

**Spectrum Investor® 1st Quarter
2008 Investment Review**

Registered Investment Adviser

Enclosed are your investment returns for the first quarter ending March 31, 2008. The S&P 500 fell 9.9% after being hammered by the failure of Bear Stearns, sky rocketing oil prices topping \$110/barrel and the fifth anniversary of the Iraq war. Despite three interest rate cuts, it was the worst quarter for the S&P 500 in 5 ½ years (*Investor's Business Daily* 4/3/08). The S&P 500 has fallen five consecutive months for the first time since 1990. If there is any good news signaling that the economy will not grind to a long halt it's that railroad stocks rose 9.6% for the quarter. According to Jim Paulson from Wells Fargo Capital Management, "If the economy were truly headed toward a prolonged recession, investors would not be jumping into transportation stocks this soon" (*USA Today* 4/1/08).

Bank stocks have been among the market's worst performers during the past year primarily due to subprime issues. Bear Stearns was an aggressive participant in subprime mortgage lending and has now paid a devastating price. Unfortunately, the company's executives have taken investors down with them. This quarter's Eliot Spitzer scandal also illustrates the potential risk of arrogance. As my older brother Ron, who has been a wonderful mentor to me says, "**When things are really going well, keep a low profile and don't overreach (by taking too much risk) because you never know when the freight train is coming and you may not hear the whistle.**"

The fall of Bear Stearns, the fifth largest securities firm on Wall Street, looked like a 19th century run on the bank, which is why the Federal Reserve acted so quickly. The Fed learned a hard lesson in 1929-1930 when it failed to bail out the banking industry. By failing to act, it allowed thousands of community banks to go under, ushering in the worst economic period in American history. Ever since then, the Fed has moved quickly to step up and act as the true lender of last resort (*The New York Times* 3/23/08).

Since the Great Depression, history has been on the side of the Fed in stabilizing the economy during an economic crisis, whether it be the 1987 stock market crash, the 1997 Asian currency crisis, or the 9/11 terrorists attacks. As the US economy has slowed in 2007-08, the Fed has substantially cut interest rates to shore up the housing market and stave off a credit crisis. The current real estate credit crisis may take longer to work out, but if history is our guide, the Fed will again stabilize the economy and financial markets (*The New York Times* 3/23/08). There is no guarantee that history will repeat itself.

However, in doing so, the Fed has further weakened the value of the US dollar. This is something the Fed needs to be careful about because the faster they cut interest rates, the weaker the dollar becomes, which fuels higher oil prices. Whenever the dollar hits a new low, the price of oil usually reaches a new high. Unless the global economy topples into a recession, the eventual price of lower interest rates will most likely be **rising inflation** (*The Complete Investor* 4/08; *Blue Chip Growth* 4/08).

What to do:

Don't panic, especially on Mondays. Monday is a notoriously volatile day when investors panic and dump stocks at drastic prices only to regret selling later in the week (*Forecasts & Strategies* 4/08). "**Your brain is wired for panic - don't give in.**"

Obsessing over every bit of market news, raises the odds that you will overestimate risk" (Richard Thaler, University of Chicago, *Money* 4/08). On a bad day in the market, turn off CNBC, read a book or go for a walk - you will live longer.

Focus on dividends and multinational stocks. In a flat market, dividends make a huge difference. Since 1926, 40% of the return of the S&P 500 has come from dividends. You can usually find higher dividends in balanced funds (**moderate allocation**), natural resources (**black**) and multinational large company stocks (large blend - **green**). Also, with the economy becoming more global, maintain a position in international stocks (**white**).

Think positive about this market. For young adults, it's a great time to buy a house. For homeowners, it's a good time to refinance. For grandparents, it's a great time to invest in your grandchildren's 529 education account.

Reduce your anxiety - rebalance. As Bob Landaas from Landaas & Company states, "**It's never too late to rebalance.**" Most of you have rebalanced this past year, but if you haven't and you are invested with over 70% in equities, you may want to consider a 60% stocks/40% bonds (**aqua**) asset allocation unless you are in your 20s or 30s. Please refer to the chart "What's The Best Mix For You" and the attached model portfolios. For instructions on how to use your 401(k) provider website, please see our website at www.ciadviser.com.

We appreciate your business.

Spectrum Investor® Update 3/31/08 Total Return

Category Average	1 st Qtr	1 Year	3 Year
Int.-Term Bond	0.39%	3.73%	3.88%
Balanced (Mod. Alloc.)	-6.14%	-1.99%	5.58%
Large Cap Value	-9.42%	-9.18%	5.04%
Large Cap Blend	-9.73%	-5.13%	5.69%
Large Cap Growth	-11.67%	-1.28%	6.18%
Mid Cap Value	-8.54%	-11.64%	5.31%
Mid Cap Blend	-9.75%	-9.11%	5.75%
Mid Cap Growth	-12.62%	-3.49%	7.34%
Small Cap Value	-6.90%	-14.91%	3.28%
Small Cap Blend	-9.83%	-13.29%	4.47%
Small Cap Growth	-14.45%	-10.68%	4.31%
Foreign Large Blend	-9.27%	-1.20%	13.72%
Real Estate	-0.94%	-18.36%	10.29%
Natural Resources	-2.66%	26.25%	22.04%

Source: Morningstar, 3 Year Return is annualized by Morningstar. Past performance is not an indication of future results.

What's The Best Mix For You?

Portfolio Allocation Stocks/Bonds	Average Annual Return 1926-2007	Best Year 1926-2007	Worst Year 1926-2007
40% / 60%	7.9%	27.9%	-18.4%
50% / 50%	8.4%	32.3%	-22.5%
60% / 40%	8.9%	36.7%	-26.6%
70% / 30%	9.3%	41.1%	-30.7%
80% / 20%	9.7%	45.4%	-34.9%

Source: Vanguard Group

3/31/08

Dow: 12263

NASDAQ: 2279

Barrel of Oil: \$101.58

Source: USA Today 4/4/08

S&P 500: 1322

10 Yr T-Note: 3.42

Inflation Rate: 4.0% (Feb 08)