



VOLUME 2, ISSUE 5

THE (NOT SO) ALMIGHTY DOLLAR

AUGUST 15, 2008

MONTHLY NEWSLETTER AND UPDATE

Dear Valued Clients, Friends and Professionals,

This issue is a day early because I am leaving for a week at the beach in North Carolina tomorrow. Much as I like structure and order I am not postponing my vacation to generate August 15th numbers for this missive.

The market has been choppy and the economic news mixed since last I mailed this instrument of communication. On July 16th I suggested that the market had turned and it was likely that some or all of an increase in stock prices, increase in interest rates and a drop in corporate earnings was in the offing. All three have happened and the stock market has recovered a little. It is still down for the year in double digits. It is positive for the quarter. My stock target has retreated to 75%.

Commodities have done extremely well in the last year. I first started using an indexed product for commodities in 2001. Historically, prices of futures have low correlation to stocks. This means that if one has an allocation to commodities the overall volatility of the portfolio is likely to be lower than if one confines the asset classes to stocks, bonds and cash.

The product I used at the turn of the century has an entry barrier of \$1,000,000 so I haven't used commodities at Jeff Sprowles and Associates, LLC until now. Last year two ETFs were started that track the Deutsche Bank and S&P Commodities Indices. They are past their "break in" stage and I am going to start using them up to 10% of the stock exposure as their price trends make them attractive.

Best regards,

Jeff Sprowles, CFP®



Mid-Quarter Update

- S&P 500 – domestic large cap
 - 6/30 to 8/14 1.3%
 - YTD (10.8%)
- Lehman Intermediate Gov Bonds
 - 6/30 to 8/14 1.0%
 - YTD 3.4%
- 90 Day U.S. Treasury Bills
 - 6/30 to 8/14 0.4%
 - YTD 2.0%
- Emerging Markets ETF (EEM)
 - 6/30 to 8/14 (9.6%)
 - YTD (16.3%)
- Jeff's Current Stock Outlook
 - 75% of target

MARKET COMMENTS

The stock target has subsided back to 75% for several reasons. The drop in reported corporate earnings and increase in stocks has increased the price earnings ratio of the S&P 500 back to 9th decile. Inflation is up again. As of 7/31 the year over year CPI was 5.6%. This makes the "real" yields from stocks based on price/earnings ratio and the yield from five year Treasury bonds both negative.

Unemployment is up but I am on the side of analysts that think we are in a mild recession. The table to the right shows selected United States unemployment rates. The current 5.7% seems high only because we got used to full employment during the 1990s. Given the large number of baby boomers on the cusp of retirement and the relatively small number of their children in the work force I am not too concerned about the short term U.S. economy.

We are still in a technical box that suggests further increases to stocks and interest rates or decreases in corporate earnings. The Norfolk and Southern activity is about average. I think it likely that stocks will continue to go up modestly for the rest of the year and there will be higher interest rates.

1975	8.5
1985	7.2
1995	5.6
1998	4.5
1999	4.2
2000	4.0
2001	4.7
2002	5.8
2003	6.0
2004	5.5
2005	5.1
2006	4.6
2007	4.6
Jul-08	5.7

JEFF'S PICK:

Commodities ETFs

Jeff is starting to use DBC and GSG in portfolios. They are a little over 1 year old each but have enough size that the risk of being "orphaned" is low.

The one year total return as of 7/31 for both ETFs was over 75% so purchases will be cautious.



Certified Financial Planner

Lillian Nell graduated from Bucknell in May and started in an entry level position at a large accounting firm in Philadelphia. Although she is pleased to be drawing a regular paycheck she wonders if she is handling her personal finances properly, especially the \$20,000 in Stafford loans she owes.

The average college graduate with a four-year degree now takes about five years to put on a cap and gown, and according to 2006 figures from the Project on Student Debt, the average college I.O.U. was approaching \$21,000.

With all that student loan debt, it's tough to focus on saving and planning for retirement. But there's no better time for a young person to start money habits that will last for a lifetime. Here are some of options for Lil Nell or any new grad to consider.

Sign up for the company 401(k) the minute she is eligible: A 401(k) plan accomplishes more than retirement savings. It teaches a new worker the value of "out of sight, out of mind" savings – when money goes to savings before you have a chance to spend it. In addition, deductions deposited directly into the 401(k) will mean less federal taxes withheld from your paycheck. Even if it takes a year before you can join the company plan, start putting money away in a traditional or Roth IRA.

Always aim for the maximum: It's a tremendous challenge to put away the most you can save in any retirement plan – you have a household to set up, school loans to pay off and you need to have a little fun, too. But even if you can't set aside the maximum in

your various retirement options at the start, make it a goal to get there as soon as your income rises and your debt falls.

Make long term investment choices: There is usually a correlation between volatility and reward. Retirement funds for a new grad have a 40 year time frame. Consider 100% in international emerging market stocks.

Hold off on buying a new car: Mass transit is best, but if you need a car, think about buying a quality used car that you can pay off quickly. A new car with a low down payment means you'll be putting debt on top of school loans. Do you really want to owe \$40,000 or more? That's a tremendous burden for a new professional.

Don't forget about insurance: If you're single, it's not time for life insurance, but you must have auto, rental apartment and yes, disability insurance.

Start laying away an emergency fund: Even if all you have is the proceeds from two missed lattes a week, start putting money in a special account you will not touch unless you are out of work and need to find some way to pay the rent.

Explore options for your student loans: It may be advantageous to use the consolidation privilege associated with Stafford loans, for example.

Don't forget about health insurance: Given that younger people are generally healthier, a health savings account (HSA) may be worthwhile to build a little nest egg for health care in the future.



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THE PERSISTENT ATTRACTION OF GOLD

One of the several newsletters I read recently stated that gold is the only guaranteed repository of wealth because historically it has not depended on the guarantee of any government or central bank. The same commentator was careful to note that gold is not an "investment" because it does not pay interest or dividends. This is a curious distinction in my opinion. I can think of "investments" that don't pay interest or dividends such as unimproved real estate and stock in a company not paying a dividend that one would purchase as an "investment."

In the three decades I have been involved with financial services there have been two periods when holding gold as an investment has been really great. You can see for yourself in the graph above showing the price per ounce since 1970. From 1971 to 1981 and again from 2001 to the present owning gold was great. I remember going with Martha to a jeweler in 1979 to sell some jewelry she didn't like. The jeweler advised us against selling at that time commenting that gold was likely to go up to at least \$2,000 per ounce.



1 oz gold	S&P 500
12/31/1971	43.48
12/31/1980	594.92
12/31/1992	334.80
12/31/1998	291.62
12/31/2007	803.20

On the other hand, if one is not good at timing there was a 20 year dry spell. To the left is a table comparing an investment in 1 oz of gold on 12/31/1971 to an equivalent amount of money invested in the S&P 500 Index with dividends reinvested.

I advise clients with net worth over \$5,000,000 to buy \$5,000 of non-numismatic gold coins annually on their birthday and stash them in a safe deposit box as a deep hedge against a total breakdown of society. Beyond that, I do not foresee the addition of gold to the Jeff Sprowles and Associates, LLC asset allocation chart except to the extent it is part of commodities indices.