



Stanton & Castleton, Inc.

An independent firm

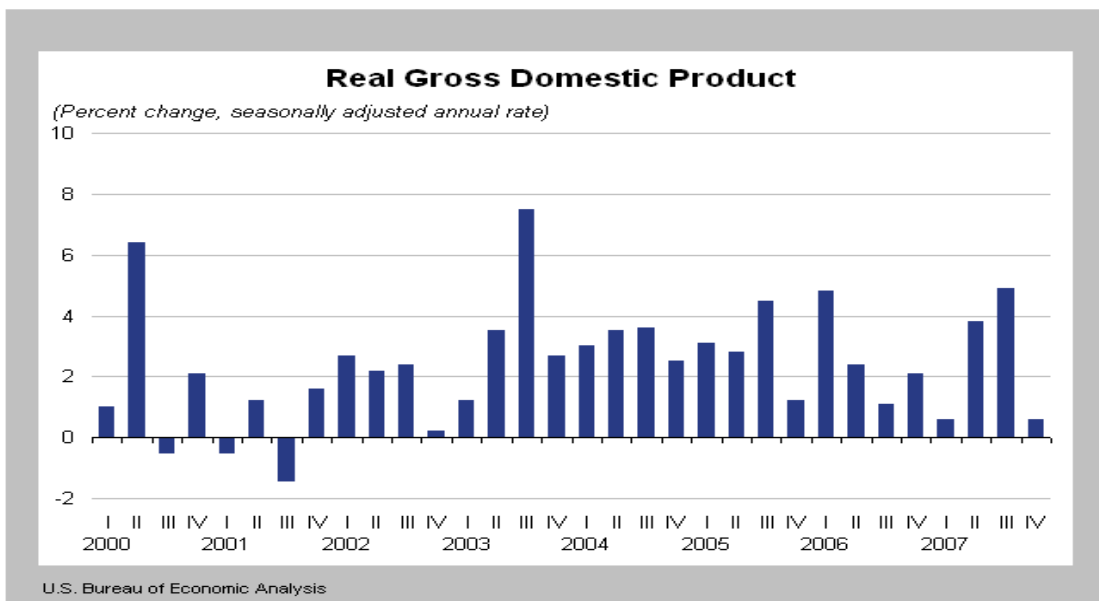
2nd Quarter 2008 Capital Markets Outlook

Towards the end of each quarter we meet several times to discuss any changes in our outlook for the current year. We both will have reviewed several Capital Market Outlook publications from a number of respected investment houses including Raymond James. This along with our research of the global markets from both an economic and geo-political perspective helps us establish our expectations for the coming year.

Our objective is to establish an outline for how we believe the markets may behave and identify what we see as the major risks to investments across all market segments. We do not pretend to be able to predict what will happen in the future, rather we want to establish confidence that the portfolios we recommend are positioned to benefit from positive market environments and are helping to reduce risk exposure through diverse asset allocation and manager selection during negative market periods.

The following is our 2nd Quarter 2008 Capital Markets Outlook:

Recession & the Markets a Historical look back:



Stanton & Castleton, Inc. / an independent firm

1151 Dove St., Suite #115, Newport Beach, CA 92660 / 949.975.0955 / 877.975.0955 / www.stantoncastleton.com
Securities & investment advisory services offered through Raymond James Financial Services, Inc. Member FINRA/SIPC

In the chart above we take a look at Real Gross Domestic Product for the US economy since 2000. When we say “real” this is inflation adjusted. The definition of a recession is usually defined as 2 or more negative quarters in GDP. In the above chart we can see the recession from March 2001 ending in November 2001. We can also see the recent decline in GDP to near negative levels.

Here is where it gets interesting! Since 1980 we have had 4 recessions with an average length of 9.5 months and during the period the U.S. Bureau of Economic Analysis has defined as recession the S&P 500 index was up 3 of the 4 times;

Recession Begin Date	Recession End Date	Length in Months	S&P 500 Total return	Russell 2000 Total return
1/31/1980	7/31/1980	6	9.60%	7.50%
7/31/1981	11/30/1982	14.2	14.20%	14.80%
7/31/1990	3/31/1991	8	8%	7.70%
3/31/2001	11/30/2001	8	-0.90%	3.20%

If we take a closer look, or if we just try to remember our world in the months prior to the “official” recession date, you will notice the markets were in decline prior to the recession. In fact it is a widely held belief that the equity markets anticipate economic downturns while investors are often reacting after the cows are out of the barn.

Finally, lets look at when we get the official word we had a recession...it is always after the fact! The Bureau of Economic Analysis is always revising their #'s. In fact they report first an “Advanced Report” then a month later a “Preliminary Report” followed in another 30 days by the “Final Report”. However the final report can and is revised a year and up to 5 years later.

The bottom line is we know when the economy is down by our own personal experiences...we are living through the tough times. Our current belief is this may indeed be a short recession from 4th qt 2007 through 2nd qt 2008. If that is the case we can expect the markets to begin to anticipate the recovery in the second half of 2008 and begin pricing this into valuations.

The Economy:

The U.S. Economy has slowed recently, although we are still in positive numbers for GDP growth (4th qt 2007). Are we in a recession? If we avoid a

recession it will be a narrow margin, in fact we could be in the first negative growth quarter right now. We can see this in the markets, currently down 15% - 21% depending on the index you are tracking. We see the effects of the sub-prime loan market and the associated pressure on real estate valuations have spread into the Financial Services resulting in the recent JP Morgan and Bear Stearns FED brokered deal. We feel these first two quarters in 2008 will continue to be volatile, however by years end we will recognized this was an opportunity invest at some great values.

Equity Valuations:

Once again we need to look at the markets overall valuation in relation to the past and what we think the future may bring for company earnings. Looking at the past may give us some insight as to what “normal” PE ratios might be. In that light we know from our last writing that the S&P 50 year historical, 1955 – 2005, median P/E was 17. (Source: Mark Panzer, Rabo Securities) The real question is looking forward if we are in a recession then expected earnings will be lowered for the S&P as a whole. How much of a reduction will depend on the length and severity of any economic slow down...and that is the “64 thousand dollar question”! Recently, Investment Policy Committees for many financial firms have lowered their 2008 year-end target on the S&P 500 index. If we look back in 2006 S&P earnings were \$87.72 and 2005 earnings were \$76.45. The first 3 quarters of 2007 S&P earnings totaled \$67.32, according to S&P earnings estimates for the 4th quarter 2007, we could see overall 2007 S&P earnings come in around \$82.54. This would be an over all decline from 2006 earnings. As of this writing the S&P 500 index is trading at 1285 (3-7-2008), if we use the historical median P/E of 17 this implies an earnings of \$75.58 a lower level than 2005 earnings.

In this light we feel current market levels are already reflecting a dramatic earnings decline for 2008. Our view is at current levels the market does not appear overvalued.

Bond Markets:

Since the September of 2007 when the Federal Reserve began to deal with the sub-prime issues and started to lower interest rates we have see the Federal Funds Rate lowered form 5.25% to our current level of 2.25%. On 03-07-2008 JPMorgan’ chief economist, Bruce Kasman, said “it is appropriate to characterize the U.S. economy as having entered a recession

during 1Q08” and now sees the Federal Reserve lowering the Fed Funds Rate by ¾% this March 18th and again lowering rates another ½% in April. (Source: DJ) The FED did cut the FFR ¾% on 03-18-08 and if Mr. Kasman is right we could see the FFR down to 1.75%. Our view is we may have additional cuts, although we are unsure how many or how far. We also are confident that these steps are laying the underpinning for stabilizing the overall economy and reestablishing a growth environment.

Currency Markets:

Our comment here is short and sweet. While some feel the U.S. Economy has “decoupled” from the world economy and that our currency and economy will not have the influence of the past...we think this is an over statement. It’s true that the world’s overall economy is much more distributed, yet, Europe, Asia, and South America cannot avoid economic troubles by ignoring the U.S. We feel a more concerted “global” effort to stabilize economies will be the result of our slow down.

Oil, Real Estate and the \$:

Another short thought, all three will stabilize with oil beginning to decline from current levels and real estate and the \$ will begin to move in a positive direction by year end 2008...our opinion!

“In the end, how your investments behave is much less important than how you behave.”

**Benjamin Graham
The Intelligent Investor**

© 2006 Raymond James Financial Services, Inc. Member FINRA/SIPC

This newsletter is published for residents of the United States only. Raymond James’ financial advisors may only conduct business with residents of the states and/or jurisdictions for which they are properly registered. Therefore, a response to a request for information may be delayed. Please note that not all of the investments and services mentioned are available in every state. Investors outside of the United States are subject to securities and tax regulations within their applicable jurisdictions that are not addressed on this site. Contact your local Raymond James office for information and availability. Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor’s results will vary. Past performance does not guarantee future results. *The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Any opinions are those of Robert Stanton, Ronald Castleton and not necessarily those of RJFS or Raymond James. Expressions of opinion are as of this date and are subject to change without notice. This information is not intended as a solicitation or an offer to buy or sell any security referred to herein. Investments mentioned may not be suitable for all investors. You should discuss any tax or legal matters with the appropriate professional. Be advised that investments in real estate and REITs have various risks including possible lack of liquidity and devaluation based on adverse economic and regulatory changes. Additionally investments in REITs will fluctuate with the value of the underlying properties and the price at redemption may be more or less than the original price paid. Investing in the energy sector involves special risks including the potential adverse effects of state and federal regulation and may not be suitable for all investors*