

Quarterly Investment Letter

Creative Financial Services, Inc.

Second Quarter 2008

Investment Review and Outlook

The second quarter ended dismally and was full of continued bad news as global stock markets experienced their worst quarter in years. It was a continuation of the first quarter slide. Equities were still left with sharp losses for June and the second quarter, as surging crude oil prices and ailing financial firms continued to fuel broad concerns about the economy and profits. The majority of Morningstar Mutual Fund Category returns are negative for the year. The only bright spots were a continuation of a multiyear rally in energy and various commodity-related investments.

As those of you who have been investing for a while know, we have been in this territory before and will be in it again in the future. Market corrections and recessions are part of the normal market cycle. Don't forget we have had nearly five years of good positive growth since the end of the last downturn in 2003. Don't look in the rearview mirror and worry about the last six months or worry about the next six months of performance, but focus on the next three to six years. I believe the stage is being set for better future returns as stocks tend to rebound strongly after a recession/correction.

Unfortunately this time around, I believe the biased media has exacerbated the downturn with their constant negative spin on the economy and the administration. I believe they have an agenda (at least until the November elections) and it isn't helping consumer sentiment nor assisting in a recovery. Many believe we are in a recession, but that cannot be confirmed until we have two successive negative quarters in GDP. I believe we are not in a recession but have "very slow growth". There is great value to be had in many companies and in many sectors of the economy and the likes of the Warren Buffett's of the world are already buying at this dip.

I look at the glass being half-full and that we may be close to a market bottom. Equity market valuations seem reasonable in aggregate and I believe our portfolio managers are taking advantage of the situation and finding the most attractive opportunities in years. Importantly, when the market finally does turn, it usually records its biggest gains early on. But, it is still possible for a prolonged sideways market that may not recover for quite awhile.

The Investment Letter is provided quarterly to our clients and friends. The intent is to share some of our more interesting views, research and items of interest.

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As discussed last quarter, it is definitely time to revisit our asset allocations to ensure we are maintaining our risk tolerance asset allocation levels, especially maintaining or exceeding our allocation to Income Securities, Large Caps and Energy/Natural Resource holdings. As always, we have to be aware of and have to constantly react to the changing scenarios in this World economy.

Those of you still building your Financial Independence have an opportunity to buy "on sale" securities as you continue to contribute to your 401K/403B plans and IRAs-----it is buy low and watch them increase over the long-term. Those of you in or very near retirement need to use your Income Securities reserves for awhile and cut back where possible as the markets hopefully return to continual long-term gains. If possible, even consider delaying any immediate retirement plans

I have enclosed some highlights and tidbits from the media below for your information and reading. Specifically:

1. **Four Strategies for A Volatile Market:** More words of wisdom from the Fidelity Web Site. Most of you have heard me say the same things many times before.
2. **The Magic Number for College Savings:** Some interesting facts and figures from Joe Hurly of savingsforcollege.com.
3. **FinaMetrica Personal Risk Profiling:** Some of you have indicated a concern about your personal risk tolerance level. This is a narrative describing a new service option I have to help us in determining in much greater detail your risk tolerance level. This comprehensive analysis effort increases the duration of the planning engagement from an half-hour to an hour. Please contact me if you would like to take advantage of this service now or on your next update session.

Four Strategies for a Volatile Market

Maintaining a sound investment plan

Published: April 15, 2008

While it is impossible to predict the direction of the markets, there are certain principles Fidelity believes that investors can follow that may help them prepare and maintain a sound financial plan. Here are four:

1. Follow a regular investment plan

No matter what your investment time horizon may be, it may make sense to follow a regular plan, by investing a certain amount of money in a mutual fund at the same time each month, or quarter, and periodically review the overall portfolio. While this strategy, known as dollar-cost averaging, won't assure a profit or protect against a loss in a declining market, it may help lower the average price you pay for shares of an investment during volatile markets. By investing a set amount each month, you buy more shares when mutual fund prices are low and fewer shares when fund prices are high

2. Diversify your portfolio

Though the term may sound complicated, "asset allocation" means dividing up your investments in a way that makes sense for you. You should consider an asset allocation strategy that matches your unique financial needs, comfort with investment risk, and time frame for when you're planning to retire. In fact, the right asset allocation can help you maintain your confidence through economic ups and downs and even increase your potential for better returns over time. Keep in mind that neither diversification nor asset allocation ensures a profit or guarantees against loss.

3. Don't get caught up in the market's balancing act

Instead, focus on developing and maintaining a sound investing plan. If you've set goals and you've developed a strategy, you owe it to yourself to keep your plan on track, especially during the market's peaks and valleys. If you don't have a plan, spend some time developing one.

4. Stay invested

It is important to note that elevated stock market volatility is not necessarily synonymous with declines. Although unnerving at the time, history has shown that some of the worst short-term losses in the stock market were often followed by rebounds. Since 1950, the U.S. stock market, as measured by the S&P 500,[®] has declined more than 13% over a three-consecutive-calendar-month period on 10 different occasions. In eight of these 10 instances, the stock market rebounded by more than 20% over the following year. In seven of the 10 sell-offs, the subsequent rally was large enough to recover more than all of the market's previous losses. Also, since 1926, the best five-year return in the U.S. stock market began in May 1932 -- in the midst of the Great Depression -- when stocks rallied 367%. Since 1926, the stock market had a positive return in 58 out of 81 calendar years -- or nearly three out of every four years.¹

Staying fully invested can give investors an opportunity to fully participate in the market's long-term upward trend. Many of the best periods to invest in stocks have been those environments that were among the most unnerving, and attempting to move in and out of the market can also be costly. A significant portion of the market's gains over time have tended to come in concentrated periods, and investors face very long odds when trying to time the ups and downs of the market.

Looking back at the performance of the S&P 500 since 1980, an investor who missed out on only the five best-performing days in the market would have ended up with a portfolio worth roughly 26% less than one that had been fully invested throughout the period. Further, missing just 30 of the best-performing days for the market since 1980 would have reduced the value of a portfolio by about 73%, compared to one that remained fully invested.²

The magic number for college savings-July, 2008

The day finally arrives when you get to bring your new baby home from the hospital. Maybe you've already given some thought to saving for her college education. If not, you can be sure that one of your friends will remark in a joking sort of way that paying for her college education in 18 years could put you in the poorhouse. So you ask yourself how much you really should be putting away for each month for your newborn's college education.

Can you spare \$200 a month?

We explain a bit further on why we think \$200 a month is a reasonable savings target for many families serious about building up a college savings fund.

Not the 100% solution

Will \$200 a month take care of all your newborn's college costs in the future? Not likely. In fact, it may not even be close. But then, you shouldn't try to save for 100% of the published price at an Ivy League school, even when you know in your heart that's where your exceptional child is headed. Let's look at the economic situation for most students at four-year colleges and institutions.

The published price for tuition, fees, room and board at the average 4-year private college for the 2008-09 school year is likely to be somewhere around \$34,200 (this assumes costs are up 6% from last year's \$32,307 figure as computed by the College Board). If costs continue to rise 6% annually, the four-year sticker price for today's newborn will be about \$427,000. If your 529 plan gives you a 6% after-tax return, your \$200 a month will eventually provide you with \$94,000 in your college savings account, or 22% of the total price.

Admittedly, the savings "gap" is still large: \$333,000. But before you start hyperventilating, consider the following reasons you should be feeling pretty good about the situation:

- A study by the College Board found that the "net price" at the average private college in 2006-07 was about \$9,000 less than the published price. The difference comes from institutional grants and federal grants and tax benefits. If we adjust the numbers, that \$200 a month now covers 30% of the cost rather than 22%.
- If your child attends the public university in your state, the cost drops further. Four years at the average public university starting in 18 years is projected to cost \$180,000 based on the anticipated \$14,400 sticker price for the 2008-09 school year, or \$141,000 if we use a net price of \$11,300 (the College Board reports that students at in-state public institutions receive about \$3,100 in grants and tax benefits on average). The projected growth of your \$200 a month will be enough to cover 52% (sticker) or 66% (net price) for four years at your in-state school.
- If you start out contributing \$200 a month, you will no doubt be able to increase your contributions in the future as your income goes up. In fact, even if you cannot afford \$200 now, you may find it much easier to make up for the shortfall by targeting a certain percentage of your income to college savings and thereby making up the difference in the future.
- The rate of inflation of college costs may be less than 6%, and/or your investment returns may be greater than 6%. If we increase the projected investment returns in your college savings account from 6% to 8% (but keep college costs rising at 6%), your \$200 a month now covers 27% (sticker) at the private college (up from 22%), and 65% (sticker) at the in-state public university (up from 52%). Of course we're assuming your investment is in a 529 plan, where you pay no taxes on earnings when the money is used for qualifying expenses.

"But my child is not a newborn"

If your child is older, and you haven't any college savings, you will naturally have to save more each month if you want to be on the same track as the newborn in our example above. Instead of \$200 per month, the parents of a 6-year-old are looking at about \$250 per month, and the parents of a 12-year-old ought to be putting away at least \$350 per month. These amounts will produce approximately the same coverage percentages described above. (You can see why the experts advise that you begin saving when your child is young.)

Chart your own path

Everyone's financial circumstances are different and it is difficult if not impossible to predict what the costs of your child's college education will turn out to be. Choice of college and curriculum, eligibility for financial aid, gifts from grandparents or other relatives, and the ability to snag an academic or athletic scholarship will all be factors. In any set of circumstances you are better off saving something than saving nothing.

FinaMetrica Personal Financial Profiling Introduction

Many financial decisions are made in situations of uncertainty, and so risk is involved. Different people are comfortable with different levels of risk---their personal risk level .

The whole issue of risk is a difficult one. Risk aversion prevents many of us doing as well as we might financially. Yet some of life's most unpleasant financial surprises arise because we were exposed to a level of risk beyond our comfort zone. It can be equally disappointing to miss an opportunity because someone else wrongly assumed we would not be willing to take the risk involved. Unlike, say, height or weight, there is no unit of measurement for risk tolerance.

A person's risk tolerance can only be measured relative to others on a constructed scale, in much the same way as IQ is measured. Additionally, even the meaning of "risk" can depend on the situation. When individuals talk about "risk" as they experience it in their personal financial affairs they are not talking about the same thing as, for example, investment researchers discussing the "risk" of an investment.

So, consumers face a double challenge,

- firstly, in making an accurate and meaningful assessment of their willingness to accept risk as they perceive it, and
- secondly, in expressing this assessment in such a way that both what they already have in place, and the alternatives now on offer to them, can be evaluated in terms of their risk tolerance.

The FinaMetrica Personal Financial Profiling system assists consumers and their advisers in meeting this challenge. Developed in conjunction with the University of New South Wales' Applied Psychology Unit, it exceeds international standards for tests of this kind.

In the questionnaire, you are asked about your attitudes, values and experiences. Your answers are scored against the system's database and used to produce a detailed report. The questionnaire consists of 25 comprehensive questions and takes about 15-20 minutes to complete.

By using the FinaMetrica system, we believe you may obtain a more accurate assessment of your risk tolerance in terms that are meaningful to you and your advisers. Your Risk Profile report will guide you and your advisers in your financial decision making. In particular, the report provides the basis for your instructions to your advisers on the level of risk you are willing to accept.