gain in one year according to MarketWatch.com. Economists had been predicting just a 0.2% rise. That rise may be good for the worker but to market watchers, it sent a signal that there is pressure on wages and that could translate into unwanted inflation. And to add more fuel to the inflation fire, oil prices reached a record high last week. Higher oil prices may translate into higher inflation and, you guessed it, higher interest rates to combat that inflation.

CAR BUYERS WERE IN A GOOD MOOD LAST MONTH as “employee pricing” from the Big 3 automakers lured eager buyers into the showrooms. Ford, Chrysler, and GM said July car sales rose 29%, 25%, and 20% respectively. GM marketed its program under the “You Pay What We Pay” banner and it worked. Because of price negotiation, many people find the car buying process unpleasant. Some brilliant marketer found a way to negate that fear by simply telling the public, “You’ll pay the same price as our employees do.” The public apparently assumed that if the price is good enough for an employee of the car company, then that is good enough for them. The net result—big sales.

Weekly Focus – Inheritance

It turns out baby boomers (aged 40 – 59) and elders (aged 65 and over) have some differing and some similar views on the topic of inheritance. Here are a few of the findings from The Allianz American Legacies Study published in July 2005.

- Elders are seven times more likely than boomers to believe they owe their children an inheritance.
- Ethics, morality, faith and religion were 10 times more important to both boomers and elders than the financial aspects of a legacy transfer.
- Boomers and elders both said passing along “values and life lessons” was by far the most important element of a legacy.
- By a ratio of nearly 4 to 1 over boomers, elders said it was very important to pass financial assets or real estate to their children.
- When it comes to identifying a person who best personifies the ideal legacy planner, three well-known people led the list: boomers chose Oprah Winfrey, elders chose Billy Graham, and high net worth individuals (both boomers and elders) chose Warren Buffet.

The study reinforced the fact that legacy transfer is not just about money. It also includes values and life lessons, instructions and wishes to be fulfilled, personal possessions of

emotional value, and financial assets/real estate according to Mark Zesbaugh, CEO of Allianz Life.

Best regards,

Russ Story, CSA
and Chris Tuten, FA

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

* The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.

* The Nasdaq Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

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