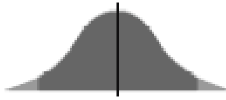

Park Piedmont Advisors LLC

Registered Investment Advisor

VICTOR LEVINSON **NICK LEVINSON, CFP®**

MARCH 2007 COMMENTS

ADDITIONAL CHANGES TO MONTHLY COMMENTS:

At the suggestion of a number of our readers, we are making additional changes to our Monthly Comments. Pages 2-4 will continue to report the current month's and year-to-date market results, along with longer-term results. The two pages devoted to updating key economic data will be consolidated into one or two paragraphs, and discussed as part of the month's market results. Page 5 will begin "Investment Concepts," the section that discusses substantive informational and educational material. The final page of figures will no longer be presented monthly.

SPRING TRAVEL PLANS:

Vic will be returning to New York the last week in April. All his contact information remains the same; all phone calls are forwarded into his cell phone number, 917-741-5450. Please continue to send all regular mail and faxes to Lynette in the New York office.

IRA FUNDING

You generally have until the date you file your 2006 tax return, April 17, 2007 for most of us, to make contributions for last year. Please let us know if you plan to make a contribution to a traditional, Roth, and/or SEP IRA for 2006. We will make investment recommendations once the contributions have been deposited in your account(s).

LONG-TERM CARE INSURANCE:

For those of you who do not have this insurance and have an interest in obtaining it, please let us know, as we are able to provide advice on this subject.

CONTENTS

Page 1: Important Notices: What's in This Edition?
Pages 2-4: Index Results for MARCH 2007, and Year-to-Date 2007;
Also Years 1999 – 2006, and Various Other Longer Time Periods
Pages 5-6: Investment Concepts:
Pages 5-6: I. Housing and its Impact on the Liquid Markets

Any recommendation contained in these Comments may not be suitable for all investors. Moreover, although the information contained herein has been obtained from sources believed to be reliable, its accuracy and completeness cannot be guaranteed.

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COMMENTS: INDEX RESULTS for period ending MARCH 2007

STOCKS	YEAR 1999	YEARS 2000-02	YEARS 2003-05	YEAR 2006	YTD 2007	MAR 2007
Vanguard Total Stock Market Index Fund (1)	23.8%	(37.2%)	53.1%	15.5%	1.3%	1.1%
Standard & Poors 500 Index (2)	19.6%	(40.1%)	41.9%	13.6%	0.2%	1.0%
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(48.4%)	41.8%	9.0%	1.2%	0.6%
Vanguard S&P 500 Value Index Fund (1)	12.6%	(26.2)%	63.2%	22.1%	0.9%	1.6%
Dow Jones Industrial Average Index (2)	25.2%	(27.5%)	28.5%	16.3%	(0.9%)	0.7%
NASDAQ Composite Index (2)	85.6%	(67.2%)	65.2%	9.5%	0.3%	0.5%
Vanguard Midcap US Index Fund (1)	25.0%	(18.3%)	83.9%	13.6%	4.5%	0.9%
Vanguard Smallcap US Index Fund (1)	19.6%	(24.2%)	87.5%	15.6%	3.5%	1.2%
Vanguard International Index Fund (EAFE) (1)	25.3%	(45.9%)	95.9%	26.6%	3.8%	2.8%
Vanguard Emerging Markets Index Fund (1)	61.6%	(29.5%)	162.7%	29.4%	2.2%	4.1%
Vanguard Real Estate Investment Trust Fund (1)	(0.4%)	47.5%	98.6%	35.1%	3.4%	(2.5%)
BONDS						
Vanguard Total Bond Market Index (1)	(0.8%)	30.4%	11.1%	4.2%	1.4%	0.0%
Vanguard Intermediate Tax- Exempt Index Fund (1)	(2.9%)	23.7%	10.3%	4.4%	0.7%	(0.2)%
Vanguard Short-term Bond Index (1)	2.1%	25.8%	6.5%	4.1%	1.5%	0.3%
Vanguard Short Tax- Exempt Index Fund (1)	2.6%	13.8%	4.5%	3.2%	0.9%	0.3%
Vanguard High-Yield Bond Fund (1); starting 2002	NA	1.7%	30.7%	8.2%	2.2%	0.1%
Vanguard Inflation-Protected Bond Fund (1); starting 2001	NA	25.5%	20.0%	0.4%	2.4%	0.2%

NOTE: Three-year results start with a base of 100, and after each year's % change, the result for that year creates a new base. So if at the end of the first year the index is up 10%, then the new base is 110%; and if down 10%, then the new base is 90%. NOTE also that a decline of 50% requires a gain of 100% to get back to the starting value, which explains why NASDAQ, down 67%, would require a gain of 200% to get back to its starting value.

1) Results for Vanguard funds include dividends and fund expenses but do not reflect PPA's advisory fee.
2) Results for S&P 500, Dow Jones, and NASDAQ indexes do not reflect dividends or PPA's advisory fee.

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%	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
		1999				**2000**				**2001**		
S&P 500	4.1	7.6	(7.7)	15.6	2.0	(3.0)	(1.3)	(7.8)	(12.1)	4.8	(13.8)	8.1
NASDAQ	14.6	10.0	0.0	61.0	12.4	(14.8)	(7.2)	(29.6)	(25.5)	12.9	(26.7)	18.3
BONDS	0.0	(0.5)	0.4	(0.7)	2.4	1.5	3.1	4.3	3.2	0.8	4.3	0.0
Interm. Tax.												
		2002				**2003**				**2004**		
S&P 500	0.0	(13.8)	(14.1)	4.5	(1.8)	12.8	2.2	13.2	1.3	1.3	(2.4)	8.8
NASDAQ	(5.5)	(19.5)	(13.5)	7.0	2.5	19.2	12.1	16.2	(0.5)	2.7	(7.5)	13.9
BONDS	0.0	2.8	3.6	1.8	0.9	2.7	0.2	0.2	2.7	(2.6)	3.1	1.0
Interm. Tax.												
		2005				**2006**				**2007**		
S&P 500	(2.6)	0.9	3.1	1.6	3.7	(1.9)	5.2	6.6	0.2%			
NASDAQ	(8.1)	2.6	4.4	2.5	6.1	(7.6)	3.9	7.1	0.3%			
BONDS	(0.5)	3.0	(0.7)	0.6	(0.7)	(0.2)	3.8	1.3	1.4%			
Interm. Tax.												

MARCH 2007 COMMENTS

STOCK index prices were moderately higher in March, and for the first quarter. Although the price changes were mostly modest, the good news was that February's declines did not extend into March. See page 2 for all pertinent figures for the month, YTD, and since 1999.

BOND returns (price change plus interest) were virtually unchanged in March, but higher for the quarter. The benchmark 10-year US Treasury yield closed at 4.65%, which was 10 bps higher than February's close, but still closer to the 12-month low of 4.47% (November 2006) than the current 5.25% short-term overnight rate set by the Federal Reserve. This situation of short-term yields being higher than longer-term yields, referred to as an "inverted yield curve", has persisted for almost a full year. It is highly unusual, since the normal relationship of 10-year yields to short-term yields is positive 200 bps, not negative (60) bps. At some point, it is likely that either longer-term rates will rise, or shorter-term rates decline. Returns for the Month, YTD, and since 1999 are set out on page 2.

The major economic news of the month centered on the problems in the housing market, in the related and rather esoteric sub-prime mortgage market, and the impacts of these problems on the broader economy (to be discussed in more detail starting on page 5). Other important economic news indicated a slowing in the growth rates of various parts of the economy, even as inflation continued at rates above the Fed's preferred range. The tension between a slowing economy, which would tend to encourage the Fed to lower interest rates, and higher than desired rates of inflation, which would tend to encourage higher interest rates from the Fed, has been an important factor in recent price movements of both stocks and bonds.

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From a longer-term standpoint, the stock market rally that began decisively in March 2003 has reached four years. But the declines of the preceding three years (2000-02) result in seven-year price changes (since the highs of 2000), excluding dividends, far below their long term historical averages, with the Dow Jones up 5%, the S&P 500 down (7)%, and the NASDAQ down a stunning (52)%. In a fascinating observation, the mutual fund company Vanguard notes that from 1926 through 2005, in only six of 80 years did stock prices fall within 2%, up or down, of the long-term annual average return of plus10.4%.

Going back to the beginning of 1994, when the spectacular 1994-99 bull market began, all three major indexes have remarkably similar average annual returns (ranging from 9.7% to 10.0%) that are close to the 10.4% average annual return of the stock market dating back to 1926. As these returns converge, the idea of "regression to the mean," described by Swensen as "one of the most powerful influences in the world of finance" (pg. 154), comes clearly into focus. And yet, the Vanguard observation noted above is also meaningful, since annual returns during the bull market period were far higher than the long-term average return.

The moral: Stock returns are truly unpredictable and volatile in short time frames, and can be over long time periods as well, in the context of a fairly stable very-long-term average return. The key question for you: What is your relevant time frame?

	S&P 500 (1)		DOW (1)		NASDAQ (1)	
1st Qtr 2000 High	1,527		11,723		5,048	
Year End 2000	1,320	(13)%	10,785	(8)%	2,470	(51)%
September 21, 2001 Low	965	(37)%	8,235	(30)%	1,425	(72)%
Year End 2001	1,148	(25)%	10,020	(17)%	1,950	(61)%
October 9, 2002 Low	777	(49)%	7,286	(38)%	1,114	(78)%
Year End 2002	880	(42)%	8,342	(29)%	1,336	(73)%
Year End 2003	1,112	(27)%	10,454	(11)%	2,003	(60)%
Year End 2004	1,212	(21)%	10,783	(8)%	2,175	(57)%
Year End 2005	1,248	(18)%	10,718	(9)%	2,205	(56)%
Year End 2006	1,418	(7)%	12,463	+6%	2,415	(52)%
Year-to-date 2007	1,421	(7)%	12,354	+5%	2,422	(52)%

Context: Prior Five-Year Gains in Bull Market of 1995 - 1999

	S&P 500 (1)	DOW (1)	NASDAQ (1)
End 1994	459	3,834	752
End 1999	1,470	11,500	4,070
Gain	1,011	7,666	3,318
Avg.Ann.%Gain:'95-'99; 5 years	26.2%	24.6%	40.2%
MARCH 2007	1,421	12,354	2,422
Gain	962	8,520	1,670
Avg.Ann.%Gain:'95-3/07; 12.25 yrs	9.7 %	10.0 %	10.0 %

1) Results for S&P 500, Dow Jones, and NASDAQ indexes do not reflect dividends or PPA's fees.

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INVESTMENT CONCEPTS

I. Housing and its Impact on the Liquid Markets

This month, the media has been full of reports about the slowdown in the housing market, and its potential for spilling over into the general economy. We discuss this subject in detail below, but first make reference to an article discussing housing as an investment.

The Wall Street Journal (WSJ), in its Money Matters section dated March 12, 2007, presented a lead article entitled: "Why Your Home Isn't the Investment You Think It Is." We suggest that if you are interested in this subject, you should read the entire article. A few of the key points are summarized below:

1) "Economic studies have demonstrated over and over that houses (1) cost more than most people make when they sell, and (2) rarely match the long-term returns of stocks or other investments."

2) "The costs of owning a home – buying it with a long-term mortgage and then paying taxes on it, insuring it, repairing it, renovating it – sap most of what homeowners think they make in price appreciation. Houses are nice financially because there are not many things you buy that actually go up in value,… but don't delude yourself: you've already spent most of that check, and you are likely to spend the rest in just a few days when you buy a new home."

3) "Even if you are sitting on a lot of home value, you've spent a lot, probably more than the house is worth, getting what you have. And you almost certainly lost some investing opportunities along the way while you were spending your money buying your house."

The article also notes that in certain areas of the country, particularly on the east and west coasts, the increased prices of homes have actually led to real profits for the owners. (Perhaps coincidentally, most Park Piedmont clients live in these high priced areas, and so have had a positive financial result from their home ownership.) But even in these areas, the returns have generally not been as high as people assume once all the costs of ownership have been properly and fully calculated.

Moving on to the subject of the current downturn in home prices and sales, and the impact of these downturns on the broader economy, the articles accompanying the latest figures provide some insights. "Sales of new US homes declined for the second consecutive month in February, and the nation's supply of unsold homes continued to rise, an indication that the weak housing market has yet to hit bottom… Faced with tighter credit and slower price appreciation, more buyers may be choosing the less expensive, previously owned homes rather than the pricier new homes… Economists say declining demand for new homes could weigh more heavily on the broader economy, as builders cut back even further on construction to reduce the swelling supply of unsold homes" (WSJ, 3/27/07, A2).

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Another article focused on the problems in the sub-prime mortgage lending market, and their impacts on the broader economy (WSJ, 4/2/07, A2). "With sub-prime mortgage lenders pulling back, some working class Americans are already finding it harder to buy a new home or refinance the one they already own. The big question now for the nation's economy: will it also get harder for these consumers to buy cars, shop at the malls, and dine out? Like many American families, sub-prime borrowers – consumers with poor or sketchy credit histories – have been able to use the combination of rising home prices and easy credit to live beyond their means in recent years as wages have stagnated. That spending has helped to fuel the US economy's growth. Today, with the housing market in a slump and defaults mounting in the market for sub-prime home loans, some economists believe more lenders will tighten credit standards in the months ahead…which might force consumers to rein in spending… So far, there are only tentative signs that tighter credit conditions in the sub-prime mortgage market are spreading to the broader credit market."

Supporting the conclusion of the previous article was a report on personal income and consumer spending. "Rising incomes and a sturdy labor market kept consumers spending… in February, helping offset the housing slump… Friday's report was a welcome sign of economic vitality. Consumer spending will likely be the economy's driving force through at least the first half of the year. Strength in consumer spending is particularly important with the continuing housing recession and recent signs that businesses are holding off on investments" (WSJ, 3/31-4/1/07, A4).

Finally, and perhaps most significantly for the liquid stock and bond markets, the Federal Reserve has been and will be responding to the conflicting influences of: (a) a potentially slowing economy, with housing as a leading factor in the slowdown; (b) strength in other areas of the economy, including employment and consumer spending; and (c) inflation rates that are somewhat higher than the Fed's preferred target. "Repeated Fed concerns on inflation coupled with low unemployment readings dissuaded investors from expecting immediate interest rate cuts. But at the same time, economic growth has slowed, to a little over 2% at an annual rate, in the past year, much as the Fed expected. That slowdown has been led by a retreat in housing construction, much as the Fed expected. But in recent months, officials have been surprised by the sluggishness of business investment. Business spending had been expected to take up some of the slack left by declining home building" (WSJ, 3/22/07, A2).

As a conclusion to this section, it is probably fair to say that as of early April, the housing slowdown has not created major problems for the US economy. At the same time, it is far from clear that this situation will continue. Of course, there is nothing unusual in this condition of uncertainty; it is the nature of financial markets to deal with all manner of uncertainty.

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