



Park Piedmont Advisors LLC

Registered Investment Advisor

Helping to Achieve Clients' Goals with Indexed Investments

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JULY 2008 COMMENTS

JULY 2008 MARKET ACTIVITY (ending Thursday, July 31st)

US stock prices showed modest changes in July, after reaching new lows for the year early in the month. This result followed major declines in June, which in turn followed two months of gains. July's results were -0.6% for the Total US Stock Market (which includes Midcap and Smallcap) and -0.9% for the S&P 500; $+1.2\%$ for the NASDAQ Composite and $+0.2\%$ for the Dow Jones Industrials. International and Emerging Markets declined more than US stocks, at -3.2% and -3.7% , respectively. Year-to-date (YTD) declines range from 11.6% for the US Total Stock Market to -14.2% and -15.4% for Total International and Emerging Markets, respectively. High credit-quality taxable BOND prices were essentially flat for a second consecutive month, while lower credit quality income-oriented investments declined. Oil prices experienced a major down month for the first time in over a year, and other commodity prices declined as well, but the US stock market's response was no better than to move sideways. The economic slowdown triggered by the decline in housing prices, and the associated credit problems, may finally be impacting the demand for commodities, both in the US and internationally.

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 was presented in detail on pages 6-8 of June's 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 to help 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 JULY 2008

	YEAR	YEARS	YEARS	YEAR	YEAR	YTD	JULY
<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%	(11.6)%	(0.6)%
Standard & Poor's (S&P) 500 Index (2)	19.6%	(40.1%)	41.9%	13.6%	3.5%	(13.7)%	(0.9)%
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(48.4%)	41.8%	9.0%	12.6%	(9.6)%	(1.6)%
Vanguard S&P 500 Value Index Fund (1)	12.6%	(26.2%)	63.2%	22.1%	0.1%	(14.9)%	(0.3)%
Dow Jones Industrial Average Index (2)	25.2%	(27.5%)	28.5%	16.3%	6.4%	(14.2)%	0.2%
NASDAQ Composite Index (2)	85.6%	(67.2%)	65.2%	9.5%	9.8%	(12.3)%	1.2%
Vanguard Midcap US Index Fund (1)	25.0%	(18.3%)	83.9%	13.6%	6.0%	(11.5)%	(3.5)%
Vanguard Smallcap US Index Fund (1)	19.6%	(24.2%)	87.5%	15.6%	1.2%	(6.7)%	1.5%
Vanguard International Index Fund (EAFE) (1)	25.3%	(45.9%)	95.9%	26.6%	15.5%	(14.2)%	(3.2)%
Vanguard Emerging Markets Index Fund (1)	61.6%	(29.5%)	162.7%	29.4%	39.0%	(15.4)%	(3.7)%
Vanguard Real Estate Investment Trust Fund (1)	(0.4%)	47.5%	98.6%	35.1%	(16.5)%	(0.3)%	3.1%
 <u>BONDS</u>							
Vanguard Total Bond Market Index (1)	(0.8%)	30.4%	11.1%	4.2%	6.9%	1.1%	0.0%
Vanguard Intermediate Tax- Exempt Index Fund (1)	(2.9%)	23.7%	10.3%	4.4%	3.4%	1.0%	0.6%
Vanguard Short-term Bond Index (1)	2.1%	25.8%	6.5%	4.1%	7.2%	2.1%	0.2%
Vanguard Short Tax- Exempt Index Fund (1)	2.6%	13.8%	4.5%	3.2%	4.2%	2.4%	0.6%
Vanguard High-Yield Bond Fund (1); starting 2002	NA	1.7%	30.7%	8.2%	2.0%	(3.2)%	(1.1)%
Vanguard Inflation-Protected Bond Fund (1); starting 2001	NA	25.5%	20.0%	0.4%	11.6%	4.6%	(0.6)%

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)													

JULY 2008 COMMENTS

STOCK index prices showed little change in July, with the US Total Stock Market, S&P 500, Dow Industrials and NASDAQ indexes finishing in a range of -(0.9%) for the S&P 500 to +1.2% for the NASDAQ Composite. Year-to-date (YTD), these four indexes are all negative, in a range of -(11.6%) for Total Stock Market to -(14.2%) for the Dow Industrials. International and Emerging market indexes were lower for the month, and down -(14.2%) to -(15.4%) YTD. REITs continue as the best YTD performer, down just -(0.3%); they 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 for the second consecutive month, and these categories are still up slightly YTD. Municipal bonds gained for the month, and are also slightly higher YTD. Lower credit-quality junk bonds declined in July and are now -(3.2%) YTD, while Inflation Protected bonds declined for the month, but are up +4.6% YTD. The benchmark 10-year US Treasury yield closed at 3.99%, up 2 basis points (bps) from June, but still significantly higher than the low rate of 3.43% reached in March. The 10-year yield is now fully 2% (200bp) higher than the Fed funds rate of 2%. Note that as interest rates move higher, prices for existing bonds move lower.

ECONOMIC NEWS continued mostly negative, with declines in employment and housing prices, and no relief from the financial losses associated with the mortgage and other credit problems. However, oil prices declined, which could relieve inflationary pressures if prices do not move higher again. GDP showed a modest increase for Q2, aided by the government rebates, but continued economic weakness is anticipated.

From a longer-term standpoint, the housing and credit problems, the dramatic rise in oil prices, and the economic slowdown accompanying these problems have contributed to a nine month stock market retreat from the October 2007 highs. The declines reached bear market territory during early July (defined by the major indexes falling 20% or more), and have effectively ended the 2003-07 recovery from the severe bear market of 2000-02. From the 2000 highs to July 2008, the Dow Industrials are (3%) lower, the S&P 500 (17%) lower, and the NASDAQ still a stunning (54%) 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 7.8% 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-July 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)%
July 31, 2008	1,267	(17)%	11,378	(3)%	2,325	(54)%

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%
JULY 2008	1,267	11,378	2,325
Gain	808	7,544	1,573
Avg. Ann. % Gain: '95-7/08; 13.58 yrs	7.8%	8.3 %	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, into early July, 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%
7/15 Low*	1,200	-15.4 %	10,828	-13.1%	2,167	-10.3%
7/31/08 Close	1,267	-10.6%	11,378	-8.7%	2,325	-3.7%

* 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 most recent mid July intra-day low, the S&P 500 was down 23.3%, the Dow down 23.6%, and the NASDAQ Composite down 24.2%. These are major declines of bear market magnitude (in excess of 20%) 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.
- 3) The June-mid July 2008 declines have, in one month, wiped away all the gains from April-May, and the recovery so far from these lows has been quite weak.
- 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.

Managing Your Investments in Difficult Times

Over the past few months, this section of the Monthly Comments has focused on the major problems affecting the markets: in March, Inflation and Recession; in April, Unintended Consequences of Economic Policy Changes; in May, High Oil Prices. In June, we discussed the historical record of stock price recoveries from serious declines. For this month, given that market prices for both stocks and bonds recorded mostly modest changes, we will take this opportunity to focus on how we suggest people manage their investments in difficult times such as these.

First, we do not think anyone can consistently time the movements of market prices. This means that neither we, nor anyone else, can predict when to be in the markets, believing prices will be rising, and then when to be out of the markets, in order to avoid declines. Each day, any number of buyers and sellers in the markets make their judgments on whether to be in or out of particular investments. Some prove to be correct and others incorrect. Reasonable people, presented with the same set of data, often reach different conclusions as to how to react to that data. Even now, with stock prices down more than 20% from their October 2007 highs, there are days when stock prices go up substantially, presumably trying to anticipate the recovery that history suggests does occur (see June Comments). There are no particular indicators that, once they occur, signal future rising or falling prices. If such a reliable indicator did exist, it would quickly be discovered, and its value lost as a predictive tool. Many market participants make the effort to time successfully, and while some may succeed for some period of time, consistent success has not been demonstrated. (There is much literature on this subject that we rely on to support our point of view, and we would be happy to provide references on request).

Rather than basing our advice on when to be in and out of the stock market, we give advice based on the particular goals and needs of our clients, with reference to the long term historical returns of various parts of the markets. (We recognize, of course, that these long term returns may not necessarily repeat in the relevant time frame for our clients.) This approach to investment advice requires that we understand the following:

- 1) The amount of accumulated capital to be invested;
- 2) The amount and timing of desired withdrawals from the accumulated capital; and
- 3) Other sources of money available that do not involve the accumulated capital (e.g., earnings from work, from a third party retirement plan, social security, inheritances)

With this information, and using different estimated after-tax investment returns and different rates of inflation (as inflation impacts spending), we develop an asset allocation among stocks on the one hand, and non-stock, income-oriented investments on the other hand. The allocation is designed to have a reasonable chance of meeting our client's goals, consistent with the degree of risk to capital that our client is able to accept. Notice that this process has nothing to do with our views as to whether stock prices will be rising or falling in the foreseeable future. Instead, we base our allocation recommendations on the client's need for returns and tolerance for risk, in the context of the long term history of returns for various investment categories.

The relationship of these factors to our allocation recommendations is discussed below:

1) Money can be generated independently of an investment portfolio. Working is the most common way to do this, which would allow investment capital to be used to earn a return and grow. The allocation among stocks and bonds in a portfolio with no current withdrawal needs depends in large part on when withdrawals would begin; the longer the time, the greater the potential stock allocation, given the higher long term returns associated with stocks.

2) All available capital can be invested to try to earn a relatively consistent return in line with the amount of desired withdrawals. For example, if a client has \$1 million of capital, and an annual withdrawal need of \$50,000, an investment that produces a 5% annual after tax return, and that adjusts for inflation, would go a long way in meeting the client's needs. Even if such an investment were available in the marketplace, however, the purchasing power of the \$1 million of capital would decline over time, a factor which may or may not be a problem for a particular client. Income-oriented taxable bond investments have a long term historical return of approximately 5%, but after annual historical inflation of 3%, the purchasing power return would be reduced to 2% annually.

3) An alternative is to invest some of the capital in stocks, which have a long term historical average annual pretax return of 10%, or 7% after adjusting for inflation. The problem with stocks is that the returns are not earned evenly over time; rather, the returns can vary widely over both short (year to year) and much longer (ten year) periods of time. Indeed, there can be periods when returns are negative. If withdrawals are required at those times, then stocks must be sold during periods of market declines, and the value of the remaining capital can decline at an unacceptably rapid rate. Therefore, our advice on stock allocation depends on how much of the portfolio needs to be used to generate the desired returns.

4) If the client needs 7% withdrawals, and income oriented investments have an income yield of 5%, some amount of stock investments would have to be added to the portfolio in an effort to achieve the 7%. Notice that the objective may not be achieved, because the stock market may not deliver the long term return in the time frame relevant to the client's needs. This highlights a major dilemma with investing: A high degree of certainty (that is, less risk) typically generates lower investment returns; the higher returns come with the greater degree of uncertainty. Clients with enough capital to meet their inflation-adjusted withdrawal needs for their lifetimes (and no objectives for future generations, or charity) would have little or no exposure to stocks; but once the client's needs, either for lifetime withdrawals or after-death objectives, call for growth of capital, some exposure to stocks is in order.

5) Once we determine an appropriate percentage exposure to stocks, we recommend staying with the allocation, even during periods of serious stock price declines. We base this advice on: (1) the first premise that neither we, nor anyone else, know in advance when stock prices are going to rise or fall; and (2) the historical record that stock prices recover after declines.



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