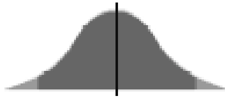

Park Piedmont Advisors LLC

Registered Investment Advisor

VICTOR LEVINSON NICK LEVINSON, CFP®

AUGUST 2007 COMMENTS

AUGUST MARKET ACTIVITY

As a result of the dramatic price swings in the stock and bond markets during August, we are devoting the Investment Concepts section of this month's Comments (starting on page 5) to this market activity. While this is an unusual topic for this section, we believe that August's extreme price swings warrant a more detailed analysis.

SOME INTERESTING HISTORY

"Exactly 25 years ago today (August 12, 1982), gloom abounded in the markets….On August 12, 1982, the Dow Jones Industrial average closed at 777. Nobody recognized it at the time of course, but that was the day the greatest bull market in history was born….It closed last week at 13,240" (NY Times, 8/12/07, C1). This bull market has provided a 12% annual compounded return, before accounting for dividends of at least an additional 2% annually. This is comparable to buying a single stock at $8 and seeing it advance to $132, or buying a house for $78,000 and seeing its value grow to over $1.3 million.

PARK PIEDMONT ADVISORS (PPA): An Update of Who We Are

PPA now consists of five investment professionals who provide investment advice to our clients. Victor and Nick Levinson, founders of PPA, are two of the five. They are joined by three Certified Public Accountants (CPAs): Richard Backer, in New York City; George Gotthold, in Southern New Jersey; and Stuart Greenberg, in Central New Jersey. Each of the CPAs offers investment advice in addition to their accounting work. Lynette Carmelli heads our administrative and client services staff. PPA is also looking for an additional investment professional to work with Victor's clients in the New York-New Jersey-Connecticut metropolitan area and Florida.

If you know others who you think might benefit from our services, we are always interested in and grateful for your referrals.

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Pages 2-4: Index Results for AUGUST 2007, and Year-to-Date 2007;
Also Years 1999 – 2006, and Various Other Longer Time Periods
Pages 5-9: Investment Concepts: August Market Activity

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 AUGUST 2007

STOCKS	YEAR 1999	YEARS 2000-02	YEARS 2003-05	YEAR 2006	YTD 2007	AUG 2007
Vanguard Total Stock Market Index Fund (1)	23.8%	(37.2%)	53.1%	15.5%	5.3%	1.5%
Standard & Poor's (S&P) 500 Index (2)	19.6%	(40.1%)	41.9%	13.6%	4.0%	1.4%
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(48.4%)	41.8%	9.0%	8.0%	1.8%
Vanguard S&P 500 Value Index Fund (1)	12.6%	(26.2)%	63.2%	22.1%	3.2%	1.3%
Dow Jones Industrial Average Index (2)	25.2%	(27.5%)	28.5%	16.3%	7.2%	1.2%
NASDAQ Composite Index (2)	85.6%	(67.2%)	65.2%	9.5%	7.5%	2.1%
Vanguard Midcap US Index Fund (1)	25.0%	(18.3%)	83.9%	13.6%	6.7%	0.4%
Vanguard Smallcap US Index Fund (1)	19.6%	(24.2%)	87.5%	15.6%	4.3%	1.4%
Vanguard International Index Fund (EAFE) (1)	25.3%	(45.9%)	95.9%	26.6%	10.0%	(0.8)%
Vanguard Emerging Markets Index Fund (1)	61.6%	(29.5%)	162.7%	29.4%	21.8%	(1.2)%
Vanguard Real Estate Investment Trust Fund (1)	(0.4%)	47.5%	98.6%	35.1%	(8.0)%	5.6%
BONDS						
Vanguard Total Bond Market Index (1)	(0.8%)	30.4%	11.1%	4.2%	3.0%	1.4%
Vanguard Intermediate Tax- Exempt Index Fund (1)	(2.9%)	23.7%	10.3%	4.4%	0.7%	(0.1)%
Vanguard Short-term Bond Index (1)	2.1%	25.8%	6.5%	4.1%	3.8%	1.1%
Vanguard Short Tax- Exempt Index Fund (1)	2.6%	13.8%	4.5%	3.2%	2.3%	0.3%
Vanguard High-Yield Bond Fund (1); starting 2002	NA	1.7%	30.7%	8.2%	0.2%	1.8%
Vanguard Inflation-Protected Bond Fund (1); starting 2001	NA	25.5%	20.0%	0.4%	4.9%	0.9%

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	5.8		
NASDAQ	(8.1)	2.6	4.4	2.5	6.1	(7.6)	3.9	7.1	0.3	7.5		
BONDS	(0.5)	3.0	(0.7)	0.6	(0.7)	(0.2)	3.8	1.3	1.4	(0.6)		
Interm. Tax.												

AUGUST 2007 COMMENTS

STOCK index prices for US stocks gained in August, amidst elevated volatility (see the in-depth discussion of August's market activity on pages 5-10). Year-to-date (YTD), the broad based US stock indexes are up in a range of 4.0% to 7.5%. Developed international and Emerging Market international stocks are both outperforming the US indexes, and the REIT sector continues as this year's underperformer, although it had the largest monthly gain of the year during August. See the third paragraph below for discussion of economic factors, and page 2 above for figures for the month, YTD, and since 1999.

BOND returns (price change plus interest) for the high credit-quality part of the bond market were positive. Prices rose as market interest rates declined, with the benchmark 10-year US Treasury yield closing at 4.55%, down from July's level of 4.77% and June's close of 5.03%. The August closing yield was a mere 8 basis points (8/100, or 0.08) from the most recent low level in this cycle, the 4.47% from November, 2006. The current short-term overnight rate set by the Federal Reserve remained at 5.25%. In spite of all the publicity about problems in lower credit quality bonds, the high yield bond funds also gained during August, reversing some of July's declines. Bond returns for the month, YTD, and since 1999 are set out on page 2 above.

ECONOMIC NEWS for the month was, on balance, moderately favorable. While the pace of employment growth slowed (WSJ, 8/4-5/07, A3), the economy as a whole expanded at a 4% annual growth rate in Q2 (WSJ, 8/31/07, A2). Orders for durable goods improved (WSJ, 8/25-26/07, A3), while housing problems persisted (WSJ, 8/28 and 8/29, A2 and A3). Retail sales were moderately higher (WSJ, 8/14/07, A2), while inflation figures were within acceptable ranges (WSJ, 8/1/07, A2; 8/16/07, A2 and 9/1-2/07, A2). Personal income rose, while consumer confidence indexes declined (WSJ 9/1-2/07, A2 and 8/29, A2).

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From a longer-term standpoint, the current decade has seen a major bear market in stocks (3/00-3/03), and an almost 4 _-year recovery to current price levels. The Dow Industrials are now 14% above their 2000 high, but the S&P 500 remains 3% below its 2000 high and the NASDAQ a stunning 48% below its 2000 high. This means the annualized returns for all three indexes since 2000 are far below the 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 remarkably similar average annual returns (ranging from 9.6% to 10.3%), quite close to the 10.4% average annual return for stocks dating back to 1926. As these returns 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-YTD 2007 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.

	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	1,474	(3)%	13,358	+14%	2,596	(48)%

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%
AUGUST 2007	1,474	13,358	2,596
Gain	1,015	9,524	1,844
Avg.Ann.%Gain:'95-8/07; 12.67 yrs	9.6%	10.3 %	10.3 %

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:

August Market Activity

The following chart of stock prices for the three major US indexes should serve as useful information for the discussion that follows:

	S&P 500	YTD % Change	Dow Jones Industrials	YTD % Change	NASDAQ Composite	YTD % Change
Year End 2006	1,418	-	12,463	-	2,415	-
June 30, 2007	1,503	+6.0%	13,409	+7.6%	2,603	+7.8%
July 19, 2007 High	1,553	+9.5%	14,000	+12.3%	2,720	+12.6%
July 31, 2007	1,455	+2.6%	13,212	+6.0%	2,546	+5.4%
Aug 16, 2007 Intraday Low	1,370	(3.4%)	12,456	(0.0%)	2,387	(1.2%)
Aug 31, 2007	1,474	+4.0%	13,358	+7.2%	2,596	+7.5%

Our Monthly Comments from June and July both contained extensive discussion of the many serious issues in the credit markets which, in turn, have been extensively cited in the media as the reason for the extreme market price movements during August. While regular readers know we are reluctant to attribute causation of market price movements to any particular factor, it seems fair to say that the credit issues brought relatively new problems to the markets, and that, at least initially, the market's reaction to these problems has been substantial and mostly negative. Economic news relating to overall economic growth, employment, inflation, even housing, became secondary to the issues with the credit markets.

Note however that as August unfolded, particularly after the Federal Reserve took a few steps that it believed would ease the credit problems, all three major US stock indexes recovered substantially from their mid-month intra-day lows. In fact, all three indexes closed August at modestly higher levels than had been reached at the end of July, and were up for the year to date between 4% and 7.5%. August was unusual because of the extreme volatility of the stock price swings, with 7 days (out of 23 trading days) involving price swings of approximately 2% or more, including the August 16th intra-day move of more than 3%. (Note that the media focus on the gross amount of the price change should always be translated into a percentage change; for the Dow Jones, with the index around 13,000, it takes a 260 point move for a 2% change; for the S&P 500, with the index around 1,400, it takes a 28 point move for a 2% change; and for the NASDAQ Composite, with the index around 2,400, it takes a 48 point move for a 2% change. To express a 2% change in a different way, a $1 change in an individual stock trading at $50 per share is a 2% change).

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In discussing the unusual volatility during August, NY Times columnist Floyd Norris wrote (9/1/07, C1) as follows: "Does it make sense for stock prices to plunge one day and soar the next, with little in the way of new information to explain the move? Maybe not, but it happened this week, just as it did earlier in August. It was the first time in more than four years that the American stock market experienced such wild swings, and could be a harbinger of a reversal of direction in either the stock market or the economy, or both. Or it could just show that changes in the financial system have left many investors confused about what is going on."

In the context of this volatility, an important question is why the stock market was able to make a significant recovery from the substantial declines of mid-August. Of course, no one can know the precise reasons, or to what extent one or another reason was important. Nor can anyone say whether new credit-related issues will emerge to drive prices down further in the future. However, some discussion of this question is in order, with any or all of the following reasons among the plausible explanations for the late August recovery:

1) Actions of the Federal Reserve, which gave the market confidence that financial institutions could reasonably extend credit in customary transactions;

2) Market participants re-evaluated the extent of the damage to the overall economy likely to result from the problems in various low credit quality markets;

3) The media made more of the "crisis" than was warranted by the facts;

4) The over leveraged investors in high yielding, low credit-quality debt have done much of the selling that they need to do.

In considering August's market activity, it seems to us there are a number of alternative reactions that people can have, any one or a combination of which could be considered reasonable:

1) Don't worry, markets are likely to recover quickly from their problems;

2) Worry plenty, as new problems, especially those described as "unexpected," can cause major price declines;

3) Consider carefully what the media presents as a "crisis," since it is clearly in the interest of the media to have us tune in and keep reading and watching;

4) Adopt a longer-term perspective, measured in years, not days or months. As long as the current problems do not appear to threaten the long-term economic growth on which stock market advances ultimately depend, have faith in an appropriately allocated portfolio. While this alternative may sound appealing, determining before the fact whether the problems will or will not threaten long-term economic growth is a daunting task. Indeed, since no one can predict the course of future events, it is only after the events unfold that anyone can say with any degree of certainty what actually took place.

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A number of articles have been written about August's market activity and the apparent major problem related to the credit markets. We have presented a few of these articles below that make particular sense to us.

One such article was written by Ben Stein in the Sunday NY Times Business section (8/12/07, pg. 6): "One job of an economist (Stein's profession) is to put things in perspective. First, when the story of this turbulence (in stock and bond markets) is reported, the usual explanation mainly has to do with some new loss in the sub-prime mortgage world… Proportion tells us that something is out of whack: the total mortgage market is roughly $10.4 trillion, of which a little over 13%, or $1.35 trillion, is sub-prime, certainly a large sum. Of this nearly 14% is delinquent, meaning late in payment or in foreclosure. Of this 5% is in foreclosure, or $67 billion, of which at least half will be recovered in foreclosure, so losses are now down to $34 billion. The rate of loss in sub-prime keeps climbing, and in time may perhaps double to $67 billion,… a large sum, but by the metrics of a large economy it is nothing. The total wealth of the US is about $70 trillion. The value of all stocks listed in the US is roughly $15-$20 trillion. The bond market is even larger….The fears and terrors about sub-prime mortgages have helped knock off 6.7% of the stock market's value in recent weeks, which is $1.1 trillion, or more than 30 times the losses so far in the sub-prime market. In other words, these sub-prime losses are wildly out of proportion to the likely damage to the economy from the sub-prime problems."

The Ben Stein article continues in the same vein by discussing the idea that it is unlikely the sub-prime mortgage problem can adversely affect either the large companies in the US stock market, or foreign stocks, or developing country stocks. He then addresses the "'drying up' of credit for private equity deals because of fears of risk. This is also puzzling. I can't think of a single recent major private equity deal in which the bonds have defaulted… Even if all private equity deal went away for good, they are not all that big a piece of the US economy." Stein then discusses the problems at Bear Stearns, concluding that those problems, while a big deal to Bear Stearns, should not be a reason to wipe hundreds of billions off the total value of US stocks. He concludes: "I don't know where the bottom is on sub-prime. I don't know how bad the problems are at Bear. Yet I do know that the market reactions are wildly out of proportion to the real problems that have been revealed. Maybe there is some giant thing hiding in the closet to rationalize the market's fears. But if it's hidden, how can the market be reacting to it in the first place?… Reassurances in word and deed from Ben Bernanke, chairman of the Federal Reserve, helped calm the market on Friday. But recent events are a disturbing commentary on the power of fear. This economy is extremely strong. Profits are superb. The world economy is exploding with growth. To be sure, terrible problems lurk in the future; a slow motion dollar crisis, huge Medicare deficits and energy shortages. But for now, the sell off seems extreme, not to say nutty…."

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Ben Stein wrote a follow up article after August 16th (NY Times Sunday Financial section, 8/26/07, pg. 7) in which he wrote: "Today's news media will 'catastrophize' anything they can. The sub-prime mess was always much smaller than the media let on. (See my column of two weeks ago). In a nation of our size, in a world economy on fire with prosperity and liquidity, the losses were not large, but the media endlessly tried to scare us. When fear can easily outrun fact, some basic education is required from our national stewards of finance. The performance by Ben S. Bernanke, the Federal Reserve Chairman, was letter perfect. His injections of liquidity and his resolve to invite banks to the discount window to preserve liquidity were just what the doctor ordered."

Columnist Floyd Norris, writing on the front page of the NY Times (8/17/07) about the dramatic price swings on August 16th, under the headline "With Markets Moving Wildly, Insight Suffers," observed that "it seemed unlikely, if not absurd, that the American economy and credit system could be shaken because a few people with poor credit fell behind on their mortgages. Why should that slow consumer spending? Why should it affect companies that made mortgage loans only to people with good credit? Why should it bring a halt to the leveraged buyout boom? Perhaps none of those things should happen. But fears that they may take place have sent the stock market on a wild ride over the last month, culminating yesterday with the Dow Jones Industrial average falling more than 300 points before gaining nearly all of them back in the final hour of trading, amid speculation that the Federal Reserve would find a way to keep troubled financial companies from failing….The unfortunate series of events that got us here…began with the weakening of the housing market. That caused some mortgages to go into default, which raised questions about the value of mortgage securities and the credibility of the ratings that enabled the securities to be sold. That led to the questioning of other types of loans that had been financed by selling packages of securities that were structured in similar ways to ones that had financed the mortgages. It became more difficult for companies to borrow. Now it seems to be spilling over to the real economy, with consumers getting nervous." Norris concludes that the problems in the credit markets may very well have a negative impact on the real economy.

In another article written after August 16th (WSJ, 8/20/07, pg. A11), Brian Westbury, chief economist for First Trust Portfolios, writes that "the current turmoil in the financial market has nothing to do with a lack of liquidity….The real problem with the financial markets is that extreme leverage and extreme uncertainty have met in the sub-prime loan market." The author analyzes figures to approximate the likely dollar losses attributable to the sub-prime market, and concludes that the value of the underlying assets range from 73 cents to 92 cents on the dollar. "But this is the rub. A hedge fund or financial institution that uses 4:1 leverage or more would be wiped out if it sold sub-prime bonds at these levels. A 27% loss becomes a 100% loss." He concludes "it can't help overly leveraged investors who thought they were getting risk free 20% annual returns. Providing enough liquidity to allow markets to function, while keeping consumer prices as stable as possible, is the best the Fed can do."

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In a WSJ article (8/7/07, A11) with the headline "Don't Panic About the Credit Market," David Malpass, chief economist at Bear Stearns (who we have quoted frequently in previous Comments over the years), observes that "equity markets have recently lost over $2 trillion in the US, and even more globally, many times the amount of mortgage and corporate debt losses in the foreseeable future….Another aspect of the market disruption is a dramatic stand off between bond buyers and sellers….The slowdown talk weighing on equities also reflects the Wall Street view that debt, mortgage and takeover businesses have replaced General Motors as the economy's bellwether…. Housing and debt markets are not that big a part of the US economy or of job creation. It's more likely the economy is sturdy and will grow solidly in coming months, and perhaps years. Unlike the 1998 seizure in credit markets to which many are drawing comparisons, reservoirs of global liquidity are full to overflowing… US growth has endured other waves of equally loud pessimism, over high gasoline prices, low (pre-revision) estimates of job growth, a supposedly negative personal savings rate (revised to positive on July 27th) and even the 2003 tax cut….The housing and debt market corrections will probably add to the length of the US economic expansion… by correcting an artificial allocation of US capital occasioned by overly low interest rates." The author addresses the problem of mortgage rate resets by estimating that cost at $10 billion, in the context of overall US personal income of $11 trillion. He concludes that "the constant warnings of a housing-related collapse in domestic consumption overstates the importance of housing in the economy, while understating the importance of jobs and economic growth, both of which have been solid….The economy as a whole will probably benefit over time from the wrenching return to more normal market conditions."

All of the prior comments related to US stock market activity in August, but there were also some unusual developments in the bond market. Most unusual was the fact that yields on very short-term US Treasury Bills (with maturities of less than 90 days) soared in price, which meant their yields declined dramatically. At one point, even with the overnight Fed funds rate maintained at 5.25%, the yield on short-term T-Bills plummeted to as low as 3.5%. The reason provided for this occurrence was "investors' swarming to the safety of short term government paper" (WSJ, 8/22/07, C1). High credit quality debt was very much in demand, driving prices up and yields down. However, just as the stock market results were surprising in that the month ended with gains, so too did the low credit quality, high yield bond segment of the markets. For example, the Vanguard high yield bond fund gained 1.8% for the month, and was up 0.2 % YTD. By month's end, short- term yields had returned to more normal levels. Indeed, only two days after the quote about investors "swarming to the safety of short term government paper," the WSJ wrote (8/24/07, C2) that "investors are increasingly cottoning to the idea that the tumult of recent weeks is subsiding…., which has lowered the attractiveness of owning government bonds, which are popular when investors are frightened."

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