



# Financial Update – 1<sup>st</sup> Quarter 2008

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*"Divide your portion to seven, or even to eight, for you do not know what misfortune may occur on the earth." King Solomon 940 B.C. Ecclesiastes 11:2*

## Irvine, CA – February 28<sup>th</sup> 2008 – Eight Baskets Update – Custodial Accounts



**It is times like these that the 8 Baskets Strategy really shines.** Because of our disciplined strategy to invest in 8 separate asset classes, we are able to take advantage of opportunities in a wide array of areas. An important added benefit to this process is what is known as "overweighting/underweighting" certain asset classes.

For a recent example, let's take a look at two of those baskets: US Stocks and Precious Metals. Whereas the typical "Wall Street diversification" calls for using only stocks, bonds and cash, we're always looking at other areas, such as precious metals.

As I'm sure you know, the price of gold has been skyrocketing. Consequently, when we saw the potential for more gains in this basket, we "overweighted" it with more gold. In this particular instance, within the 8 Baskets Growth Model, we increased that basket from around 6% of the portfolio to around 15%. We already had a long-term holding with precious metals mining stocks, but we wanted to hold the actual metal itself, so we invested the portfolios in an exchange-traded fund (ETF) that owns gold bars.

Conversely, when we saw the risk level of the US stock market rise and the market internals start to deteriorate, we cutback the US stocks basket to an "underweight" position. We basically took the basket, within the 8 Baskets Growth Model, from around 35% of the portfolio in US Stocks during Sep/Oct 2007, to around 15% in Nov 2007 to the present. That is part of the reason why we were able to sidestep much of the latest downturn in global equity markets.

Of course, other active management moves also provided a much needed cushion. We sold out the REIT and Int'l Stocks positions and are still waiting for a good re-entry point. We are still very much overweighted in US Bonds (especially US Government Bonds), Int'l Bonds (this takes advantage of the falling US Dollar) and cash or money markets.

We continue to see new opportunities for our 8 Baskets Strategies. **Just because US and Int'l stock markets are weak doesn't mean there isn't a bull market somewhere else.** Of particular interest to us right now are Commodities (which we already own, but may add to) and Foreign Currencies (which are another way to invest for a falling US Dollar). If there was ever a time to look outside the global equity markets, it's right now.

## 8 Basket Diversification (Benchmarks)

(Latest 12 Mos. & Decade-To-Date (cumulative) Indices<sup>1</sup>: 01/31/2008 (Source: Thomson Financial))

Asset Index	US Stocks S&P 500 Index	Int'l Stocks MSCI EAFE Index	Real Estate NAREIT REIT: Equity Index	Cash 30 Day T- Bills	Hard Assets Goldman Sachs Commodity Index	Prec Mtls Gold: London PM	Int'l Bonds Citigroup World Gov't Bond Index	US Bonds Lehman Bros. Aggregate Bond Index
12 Mos.	-2.31%	0.64%	-23.04%	3.96%	35.75%	41.93%	16.64%	8.80%
Decade	7.22%	40.77%	240.91%	27.08%	169.45%	218.08%	73.30%	68.50%

<sup>1</sup> Global/International investing involves special risks, such as currency fluctuation, political instability, different methods of accounting and reporting requirements. An Index is a portfolio of specific securities (common examples are the S&P, DJIA, NASDAQ), the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indexes are unmanaged portfolios and investors cannot invest directly in an index. Past performance is not indicative of future results. S&P 500 is a common benchmark for US large-cap stocks. MSCI EAFE Index is an aggregate of 21 individual country indexes that collectively represent many of the major markets of the world. NAREIT REIT: Equity Index is comprised of REITs, which own, or have an "equity interest" in rental real estate. GSCI is a composite index of commodity sector returns. Gold: London PM is an index based on the price at the end of month close for London Gold. Citigroup World Government Bond Index is an index of bonds from 14 world government bond markets with maturities of at least one year. Lehman Brothers Aggregate Bond Index is a common bond market benchmark comprised of approximately 6,000 publicly traded bonds. Material discussed herewith is meant for general illustration and/or informational purposes only. Although the information has been gathered from sources believed to be reliable, please note that individual situations can vary. Therefore, the information should be relied upon when coordinated with individual professional advice. With any investment vehicle, past performance is not a guarantee of future results. Investors should be aware that there are risks inherent in all investments such as fluctuations in investment principal. This is particularly true for mutual funds.



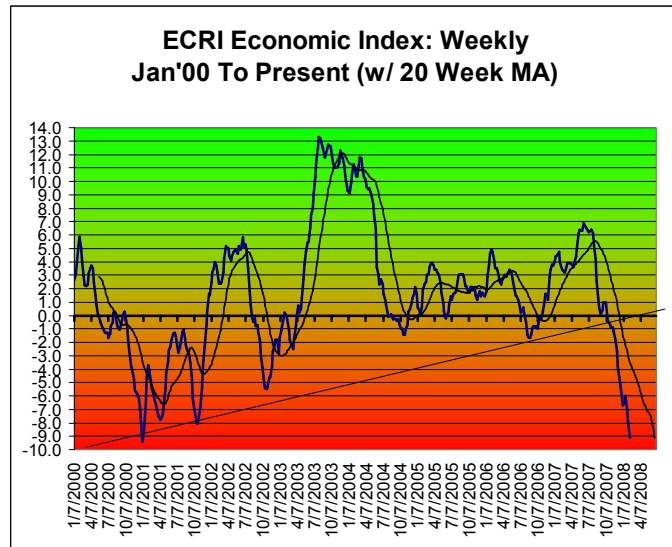
## 2008 Economic Update: Economic Slowdown Is At Hand

**Refresher on the ECRI Indicator:** The Economic Cycle Research Institute (ECRI) publishes weekly and monthly economic data. They have data going all the way back to the 1950s. We input the data each week and month-end, updating housing, inflation and other economic numbers. Graphs are then updated to reflect the most current data. Often times, a pattern emerges that can be easily identified.

Case in point. The graph at left represents the weekly economic data for this decade-to-date period (1/1/2000 through 02/08/2008). To make the graph easy to understand, we shaded the “desirable” areas as green and the “undesirable” areas as red. A trendline was also drawn to show the seven-year uptrend.

Not only has the seven-year trendline been broken, but the most current data show a fall below the zero line, actually falling to a reading of -9.1%. This reading is now as low as during the recessions in both 2001 and 1990.

**As we’ve been saying since summer 2007, we’re currently experiencing a very unique economic situation.** We have a clear, abrupt economic slowdown coupled with rising inflation and an unfolding financial crisis. Our thinking is, after it’s all said and done, the economics textbooks will coin a new phrase to describe what we’re going through. They refer to the 1970’s as a period of stagflation (slowing economic growth with rising inflation). We fit that description, but with a twist.



We’re in the midst of a global financial crisis that has so many tentacles that reach into so many areas, it will take a Herculean effort on multiple fronts to stop us from going into a full blown recession. One of two negative outcomes seems probable. One scenario is a sputtering, “double-dip” type of recession, where we have two recessionary phases back-to-back, with a period of stability in-between. This scenario may take a few years to complete. The other possible scenario calls for a deep, economic slowdown. This may end quickly or it may take awhile to work through. Regardless of which scenario takes shape, we’re in for more volatile markets, a falling US Dollar and ever increasing inflation. With the government pumping so much money into the financial system and lowering interest rates faster than they did after 9/11, you know the economy is in serious trouble.

**Bottom-Line:** If there ever was a time to tell others about the benefits of 8 Baskets Diversification, it is right now. For the typical investor, a buy-and-hold investment plan may not work very well for this environment. Because they don’t have time to make up for possible large losses, the most vulnerable investors are those over 60, especially retirees. They really need a 2<sup>nd</sup> opinion about the risk they are taking with their current investments. As always, we’re happy to meet with them on a complimentary initial meeting basis.

Best Wishes,

Steve K. Rumsey

*An Index is a portfolio of specific securities (common examples are S&P, DJIA, NASDAQ), the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indexes are unmanaged portfolios and investors cannot invest directly in an index. Past performance is not indicative of future results.*

*Investors need to be aware that no investment plan/asset allocation can eliminate the risk of fluctuating prices and uncertain returns.*

*Figures quoted are for illustrative purposes only and are not necessarily indicative of past or future results of any specific investment. They do not include consideration of the time value of money, inflation, fluctuation in the principal of in many instances, taxes.*

*Steve K. Rumsey specializes in asset allocation strategies for individual and retirement plan portfolios. An MBA graduate of Pepperdine University, Mr. Rumsey is an Investment Advisor Representative and is separately a Registered Representative with and offers securities through Sammons Securities Company, LLC, Member FINRA and SIPC. Advisory services offered through Rumsey Asset Management, a Registered Investment Advisor.*