JUNE 2007 NEWSLETTER

Markets

ESTATE
Planning Professionals

U.S. Stocks Back to Record Territory

Disregarding the Wall Street adage, "Sell in May and Go Away", investors bought last month. Broad U.S. stock market indices reached seven-year highs in May when the S&P 500 joined the DJIA in scaling new peaks. Demand for stocks is apparently facing a shrinking supply from company takeovers and share buybacks.

The large-cap Dow continues to lead, up 4.5% for the month and 10.3% so far this year. The broad market S&P 500 index gained 3.4% in May, and is now up 8.7% for the year. The small-cap Russell 2000 gained 4.4% bringing its year-to-date gain to 8.0%. Nasdaq has been the weakest index, ahead 7.8% for the year.

While much is made of these record highs, remember that the S&P 500 has finally climbed back to where it was seven years ago, and Nasdaq remains nearly 50% below its peak.

Last month, for the second month in a row, U.S. markets outperformed foreign markets as measured by the Europe, Australasia and Far East (EAFE) index, up 1.8% in May. Emerging markets continued to surge with Latin American funds up over 11% and diversified emerging markets funds up nearly 5% for the month. Europe and Japan were the weakest markets overseas. After slumping to a record low against the euro and a 26-year low against the pound in late April, the dollar recovered modestly in May, rising 1.4% against the euro.

Domestically, communications funds led, followed by natural resource funds. Previously strong health and utilities funds moved further down the ranks. Overall, there was little difference between large and small-cap funds or growth and value funds.

Despite slightly weaker performance in May, the EAFE is up 9.1% year-to-date, trailing the DJIA, the top performing U.S. index for the first time in years. Internationals continue to dominate the top ranks in all classes and represent the majority of our growth portfolios. Yet, many diversified domestic funds are now rising up the ranks.

Leadership Trends May be shifting.

We know, of course, that market leadership will eventually rotate, as it always has, but we wait for the changes to appear in the ranks.

Whether market leadership rotates or not, we've learned not to second guess the ranks. Upgrading in a disciplined manner has paid off handsomely over the years.

On another note…

Capital gains rates may be eliminated in the near future.
We may not see these low tax rates again.
Give us a call to discuss any holdings this may impact.

Thank you for your business…

P. Michael Valley II

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