



Park Piedmont Advisors LLC

Registered Investment Advisor

VICTOR LEVINSON

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APRIL 2008 COMMENTS

APRIL 2008 MARKET ACTIVITY (ending Wednesday, April 30th).

US and international STOCK prices confounded all the doom and gloom forecasters by recording significant gains in April. High credit quality BOND prices, which had been stronger during the period of stock market declines, also reversed their recent performance and declined for the month. (See pages 2 and 3 for more detail on these results).

Our basic position (abbreviated here) throughout this period of financial turmoil has been set out in our previous two Monthly Comments: “If the history of stock price recoveries is to repeat, the current problems need to be overcome... There are no assurances or certainties here, only the knowledge that prior periods with significant problems experienced stock price recoveries.” This remains our core view on the current situation, and why we advise our clients to stay with their current portfolio allocations.

This month we will discuss how different actions and trends in the financial/investment world often give rise to unexpected, unintended, and unpleasant counter-actions and -trends.

IMPORTANT UPDATES:

- 1) We hope you have all had occasion to speak with Archana Shenoy, who is working with Lynette in our NY office.
- 2) From now on, Victor’s only phone number is 917-741-5450. The 212-588-0015 number is gone. Also, any fax to Victor should be sent to the NY office fax at 212-391-2312.

QUOTABLE QUOTE:

In an article about Robert Rubin, former Secretary of Treasury in the Clinton Administration, the following was said of him: the only thing Mr. Rubin “is dismissive of is people who are certain of things that are inherently uncertain” (Sunday NY Times Financial section, front page, April 27, 2008). We agree.

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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.

COMMENTS: INDEX RESULTS for period ending APRIL 2008

	YEAR	YEARS	YEARS	YEAR	YEAR	YTD	APR
<u>STOCKS</u>	<u>1999</u>	<u>2000-02</u>	<u>2003-05</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>
Vanguard Total Stock Market Index Fund (1)	23.8%	(37.2%)	53.1%	15.5%	5.5%	(5.0)%	4.5%
Standard & Poor's (S&P) 500 Index (2)	19.6%	(40.1%)	41.9%	13.6%	3.5%	(5.6)%	4.3%
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(48.4%)	41.8%	9.0%	12.6%	(4.7)%	5.3%
Vanguard S&P 500 Value Index Fund (1)	12.6%	(26.2)%	63.2%	22.1%	0.1%	(5.3)%	3.7%
Dow Jones Industrial Average Index (2)	25.2%	(27.5%)	28.5%	16.3%	6.4%	(3.4)%	4.2%
NASDAQ Composite Index (2)	85.6%	(67.2%)	65.2%	9.5%	9.8%	(9.0)%	5.1%
Vanguard Midcap US Index Fund (1)	25.0%	(18.3%)	83.9%	13.6%	6.0%	(4.5)%	6.0%
Vanguard Smallcap US Index Fund (1)	19.6%	(24.2%)	87.5%	15.6%	1.2%	(4.2)%	4.9%
Vanguard International Index Fund (EAFE) (1)	25.3%	(45.9%)	95.9%	26.6%	15.5%	(3.6)%	5.3%
Vanguard Emerging Markets Index Fund (1)	61.6%	(29.5%)	162.7%	29.4%	39.0%	(3.2)%	7.3%
Vanguard Real Estate Investment Trust Fund (1)	(0.4%)	47.5%	98.6%	35.1%	(16.5)%	8.1%	6.0%
 <u>BONDS</u>							
Vanguard Total Bond Market Index (1)	(0.8%)	30.4%	11.1%	4.2%	6.9%	1.8%	(0.4)%
Vanguard Intermediate Tax- Exempt Index Fund (1)	(2.9%)	23.7%	10.3%	4.4%	3.4%	0.9%	0.9%
Vanguard Short-term Bond Index (1)	2.1%	25.8%	6.5%	4.1%	7.2%	2.1%	(0.9)%
Vanguard Short Tax- Exempt Index Fund (1)	2.6%	13.8%	4.5%	3.2%	4.2%	1.5%	0.1%
Vanguard High-Yield Bond Fund (1); starting 2002	NA	1.7%	30.7%	8.2%	2.0%	1.1%	3.5%
Vanguard Inflation-Protected Bond Fund (1); starting 2001	NA	25.5%	20.0%	0.4%	11.6%	3.1%	(2.2)%

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.

%	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
		<u>1999</u>					<u>2000</u>					<u>2001</u>			
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			
		<u>2002</u>					<u>2003</u>					<u>2004</u>			
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			
		<u>2005</u>					<u>2006</u>					<u>2007</u>			
S&P 500	(2.6)	0.9	3.1	1.6	3.7	(1.9)	5.2	6.6	0.2	5.8	1.6	(4.1)			
NASDAQ	(8.1)	2.6	4.4	2.5	6.1	(7.6)	3.9	7.1	0.3	7.5	4.0	(2.0)			
BONDS	(0.5)	3.0	(0.7)	0.6	(0.7)	(0.2)	3.8	1.3	1.4	(0.6)	2.9	3.2			
		<u>2008</u>					<u>2009</u>					<u>2010</u>			
S&P 500	(9.9)														
NASDAQ	(14.1)														
BONDS	2.2														

APRIL 2008 COMMENTS

STOCK index prices for US stocks were considerably higher in April, with the Total Stock Market, S&P 500, Dow Industrials and NASDAQ indexes up in a range of +4 to +5%. Year-to-date (YTD), these four indexes are still down, in a range of -3.5% (Dow Jones) to -9.0% (NASDAQ). International and Emerging market indexes were also higher for the month, but still negative for the year. The best performer continued to be REITs, which were the worst performer in 2007, following years of outperformance (see details in the chart on page 2).

BOND returns (price change plus interest) for the higher credit quality part of the bond market were lower for the month, including Treasury Inflation Protected bonds (TIPS), but all these categories are still up YTD. Municipal bonds gained for the month, and are also up YTD. Lower credit quality junk bonds had significant gains for the month, and are now up YTD. The benchmark 10-year US Treasury yield closed at 3.74%, up a significant 31 basis points from last month's low of 3.43%; higher interest rates tend to lower existing bond prices.

ECONOMIC NEWS continued weak, with negative employment growth, GDP growth of 0.6% for the second consecutive quarter, ongoing declines in home sales and home prices, declining consumer confidence, and slow manufacturing activity. However, corporate earnings outside of the financial sector are coming in at acceptable levels, and export activity is quite strong, aided by the declining dollar. See pages 6-8 for discussion of the various effects resulting from certain economic facts and conditions.

From a longer-term standpoint, the five month stock market retreat from the October 2007 highs, as part of the housing and credit problems adversely affecting the economy, seems to signal the end of the 2003-07 recovery from the severe bear market of 2000-02. Whether April's rally continues into the future is of course unknown. Reviewing the period from the 2000 highs to April 2008, the Dow Industrials are 9% higher, the S&P 500 9% lower, and the NASDAQ still a stunning 52% lower. Thus, the annualized returns for all three indexes since 2000 are far below their long-term average annualized returns. 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 plus 10.4%.

However, going back further to the bull market that began in 1995, all three major indexes have similar average annual returns, all positive, ranging from 8.6% to 9.5%. (These returns are, however, below the 10.4% average annual return for stocks dating back to 1926.) As they converge, "regression to the mean," described by Swensen as "one of the most powerful influences in the world of finance" (pg. 154), seems apparent. But Vanguard's observation is also meaningful, since annual returns during the bull market were far higher than the long-term averages, and the returns from 2000- April 2008 have been far lower.

The moral: Stock returns are truly unpredictable and volatile in short time frames, and can be over long time periods as well, even with (so far) a fairly stable very-long-term average return. Key Questions: Your relevant time frame and tolerance for risk.

	<u>S&P 500 (1)</u>		<u>DOW (1)</u>		<u>NASDAQ (1)</u>	
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 2005	1,248	(18)%	10,718	(9)%	2,205	(56)%
Year End 2007	1,468	(4)%	13,265	+13%	2,652	(47)%
April 30, 2008	1,386	(9)%	12,820	+9%	2,413	(52)%

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

	<u>S&P 500 (1)</u>	<u>DOW (1)</u>	<u>NASDAQ (1)</u>
End 1994	459	3,834	752
End 1999	<u>1,470</u>	<u>11,500</u>	<u>4,070</u>
Gain	1,011	7,666	3,318
Avg. Ann. % Gain: '95-'99; 5 years	26.2%	24.6%	40.2%
APRIL 2008	1,386	12,820	2,413
Gain	927	8,986	1,661
Avg. Ann. % Gain: '95-4/08; 13.33 yrs	8.6%	9.5 %	9.1 %

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

INVESTMENT CONCEPTS:

The chart below, which we introduced with our November Comments, has been updated to reflect the extreme volatility (mostly negative) of the months since the summer of 2007:

	S&P 500	Change from YE06	Dow Jones Industrials	Change from YE06	NASDAQ	Change from YE06
YE 2006	1,418	-	12,463	-	2,415	-
7/19/07 High	1,553	9.5%	14,000	12.3%	2,720	12.6%
8/16/07 Low *	1,370	-3.4%	12,456	-0.1%	2,387	-1.2%
10/9/07 High	1,565	10.4%	14,165	13.7%	2,859	18.4%
12/31/07 Close	1,468	3.5%	13,265	6.4%	2,652	9.8%
1/22-23/08 Low *	1,270	-10.4%	11,635	-6.6%	2,202	-8.8%
3/17/08 Low*	1,257	-11.3%	11,756	-5.7%	2,155	-10.8%
4/30/08 Close	1,386	-2.3%	12,820	+2.9%	2,413	-0.1%

* Note - Lows from 8/16/07, 1/22-23/08 and 3/17/08 are not closing prices, but daily ("intra-day") lows

Some key observations from the chart:

- 1) From the 10/9/07 highs to the January and March intra-day lows, the S&P 500 was down 19.6%, the Dow Industrials down 17.9%, and the NASDAQ Composite down 24.6%. Those are major declines in a matter of months.
- 2) The October 2007 recovery from the August 2007 lows, and the April 2008 recovery from the March 2008 lows, were both substantial, approximating 10% in both cases, and occurring in very short time frames. These recoveries illustrate the dangers of exiting the stock market after a period of declines, on the assumption the declines will continue.
- 3) There is no way to determine at what point the lows for this market cycle will have been reached until long after the cycle has been completed.

Unintended Consequences in the Financial/Investment World

The theme of this section is that for many of the problems that arise in the financial/investment world, actions can be taken which, while addressing one problem, often give rise to other problems. This points to the policy difficulties for decision-makers, and also to the fact that some set of problems are likely to persist, even if the nature of the specific problems changes from time to time. Thus there are various tradeoffs to be made between one set of problems and another.

I. **Action:** Lowering interest rates to help restore economic growth.

Downsides:

- 1) Low interest rates contribute to inflationary pressures for a variety of reasons:
 - A) Low rates encourage expanded economic activity, which in itself puts pressure on capacity and resources, and often leads to higher prices. Higher inflation rates are a negative. "The Federal Reserve is likely to make another short-term interest rate cut [*our note: there was a ¼ point cut on April 30th*]...since some officials see a case for more insurance against a deeper recession (or economic slowdown)... But others are concerned a cut could contribute to inflationary pressure with little benefit to growth" (WSJ, 4/24, front page; see also the Feldstein quote in C, below).
 - B) Low rates tend to reduce the value of the US currency compared to other currencies paying higher interest rates. While currency exchange rates respond to a variety of factors, comparable interest rates are one important factor. One impact of the declining value of the dollar is that it makes goods imported into our country more expensive, which in turn contributes to a higher rate of inflation.
 - C) A further impact of the declining value of the dollar is the high current cost of oil, since oil is bought and sold in US dollars, and a declining value of the dollar means the dollar buys less of any given commodity. Martin Feldstein, chairman of the Council of Economic Advisers under President Regan, writes that "the impact of low interest rates on commodity price inflation is different from the traditional inflationary effect of easy money. The usual concern is that lowering interest rates stimulates economic activity to a point at which labor and product markets cause wages and prices to rise. That is unlikely to happen in the US in the coming year. The general weakness of the economy will keep most wages and prices from rising more rapidly. But high unemployment and low capacity utilization would not prevent lower interest rates from driving up commodity prices.... Lower interest rates add to upward pressure on commodity prices by making it less costly for commodity investors and commodity speculators to hold larger inventories of oil and food grains.... Lower interest rates induce investors to add commodities to their portfolios.... The rise in the US inflation rate, and adverse effect in emerging market countries, might be defensible if lower interest rates could significantly stimulate demand and reduce the risk of a deep recession. But under current conditions, reducing the fed funds rate from 2.25% by 50 or 75 basis points is not likely to stimulate demand" (WSJ, 4/15/08, A19).

2) Low interest rates in the early 2000s contributed to rapidly rising housing prices.

A) While rising housing prices made everyone feel richer for a while (just as the “bubble” in the prices of technology stocks did in the late 1990s), these higher housing prices have led to many problems. One major problem was that people were able to borrow larger and larger amounts of money either to buy a new home or refinance an existing home. Many of these borrowers were then unable to make the payments on their loans, leading to many foreclosures and huge losses by financial institutions that invested in these mortgages believing they were likely to be repaid.

B) On the other hand, many people were priced out of the market for new homes. A recent article observes that “the heartwarming side of the housing bust is that it is helping some people buy homes that they could not afford a couple of years ago” (WSJ, 4/24/08, D1). Indeed, one aspect of declining prices is that eventually they give rise to buyers who find the lower prices attractive. The same article stated that “economists at two economic research firms look at home prices in relation to household income and other variables, and one firm’s chief economist said that “we’re getting a return to normalcy in the relation between home prices and incomes.”

II. **Action:** Providing Liquidity and Financial Assistance to the Financial System.

Downsides:

- 1) Relieving entities from losses they would otherwise have to take. Many people did not like the idea that, in the current financial crisis, certain of the financial speculators and financial intermediaries were relieved of worst-case outcomes. The sense was that they were receiving undeserved assistance, and not being forced to incur all of the losses that their actions should have resulted in. But in an article defending the Federal Reserve’s actions in providing assistance, Robert Shiller (Yale professor, and author of “Irrational Exuberance,” which essentially called the technology crash of the early 2000s), discusses the new role of the Federal Reserve as follows: “The plan to overhaul the financial system includes a proposal that would officially transform the Federal Reserve into a “market stability regulator” rather than merely a banker’s bank....The Fed’s mission increasingly is to maintain macro confidence, that is confidence that the entire financial system is functioning well as part of the overall economy....The Fed’s decision to rescue Bear Stearns generated very little criticism because so many people rightly feared the systemic effects on financial institutions if the Fed did not act....

The Fed has already begun to play the role of market stability regulator, and by doing so, is taking a significant step toward reducing the fundamental instability of our economy” (Sunday NYT Financial section, 4/6, pg. 5). So the question is whether it is better for the general economy and broad public interest for the Fed to provide such assistance, rather than have the financial institutions take their full losses and as a consequence reduce their future lending and credit-providing activities.

- 2) Another point of view on the Fed's assistance was set out in an article written by Holman Jenkins, Jr. (WSJ, 3/26/08, A14): "Opening up its loan window to investment banks, and through them to their hedge fund clients, has alleviated the fear of fire sales of mortgage assets. Vulture investors are beginning to move in and judiciously price such securities, letting banks know their real losses so they can have confidence to lend again. The housing correction continues, but that was never the end of the world. The behavior of housing related debt, that was the peculiar problem that for a while seemed to threaten the solvency of half the financial sector, thanks partly to the interaction of mark-to-market accounting and regulatory capital requirements. Mr. Bernanke solved that problem."

III. **Action:** Providing Tax Rebates to Stimulate Economic Activity

Downsides:

- 1) Increases budget deficit, which requires more borrowing by the US Government, financed by countries that have a surplus of dollars generated by exporting to the US, e.g., China, net exporter of low cost products, and Middle Eastern countries, net exporters of oil. In another example of the pros and cons of certain events, high oil prices could have the beneficial effect of reducing consumption, which would help the environment and also reduce the flow of dollars to volatile parts of the world.
- 2) Encourages more spending. Economists often criticize Americans for their low savings rate. Now the government recommends that people spend their rebates, adding to the consumer-driven economy and further reducing the impetus to save.

Concluding Comments: This list can go on with many more examples, but for now the key point is to try and understand the complexity of the decisions that need to be made. Advocates of one action or another often pay only passing attention to the other impacts of the decisions or actions they favor. Politics definitely becomes a factor. Tax cutting may help stimulate the economy, but may also add to the deficit and/or reduce programs that others favor. Creating the appropriate balance of actions taken by government --presumably for the general welfare-- and the private sector --presumably for profit-- is difficult in the best of times, and that much more difficult when the system is under pressure. But if the actions were simple and clear, there would be no disagreement as to the steps to be taken. We suggest people step back, try and add to their understanding of what is taking place, and in the process make more informed judgments of the actions being suggested and taken.



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