

01-17-08

Mr. and Mrs. Client

Happy New Year! The beginning of the year is always an exciting period of time since it gives us an opportunity to reflect and learn from the past year and project into the New Year as we set new goals. For 2008, your advisory team at Excelcia resolves to continue to do our best to help our clients achieve their financial goals through both thoughtful financial planning and prudent investment management. As always we will continue to protect the assets you have worked so hard to accumulate and grow those assets at a reasonable pace.

Reflecting Back

At the start of the year the message from most economist and financial experts was that we would have "a soft landing" for the economy due to limited "spillover" from the sub-prime market, a "decoupling of the Global Markets" (meaning markets in the rest of the world would not follow markets here because they had become independent) and modest to strong economic growth. These key phrases that we all heard a lot about in the beginning of the year have not been mentioned for many months. Furthermore, this "soft landing" scenario was not the view of Excelcia Financial Group and we stood by our projections as the markets rallied (for reasons that we could not explain). This adherence to our views cost us some growth but has recently saved us from even greater losses, which is in alignment with what we have always said our job is (protect the assets and grow them at a reasonable rate).

In the middle toward the end of 2007 when financial and international stocks were touted as being the leaders of growth, we could not justify their growth so we reduced, and in most cases eliminated, your exposure to those areas. Since their peak these two sectors have performed much worse than the S&P 500 so this was clearly the right decision to make. Although, in hind sight, we were just a touch early in being defensive with our clients portfolios it has become clear that our analysis was correct and we had reason to be cautiously optimistic about chasing returns in 2007. While your returns for 2007 were not as good as we had hoped, they were still positive, and should be viewed in the context of the broader markets which finished the year with single digit returns.

Overall, 2007 was by no means a stellar year but it could have been much worse without a good strategic plan and the resolve to execute tactical changes that went against the views of the majority.

Looking Forward

As we look into 2008 we again are cautiously optimistic. The beginning of 2008 has already proven to be volatile for the US equity markets, as we stated it would be in our last newsletter, and daily swings of 200 points in the Dow Industrial Average have become quite frequent. We were prepared for this volatility, as well as the significant downturn that the domestic and international markets have taken, and thus your portfolios have been largely unaffected by the 10% + decline in equity markets. We believe this volatility will be a major theme for the foreseeable future, as the US economy attempts to steer itself back on track. Our overall outlook is that the economy will spend a fair portion of the year determining the magnitude of the impact on corporate earnings from the housing and credit downturns. Once these variables and other economic indicators (namely inflation and the unemployment rate) are worked out the US equity markets should respond positively. Until then the portfolios will continue to be defensive and we will continue to be invested in the markets to take advantage of the possible growth and look to be opportunistic once the risks become clearer.

Much like in 2007, environments like these are where good strategic and tactical planning payoff in both investment management and financial planning. As you come in for your regular meetings we will review your financial plan and make the necessary adjustments so that we can achieve your financial goals regardless of the financial environment. As always our team is available if you should have any questions or concerns. In the meantime we will work hard to keep our New Year's resolution.

Please remember if you come across friends and family that are complaining about losses they are taking from the recent market turbulence, let them know why you are not losing any sleep from your investments!