

Market Comment

Add this past month to the long list of instances where the markets surprise the pundits. The market prognosticators universally were expecting a market pullback to digest the nice run-up from March thru May. To their surprise, second quarter earnings came out with the majority beating expectations. While one can argue that the gains were mostly due to corporate cost cutting, they were profits none the less. Third and fourth quarter prospects also look positive in comparison to last year's dismal free fall.

It is said that rarely one industry will lead markets out of a slump in consecutive recessions and this time seems to be no different. The Financial companies led the bull market starting in 2003, and since March of this year the Technology sector is providing the leadership. As of this writing the NASDAQ stands at 2,000 which is

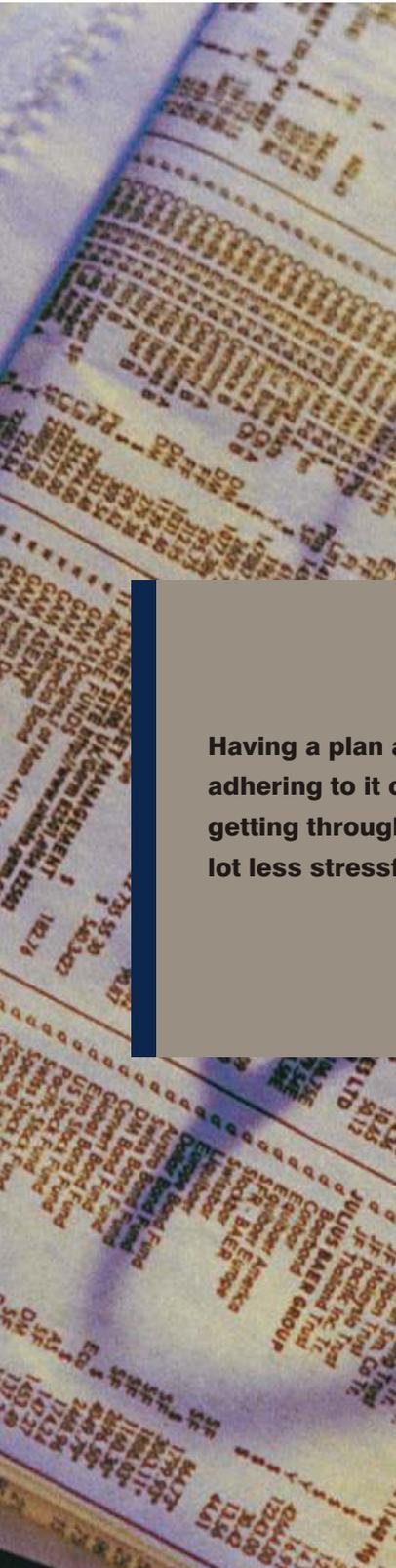
up 57% from its March 9th low of 1,272. The technology sector has been largely asleep since the Dot.com bust in 2000, but is now showing signs of life once more. The United States has the best and brightest employed at companies like Apple, Google, Microsoft and Cisco and are bringing excellent technology to market.

The duration of these powerful up moves that follow recessions is very difficult to judge. Problems like unemployment,

housing foreclosures, commercial loan defaults, government deficits and possible inflation all can provide road blocks to economic growth and corporate profits. On the plus side, the surprising corporate earnings, rise in manufacturing orders, uptick in consumer confidence, low interest rates and the vast amount of low yielding cash on the sidelines can fuel the rise for quite a while. Add to this the fact that most investors have missed the majority of this unexpected jump in prices and are anxious to get in and not miss any coming bull runs, and the probability of going to new highs increases. In our opinion, this rise has been quite dramatic and is pushing most indicators to at least a short term overbought condition. But as we stated in our most recent LPC Perspectives email blast a month ago – we think it is a mistake to get too bearish on equities.

Other areas such as commodities are being bid up by traders speculating that prices will rise if we get renewed inflation as our economy begins to grow again. Crude oil has jumped to \$71 per barrel from the high \$40's. This performance is somewhat puzzling since recently the three super oil companies reported earnings declines with profits falling some 60%. Also, the U.S. demand for oil has dropped over 8% from last year and almost a whopping 18% from the peak in 2005. This implies that spare capacity in the oil markets is still abundant.

Looking into the future at oil demand, the driving consumers are changing their habits. Add to this the administration's



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tightening of mileage standards by 2016 which is expected to save 1.5 million barrels a day, and we see demand continuing to decline.

It is currently estimated that nearly 60% of each new barrel of oil is used for gasoline in the United States. If that is the case, then future prospects of a pickup in demand, and therefore prices, do not look very promising. Knowing this, it is puzzling why the price of oil is being bid up. It seems to make more sense that oil will not reach the highs of last year again and should settle in the \$60 to \$65 per barrel range.

Many investors ran to the safety of U.S. Treasuries last winter after the major stock decline. These have been bid up to the extent that they may be the next problem spot given this economic environment. Treasuries are said to be flat out overvalued with no place to go but down. With record deficits looming, the possibility of higher inflation is quite real and inflation is the enemy of bonds. Unfortunately, those investors that bought the Treasuries out of panic may very well be the same investors that emotionally purchased dot.coms in 1999 and real estate in 2003.

Following the actions of recessions in the past, this one also may have ended well before statistics and economists agree on a date. It is important to realize that setbacks can occur as we climb back to economic growth, but many signs are pointing to a turn in the cycle that can be very powerful to the upside.

Economic cycles can be both euphoric on the growth side and very scary on the downside. Having a plan and adhering to it can make getting through these a lot less stressful.

Market Summary Year to Date

Dow Industrials	+ 8.9%
Dow Transportation	+ 7.5%
S&P 500 Index	+ 13.6%
NASDAQ Composite	+ 25.9%
Russell 2000	+ 15.7%
International	+ 19.5%



Are We Heading Down The Right Path?

This past year has brought with it an unprecedented level of volatility not only in the financial markets but also in our political leadership and ideals. One can agree that the vast financial destruction was caused by greedy, immoral financial institutions and their leadership. But clearly we cannot ignore the role played by the so-called leaders in Congress. They essentially make the rules and appoint the regulators that govern our business enterprise system in this country.

Our government employees currently are struggling with issues that will impact this country for years to come. You can be pro or con on the current proposals for health care, climate change, etc, but one thing is very clear. The fate of the small business owner will determine the direction of this country.

You may have seen the letter below, but we think it provides a clear, non-political look at what small business owners are feeling and the decisions they may be forced to make.

A letter from the Boss to all my Valued Employees:

There have been some rumblings around the office about the future of this company, and more specifically, your job. As you know, the economy has changed for the worse and presents many challenges. However, the good news is this: The economy doesn't pose a threat to your job. What does threaten your job however, is the changing political landscape in this country.

However, let me tell you some little tidbits of fact which might help you decide what is in your best interests.

First, while it is easy to spew rhetoric that casts employers against employees, you have to understand that for every business owner there is a Back Story. This back story is often neglected and overshadowed by what you see and hear. Sure, you see me park my Mercedes outside. You've seen my big home at last year's Christmas party. I'm sure all these flashy icons of luxury conjure up some idealized thoughts about my life.

However, what you don't see is the BACK STORY:

I started this company 28 years ago. At that time, I lived in a 300 square foot studio apartment for 3 years. My entire living apartment was converted into an office so I could put forth 100% effort into building a company, which by the way, would eventually employ you.

My diet consisted of Ramen Pride noodles because every dollar I spent went back into this company. I drove a rusty Toyota Corolla with a defective transmission. I didn't have time to date. Often times, I stayed home on weekends, while my friends went out drinking and partying. In fact, I was married to my business – hard work, discipline, and sacrifice.

Meanwhile, my friends got jobs. They worked 40 hours a week and made a modest \$50K a year and spent every dime they earned. They drove flashy cars and lived in expensive homes and wore fancy designer clothes. Instead of hitting the Nordstrom's for the latest hot fashion item, I was trolling through the discount store extracting any clothing item that didn't look like it was birthed in the 70's. My friends refinanced their mortgages and lived a life of luxury. I, however, did not. I put my time, my money, and my life into a business with a vision that eventually, some day, I too, will be able to afford these luxuries my friends supposedly had.

So, while you physically arrive at the office at 9 a.m., mentally check in at about noon, and then leave at 5 p.m., I don't. There is no "off" button for me. When you leave the office, you are done and you have a weekend all to yourself. I, unfortunately, do not have the freedom. I eat and breathe this company every minute of the day. There is no rest. There is no weekend. There is no happy hour. Every day this business is attached to my hip like a 1 year old child. You, of course, only see the fruits of that garden – the nice house, the Mercedes, the vacations – you never realize the Back Story and the sacrifices I've made.

Now, the economy is falling apart and I, the guy that made all the right decisions and saved his money, have to bail-out the people who didn't. The people that overspent their paychecks suddenly feel entitled to the same luxuries that I earned and sacrificed a decade of my life for.

Yes, the business ownership has its benefits but the price I've paid is steep and not without wounds.

Unfortunately, the cost of running this business, and employing you, is starting to eclipse the threshold of marginal benefit and let me tell you why:

I am being taxed to death and the government thinks I don't pay enough. I have state taxes, federal taxes, property taxes, sales and use taxes, payroll taxes, workers compensation taxes, unemployment taxes, taxes on taxes. I have to hire a tax man to manage all these taxes and then guess what? I have to pay taxes for employing him. Government mandates and regulations and all the accounting that goes with it, now occupy most of my time. On April 15th, I wrote a check to the US Treasury for \$288,000 for quarterly taxes. You know what my "stimulus" check was? Zero. Nada. Zilch.

The question I have is this: Who is stimulating the economy? Me, the guy who has provided 14 good paying jobs and

serves over 2,200,000 people per year with a flourishing business or the single mother sitting at home pregnant with her fourth child waiting for her next welfare check? Obviously, government feels the latter is the economic stimulus of this country.

The fact is, if I deducted (Read: Stole) 50% of your paycheck you'd quit and you wouldn't work here. I mean, why should you? That's nuts. Who wants to get rewarded only 50% of their hard work? Well, I agree, which is why your job is in jeopardy.

Here is what many of you don't understand – to stimulate the economy you need to stimulate what runs the economy. Had suddenly government mandated to me that I didn't need to pay taxes, guess what? Instead of depositing that \$288,000 into the Washington black-hole, I would have spent it, hired more employees, and generated substantial economic growth. My employees would have enjoyed the wealth of that tax cut in the form of promotions and better salaries. But you can forget it now.

When you have a comatose man on the verge of death, you don't defibrillate and shock his thumb thinking that will bring him back to life, do you? Or, do you defibrillate his heart? Business is at the heart of America and always has been. To restart it, you must stimulate it, not kill it. Suddenly, the power brokers in Washington believe the poor of America are the essential drivers of the American economic engine. Nothing could be further from the truth and this is the type of change you can keep.

So, where am I going with all this?

It's quite simple.

If any new taxes are levied on me, or my company, my reaction will be swift and simple. I'll fire you and your co-workers. You can then plead with the government to pay for your mortgage, your SUV, and your child's future. Frankly, it isn't my problem anymore.

Then, I will close this company down, move to another country, and retire. You see, I'm done. I'm done with a country that penalizes the productive and gives to the unproductive. My motivation to work and to provide jobs will be destroyed, and with it, will be my citizenship.

So, if you lose your job, it won't be at the hands of the economy; it will be at the hands of a political hurricane that swept through this country, steamrolled the constitution, and will have changed its landscape forever. If that happens, you can find me sitting on a beach, retired, and with no employees to worry about....

The Boss

FYI

Term Life Insurance premiums have continued to decline over the past five years. In our experience, some individuals have realized premium savings of up to 30% for the same policy benefits they had before. If you are at a point where reviewing your life insurance benefits is appropriate, please give us a call to discuss it further.

As a reminder, the 6th Annual **LPC Charity Golf Classic** is coming up on **Thursday, September 17th**. If you haven't already done so, give us a call to book your foursome and enjoy the day with friends. We have raised over \$30,000 the past five years for local charity and look forward to another wonderful event.



In our occasional meetings with various professionals (CPA's, Attorneys, etc.) and talking with new prospective clients during the past market downturn, we have come to realize that investors who did not have an advisor and had to go it alone were more fearful and more prone to make irrational investment decisions than those who had advisors. If you agree with this as we do, perhaps now is the time to mention our services to someone you know who fits the above description. We appreciate your referrals and continue to grow our business during good economic times as well as bad.

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