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THE FSAG ADVISOR

Market and Economic Update

Many are arguing that the world economy is battling a perfect storm. High and rising energy costs are compounding the slowdown in G7 economies, which have already been weakened by the sub-prime fallout. The energy crunch has further stoked inflation fears, which have added to the pressure. Rising energy costs have perhaps reached a choking point, and further price increases could throw the G7 into a renewed slump. A correction in oil prices, on the other hand, could allow growth to regain traction. Our bet is that the odds of correction or consolidation in oil are greater than a continued surge in prices, although we acknowledge that accurately predicting short-term commodity price moves is extremely difficult.

There are two pressure points lingering in the global economic and financial systems. The first is U.S. housing and banking woes and the second is inflation in emerging markets and in commodities. Taken in isolation, these pressure points could easily have created a more negative environment for equities. However, a more constructive view might say that these two forces are counteracting to some degree. Housing and banking pressures are deflationary forces, which are clashing with the accumulating inflationary pressures in the developing world. The outcome could be a balanced world where deflation and inflation coexist, but where underlying global growth and worldwide inflation tendencies are relatively benign. In other words, the sum total of these themes is not a double negative, but rather something smaller than either of them individually. Therefore, despite prevailing negative sentiment in the popular press and among financial market participants, this more optimistic view would suggest that markets are reaching oversold levels.

From a markets perspective, our view is that in the short run, equities will remain under pressure as a result of the deteriorating economic backdrop, but we remain optimistic that a correction in energy prices and an easing of inflationary pressures will allow the markets to regain their footing.

Source: BlackRock

2008 YTD Returns

DOW	*-13.35%*
S&P 500	*-11.95%*
NASDAQ	*-13.22%*
Russell 2000	*-9.37%*
Russell Mid Cap	*-7.57%*
MSCI EAFE	*-10.96%*
Lehman US Agg.	*1.21%*
Lehman Muni.	*0.02%*
10 Year Treasury Yield	*3.99%*

Coping with a Slower Economy

Economics isn't called the "dismal science" for nothing. There's an old joke that accuses economists of having predicted 9 of the last 5 recessions (and yes, those figures are in the correct order). It can help to understand some of the questions that many investors ask themselves if they're concerned about the potential impact of slower growth.

Is it time to check my portfolio?
Changing consumption patterns can have implications for a variety of companies and industries, and create investing opportunities. Some investing sectors might be especially economically sensitive and might therefore suffer from any economic downturn. On the other hand, some industries or companies may actually benefit from a slower economy. For example, companies that produce high-end goods might be relatively immune from economic pressures--or maybe not. Shifts in spending patterns could also mean that consumers continue to spend money but choose less expensive alternatives, or focus more on getting the greatest value from each dollar.

If you rely on your investments for income, you may want to review how sensitive your portfolio might be to changes in interest rates. If the Federal Reserve Board sees greater danger from a slowing economy than from the possibility of higher infla-

Continued on page 4

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Key Estate Planning Documents You Need

There are five estate planning documents you may need, regardless of your age, health, or wealth:

1. Durable power of attorney
2. Advanced medical directives
3. Will
4. Letter of instruction
5. Living trust

The last document, a living trust, isn't always necessary, but it's included here because it's a vital component of many estate plans.

Durable power of attorney
A durable power of attorney (DPOA) can help protect your property in the event you become physically unable or mentally incompetent to handle financial matters. If no one is ready to look after your financial affairs when you can't, your property may be wasted, abused, or lost. A DPOA allows you to authorize someone else to act on your behalf, so he or she can do things like pay everyday expenses, collect benefits, watch over your investments, and file taxes. There are two types of DPOAs: (1) a standby DPOA, which is effective immediately (this is appropriate if you face a serious operation or illness), and (2) a springing DPOA, which is not effective unless you have become incapacitated.

Advanced medical directives
Advanced medical directives let others know what medical treatment you would want, or allows someone to make medical decisions for you, in the event you can't express your wishes yourself. If you don't have an advanced medical directive, medical care providers must prolong your life using artificial means, if necessary.

There are three types of advanced medical directives. Each state allows only a certain type (or types). You may find that one, two, or all three types are necessary to carry out all of your wishes for medical treatment. First, a living will allows you to approve or decline certain types of medical care, even if you will die as a result of that choice. In most states, living wills take effect only under certain circumstances, such as terminal injury or illness. Generally, one can be used only to decline medical treatment that "serves only to postpone the moment of death." In those states that do not allow living wills, you may still want to have one to serve as evidence of your wishes. Second, a durable power of attorney for health care allows you to appoint a representative to make medical decisions for you. You decide how much power your representative will or won't have. Finally, a Do Not Resuscitate order (DNR) is a doctor's order that tells medical personnel not to perform CPR if you go into cardiac arrest. There are two types of DNRs. One is effective only while you are hospitalized. The other is used while you are outside the hospital.

Will
A will is often said to be the cornerstone of any estate plan. The main purpose of a will is to disburse property to heirs after your death. If you don't leave a will, disbursements will be made according to state law, which might not be what you would want. There are two other equally important aspects of a will: (1) you can name the person (executor) who will manage and settle your estate and (2) you can name a legal guardian for minor children or dependents with special needs. Keep in mind that a will is a legal document, and the courts are very reluctant to overturn any provisions within it. Therefore, it's crucial that your will be well written and articulated, and properly executed under your state's laws.

Letter of instruction
A letter of instruction is an informal, non-legal document that generally accompanies your will and is used to express your personal thoughts and directions regarding what is in the will. This can be the most helpful document you leave for your family members and your executor. Unlike your will, a letter of instruction remains private. Therefore, it is an opportunity to say the things you would rather not make public. A letter of instruction is not a substitute for a will. Any directions you include in the letter are only suggestions and are not binding.

Living trust
A living trust is a separate legal entity you create to own property, such as your home or investments. The trust is called a living trust because it's meant to function while you're alive. You control the property in the trust, and, whenever you wish, you can change the trust terms, transfer property in and out of the trust, or end the trust altogether. The primary function of a living trust is typically to avoid probate. This is possible because property in a living trust is not included in the probate estate. Depending on your situation and your state's laws, the probate process can be simple, easy, and inexpensive, or it can be relatively complex, resulting in delay and expense. This may be the case, for instance, if you own property in more than one state or in a foreign country, or have heirs that live overseas. Further, probate takes time, and your property generally won't be distributed until the process is completed. Transferring property through a living trust provides for a quicker, almost immediate transfer of property to those who need it. Probate can also interfere with the management of property like a closely held business or stock portfolio. Although your executor is responsible for managing the property until probate is completed, he or she may not have the expertise or authority to make significant management decisions, and the property may lose value. Transferring the property with a living trust can result in a smoother transition in management. Finally, avoiding probate may be desirable if you're concerned about privacy. Probated documents (e.g., will, inventory) become a matter of public record. Generally, a trust document does not.

Inflation Risk

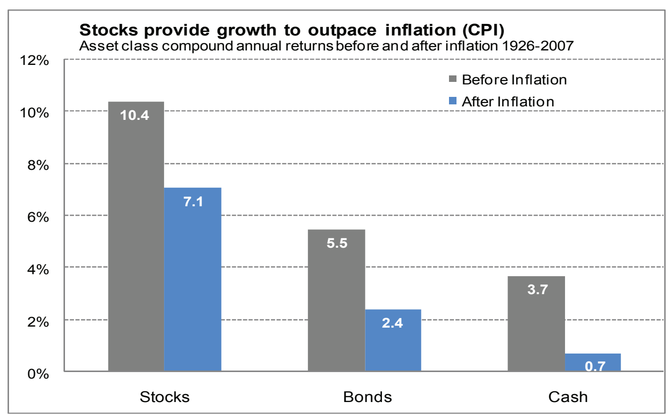
What is inflation?
When you see the term "inflation" in the newspaper, it refers to a change in the Consumer Price Index (CPI), which tracks the costs of goods and services typically purchased by consumers. This government figure is good for measuring economic activity for the country at large, but does little for individuals who have buying habits based on their age, lifestyle, and where they live that are different from the typical consumer's. If you spend a lot on goods and services with high inflation rates, such as college and medical expenses, the CPI significantly understates the impact that inflation is having on you.

How does inflation erode purchasing power?
Most consumers don't understand how damaging inflation can be over long periods of time on their purchasing power. One dollar today simply doesn't buy as much as it did in 1970 and will buy even less 30 years from now. If you long for the days in which you could buy a Coke for a nickel, you know exactly what we're talking about. Inflation has averaged about 3% annually from 1926-2007. Three percent may not seem like much, but it can significantly erode your purchasing power over long time horizons.

There's a good chance that the rate of inflation you will experience in retirement will exceed the long-term 3% average, simply because goods and services that you will be purchasing won't resemble what the typical consumer is buying in the CPI aggregate. Medical expenses in particular are likely to be a significantly higher portion of your overall spending. A recent estimate from the Centers for Medicare & Medicaid Services suggests medical inflation may be as high as 6.9% annually over the period 2006–2016.

What asset classes keep pace with inflation over the long run?
Despite the risk inflation can pose to retirement savings, the natural tendency for many retirees is to protect their investment assets by investing conservatively. As a result, many retirees' portfolios are largely allocated to bonds and cash with minimal exposure to stocks. History shows however, that of these three asset classes, stocks were the only one to provide significant growth after accounting for inflation.

The graph below illustrates the average annual returns for stocks, bonds, and cash from 1926–2007, before and after inflation. Government bonds returned very little after inflation. Cash fared even worse. That said, you may be hard-pressed to meet income needs over a 30-year retirement if your portfolio is invested primarily in bonds and cash.



Given this, you should consider having some exposure to stocks. A long-term horizon can cushion the impact of short-term volatility and extra risk associated with stocks. The payoff for accepting this extra risk is a portfolio that has a better chance of keeping pace with inflation and protecting your purchasing power.

Supreme Court Okays Same-State Muni Bond Tax Exemption

States may continue to exempt their residents from paying taxes on that state's municipal bonds, according to a recent ruling by the U.S. Supreme Court. The decision overturns a lower court decision involving the state of Kentucky. If it had been allowed to stand, the lower court decision would have had a substantial impact on muni bond investors, particularly those who own single-state mutual funds designed to provide a double tax advantage to residents of a particular state. The Supreme Court ruled that such in-state tax exemptions play an important role in helping states fund public projects.

Clarifying the tax status of state municipal bonds for local residents removes an issue that, coupled with the general credit crunch, had been weighing on the market for municipal bonds.

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Stocks in the News: Suntech Power (STP)

Suntech Power is the world's third-largest solar energy company. It designs, develops, manufactures and markets a variety of photovoltaic (PV) cells and modules, which convert sunlight into electricity. Suntech also provides PV system integration services in China. The company's products are used to provide environmentally friendly electric power for residential, commercial, industrial and public utility applications in various markets worldwide. Suntech Power is incorporated in the Cayman Islands and based in China.

We expect Suntech Power to become the world's largest and strongest low-cost, high-volume solar cell module manufacturer within a few years. The company is growing furiously and has locked up years of raw silicon supplies at prices well below current spot rates, which are at record-high levels. Solar power still remains more expensive than electricity produced with conventional energy sources, and the industry's sales are highly dependent on government subsidies. Suntech has been closing this cost gap as its costs have dropped due to economies of scale and as prices for traditional energy sources has risen, but is unlikely to erase it completely. Although competition is heating up as more companies enter the field, the new rivals are smaller and weaker than Suntech, and we do not believe they can match Suntech on price and volume - the company's core strengths.

Bulls Say
Suntech is on track to become the largest PV manufacturer in the world. Suntech's rapidly expanding manufacturing base will drive greater scale efficiencies that lead to decreased costs per installed watt of solar power. The solar industry is experiencing rapid growth as government subsidies around the world fuel adoption. With Chinese firms becoming the low-cost manufacturers of choice for crystalline-based solar panels, Suntech Power is well positioned to supply this market.

Key Statistics: STP

Price	*$41.55*
Trailing EPS	*$1.19*
Estimated EPS	*$1.55*
Forecast P/E	*26.8x*
PEG Ratio	*0.62x*
Dividend	*$0.00*
Market Cap	*$6.39B*
52 Week High	*$90.00*
52 Week Low	*$28.19*
Beta	*1.53*
Expected Annual Growth Rate	*43.0%*
ROE	*24.6%*

Bears Say
Suntech's proposed production increases are dependent on several new silicon suppliers, many of which have limited operating histories. The solar market depends on large subsidies for roughly 50% of total installed system costs. Any pullback in worldwide subsidies could have a profound effect on demand. Emerging thin-film technologies could introduce lower manufacturing costs versus the traditionally more labor-intensive crystalline manufacturing that Suntech employs.

Sources: Argus, S&P, Morningstar

Coping with a Slower Economy *Continued from page 1*

tion, lower interest rates could cut into your income. Conversely, if the Fed becomes increasingly concerned about inflation, rates could go up. It might be a good time to see the impact on your monthly income from any changes in rates.

How close am I to the edge financially?
The benefits of reducing debt should be pretty obvious, given the recent credit crisis. Troubles in the mortgage industry have driven home the importance of managing debt wisely. The last thing you need if you're worried about uncertain economic times is to lock yourself into spending patterns that push you beyond your means.

Whether the economy is in robust health or seems to be catching the flu, it's never a bad idea to have a cushion against unexpected financial stress. An unanticipated medical emergency, a sudden job loss, or anything else that affects your income stream can bring the effects of a slower economy home in a dramatic way. If you're employed in a highly cyclical industry or one that's undergoing substantial changes, having a financial reserve becomes even more important. And, if a lot of your retirement plan savings are invested in your employer's stock, think about whether your long-term finances might potentially face a double whammy in the form of an unexpected job loss and drop in the value of your holdings--or both.

Have I planned for the unexpected?
If you're planning to retire in the next few years, consider the potential impact if you were to be "retired" prematurely. Doing some "what if?" calculations with an earlier retirement date could prepare you for what might happen if you were laid off and had difficulty finding new employment, or were unable to work for health reasons.

Asking questions such as these lets you hope for the best while preparing for possible economic offsets.

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