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2007 FIRST QUARTER SUMMARY & COMMENTARY

Executive Summary

After several years of steady and generally smooth appreciation, volatility returned to equity markets in late February. Initial response from commentators and investors was alarm. In retrospect, the decline was absorbed by the equity markets, both here and abroad, in weeks.

However, there are larger questions. Is volatility normal? What should we expect? How do we plan around volatility and its corresponding sudden and sometimes sharp drops in value? This summary answers these questions and is designed to help you better understand the role of volatility and its frequency.

Despite creating discomfort, volatility can help investors and advisors make better decisions by forcing us to challenge our goals, objectives, and assumptions.

Volatility is back – for the first time in years.

After 4 years of steady and reliable growth, markets and investors experienced the sinking feeling associated with a 500 point drop on Tuesday, February 27. World-wide events conspired to shake the markets and give investors an unsettling bump. While many commentators focused on whether this marked the end of the bull market or the beginning of a bear market, some investors have forgotten that volatility is a normal part of the investment cycle. The events of the market recovery since 2003 have caused many to forget this important fact. As a result, we are going to focus on volatility in this report.

Under normal circumstances, markets undergo corrections about once every year-and-a-half to two years. By definition, a correction occurs when values drop in excess of 10%. With the possible exception of mid-2006 (NASDAQ), markets have not experienced a correction since the end of the 2000-2002 bear market. This means that a correction is long overdue. More importantly, corrections have a cleansing effect – when markets get ahead of themselves and excesses multiply, corrections serve to wash out some of the excesses and offer opportunities for rebalancing and refocus.

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In the most recent instance we did not have a market correction. We had a market decline. Market declines occur more frequently than market corrections. A market correction means a drop in excess of 10%; market declines represent losses in excess of 2%. When the S&P 500 fell over 2% on February 27, it broke a streak of 949 trading days without such a drop. This was the longest uninterrupted trading period without decline ever. The previous record was 807 days in 1978. For purposes of perspective, on average markets have a 2% down day every six weeks. We had not experienced a 2% down day in almost 4 years. This should make us appreciate how good the past markets have been: normally we experience eight declines of 2%, including one 3% drop, every year. When markets rise for four consecutive years, a 2% drop feels severe.

What made the decline more troubling was a seeming confluence of events: a sharp decline of 9% in China's market, a suicide bomber in Afghanistan during Cheney's visit, concerns over the sub-prime lending markets, and finally overconfidence in the US markets. However, in hindsight, it appears that this one-day decline was more of a reminder than a crisis. Markets across the world have rebounded and cooler heads have prevailed.

At the same time there are lessons to be learned from volatility. First, as bull markets age, there is not only a natural increase in volatility, but also an increase in the frequency and magnitude of pullbacks. In other words, expect more volatility, not less. Second, sharp movements should remind us to review our assumptions and not become complacent. In recent weeks and months, we have been suggesting portfolio rebalances, where appropriate, from riskier to more stable positions in anticipation of such a decline. Third, don't overreact. It is important to see whether the underlying economic base has undergone a change. In our opinion, the economy is slowing but it is still growing. As a result, we believe that equities still represent the best overall market position, although a case can be made for bonds this year that couldn't be made a year ago. In times of volatility, seeking quality positions makes sense. Fourth, one of our recurring conversational themes has been globalization. The market decline was a great example of how flat the world has become. The market decline in China roiled markets across the world and could be visibly traced throughout the trading day. This should remind us that we are in a world-wide economy and might benefit from looking outside the US for investment ideas.

A logical follow-up question is: what's an investor to do? Here's our advice for negotiating volatility.

- recognize that market declines are normal
- understand that market timing is very difficult
- remain committed to sound investment principles consistent with goals and objectives
- if invested, stay the course unless there is a systemic change
- rebalance portfolios to match comfort levels as well as goals and objectives
- add to fixed income positions if capital preservation is critical
- seek quality positions and quality advice

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Many studies focus on weathering market downturns. Common advice encourages waiting out the storm. Oftentimes, that advice is appropriate. For example, a recent Goldman Sachs study states that by missing the 10 best trading days between 1985 and 2006, an investor would have seen potential returns shrink by over 3.50% per year; by missing the best 40 days, portfolio returns would be dropped by 85% from 12.12% to 1.87% compounded. However, that is only part of the story.

What is seldom discussed is what happens when an investor avoids the worst days of the market. In another study produced by Dorsey Wright & Associates measuring market returns from 1980-1989, these results were found. By missing the 40 worst days of that period, you doubled your return. As a result, while it is important to capture the best days, it is equally beneficial to avoid the worst. Viewed from this perspective, vigilance and forethought are the investor's best friend. Preservation of capital should be the first and foremost priority. Avoiding the bottoms is oftentimes more important than capturing the highs.

For these reasons RG Financial Partners works with you to establish goals and objectives and to match your investments accordingly. Hal, in particular, spends his time sifting through analyses and studies to determine whether our underlying assumptions and attitudes require alteration or modification. While no one knows what is going to happen, carefully considering the landscape is important.

Where does this commentary on volatility leave you? It should reinforce a simple fact – volatility is part of investing. What is unusual about the past quarter is not that we experienced a sharp market decline in February but that it took so long in coming. We believe that you should always prepare for additional bumps and plan accordingly. At the same time, we think that the economy is still growing. With all this as background, let's review market results for Q1 2007.

Index	Q1 Performance	Description
Dow Jones Industrials	-.33 %	Large Cap Stocks
S&P500 Index	.64	Large Cap Stocks
NASDAQ Composite	.26	Large Cap Tech Stocks
Russell 1000 Growth	1.19	Large Cap Growth Stocks
Russell 1000 Value	1.24	Large Cap Value Stocks
Russell 2000 Growth	2.48	Small Cap Growth Stocks
Russell 2000 Value	1.46	Small Cap Value Stocks
MSCI EAFE	4.14	Europe/Australasia/Far East
Lehman Aggregate	1.50	US Government Bonds

As always, please call us with questions or comments. Our mission statement remains constant – **help successful families transfer their value and values over generations**. This can only happen when your investment policy and your investments coincide with your values.

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Index Descriptions

S&P 500 Index - A well-known gauge of U.S. large company stock market performance computed by Standard & Poor's Corporation. This stock index includes 400 leading industrial companies, 20 transportation companies, 40 utilities and 40 finance companies. The index does not equally weight each company selected; rather it weights each company according to total market size.

Russell 2000 Index - The Russell 2000 is a popular measure of the stock market performance of smaller companies. The index includes companies with an average market capitalization of \$275 million. Small-cap companies tend to experience greater volatility than large-cap issues.

MSCI EAFE Index (Europe, Australia & Far East) - The EAFE index is a benchmark for measuring international stock performance. The EAFE index is an aggregate of 15 individual country indexes that collectively represent many of the major markets of the world, excluding Canada and the United States. International investment are subject to special risks, such as political unrest, economic instability and currency fluctuations.

Lehman Brothers Corporate Aggregate Bond Index - This index reflects total return (price appreciation/depreciation on bond investments plus any income earned) as a percentage of the initial investment. An index used by bond funds as a benchmark to measure their relative performance. The index comprises government securities, mortgage-backed securities, asset-backed securities and corporate securities to simulate the universe of bonds in the market. The maturity of the bonds in the index are over one year.

Lehman Brothers Municipal Bond Index - This index reflects total return on approximately 15,000 bonds. All bonds included have a credit rating of at least BAA.

Indexes are unmanaged. Performance of indexes is not indicative of any particular investment. Individuals cannot invest directly in any indexes. Past performance does not guarantee future results.

Investments in securities involve risk, including the loss of principle invested.

Investment concentrated in a specific industry or sector may be subject to a higher degree of market risk than funds whose investment are diversified.

International investing involves special risks not present with U.S. investments due to factors such as increased volatility, currency fluctuations, and differences in auditing and other financial standards.

Lower rated bonds involve a higher degree of risk than investment grade bonds in return for higher yield potential. Securities rated below investment grade generally entail greater market, credit and liquidity than investment grade securities.

Small cap stocks may be less liquid and subject to greater price volatility than large cap stocks. Smaller capitalization companies involve more risks than larger more established companies.

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No investment strategy, such as asset allocation, can guarantee a profit or protect against in periods of declining values.

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The declaration and payment of dividends is subject to the discretion of a organization's Board of Directors and depends on various factors, including the organization's net income, financial condition, cash requirements, future prospects and other factors deemed relevant by the organization. The ability to pay dividends on common stock will depend upon, among other things, the organization's level of indebtedness at the time of the proposed dividend and whether the organization is in compliance with its then existing credit facilities.

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