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2007 SECOND QUARTER SUMMARY & COMMENTARY

Executive Summary

Total returns for stocks and bonds in Q2 were positive and better than expected, particularly in equities. However, we are concerned about potential turbulence in the third quarter.

Continuing issues in housing and subprime mortgages are holding back market gains and dampening consumer confidence. Since the consumer is the major contributor to economic consumption, concerns in this area deserve close scrutiny. On the other hand, corporate America continues to thrive. As a result, while long-term optimistic, we have some short-term worries.

In choosing between domestic and international equity positions, we think that international positions look more promising in the next few months. We are still optimistic long-term on both domestic and international equity positions. Furthermore, we think that the Emerging Markets need to be reconsidered given their continued growing importance.

This is a good time to pause and reflect on goals and objectives, especially in light of potential for volatility.

The first six months of 2007 ended with positive returns across almost all market segments. At the same time we are more concerned about the next few months than we have been about any quarter in recent memory. Earlier this year we forecasted positive returns for the first two quarters; we also cautioned concern over the third quarter. As circumstances have conspired, it appears that our early forecast bears repeating and perhaps additional caution. On the other hand, we believe that the balance of the year should be favorable.

At the end of the first quarter, we noted that volatility returned to equity markets after a long absence. While Q2 was relatively benign, we think that the odds of increased volatility in the short term remain high. At the risk of repetition, the broad market, best defined by the S&P 500, has not had a correction of at least 10% since the end of the 2002-2003 bear market. In our opinion, there is an increasing likelihood of such a correction in the near future.

What leads us to this conclusion? First, issues in subprime lending are more serious than first thought. What causes particular concern is the potential for infection from the derivatives market. When debt is packaged and resold in blind partnerships which are difficult to penetrate and valued by the people who package them, there may be cause for concern and possibly abuse. Evidence of how derivatives can deteriorate was seen in the recent rescue

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mission by Bear Stearns who contributed billions to steady two troubled investments. Second, the housing market has not recovered its balance. Inventories remain high and show no signs of near term reductions. Defaults are growing as well, although primarily at the lower end. While defaults are not yet critical, they serve to undermine consumer confidence. Third, with the housing issues and continued high energy costs, consumers are showing some signs of fatigue. Since the consumer represents 2/3 of domestic spending, this is an important factor. When these items are aggregated, we think that they make a compelling case for a market time-out. As a result, we would not be surprised to see domestic equities give back some of their year-to-date gains in the next few months; in fact, we would be surprised if they held their values.

Despite these negatives, there are also positive signs. Some of the old issues are solving themselves. First, government tax receipts are growing. This means that the deficit is falling. Without considering special items, government spending is getting closer to tax receipts and tax receipts are rising. Second, unemployment and interest rates remain at historically favorable levels. The Federal Reserve Board has maintained unchanged rates for a year; unemployment continues to hover around 4.5%. Third, corporations maintain their profitability, albeit at a slowing rate. What's important here is that while profits may be slowing, the gross profits continue to increase. After years of recovery, this is impressive. Increased corporate profits contribute to increased corporate spending as well as continued merger and acquisition activity. Corporate liquidity has generated market support for stock prices.

What should we (and you) conclude from these trends? We believe that the negatives deserve more attention today than they have for some time. As a result, we caution you regarding domestic equity positions. We think that domestic equity markets might hit an air pocket or two during the next few months. At the same time, based on the Fed's behavior, we see little likelihood for interest rate increases. For these reasons we suggest that clients stay the course unless your appetite for risk is very small. In those cases, we ask that you call us to discuss your personal circumstances.

When we move outside the domestic markets, we are more positive. As we suggested might be the case earlier this year, the international markets have been significantly more profitable than similar US positions. We expect this trend to continue for the foreseeable future. This does not mean that these markets won't experience their own versions of volatility; it means that we think these markets will handle volatility better. One additional comment: the term **Emerging Markets** quickly is becoming misleading. China and India are significant market forces. As their demand for materials grows, we will see many of these emerging market countries become the new economic engines. We firmly believe that globalization is here to stay. As a result, we think that the international equity markets will continue to hold their appeal beyond the next few months. If you are underweighted in international equity positions, you may wish to consider some reallocation.

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Index	Q2 Performance	Description
Dow Jones Industrials	9.11	Large Cap Stocks
S&P500 Index	6.28	Large Cap Stocks
NASDAQ Composite	7.70	Large Cap Tech Stocks
Russell 1000 Growth	6.86	Large Cap Growth Stocks
Russell 1000 Value	4.93	Large Cap Value Stocks
Russell 2000 Growth	6.69	Small Cap Growth Stocks
Russell 2000 Value	2.30	Small Cap Value Stocks
MSCI EAFE	6.67	Europe/Australasia/Far East
Lehman Aggregate	-.52	US Government Bonds

Since we believe that we are reaching a neutral return period, at least for a while, it is prudent to review portfolios to make sure that we are managing your investment risk properly. This may be a good time to reflect on your goals and objectives and to be sure that you have not overextended any one position. In addition, while fixed income positions have lagged against equity returns, it is always good to remember that bonds hold their value well in periods where little interest rate change is likely.

Thank you, as always, for your trust and confidence. We appreciate having the opportunity to share our thoughts and expertise with you. Please contact us with any questions or comments.

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.

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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.

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

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