



Stanton & Castleton, Inc.

An independent firm

3rd 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 quarter / 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 3rd Quarter 2008 Capital Markets Outlook:

Tulips, Regression to the Mean & Oil:



"I got out of tulips after the market collapsed, but I'm slowly getting back in. Especially pink ones."

In 1593 Conrad Guestner imported the first tulip bulb into Holland from Constantinople, in present day Turkey. Over the next few years Tulips had

become the status symbol for the rich and famous...and by 1634 tulip bulbs were traded on local market exchanges, which were not unlike today's stock exchanges. By this time the Dutch middle class had caught the bug and were investing (speculating) in tulips for profit. In 1636, tulips were trading hands on the Amsterdam, Rotterdam, Harlem, Levytown, Horne exchanges and others in nearby European countries. These exchanges started to offer option contracts to speculators. The price of tulips at the height of the mania was \$76,000 causing the Dutch government to develop regulation to help control the tulip craze. The savvy investors saw this as a sign to sell at the high when people began realizing that tulips may not be worth the prices they were paying for them. Over the next six weeks tulip prices collapsed losing over 90% of their value with many losing everything.

What does this have to do with 2008? While we concede to the real supply-demand forces affecting the oil and gas markets today, we can not help notice that over the past few years' speculation in the energy commodities market has grown at an astounding rate. The chart below shows the dramatic growth recently in the total futures traded for the top 20 energy contracts:

Top 20 Exchange Traded Derivatives Contracts

Top 20 Energy Futures and Options Worldwide				
Ranked by Number of Contracts Traded and/or cleared in 2007				
Rank	Contract	2007	2006	% Change
1	Light Sweet Crude Oil Futures, Nymex	121,525,967	71,053,203	71.04%
2	Brent Crude Oil Futures, ICE Futures Europe	59,728,941	44,345,927	34.69%
3	WTI Crude Oil Futures, ICE Futures Europe	51,388,362	28,672,639	79.22%
4	European Style Natural Gas Options, Nymex Clearport *	29,921,068	19,515,968	53.32%
5	Natural Gas Futures, Nymex	29,786,318	23,029,988	29.34%
6	Light Sweet Crude Oil Options on Futures, Nymex	28,398,793	21,016,562	35.13%
7	Gas Oil Futures, ICE Futures Europe	24,509,884	18,289,877	34.01%
8	NY Harbor RBOB Gasoline Futures, Nymex	19,791,439	3,883,261	409.66%
9	No. 2 Heating Oil Futures, Nymex	18,078,976	13,990,589	29.22%
10	Henry Hub Swap Futures, Nymex Clearport *	16,207,044	24,157,726	-32.91%
11	Crude Oil Futures, MCX	13,938,813	4,466,538	212.07%
12	Fuel Oil Futures, SHFE	12,005,094	12,734,045	-5.72%
13	Henry Hub Penultimate Swap Futures, Nymex Clearport *	10,117,889	7,973,290	26.90%
14	Gasoline Futures, Tocom	7,529,706	12,932,848	-41.78%
15	miNY Crude Oil Futures, Nymex	5,185,214	9,323,467	-44.39%
16	Natural Gas Options on Futures, Nymex	5,051,879	9,581,663	-47.28%
17	Gasoline Futures, C-Com	3,635,329	4,953,168	-26.61%
18	Kerosene Futures, C-Com	2,685,345	4,027,192	-33.32%
19	Kerosene Futures, Tocom	2,350,819	4,492,904	-47.68%
20	European Style Crude Oil Options, Nymex Clearport *	1,879,999	379,250	395.71%

* Traded primarily off-exchange.

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Our point is soon or later there is always a “regression to the mean” or in other words, nothing lasts forever...especially when we are all convinced that this time it is a “new paradigm”!

The Economy:

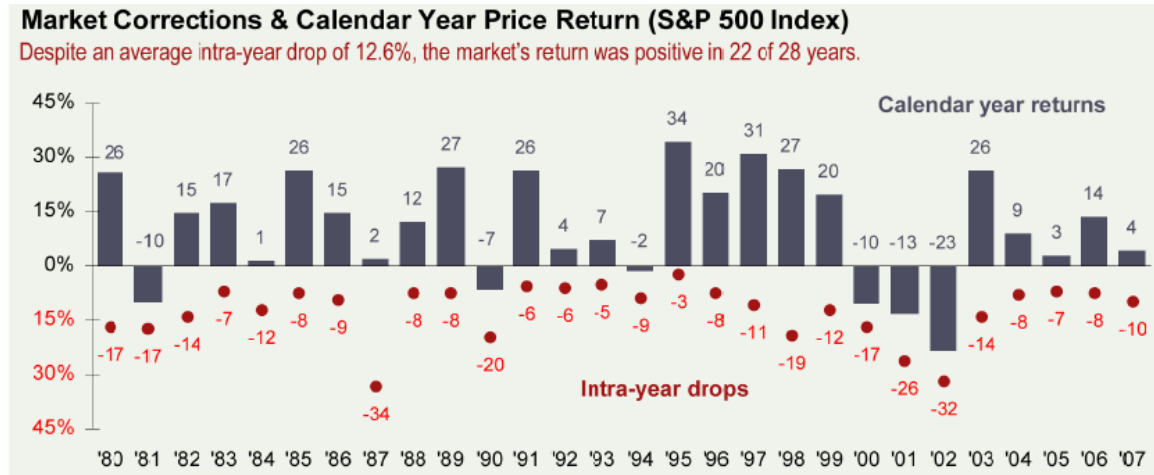
The U.S. Economy has continued to slow yet we are still in positive numbers for GDP growth (1st qt. 2008) While we may not be in a recession by the strictest definition, many would argue it sure feels like it. The S&P 500 Index Total Return is currently down 11.91% through June 30, 2008. We are still feeling effects of the decline in real estate valuations:

May 2008 Regional Sales and Price Activity*

8-May	Median Price	Percent Change in Price from Prior Month	Percent Change in Price from Prior Year	Percent Change in Sales from Prior Month	Percent Change in Sales from Prior Year
	8-May	8-Apr	7-May	8-Apr	7-May
Statewide					
Calif. (sf)	\$384,840	-4.70%	-35.30%	15.50%	18.10%

*Source: CALIFORNIA ASSOCIATION OF REALTORS®

And the cost of gasoline has risen above \$4.50 per gallon across the country. The result is the demand has begun to decline and supply is building. The effects of supply/demand (like the tulip market) will eventually work their way to the pumps too. History indicates investment opportunities in chaos.



Equity Valuations:

Once again we have to try and understand the “outlook” for earnings and growth in the current market environment to gauge what we think is a fair valuation for the markets. As noted in past editions, the slowing economy has been effecting analyst expectations for the past 3 quarters, causing a lowering of overall earnings expectations into the near future. This in turn

lowers stock valuations. The S&P 500 index has declined just over 20% since the October 2007 high. With much of the shocks to the economy now known, we continue feel that 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 the Federal Reserve has lowered the Federal Funds Rate from 5.25% to our current level of 2.0%. In their last meeting we began to hear language that the FED would pause in the current ease policy. In fact many took this as the first step towards a shift to raising rates. Our view is that this talk is premature. The benefits to the economy are just beginning to take hold and with things still “up in the air” we feel the FED can not afford to risk choking off a wobbly recovery to soon. We expect the FED to hold a neutral policy for the near future.

Currency Markets:

The weak dollar has a large impact on energy cost for the US. And for many has become the scapegoat for all our economic ills. However, a lower dollar also makes our exports cheaper, driving up foreign demand. This is often referred to as “exporting a recession” because the effect is to make foreign products more expensive. The result is we buy less foreign goods and sell more domestic goods. This “policy” is often not a policy at all, merely market forces working their magic. Intended or not, in modern economic times this will not typically last, however currency cycles are often longer than our short memories. In fact the U.S. dollar is still above the trough of 2.5 dollars per British Pound in 1972. The dollar reached a high value of 1.1 dollars per pound in 1985 and currently is around 2.0 dollars to pound.

Oil:

Another short thought, like tulips, all things have their day in the sun!

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

**Benjamin Graham
The Intelligent Investor**

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