

# ***Bulletin\*\*\*Bulletin\*\*\*Bulletin***

***December 2007***

## **STOCK MARKET REACTS TO CREDIT CRUNCH AND HUGE U.S. DEBT**

U.S. stocks declined 10% in mid-November, the second 10% market correction this year. However, nearly all major global stock indices have posted strong returns year-to-date, and stocks appear poised to extend an end of November rally into December. At this writing, stocks are off only 4% from all-time highs. In spite of the November drop in stock values, our year-to-date performance remains high and well ahead of the S&P 500.

***What is causing this market volatility?*** There are two primary causes: 1) U.S. credit markets are being hurt by the default rate on sub-prime mortgages; and 2) The growing U.S. debt and trade deficit have resulted in lower confidence in the U.S. dollar, causing a decline in value of the dollar against most major foreign currencies.

We are convinced that the economy will weather the credit market crunch, and that it will not have a long-term effect on stocks. The housing inventory glut will keep housing prices depressed for several years. Coupled with low interest rates, we believe this to be a healthy sign for the general economy, as this will allow many more people to afford housing in the long run.

The decline in the dollar is of greater concern over the long term. The dollar's dive is caused by unbridled U.S. government spending with the resultant huge and growing national debt. Foreign governments and private investors are simply reluctant to lend us even more money. The second reason for the diving dollar is our enormous trade deficit, primarily with China.

***What have we done about the market volatility and what is our strategy for the future?*** Off-setting the bad news, U.S. stocks are now significantly undervalued, and seem like a bargain to foreign investors. As we head into the 2008 presidential election year, we believe that U.S. stocks will rise between 10% & 20% over the next 6 to 12 months. For the near-term, we remain invested in high quality U.S. stocks, while continuing to hold at least 25% to 40% of our stock portfolio in non-dollar denominated (foreign) investments. We believe that over the short term, interest rates will decline even further, at which point we will shift out of CD's and money market funds and into rising rates funds.

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Over the longer term, we are concerned that we may see a slowing economy with rising inflation, similar to the “stagflation” of the Jimmy Carter era. We will take appropriate defensive steps (i.e. reduce stock holdings; and, increase rising rate fund exposure) if this forecast begins to materialize.

### **LAST MINUTE TAX PLANNING**

Donating appreciated stock to a qualified charity allows you to eliminate capital gains tax on the amount donated while getting a full tax deduction for your gift (in most cases). Please contact us immediately if you plan on making such a gift, as transfers to a charity’s broker can take up to two weeks or more. Don’t wait until the last minute to fund retirement plans, make tax payments or initiate other securities transactions. We urge you to see your CPA or tax preparer immediately regarding other year-end tax planning strategies.

### **HAPPY HOLIDAYS !!!**

Many of our clients will be celebrating various religious and other holidays over the next few weeks. We wish you, your families and your businesses a very happy holiday season, and a bright and prosperous new year. We sincerely appreciate the special trust and confidence that you have placed in us to manage your investments. We have plenty of room to grow. If you have a relative or friend who would be interested in our service, please refer them to our website at [www.SierraAm.com](http://www.SierraAm.com), or ask them to call us directly. Again, many thanks and have a great holiday season!

**Holiday office schedule:** In celebration of Christmas, we will be closed Christmas Eve (December 24<sup>th</sup>) and Christmas Day (December 25<sup>th</sup>). We will be open New Year’s Eve (December 31<sup>st</sup>) until the 1:00 pm market close; and, we will close for New Year’s Day, January 1, 2008.