

1st Quarter 2008

April 12, 2008

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The 70's on Steroids

Athletes that take steroids want to be stronger today and don't care about the long term consequences. Our economy and the players in it have been taking steroids for years and now we are feeling the side effects.

It has been the worst quarter in decades. The broad market averages declined from a modest 8% for the Dow to 14% for the NASDAQ.

Investors that suffered most were those that were not well diversified. The financials (especially Citigroup, Merrill and Lehman Brothers) took the headlines, extended last year's losses and moved down another 20-35%. Bear Stearns ended up being one of the biggest casualties. Tech stocks and even health care stocks also took big hits to their values. Airlines are being forced into bankruptcy and small retailers are closing.

Now we ask, "Is this the first phase of a big decline or is it the buying opportunity of the new century?"

Recession or Worse

There are two things the markets are worried about. One is recession, the other is Armageddon. Recessions are a natural part of the business cycle. All markets run to an excess, blow up, and slowly recover. We have been through these many times and they always represent great times to buy depressed assets for the long term. The bigger concern has been the integrity of the financial system.

The 70's

We are getting hit with two major issues: high prices of commodities and a crisis of confidence. Both are

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Dumb, Dumber

..... and MasterCard

It is a little ironic that banks lend money and then tell us over and over how dumb we are for borrowing it.

This whole mess is being blamed on supposedly dumb people who bought houses, financed 100% of the purchase price with variable rate loans that they can no longer afford.

My question is: "Who was dumber - the borrowers who would never have bought the houses, or the banks that lent money to people they knew "statistically" couldn't pay it back? The real dummies were the financial institutions.

When you think about it, the whole system is a little weird. When you lend money, you end up owning a piece of paper saying that someone will pay you back over time. This is called a bond. In the case of a mortgage bond, it is backed by property.

The fact is that a bond is an asset. Like any asset, a bond can be used as collateral to

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reminiscent of the 1970's when we had the Vietnam War, civil unrest, high oil prices and a lack of faith in the direction of government. It was in 1971 that we moved off the gold standard and the dollar lost its material backing.

Over time, securities have also continued to move further from their source and the material backing them is, in many cases, minute.

The crash of 1987 was a result of the computer world and a new type of security that has its return derived from other securities. These were called "derivatives". They were primitive forms of what we are using today.

In 1990 we had a banking crisis similar to the one we are having now. The difference is that this time the crisis is on steroids due to derivative securities that are based on property values.

Desperate Measures

Last quarter, I talked about the new Fed Chairman (Helicopter Ben) and his propensity to drop money from helicopters to save the economy. He has done that and much more. As a matter of fact the Fed is doing things that have never been done before. It is coming up with new ways, almost daily, to pump money into the economy and to make shaky securities look whole. It is doing things way beyond the scope of 1987.

The Fed's timing has been excellent. Twice the Fed was able to avert a meltdown by acting over a weekend. On Martin Luther King day when the markets were closed the Fed approved a cut in the Fed Funds rate and on a recent Sunday, the Fed orchestrated the forced merger of Bear Stearns.

In the past, Alan Greenspan stated that it was not the Fed's job to prop up stock prices, but today it is doing just that. It is okay that it has taken this position, but the fact that it is going to such great lengths to support the markets is making everyone a little nervous.

Oil

The saga continues. Oil prices continue to rise. Along with them, everything else is going up. Ethanol, via corn, is being used as an alternative fuel and this is driving the price of all grains higher. It is another situation that is more politically correct than real. Demand for metals and all resources is showing no sign of letting up. The industrialization of China, India and other emerging countries is continuing strong. Their potential to consume resources seems to be almost infinite. The high cost

The Misery Index

It is always easy to look back and say "We should have done this" or "We should have done that." The hard part is to try to figure out what to do when you are "in the moment".

I feel that, as an investment advisor, my primary job is to assess the risk that an individual should be taking. I don't want to lose too much for a person that can't afford it. To do that, I have to get a sense of the risk in the marketplace at any given time.

On several occasions, we have been at a point where the risk of a 20-30% instant market meltdown, similar to the 1987 crash, was very high. That panic threshold has come and gone several times.

One way I try to gauge this is to figure out how people feel. At this time they feel badly about the direction of the country but somewhat complacent about the markets. They are generally confident the markets will come back fairly fast. This usually means that we are in for something that will not be over quickly. It will drag on until people are finally miserable.

The more miserable people are, the closer we are to a bottom. Investors that look at charts will say that we have hit a weak bottom in January, but we still need a few more miserable people to confirm it. At that moment, when everyone is completely miserable, some wise guy will find a reason to be optimistic. Then we are in for a real barn burner!

of energy, materials, and food is putting a lot of pressure on the middle class.

The real estate crunch does not seem to be coming to an end. The buying power from inflated home equity is virtually gone. Pressure on stock prices has zapped retirement plans and IRAs. Some people have lost an awful lot of money and savings. Others just feel poor and are cutting back on spending.

Jobs are starting to weaken, businesses are cutting back. Restaurants and retailers are closing stores and delaying expansions. The nail in the coffin of this recession will be severe job losses. As people lose their sense of job security, they spend even less and that puts more pressure on the rest of the economy.

Profits

Corporate profits have been fairly good considering the circumstances. As we move into the beginning of the 2nd quarter, profit reports will be watched carefully. Profit margins are getting squeezed by the costs involved in shipping raw materials. It is hard for retailers to jack up prices when people are cutting back, so the profit margin gets squeezed.

The Dollar

As interest rates decline, the U.S. dollar continues to decline and this makes imports more expensive. Our biggest import is oil. So, as the dollar declines the price of oil and other commodities increase.

Inflation

While the economy slows we are seeing prices rise. In the 70's we called this stagflation. We keep hearing that there is no inflation but taxes and the price of food, fuel, and health care are rising.

Is There Any Good News?

To say the economy is not good would be an understatement. But fortunately the stock market does not look at the present, it looks at the future. That's the good news! Also investors have been holding cash. It is building up on the sidelines and looking for a home. Every person I talk to asks "Where do we put money now?" Everyone is waiting! The big jumps in the markets are just a sign of the pent up demand waiting to be unleashed. This means that when things do turn, they will turn quickly.

Also, the news on the declining dollar may not be all bad. It makes our exports more attractive to foreigners which will help exporting companies. At the same time, we are seeing Europeans fly into New York City to shop. Hard to believe that NYC is a bargain, but it is if you're from London! They are also buying property in all parts of the U.S. With the drop in real estate prices, property in places like Florida and California offer great opportunity. These same foreigners will start buying U.S. stocks the moment the end is in sight. The U.S. is a great opportunity for Europe, China, Asia and anyone that sells oil. It could also be an opportunity for us.

Conclusion

The current situation has some similarities with the stagflation of the 70's, the derivative problems of the late 80's and the real estate issues of the early 90's. Putting them all together we have something bigger. Because the excesses are greater, it will take more to resolve them. At the moment, it looks like the real estate derivative problem may be getting close to an end. This will call for a market celebration. We could see a rally if there is any sign that this thing is contained. That's the good news. Then we may end up with a good old-fashioned recession. But nothing's easy.

(Dumb – from page 1)

borrow money. Hedge funds that use bonds as collateral do not borrow 100% of the value of their assets. They are not that stupid. They borrow 1,500 to 3,000 percent of their assets. So hedge funds, like The Carlyle Group, take their investors' money and buy about 800 million dollars worth of bonds. They then use those mortgage bonds as collateral to borrow 20 billion dollars and use the proceeds to purchase more bonds. There is nothing illegal about this. It is fully disclosed to the smart wealthy investors that bought in.

Because the principals involved in these hedge funds are also brilliant and well connected, hedge funds are **not regulated**. Besides, they have computers. The computers tell them that a small change on a 20 billion dollar portfolio generates a really good return on the 800 million actually invested—after the interest is paid.

But big problems arise when one of the lenders of the 20 billion realizes that the 800 million may be made up of loans that are a little sketchy. Like maybe the mortgagees of these loans are dummies that borrowed 100% of the value of their property at adjustable rates that were rising. At this point the lenders want the hedge fund to sell or **de-leverage** several billion dollars worth of their portfolio to make the ratio only 10:1 instead of 20:1. This is known as a **margin call**. Unfortunately, no one wants to buy the sketchy paper. No buyers, no **liquidity** and at least temporarily, no value.

This is just a sliver of what is going on in the financial world. The rest is incomprehensible. It is all based on faith. It is based on the ability of one person to pay another and another. A day after one of The Carlyle Group's co-founders bought the Magna Carta for 21 million dollars (and donated it to the National Archives), it got a margin call. The fund melted down shortly after.

A few weeks later, Bear Stearns, another hedge fund manager, announced that they were in good shape. Then there was a rumor, just a rumor, that Bear was even more sketchy than anyone knew. Within 48 hours the Federal Reserve helped shore up a deal to sell Bear to JP Morgan for \$2.00 per share (now floating at \$10.00 but down from \$60 days before). This was done moments before the Asian markets opened on a Sunday evening to avert a complete loss of faith and a collapse that could have spread instantly throughout the entire banking industry. It was like one of those movies where the hero turned a little screw in some remote village that diffused a nuclear bomb, saved the world and the last scene shows a little article on page 3 of the papers summarizing a minor event.

Keep in mind “The Magna-Carta...21 million, Being Dumb..Priceless, for everything else, there's *MasterCard*”!

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Although the client receives statements directly from the discount brokerage firm, Asset Management Associates tracks all the accounts and provides easy to read consolidated reports outlining positions, values, fees, and returns. The statement may also consolidate various registrations such as IRAs, SEPs, and regular or joint accounts so that an investment portfolio can be integrated and a client can view their entire portfolio in a single snapshot. Transaction histories for cost basis and other reports are also maintained.

All of the above generates a very straightforward, low-cost, highly liquid, and well-diversified portfolio that is easily adjusted. For more information and advisory fees, please contact John R. Ruocco at 1-800-208-8588 in South Windsor,

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Managed Fund Performance for 1st Quarter 2008

		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Back</u>	<u>Annual</u>	
	<u>Symbol</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>	<u>1st Qtr</u>	<u>Red. Fee</u>	<u>Expense</u>	<u>Description</u>
<u>Bond</u>								
Amer. Cent. Inf. Adj. Sec.	ACITX	2.40%	0.00%	11.00%	5.30%	0.00%	0.55%	<i>Infl. Adj. US Gv't</i>
American World Bond	CWBFX	-2.90%	7.60%	8.60%	5.00%	0.00%	1.04%	<i>Int'l Bond</i>
Vang. High Yield	VWEHX	2.80%	8.20%	2.00%	2.00%	0.00%	0.26%	<i>Lower Quality</i>
Price Spectrum Income	RPSIX	2.10%	8.40%	6.20%	0.20%	0.00%	0.80%	<i>Conservative Bond</i>
Pioneer High Yield A *	TAHYX	2.40%	10.60%	7.00%	-4.50%	0.00%	1.10%	<i>Junk and Conv.</i>
<u>Balanced</u>								
Vang. Wellington	VWELX	6.80%	14.90%	8.30%	-3.90%	0.00%	0.36%	<i>60%/40% Stock Bond</i>
Vang. Balanced Index	VBINX	4.70%	11.00%	6.20%	-4.80%	0.00%	0.22%	<i>Index of Wellington</i>
Vang. Star	VGSTX	7.40%	11.60%	6.60%	-6.20%	0.00%	0.20%	<i>Several Vang. Funds</i>
American Cap Income Bldr	CIBFX	1.26%	22.00%	10.60%	-7.00%	0.00%	0.79%	<i>Diversified U.S. Int'l</i>
Dodge and Cox Balanced	DODBX	6.60%	13.90%	1.70%	-8.00%	0.00%	0.55%	<i>Bond Stock & Cash</i>
<u>Stock funds</u>								
Invesco Gold *	FGLDX	32.60%	28.50%	22.80%	5.40%	0.00%	1.89%	<i>Gold - Sector</i>
Prudent Bear	BEARX	2.00%	9.10%	13.40%	5.40%	0.00%	1.76%	<i>Short-Gold</i>
Cohen & Steers Realty	CSRSX	14.90%	37.10%	-19.20%	2.70%	0.00%	1.09%	<i>Diversified REITS</i>
Invesco Energy *	FSTEX	54.00%	9.70%	45.10%	-2.40%	0.00%	1.23%	<i>Energy - (phase out)</i>
Neuberger Genesis	NBGNX	16.40%	7.30%	21.90%	-4.10%	0.00%	1.08%	<i>Small Cap - Closed</i>
Royce Total Return	RYTRX	8.20%	14.50%	2.40%	-5.60%	0.00%	1.20%	<i>Div. Paying Small Cap</i>
Vang. Energy	VGEXX	44.60%	19.70%	37.00%	-5.80%	0.00%	0.40%	<i>Energy Sector</i>
Rydex Biotech	RYOIX	11.70%	-3.10%	5.70%	-6.60%	0.00%	1.38%	<i>Biotech Sector</i>
Vang. Primecap	VPMCX	8.50%	12.30%	11.50%	-6.80%	0.00%	0.49%	<i>Growth</i>
Mutual Discovery	MDISX	15.70%	23.40%	11.30%	-7.50%	0.00%	1.04%	<i>Specialty & Int'l U.S Growth - Large Cap.</i>
Investment Co. Of America	AICFX	6.80%	16.00%	5.90%	-9.00%	0.00%	0.70%	<i>Index - S&P 500</i>
Vang. Index 500	VFINX	4.80%	15.60%	5.40%	-9.50%	0.00%	0.18%	<i>Health - 25k Min.</i>
Vang. Health	VGHCX	15.40%	10.80%	4.40%	-10.00%	0.00%	0.29%	<i>Value - Aggressive</i>
Neuberger Partners	NPRTX	18.00%	13.20%	10.10%	-10.70%	0.00%	0.90%	<i>Large Cap</i>
Fidelity Contrafund	FCNTX	16.20%	11.50%	19.80%	-11.20%	0.00%	0.99%	<i>Value</i>
Vang. Windsor II	VWNFX	7.00%	18.30%	2.20%	-11.20%	0.00%	0.42%	<i>Tech.</i>
Price Science & Tech.	PRSCX	2.50%	7.10%	11.90%	-11.80%	0.00%	1.11%	<i>Diversified Value</i>
Third Ave. Value	TAVFX	16.50%	14.70%	5.80%	-12.10%	0.00%	1.07%	<i>Large Cap</i>
Price Blue Chip	TRBCX	6.00%	9.70%	13.00%	-12.30%	0.00%	0.96%	<i>Small Caps</i>
Vang. Explorer	VEXPX	9.30%	9.80%	5.10%	-12.30%	0.00%	0.70%	
<u>International</u>								
1st Eagle Sogen Global A*	SGENX	14.90%	20.50%	9.90%	-1.60%	0.00%	1.34%	<i>Int'l with 38% US</i>
1st Eagle Sogen Overseas A*	SGOVX	16.90%	22.30%	8.40%	-1.90%	0.00%	1.39%	<i>Smaller Cap Int'l</i>
American Cap World	CWGFY	14.70%	22.30%	17.50%	-7.70%	0.00%	0.91%	<i>U.S. and Int'l</i>
Price International	PRITX	16.30%	19.30%	13.40%	-9.10%	0.00%	0.92%	<i>Diversified Int'l</i>

* purchased at N.A.V. with sales fees waived on these loaded funds

Exchange Traded Fund Performance for 1st Quarter 2008

Sector	Symbol	Percent of S&P	Total 2005	YTD 2006	YTD 2007	YTD 2008	Annual Expense	
Staples	XLP	10.81%	2.84%	14.47%	12.93%	-2.45%	0.28%	Retailing, personal consumption.
Materials	XLB	3.69%	4.08%	18.22%	22.13%	-3.00%	0.28%	Chemicals, materials, mining.
Industrial	XLI	12.09%	2.74%	13.50%	13.70%	-4.69%	0.28%	Aerospace, machinery etc.
Discretionary	XLY	8.40%	-6.75%	18.41%	-13.01%	-5.89%	0.28%	Autos, apparel, hotels, media.
Energy	XLE	13.60%	40.17%	18.01%	36.74%	-6.20%	0.28%	Oil, gas and equipment.
Utilities	XLU	3.64%	16.37%	20.85%	18.85%	-9.97%	0.28%	Water, electrical and gas.
Health Care	XLV	11.69%	6.41%	7.05%	7.11%	-11.66%	0.28%	Health care, equipment, pharma.
Financial	XLF	17.30%	6.20%	18.82%	-18.59%	-13.94%	0.28%	Financial services
Technologies	XLK	18.95%	-0.31%	12.16%	8.99%	-15.15%	0.28%	Internet, telecom, computers

Note: If you own all of the above sectors or indexes in the listed percentage, you would then own 100% of the S&P 500. The S&P 500 trades under the symbol SPY below.

Silver	SLV	***	***	***	***	21.74%	0.50%	Physical Silver
Oil	USO	***	***	***	***	21.12%	n/a	Physical Oil
Gold Miners	GDX	***	***	***	***	15.67%	0.55%	Gold Stocks
Gold Trust	IAU	***	***	***	***	9.63%	0.40%	Gold Bullion
Rydex Euro Currency	FXE	na	na	10.90%	14.54%	9.20%	0.40%	Inverse Dollar/Euro
TIPs Bond Fund	TIP	na	2.50%	0.28%	11.93%	5.20%	0.20%	Inflation Protected Securities
Steel	SLX	***	***	***	***	4.10%	0.55%	Steel Stocks
Coal	KOL	***	***	***	***	3.93%	0.65%	Coal Stocks
Cohen & Steers Rlty	ICF	36.75%	14.57%	38.50%	-18.21%	2.50%	0.35%	Real Estate Inv. Trusts
Agribusiness	MOO	***	***	***	***	0.35%	0.65%	Agricultural Stocks
Gld Sachs Resource	IGE	33.49%	35.98%	16.41%	33.47%	-5.00%	0.50%	Energy - Resources
Nuclear	NLR	***	***	***	***	-5.76%	0.55%	Nuclear Stocks
Diamond Trust	DIA	28.00%	0.70%	0.19%	8.79%	-7.00%	0.20%	Dow Ind. Average
Japan	EWJ	38.73%	24.34%	5.95%	-5.48%	-7.90%	0.84%	Japan Index
EAFE Index	EFA	29.80%	13.34%	25.81%	9.97%	-8.80%	0.35%	European Index
S&P 500	SPY	28.17%	4.80%	15.85%	5.14%	-9.40%	0.11%	S&P 500 Index
Dow Sel. Dividend	DVY	na	2.81%	19.44%	-5.67%	-9.40%	0.40%	High dividend Stocks
Russell 2000	IWM	48.00%	4.46%	18.27%	-1.75%	-9.90%	0.20%	Small Cap Stocks
Dynamic Biotech	PBE	na	na	2.31%	5.82%	-10.00%	0.60%	Biotech
Water Resources	PHO	na	na	22.17%	16.74%	-10.20%	0.60%	Water Prod. & Supply
Emerging Markets	EEM	na	32.62%	31.90%	33.08%	-11.40%	0.76%	Emerging Markets
Nasdaq 100	QQQQ	49.67%	-1.14%	6.93%	19.14%	-14.40%	0.20%	Largest 100 NASDAQ
China 25	FXI	na	13.30%	83.17%	54.75%	-22.70%	0.60%	China
Global Alt Energy	GEX	***	***	***	***	-24.89%	0.65%	Alternative Energy
Golden Dragon	PGJ	na	-3.20%	53.30%	63.27%	-26.70%	0.60%	China
Clean Energy	PBW	na	n	7.20%	58.50%	-28.70%	0.60%	Alternative Energy

Above are some of the more popular Exchange Traded Funds (or indexes) currently used.