



July 8, 2008

Are We There Yet? Seeking a Market Floor For 2008

Dear friends:

Investors enjoying a wonderful 2008 probably aren't concerned about the financial markets. Perhaps they haven't been shopping for groceries or filling their gas tanks. By most measures, the second quarter of the year was memorable only for its abysmal performance, though the degree of misery it produced depends on how you are invested.

The three major indexes ended the quarter on low notes, but they did not move in lockstep. Headlines focused on the Dow Jones Industrial Average (an unmanaged index of 30 widely held stocks), which lost 912.88 points, or 7.4%, from March 31 to June 30. It briefly traded in bear market territory (down 20% from its trading high). Over the same period, the NASDAQ Composite (an unmanaged index of all common stocks listed on the NASDAQ National Stock Market) barely moved, losing just 0.6%. The S&P 500 (an unmanaged index of 500 stocks) lost 3.2%. It's worth remembering, as grim Dow headlines roll by, that the index consists of just 30 stocks, and when the list includes troubled carmaker General Motors and banking institutions still wrestling with the housing and credit crises, volatility may be more pronounced than in the broader indexes.

Trying to figure out how to push the economy into drive while holding back inflation, the Federal Open Market Committee (FOMC) held its target rate at 2%. Some analysts say the Fed is between a rock and a hard place, fearing inflation, yet reluctant to raise rates that could stall an already slow economy. It's also aware that foreign central banks have kept their rates higher and more attractive to investors, thus keeping the dollar weak. All this may effectively handcuff the FOMC for a meeting or two.

The limited supply of good news focused on energy sector stocks, up 18.8% through June 27, according to Morningstar, and positive growth in energy and agricultural commodities. It is a sobering time for investors, a hard lesson in the fact that markets are more than a series of peaks on the charts. Deep valleys happen, and this is one of them.

However, as we begin a new quarter, now is an excellent time to check your portfolio, consider your asset allocation and perhaps cautiously look for

investment opportunities that almost always exist in down markets. If you have general market questions or specific queries about your portfolio, please don't hesitate to call us.

Sincerely,



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