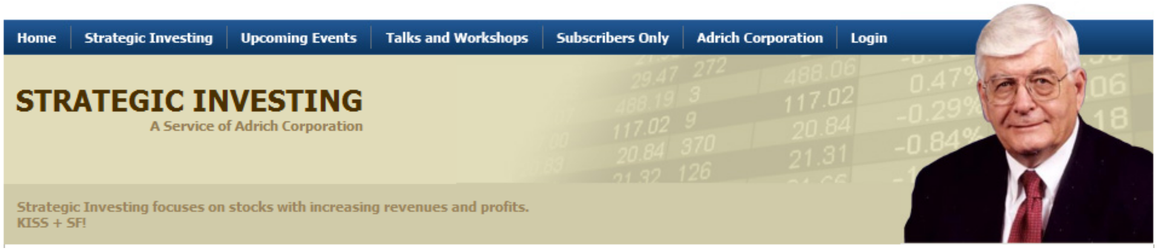


2008 Mid-Year Review

When the market closed on June 30th, most investors will see a reduction in their portfolios since the beginning of the year. June 2008 was probably the worst month for investors since June 1930. The decline intensified following the communiqué of the Federal Reserve Bank's meeting on June 25th. The decline in the major market indices is shown in the following table.

Market Summary
6/30/2008

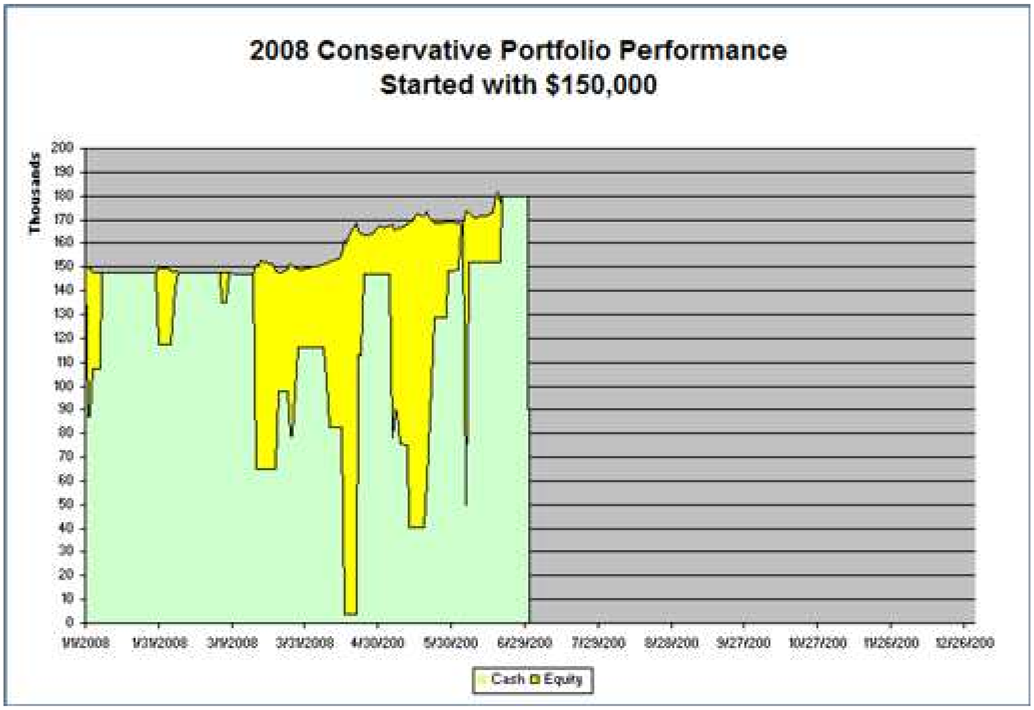
	6/30/08	12/31/07	Change	%
AMEX Comp	2232.04	2409.62	-177.58	-7.4%
DJIA	11350	13264.82	-1914.81	-14.4%
HUI	449.88	409.37	40.51	9.9%
Nasdaq 100	1837.09	2084.93	-247.84	-11.9%
Nasdaq Comp	2292.98	2652.28	-359.3	-13.5%
NYSE Comp	8660.48	9740.32	-1079.84	-11.1%
Russell 2000	689.66	760.20	-70.54	-9.3%
S&P 400	818.99	858.20	-39.21	-4.6%
S&P 500	1280	1468.36	-188.36	-12.8%
S&P 600	364.94	395.14	-30.2	-7.6%

With the exception of the Gold Bugs index (HUI), every major index ended in negative territory.

Performance of the Strategic Investing portfolios for the first six months is shown in the following table.

	2007	Since 1-1-2008
Aggressive	+57.0%	37.2%
Conservative	+31.5%	20.0%
Core	18.5%	0.9%
ETF	11.1%	8.8%
Precious Metals	5.8%	-3.5%

While the performance of both the Aggressive and Conservative portfolios was acceptable given the market conditions, the following chart details the percentage of cash and equity held in the Conservative portfolio during the period.



The Credit Crisis

The deepening of the sub-prime crisis and massive infusions of liquidity by central banks throughout the world has created a market environment where economic growth is being reduced while inflation increases.

In March 2008, the Federal Reserve Bank injected more funds into the economy than during any previous five-year period. Since the beginning of 2008, the repo pool has increased from about $150 billion to over $385 billion today. Clearly, the financial system is under severe stress. For the first time since the 1930's, the Federal Reserve System held negative bank reserves.

The result of these monetary infusions will not be economic growth but stagflation on a global scale and soaring commodity prices while fiat currencies continue to fall.

Hopefully, stagflation will not slide into a world-wide recession.

During the first six months of 2008, the reluctance to acknowledge that the derivative problem had surfaced and the counter-party to the transaction might be unable to perform caused investors to gradually understand that the Three Card Monte shell game was nothing more than a scam.

Credibility, both in the U.S. and abroad, of the major financial institutions including the Federal Reserve Bank and the U.S. Treasury suffered as both Bernanke and Paulson stated repeatedly that the sub-prime credit crisis was contained.

After the initial shutdown of the two Bear Stearns hedge funds last June and the seizure of first the commercial paper market in August and then the municipal bond auction market in March, it became apparent to many that Bernanke and Paulson did not have a handle on how to solve the worsening crisis.

If a write-down of Level 2 and Level 3 assets to market value occurred according to GAPP accounting rules, most of the leading Wall Street firms, most money center banks in the U.S. and Europe, and the central banks themselves would be bankrupt.

At the beginning of 2008, the Federal Reserve Bank held $850 billion of U.S. Treasury bonds. By the middle of June, the Federal Reserve Bank had swapped about half of those bonds for toxic paper from various U.S. institutions but which the FED carried on their books at face value, not market value.

A review of the Bear Stearns takeover by JP Morgan Chase might indicate that the testimony of the various principal players before the Congressional Committee investigating it was less than truthful. The addition of various "out-of-the-money" put contracts in the 45 days prior to Bear's collapse strongly suggests that the takeover was planned. Interestingly, a major counter-party to Bear's derivative positions was JP Morgan Chase. When all the smoke cleared, JP Morgan Chase was the beneficiary of about $75 billion in taxpayer money. Perhaps, it was JPM that was in trouble.

The Housing Crisis

When Congress changed the rules to allow sub-prime loans without proper documentation, the stage was set for the current mess. Wall Street sensed an opportunity to make money by packaging these mortgages and then selling various tranches to a gullible market which relied upon a guarantee from a mono-line insurance company for an "AAA" rating. Alan Greenspan was vociferous in his statements that there was no need for additional transparency in the derivative markets.

Homebuilders took advantage of the situation and overbuilt homes at inflated prices throughout the U.S. and particularly, in areas where population growth was increasing. Flippers upon seeing real estate prices continue to escalate as the demand base of buyers was broadened became active and further increased the demand for homes. As a result, prices in many markets increased by 10 -15% per year and with the ability to refinance mortgages easily, the game was on.

In early 2007, a few investors took notice of increasing delinquency rates in sub-prime mortgages and began to begin to lower their holdings of sub-prime assets. In June 2007, Bear Stearns was unable to meet investors' demands for redemptions and demands for additional collateral by its funding source, Merrill Lynch. Three attempts to sell assets held for collateral were quickly withdrawn as it became obvious that the face value of those assets were not indicative of market value.

Stated inventory levels of unsold homes fail to include foreclosed homes held by many banks. Even so, inventories of both existing and new homes remain near all-time record levels. The overhang of unsold homes will only serve to decrease further median home prices.

The situation is still far from being concluded. ALT-A resets, option ARM resets and increasing rates of default and foreclosures will continue to increase stress for holders of the mortgage tranches.

The Economy

As we study the economic numbers generated by the Ministry of Truth and dig deeper into them for the real data, it is evident that while the reported numbers are not encouraging, the real situation is significantly worse. Inflation throughout the world is acknowledged by many to be running about 7%. The BLS continues to generate data that shows the U.S. economy is doing much better. However, a look at the CRB index would suggest that there might be a problem with the numbers provided by the BLS.

A falling dollar, rising energy costs, and increasing unemployment all point to a worsening economic picture. As corporate profits decrease there will be a further decrease in the market.

Tightening credit standards reduce the number of potential borrowers for not only homes but other items. The loss by homeowners of the refinancing ATM window also reduces the amount of cash flow available to spend.

Credit card companies and banks are reducing credit limits and home equity loans as housing prices fall. The downward spiral is picking up steam.

Increased fuel prices are savaging the airlines and cutbacks will further increase unemployment and decrease personal income as unemployment checks flow into the economy.

The decrease in home wealth coupled with a shrinking stock portfolio will further cause consumers to reduce their discretionary spending. As consumers see their expenses increasing, their ability to fund their IRA's and 401k's and similar vehicles will be reduced.

When GDP is 70% driven by consumer spending, a decrease in consumer spending does not auger well for the economy in the second half of the year.

The Market

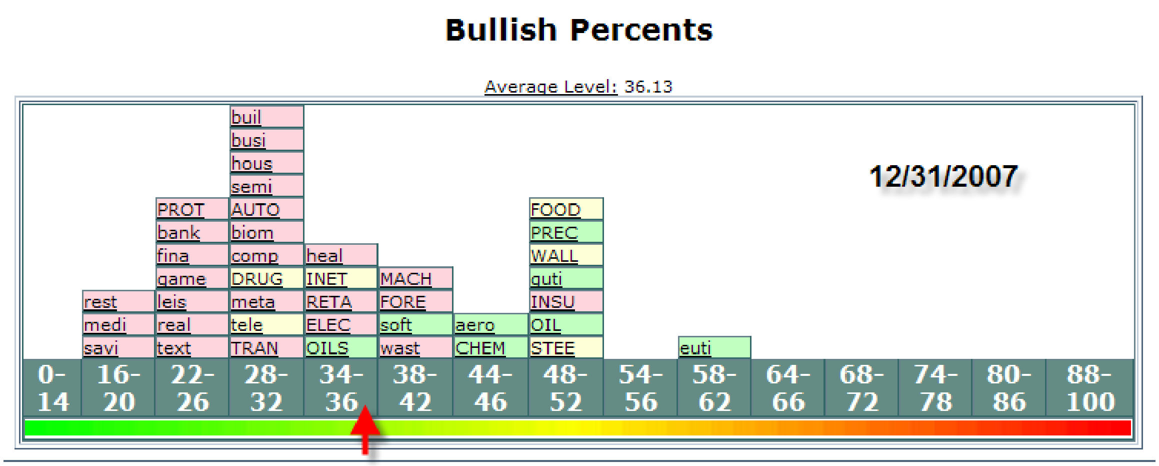
The charts of the S&P 500 and the NASDAQ Composite shown below illustrate clearly the trend of the major U.S. indices. The red and green arrows on the charts show the 8X20 simple moving average crossover points.

As these charts show, the major indices clearly remain in a down trend. While many investors are looking for a bottom, the market is clearly in a correction. While optimists hope that the recent support levels shown on the above charts will hold my view is that the deteriorating economy and corporate profit picture will probably see the 1256 level for the S&P 500 and the 2155 Level for the NASDAQ 100 breached.

To understand how far the market can drop, one needs to look at a longer term chart for these indices.

It would appear to me that there is considerable downside risk when looking at the long term chart. Prudent investors should be cautious in their approach to the market at this juncture.

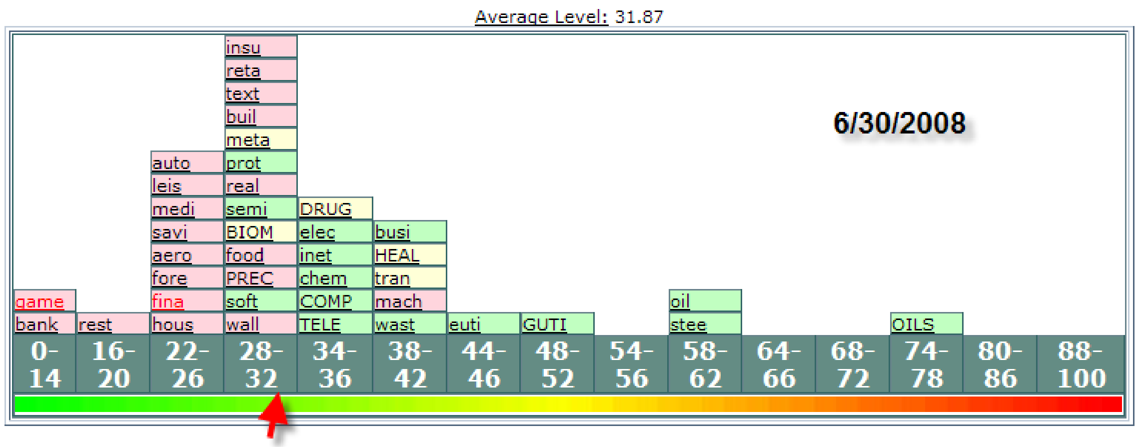
During the first half of 2008, the leading sectors were energy and steel. At the end of 2007, the Dorsey Wright & Associates Sector Bell Curve was showing a negative tilt in the market as shown below. The Sector Bell Curve shows the average of the bullish percents within a sector. Sectors in pink are moving lower, green are moving higher and yellow are neutral. Comparison of two or more charts provides a visual clue to how the sectors are behaving and the market is moving.



Courtesy of Dorsey Wright & Associates

As of June 30th, the bullish percent chart indicated further deterioration in the market as shown below:

Bullish Percents



Courtesy of Dorsey Wright & Associates

Foreign Markets

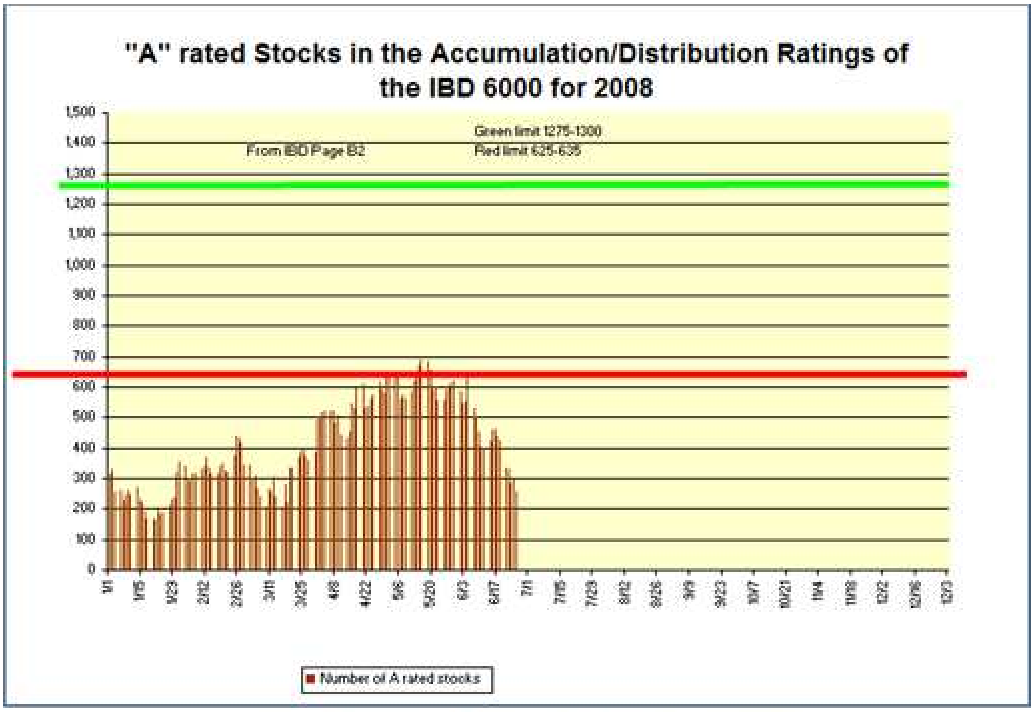
While the U.S. markets have declined during the first half of the year, the decline in many foreign indices has been greater. The Shanghai Composite index has decline over 56% from its peak in October 2007. Whether the decline in China is a result of increased interest rates or a breaking of the bubble is not my concern. The fact is that billions of dollars of Chinese wealth has disappeared just like in other exchanges throughout the world. Eventually, the loss will have a major impact upon spending throughout the world.

While not as deep as the SSEC index, the German DAX index has dropped almost 25% since peaking in December 2007. The German economy is now showing signs of slowing down.

Likewise, the London Financial Times index has also fallen about 20% since its peak in October 2007. London has also seen a bursting of the housing bubble somewhat similar to that in the U.S. Inflation is running higher than in the U.S. but that might be because their data is not as hedonically massaged as the U.S.

Hence, the advice proffered by many financial guru's about investing overseas during last year and this year would have caused even more distress in investors' portfolios.

The Investor's Business Daily® Accumulation/Distribution ratings for all stocks measures buying and selling pressure by institutions. The next chart shows that the number of stocks being heavily accumulated is shrinking.



Data source: Investor's Business Daily. Used with permission.

The above chart suggests that institutions are not eager to purchase stocks at these levels and thus, the prospect for an economic upturn would appear to be slight.

During June, the number of stocks on our Watch List based upon the A+190 filter fell. Also, the number of companies which were added to the list during June fell significantly. It appears that finding quality stocks is becoming very difficult.

Looking Ahead

The second half of the year will find politics continuing to dominate the national press. Campaign rhetoric could cause knee-jerk reactions in the markets. The markets today appear to be driven more by news events rather than serious analysis. Emotion along with the optimist bias of most investors plus intervention by the PPT and its cohorts were apparently able to keep the U.S. markets from falling like most foreign markets until mid-June.

As we enter the second half of 2008, investor's should be concerned that the Bernanke put might disappear.

Irrespective of the winners in this year's elections, the investor should be aware that taxes on capital gains will most likely increase to help offset the budget deficits. It is likely that the Bush tax cuts that expire in 2010 will not be extended. Hence, investors with significant long-term capital gains should carefully look at the advisability of retaining those assets after 2008.

It is also probable that tax brackets for those deemed "rich" will also move higher.

Politicians have little stomach for cutting spending. Hence, deficit spending, taxes, or perhaps, both will increase. If the budget deficit continues to mount, the value of the dollar will continue to fall. As government spending increases, the amount of capital available to provide capital for the private sector will decrease. As a result, the increase in GDP will continue to stagnate.

The role of the U.S. dollar as the world's reserve currency is also shrinking and the result will be further inflation pressures here.

The Federal Reserve would like to let interest rates remain at current levels. However, pressure upon the currency and further increases in the differential interest rates will find the Federal Reserve needing to begin increasing interest rates.

With the GAPP federal liabilities somewhere north of $70 trillion and only a $14 trillion GDP, it should be obvious that the current spending and tax policies of the federal government are in drastic need of an overhaul or the result will be disastrous for the citizens in the republic.

In time, a major overhaul of Social Security, Medicare and Medicaid will be required. Both means testing, an increase in retirement age and reduced benefits as well as quality of life issues must be debated and incorporated into reducing the overall cost of these programs. There can be little justification for giving a bed-ridden patient suffering from diabetes and on oxygen a heart transplant at the age of 86.

Over 50% of the cost of Medicare is spent in prolonging the last six months of life. Although the baby-boomer generation is headed into retirement, it does not automatically mean that investments in the health and pharmaceutical companies will be profitable.

It would appear that financial stocks, homebuilders and companies aligned with the housing industry, airline and hotel stocks in major travel markets might also not be wise investments now.

The loss of "AAA" ratings by the mono-line insurers could also bring significant pressure upon the bond market as pension funds, insurance companies and many trusts will have to unload financial instruments which do not carry "AAA" ratings because of the loss of those ratings by the mono-line carriers. The sale of these securities will further increase interest rates and also soak up some of the liquidity that many financial institutions will need to shore up their capital structure.

Corporate profits in the 1st Qtr of 2008 fell e.6% on a y/y basis. If corporate earnings for the second quarter fail to meet analyst's expectations, the market indices could continue the slide of the past two weeks.

So where should you look for investment safety and perhaps, asset safety. Certainly, housing and commercial real estate will remain under pressure. Good quality agricultural land could also become suspect, particularly, if farm subsidy programs are reduced. Incentives for renewable energy might also be reduced.

While many politicians will continue to snipe at the energy sector until major structural changes are made in distribution networks, energy, commodity and certain transportation companies may be candidates to add to a watch list.

As water is becoming scarce in many areas, water utilities and desalinization companies might be of interest.

If we are entering a period of stagflation, investors should concentrate on those companies providing products and services required for basic living.

With dollar facing additional weakness, free cash reserves should be invested offshore.

If we have another major financial failure or a closing of the Strait of Hormuz or perhaps, another front opened in the Middle East, all bets are off.

Over the weekend, the news from overseas included a number of predictions (Fortis, Barclay's Capital, UBS, Louise Yamada writing in Barron's and the Tyche Group) that the world and/or U.S. financial systems were headed towards a meltdown. Charts for many financial institutions look horrid with no signs of visible support levels. As Don Coxe, global portfolio strategist at Canada's BMO Capital Markets, put it recently:

> "It looks as if all big banks on Wall Street are going to be places where not only would you not want to own their stocks but not even have deposits with them."

Chairman Bernanke of the FED has now been "informed" that for the first time in history, the IMF will be making a **"general examination of the U.S. financial system."** The IMF's board of directors has ruled that a so-called Financial Sector Assessment Program is to be carried out in the US.

This, *Der Spiegel* wrote, "is nothing less than an X-ray of the entire US financial system", adding that "no Fed chief in US history has been forced to submit to the kind of humiliation that Ben Bernanke is facing".

Or As David Hirst (who writes the Planet Wall Street column) concludes in the above article:

> "... the US markets have entered bear territory, the economy has done likewise and we are at the beginning of a long and tortuous process before rebuilding can even commence."

While we may have reached a bottom, it is my belief that the bottom in most indices is lower than here. Careful attention to maintaining capital by reducing losses is a major requirement in the next six months.

Fred Richards
Strategic Investing

Charts are courtesy of IBD®, Daily Graphs Online®, and Stockcharts.com.