



Park Piedmont Advisors LLC

Registered Investment Advisor

Helping to Achieve Clients' Goals with Indexed Investments

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JUNE 2008 COMMENTS

JUNE 2008 MARKET ACTIVITY (ending Monday, June 30th)

US and International STOCK prices fell significantly in June, reaching new lows for the year 2008. This result followed two months of gains in April and May, which in turn followed a negative first quarter. June's declines were particularly large, including -(8%) for the Total US Stock Market (which includes Midcap and Smallcap) and S&P 500; -(8.7%) for the NASDAQ Composite; -(9.7)% for the Dow Jones Industrials; and -(8.9%) for International and -(10.2%) for Emerging Markets. Year-to-date (YTD), the declines are somewhat greater, in a range of -(11%) for the US Total Stock Market to -(14.4%) for the Dow Industrials. High credit-quality taxable BOND prices were essentially flat, following two months of declining prices. As stock prices fell in June, bond prices recovered, apparently tied to perceptions of inflation and weak economic growth, and debate over the correct interest rate policy to address these problems. (In brief, the current low rates are designed to help economic growth, but create problems with inflation, particularly with the declining value of the dollar and related high oil prices). Much of the stock market's declines was attributed to the soaring price of oil and the inflationary impacts of these price increases. (See last month's commentary for a detailed discussion on the impact of high oil prices.)

Our basic position (abbreviated here) throughout the most recent period of financial turmoil and economic problems has been set out in previous 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." (A review of this history is presented in detail on pages 6-8 of these Comments.) This remains our core view of the current situation, and why we advise our clients to stay with their current portfolio allocations.

IMPORTANT UPDATES:

Firm Brochure: We have prepared a brochure that we will be distributing soon. We hope you take the time to review it, and consider referring us to people you know who are interested in working with an investment advisory firm that provides quality, low cost advice that helps clients achieve their goals with indexed investments.

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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 JUNE 2008

	<u>YEAR</u>	<u>YEARS</u>	<u>YEARS</u>	<u>YEAR</u>	<u>YEAR</u>	<u>YTD</u>	<u>JUNE</u>
<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%	(11.0)%	(8.0)%
Standard & Poor's (S&P) 500 Index (2)	19.6%	(40.1%)	41.9%	13.6%	3.5%	(12.8)%	(8.2)%
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(48.4%)	41.8%	9.0%	12.6%	(8.0)%	(6.8)%
Vanguard S&P 500 Value Index Fund (1)	12.6%	(26.2)%	63.2%	22.1%	0.1%	(14.6)%	(9.0)%
Dow Jones Industrial Average Index (2)	25.2%	(27.5%)	28.5%	16.3%	6.4%	(14.4)%	(9.7)%
NASDAQ Composite Index (2)	85.6%	(67.2%)	65.2%	9.5%	9.8%	(13.5)%	(8.6)%
Vanguard Midcap US Index Fund (1)	25.0%	(18.3%)	83.9%	13.6%	6.0%	(8.0)%	(7.7)%
Vanguard Smallcap US Index Fund (1)	19.6%	(24.2%)	87.5%	15.6%	1.2%	(8.2)%	(8.9)%
Vanguard International Index Fund (EAFE) (1)	25.3%	(45.9%)	95.9%	26.6%	15.5%	(11.0)%	(8.9)%
Vanguard Emerging Markets Index Fund (1)	61.6%	(29.5%)	162.7%	29.4%	39.0%	(11.7)%	(10.2)%
Vanguard Real Estate Investment Trust Fund (1)	(0.4%)	47.5%	98.6%	35.1%	(16.5)%	(3.4)%	(11.7)%
 <u>BONDS</u>							
Vanguard Total Bond Market Index (1)	(0.8%)	30.4%	11.1%	4.2%	6.9%	1.1%	0.1%
Vanguard Intermediate Tax- Exempt Index Fund (1)	(2.9%)	23.7%	10.3%	4.4%	3.4%	0.4%	(1.1)%
Vanguard Short-term Bond Index (1)	2.1%	25.8%	6.5%	4.1%	7.2%	1.9%	0.1%
Vanguard Short Tax- Exempt Index Fund (1)	2.6%	13.8%	4.5%	3.2%	4.2%	1.8%	0.0%
Vanguard High-Yield Bond Fund (1); starting 2002	NA	1.7%	30.7%	8.2%	2.0%	(2.1)%	(3.0)%
Vanguard Inflation-Protected Bond Fund (1); starting 2001	NA	25.5%	20.0%	0.4%	11.6%	5.2%	2.0%

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)	(2.9)													
NASDAQ	(14.1)	0.6													
BONDS	2.2	(1.1)													

JUNE 2008 COMMENTS

STOCK index prices suffered their largest monthly declines in years, with the US Total Stock Market, S&P 500, Dow Industrials and NASDAQ indexes all down in a range of -(8.0%) to -(9.7%). Year-to-date (YTD), these four indexes are all negative, in a range of -(11.0)% (Total Stock) to -(14.4)% (Dow Industrials). International and Emerging market indexes were also sharply lower for the month, and down -(11.0)% to -(11.7)% for the year. The best YTD performer continues to be REITs, down just -(3.4%), 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 taxable bond market were essentially unchanged, following two consecutive monthly declines, and these categories are still up slightly YTD. Municipal bonds were mixed for the month, and continue slightly higher YTD. Lower credit-quality junk bonds declined in June and are now -(2.1%) YTD, while Inflation Protected bonds gained for the month, and are up +5.2% YTD. The benchmark 10-year US Treasury yield closed at 3.97%, an 8 basis points (bps) change from May's close of 4.05%, but still significantly higher than the low rate of 3.43% reached in March. Note that as interest rates move higher, prices for existing bonds move lower.

ECONOMIC NEWS was mostly negative, but no news could compete for negative impact with the inflationary threat from higher oil and food prices. Modest overall growth in GDP, and a rise in incomes attributable to the government rebate program, were more than offset by declines in employment, housing prices and sales, consumer confidence and manufacturing activity. But the overwhelming economic news affecting the markets for the month was the price of oil (discussed in detail in our May commentary).

From a longer-term standpoint, the housing and credit problems, combined with the more recent inflationary threat from oil prices that have doubled in the past year, have resulted in an eight-month stock market retreat from the October 2007 highs that has effectively ended the 2003-07 recovery from the severe bear market of 2000-02. From the 2000 highs to June 2008, the Dow Industrials are (3%) lower, the S&P 500 (16%) lower, and the NASDAQ still a stunning (55%) lower. Thus, the annualized returns for all three indexes since 2000 continue 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, ranging from 7.9% to 8.6%. (These returns are, however, well below the 10.4% annual average dating back to 1926.) As they converge, “regression to the mean,” described by Yale endowment manager David Swensen as “one of the most powerful influences in the world of finance” 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-May 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)%
June 30, 2008	1,280	(16)%	11,350	(3)%	2,293	(55)%

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%
JUNE 2008	1,280	11,350	2,293
Gain	821	7,516	1,541
Avg. Ann. % Gain: '95-6/08; 13.5 yrs	7.9%	8.4 %	8.6 %

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 2007 Comments, has been updated monthly to reflect the extreme stock market volatility since the summer of 2007. The month of June marked a return to significant downside stock price volatility, which also characterized January through mid-March of this year.

	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, and 3/17 Lows*	1,257	-11.3%	11,635	-6.6%	2,155	-10.8%
5/31/08 Close	1,400	-1.3%	12,638	1.4%	2,523	4.5%
6/27-30/08 Low*	1,272	-10.3 %	11,288	-9.4%	2, 293	-5.0%
6/30/08 Close	1,280	-9.7%	11,350	-8.9%	2,293	-5.0%

* Note – all Lows are not closing prices, but ("intra-day") lows

Some key observations from the chart:

- 1) From the 10/9/07 highs to the January, March, and most recently June intra-day lows (for the Dow Industrials), the S&P 500 was down 19.6%, the Dow down 20.2%, 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-May 2008 recovery from the March 2008 lows, were both substantial, ranging from 10% to 20% in most 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. This ignores the history of price recoveries (see pages 6-8).
- 3) The June 2008 declines have, in one month, wiped away all the gains from April-May. Again, the market has moved very rapidly, this time to the downside.
- 4) 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.

Historical Perspective of Periods of Stock Price Declines and Recoveries

(Source for Five Year and One Year Figures for Large Company US Stocks:
Ibbotson Yearbook, 2008; Stocks, Bonds, Bills and Inflation, 1926-2007)

Whenever stock prices experience a period of serious declines, the question arises as to whether and/or when to sell stock positions. There are also those who think periods of decline create major buying opportunities, but for now we would like to focus on the majority of investors, who tend to become fearful that more declines are likely to follow, and therefore consider selling.

We are presenting the historical record of stock prices below because we believe this history presents a reasonable starting point to answering the “should we sell” question. While history cannot be relied on as predictive of the future, it still covers many different time periods during which a number of different significant problems caused stock prices to decline. The history also shows that, at some point in time, stock prices have recovered. It should be noted that the time that passes until the recovery occurs has a significant impact on investment returns, and some periods have been far harsher on investors than others.

Our approach to dealing with periods of decline is to rely on the prior history of price recoveries in the context of an allocation to stocks, which we establish for each of our clients to help achieve their long-term investment goals.

While there is no certainty either to the recovery itself, or the time frame in which it occurs, we believe using this history is a better approach to investing than trying to judge the extent of the problems, and the period in which they are likely to be solved, which amounts to trying to “time” the markets. This approach is particularly suspect in that it relies on so-called “experts” in the media or on Wall Street, all of whom are just as likely to be wrong as right in their predictions of the future.

The figures below (see page 7) show the average annual results for all FIVE-YEAR periods during which stocks had either negative returns or less than a 5% positive return (totaling 20 of 78 possible five-year periods, Ibbotson, pp. 42-43). They also show the one year results within those five year periods that had negative returns or less than a 5% positive return (totaling 27 of 82 possible one year periods, Ibbotson, pp. 36-37).

Even with these periods of poor returns, the average annual return over the 82 years was +10% (pg. 15). Investors own stocks in the hope of achieving these higher returns, which in turn help them to achieve their financial goals.

FIVE YEAR PERIODS:

1927-31	(5%)
1928-32	(12%)
1929-33	(11%)
1930-34	(10%)
1931-35	+3%
1936-40	+1%
1937-41	(8%)
1938-42	+4%
1939-43	+4%

RELATED ONE YEAR PERIODS:

1929	(8%)
1930	(25%)
1931	(43%)
1932	(8%)
1934	(2%)
1937	(35%)
1939	(1%)
1940	(10%)
1941	(12%)

1966-70	+3%
1969-73	+2%
1970-74	(2%)
1971-75	+3%
1972-76	+4%
1973-77	0%
1974-78	+4%

1966	(10%)
1969	(9%)
1970	+4%
1973	(15%)
1974	(26%)
1977	(7%)

1998-2002	(1%)
1999-2003	(1%)
2000-2004	(2%)
2001-2005	+1%

2000	(9%)
2001	(12%)
2002	(22%)

Although there were individual years with low positive or negative returns, all five year periods from 1940-1969, and again from 1975-2001, had returns of +5% or better, with many periods showing double digit gains.

One significant point to note is that, after the period from 1927-1943 (which included the Depression and World War II), the other five-year periods of negative or less than +5% results (seven periods from 1966-1978, and four periods from 1998-2005) have exhibited a very tight range of results, with (2%) as the lowest average annual return during the five-year period. The figures show that over five-year periods, the substantial one-year declines (1973-74 and 2000-02) have tended to be absorbed in quite modest average annual declines for the five-year period.

Some additional figures make the same point about declines and recoveries. The WSJ, in its front page article (6/28-29/08) on the recent stock market declines, presents a chart on past bear market declines since 1960 for the Dow Jones Industrials, along with the recoveries that followed during the twelve-month period after the end of the declines. Here are the figures:

1961-2: decline of 27%, followed by a 32% gain
1966: decline of 25%, followed by a 25% gain
1968-9: decline of 36%, followed by a 44% gain
1973-4: decline of 45%, followed by a 42% gain
1976-8: decline of 27%, followed by a 9% gain
1981-2: decline of 24%, followed by a 51% gain
1987: decline of 36%, followed by a 23% gain
1990: decline of 21%, followed by a 26% gain
2000-2: decline of 38%, followed by a 33% gain

NOTE: After a decline of any percentage, the gain required to get back to even is a significantly higher figure. For example, a decline of 30% from 100 leaves 70, and requires a gain of 43% to return to the original 100.

Of course, during each period of decline, no one can predict the end, or the eventual amount, of the decline. What can be seen from these figures, however, is that there is a history of recoveries after severe stock price declines. In another article that appeared in the WSJ (6/28-29, B1), the author (Larry Light) discusses the "buy and hold philosophy, (in which) investors ride the market down. There's a decent argument to be made for buy and hold. Aside from the absurdity of liquidating an entire equity portfolio..., investors ultimately end up better off than if they had tried to sell at the top and buy at the bottom." The article also quotes David Dreman, a long-time professional fund manager: "It's hard to time the market, so stay in and benefit from the inevitable turnaround."

The WSJ article then discusses the fact that "since 1945,...bear markets lasted an average of 14 months, and took 12 months from their bottoms to regain the lost ground." The article goes on to say that this average excludes the two worst bear markets, one in 1973-74 and the other 2000-02. The article cites "the powerful and vibrant U.S. economy" as the reason for these recoveries, and states that from 1945, through 2007, the S&P 500 index has experienced a 13% average annual return, including dividends. During the same time period, the Consumer Price index, as a measure of inflation, has averaged 4% annually.

Our rationale in presenting all these historical figures is to conclude that you would need to believe that the current problems are so great as to make the likelihood of recovery, as indicated by these historical figures, either not likely at all, or not likely in any reasonable time frame. We simply have no basis to reach such a conclusion, and are therefore prepared to rely on our specific allocations for each client, with the expectation that stock prices will at some point move towards their long-term positive results.



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