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January 2008 Financial Market Update

January was a very volatile month. The financial services industry continues to be affected by problems in the mortgage and credit markets, you may know that as most of rogue trader in Paris cost the largest French securities firm more than \$7.1 billion. The economy suffered a net decline in employment of 17,000 jobs. Retail sales figures for the Christmas season appear to have been the lowest in several years. Not surprisingly, it was a tough month for stocks. In fact, it was the worst January the NASDAQ ever had (-9.90%). Other domestic indices did not do quite as bad; the S&P 500 lost only -6.05%.

This time, international stocks were no refuge. While foreign economies are still expected to avoid recession, their markets are certainly going to be affected if sales to American decline. The Morgan Stanley EAFE (Europe, Asia, Far East) index declined -7.84% in January. Emerging markets fell by -9.11%.

Our client's portfolios continued to benefit from our high cash positions. Our flagship Balanced Model Portfolio lost only -2.13% in January. In addition to extra cash, we had an ample amount of bonds in the portfolio that benefited from falling interest rates. We have always prided ourselves on our ability to weather down markets well, and so far we have continued that tradition.

We made modest purchases in our more aggressive portfolios during the sharp sell-off the fourth week of January (as you would expect), but for most investors the current portfolio weightings were maintained. We believe the current economic downturn is in its early stages, since there is typically at least a 12 month lag before interest rate cuts affect the economy. Financial institutions have not been able to fully quantify the amount they have at risk in credit derivatives, so there may easily be further negative headlines in coming months. Previous market declines for example; 2000-2002 had four distinct rallies of more than +10% before a final bottom was reached, so it is usually not wise to commit too much money too soon.

We will certainly move back to a fully invested position when conditions warrant, so we are monitoring the markets very carefully. As always we will error on the side of caution and capital preservation.

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