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**Date:** 1/14/08  
**From:** Jonathan D. Weir, JD\*  
**To:** WFR Clients and Friends  
**Subject:** Fourth Quarter 2007 Economic Trends

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Volatility and credit were the watchwords of the fourth quarter of 2007. After years of below average volatility, the markets alternated between optimism and despair in response to changes in the credit and real estate markets. Most equity indices ended down for the quarter as investors continued to assess these problems and the potential effect on consumer spending. Despite all the hand-wringing, most equity indices were able to finish the year with respectable gains.

Fixed-income was more of a mixed bag. Concern over much tighter credit market conditions and a worsening real estate outlook continued to pressure lower quality fixed-income securities. As liquidity fears spread, subprime mortgages and other exotic risk-laden instruments continued to drop. Higher quality fixed-income securities, however, were mostly higher for the quarter in a “flight to quality.”

<u>% Return as of 12/31/2007</u>			
<u>Equity Indexes</u>	<u>4Q</u>	<u>YTD</u>	<u>3 Yrs</u>
S&P 500	-3.3	5.5	8.62
Russell 2500	-4.3	1.4	8.4
MSCI EAFE	-1.7	11.6	17.3
Emerging Market	3.7	39.8	35.6
DJ Wilshire REIT	-13.5	-17.6	8.5
<u>Bond Indexes</u>			
TIPS	5.0	11.6	4.9
Aggregate	3.0	7.0	4.6
Governments	3.7	8.7	4.9
Mortgages	3.1	6.9	4.9
Intermediate Credits	2.2	5.1	3.8
Long-Term Credits	2.2	3.6	3.6
High Yield	-1.3	1.9	5.4
Municipals	1.4	3.4	3.9
<u>Cash Equivalents</u>			
3-Month T-Bill	0.9	4.7	4.4

The quarter began as some investors were emboldened by recent cuts in short-term interest rates orchestrated by the Federal Reserve. As the quarter wore on, it became clear that the subprime-related problems had spread wider than some had expected. One by one, many major banks and stock brokerage firms announced more troubled loans and write-downs. As investors awoke to the risks they had actually assumed, prices of perceived risky assets continued to fall.

As these losses expanded, the Federal Reserve again acted to lower short-term interest rates and increase liquidity to the financial system. Ultimately, the quarter ended with something of a stalemate. As the losses in some sectors grew, many sectors of the market were relatively unaffected.

Domestic Equities: Performance was negative across the board for the quarter. The S&P 500, an index of the 500 largest stocks in the U.S., declined 3.33% for the quarter. The return for the year, however, was positive: up 5.49% as investors sought the relative safety of larger non-financially related stocks. Smaller stocks, as represented by the Russell 2500 index, were down 4.3% for the quarter as investors began to shun smaller

companies because of broadening credit issues. The small-cap index was able to post a small gain of 1.4% for the year.

International Equities: International equities, benefiting from a weaker dollar in relation to most foreign currencies, continued their run with hardly a pause. The MSCI EAFE index, which measures the performance of developed markets abroad, fell a modest 1.7% for the fourth quarter. For the year, it rose a strong 11.6%, aided by a weak dollar. Stocks in emerging markets, those of smaller and less developed countries, continued to surge. The MSCI Emerging Markets index was up 3.7% for the quarter and up 39.8% for the year. It is important to note that performances this strong are very difficult to sustain over longer periods of time.

Real Estate: Continuing declines in residential home sales finally bled over into commercial real estate in the fourth quarter. Publicly traded REITs dropped 13.5% for the quarter as measured by the Dow Jones REIT index and fell 17.6% for the year. After years of solidly outperforming many asset classes, the effect of a worsening real estate market, together with financing difficulties, hit the sector hard.

Fixed-Income: Bond performance for the quarter and year was dominated by changing risk perceptions. As the housing and credit woes threatened to spill over into the broader economy, high-yield bonds were affected. High yield bonds fell 1.3% for the quarter but were able to deliver a small gain of 1.9% for the year. Higher quality bonds, as measured by the Lehman Aggregate Index, rose as investors sought safety. For the quarter, the index surged 3.0% and rose 7.0% for the year.

Our firm does not manufacture or distribute subprime mortgage pools. We have no marketing or sales desk dedicated to them. These types of dislocations are unfortunate, and we take no pleasure in the financial pain of competitors. It is said, however, that these dislocations are the market's way of punishing poorly allocated capital. It is fundamental to our beliefs as mathematically based planners that risk must be assessed prior to difficulty. Risk assessment after the fact is a largely futile exercise and can lead to poor decisions and disappointing results.

It is my pleasure to continue to oversee your portfolio using our mathematically based principles and appreciate the confidence you have placed in us. I look forward to speaking with you. In the meantime, please call with any questions or concerns you may have.

Please contact us with any questions you may have – 716.854.3343 or [jweir@weirresources.com](mailto:jweir@weirresources.com)

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Source of data – Wall Street Journal, Bureau of Economic Analysis, Lehman, NAREIT, Bloomberg, MPI Stylus, Markit ABX indexes. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. There can be no assurance that the investment objectives will be met. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. Investing in emerging markets can be riskier than investing in well-established foreign markets.

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