

August 5, 2008

Focus on The Markets

	YTD % 2nd Q 2008
DJIA	-14.4
S&P 500	-12.8
S&P SmallCap	-7.6
Nasdaq	-13.5
Russell 2000	-10.0
MSCI EAFE	-12.7
Oil/Barrel	\$140.00
30 mortgage	6.36
15 mortgage	5.94
Money Mkt APY	2.41
	YIELD
30 Yr Treas	4.84
10 Yr Treas	4.65

Investing When Young - The Sweat of Industry Would Dry and Die But For The End It Works To

Practically from the day they graduate from college, young people today find themselves saddled with good old garden variety American debt. College loans, car loans, followed a few years later by the burden of monthly mortgage payments, and the stress can become overwhelming. So, how are recent college graduates and young professionals (or any of us for that matter), to take control of our financial lives? By becoming financially literate, putting together a financial plan that includes a realistic budget, sticking to it, and setting aside a little money each month to invest for the future.

Get Clear of Debts. Not surprisingly, if there is one thing that is furthest from the mind of any recent college graduate or young professional, its retirement. After all, they have only recently finished college and have much larger fish to fry making their way in the world and gaining a solid foothold in budding careers. To even think about retirement seems ludicrous. However, crazy as it seems, for anyone who can swing it, there are tremendous rewards for those who start planning and investing early.

The first step for anyone just starting out is to come up with a

Continued on page 2

Olympic Event or Herculean Effort, Human Rights for Burmese as Contact Sport

PRESS RELEASE No. 4 / 2007

Permanent Mission of the Union of Myanmar - to the United Nations Office and other International Organizations, Geneva

“... Mr Gambari (Mr Ibrahim Gambari United Nations envoy & former Nigerian foreign minister) also had an opportunity to see the peaceful and stable situation in Myanmar. Previous curfew hours from 9 pm to 5 am has (sic) been replaced with from 10 pm to 4 am. The situation in Myanmar is now back to normal.”

Oh, this is good news.

Continued on page 4

realistic budget that gets you where you want to go. Make sure to include practical measurable goals and monitor your progress in attaining those goals. Your budget should be a reflection of your life and as such, should be treated as a dynamic thing. As your life's circumstances change, so too should your budget: marriage, first house, children, the works.

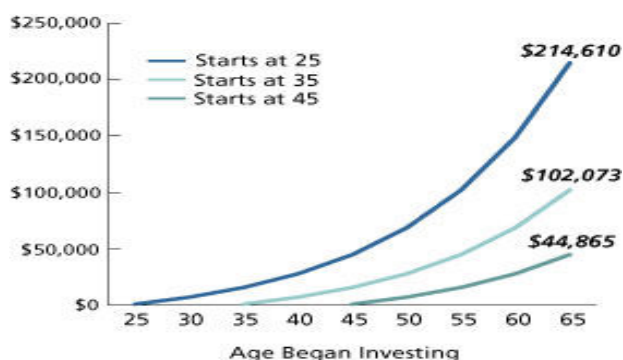
In preparing a budget, track your expenditures and cut back if you are living beyond your means. And if you are one of those rare people who are living below your means? Give serious thought to setting up a plan for saving - find an amount you think sustainable every month, and invest it. Investing early when you're young is its own reward.

Learn The Basics, It Ain't Shakespeare. Learn the basic vocabulary of investing; what is a stock, what is a bond, what is a mutual fund, what does compounding mean? Once you are ready to take the plunge, consider employing someone to help you and remember, professional financial advice is not just for the well-to-do. A professional advisor will be able to guide you through the myriad investment options and products that are available and will help you get where you want to go financially by the time you want to get there.

*“To Prepay or
Not, A Question
We Should All
be Asking”*

To Prepay or Not To Prepay, That is The Question. For example, a professional can help you determine whether it makes more sense to prepay your college loans or invest the extra money? They will help you identify the opportunity costs of any disposable funds you might have - what interest rate are you paying on your loans versus what potential rate of return could you reasonably expect if you were to invest the money. By factoring in your current and projected tax rate, making adjustments for inflation, and calculating your long term goals, an advisor will determine what types of investments make the most sense. History has shown that a diversified portfolio, especially one started when you are young, will generate healthy returns over the long term.

Tomorrow and Tomorrow and Tomorrow. When it comes to investing, time is a tremendous asset in accumulating wealth. The following graph shows what happens in the case of three people who, beginning at different ages, invest \$1,000 a year until they turn 65. By the age of 65, the person who starts investing when they are 25 years old will have invested \$40,000, the 35 year old will have invested \$30,000, and the 45 year old \$20,000. Assuming an average annual rate of return of 7 percent – not unreasonable - the 25 year old will do more than twice as well as the 35 year old and more than four times as well as the 45 year old.



Compounding And The Rule of 72. The Rule of 72 helps you calculate how many years it will take for you to double your money at a given rate of return - simply divide 72 by whatever projected rate of return you think attainable. For example, if you invest \$5,000 at an estimated annual rate of return of 8% (reinvesting all dividends) in nine years time your investment will have appreciated to \$10,000 ($72 \div 8 = 9$). By applying the Rule of 72 one can also extrapolate the annual rate of return one would need to earn in order to double your money in a given period of time. For example, to grow \$5,000 to \$10,000 in say 5 years, one would need to earn a 14.4% annual rate of return ($72 \div 5 = 14.4\%$). The Rule of 72 can be an invaluable tool in helping you determine the benefit of a potential investment, its applications are endless.

Take Advantage of Any & All Tax Advantaged Savings Plans. As part of any disciplined savings plan, one should always factor in taxes. For example, an increasing number of people save for retirement by making pre-tax contributions to their employer sponsored 401(k) plan. 401K plans allow participants to lower their taxable income by deferring taxes on the earnings from their contributions until the monies are actually withdrawn. Add to that the benefit of some 401(k) plans in which employers match employee contributions and you have a no lose proposition. Invest an amount at least equal to the employer match and you've already reaped a 100% return on your investment.

Leave Not Your Whole Estate Upon the Fortune of This Present Year. As Peter Lynch, the well known portfolio manager, wrote in his now famous book *Beating the Street*, "In the long run, a portfolio of well-chosen stocks will always outperform a portfolio of bonds or a money market account. In the long run, a portfolio of poorly chosen stocks won't outperform the money left under the mattress." If you decide to go it alone and invest your money yourself, here are a few rules from Peter Lynch:

- Often, there is no correlation between the success of a company's operations and the success of its stock over a few months or even a few years. In the long term, there is a 100 percent correlation between the success of the company and the success of its stock. This disparity is the key to making money; it pays to be patient, and to own successful companies.
- Long shots almost always miss the mark.
- Never invest in a company without understanding its finances. The biggest losses in stocks come from companies with poor balance sheets.
- There is always something to worry about. Avoid weekend thinking and ignore the latest dire predictions of newscasters. Sell a stock because the company's fundamentals deteriorate, not because the sky is falling.

Mutual Funds – The Best of Both Worlds. If you are not comfortable picking your own stocks, consider investing in a diversified portfolio of mutual funds. Mutual funds are professionally managed, well diversified among a group of stocks, and cost much less to buy. One way to evaluating a mutual fund is by checking its Morningstar rating at Morningstar.com. Morningstar rates funds based on their risk-adjusted return (after accounting for sales charges and expenses). Look for four or five star rated funds. Look at a fund's ten year numbers and compare them against the fund's stated performance benchmark. Keep in mind, the benchmark is the performance standard to which funds *aspire*, most mutual funds do not perform as well as their benchmarks. Short term performance numbers are of limited help in predicting long term performance, so do not be seduced by fantastic short term figures. When looking at funds, compare them against their "investment style peers" (growth, value, small capitalization etc.) and if you can, invest in a diversified universe of funds.

Over-withholding, Not The Ideal Savings Plan. Looking for more from your paycheck? Make sure you are not over withholding income taxes. If Uncle Sam sends you a big refund each year, you are over-withholding.

... Investing When Young

About 90 million of the returns filed last year called for refunds averaging more than \$2,200, money of yours the government got to use that you could have invested. the government got to use that you could have invested. For help figuring out how many deductions you should claim, go to www.kiplinger.com/tools/withholding.

Pre-tax Deductions Not Always the Way to Go. If available to you, consider switching to a Roth 401(k). Unlike a regular 401(k) where the tax break is immediate, with a Roth 401(k), the tax benefit is on the back end, when you withdraw your monies. For younger workers who are typically in lower tax brackets, reducing their current taxable income isn't always their primary concern whereas saving on taxes in later years is. If you go the route of the Individual Retirement Account (IRA), contribute earlier in the year rather than later. The sooner the money is in the account the sooner it begins to earn tax-deferred returns. If your employer offers a medical reimbursement account, sometimes called a flexible spending account (FSA), consider participating. FSAs allow you to deduct, pre-tax, part of your salary and put it into an account that you can use to pay medical expenses not covered by your regular health insurance plan. With an FSA, you avoid paying both income and Social Security taxes on the amount withheld.

Look For Other Deductions... For example, if you are a teacher, even if you do not file itemized tax returns, you can deduct up to \$250 in out of pocket expenses paid for certain classroom materials. Some moving expenses are also deductible. For example, if your first job is at least 50 miles away from your old home, you can deduct the cost of getting yourself and your things to the new location, including (in 2007) 20 cents a mile assuming you drive your own car.

...Cause There are Lots Of Them. With gas prices what they are, consider buying one of the available hybrid automobiles, but do so before December 31, 2010. If you do, Uncle Sam will give you a tax credit, the size of which will be contingent on how fuel-efficient the car is. Your tax savings could be as much as \$3,400.

Keep good records and save your receipts because it is not necessarily true that good things only go to those who itemize their taxes. The standard deduction is only worth claiming if it is greater than all the costs you could deduct if you itemized, and as we've shown, there are a whole lot of things that can be deducted even for those who do not file itemized returns. Be sure to speak to your accountant or, consult the Internal Revenue Service for further information on additional deductions as this is merely a tasting menu of what is available.

There's no doubt about it, successful financial planning takes a certain amount of discipline and perserverance, but it needn't be all-consuming. If you lay-out a proper foundation and stick to it, you're half way there.

... Olympics as Contact Sport - Human Rights for Burmese

With the Olympics poised to begin in just a few days, human rights watchers, American corporate sponsors of the Olympics, and activist investors around the world are preparing for what is guaranteed to be a flurry of demonstrations critical of China's human rights record in such places as Sudan*, Burma, and Tibet. In what should be an exhibition solely of spectacular athletic performance, these Olympics are certain to provide the press with a platform to highlight and discuss China's support of some very marginal governments. Welcome to the grown-up's table.

Misinterpreting The Rules of Civil Society, Not. Until recently, Burma has been almost pathologically quiescent, due in no small part to the extraordinary control over which the ruling junta has restricted the lives of

its citizens and controlled access to the nation by outsiders and the media. All this changed last fall when the Burmese people began a round of public protests over the doubling of fuel prices which quickly evolved into pro-democracy marches led in large part by the enormously respected Burmese monks, and was followed shortly thereafter by the government's indurate response to the plight of its citizens in the aftermath of cyclone Nargis last month. Suddenly, the subject of Burma and the Chinese government's support of the ruling junta there made its way onto the front pages of newspapers and televisions around the world. Although the consequences of all this new publicity are not yet clear, the recent government crackdowns and attendant publicity have increased worldwide concern over the human rights situation in that country and we expect the investment community to take notice.

In May 2008, President Bush signed legislation freezing the assets of Burma's political and military leaders and banned the importation into the United States of jade and rubies from that country. Burma supplies close to 90 percent of the world's rubies, and is a top supplier of other gems and jade, all of which generates badly needed revenue for the military regime. President Bush also extended and tightened Burma sanctions that were first passed by Congress in 2003. The U.S. Treasury Department also announced financial sanctions on ten companies located in Burma that are suspected of being owned or controlled by the government there.

The Administration has been especially critical of the government's slow response to the human devastation caused by cyclone Nargis in May that killed thousands of people and left many others in "perilous straits", blaming the corrupt government for refusing to help its citizens and callously turning down international offers of aid.

"Myanmar"? We'll Stick With "Burma". While Burma has been under military rule for much of the 20th and all of the 21st century, it was the military's violent crackdown on widespread pro-democracy demonstrations in 1988 that attracted the attention of human rights watchers and investors, and drew international censure. Forming the State Law and Order Restoration Council (SLORC), and changing the nation's name in 1990 to Myanmar, the military government permitted the first multi-party elections in 30 years, but refused to recognize the results, which, needless to say, reflected an overwhelming rejection of military rule. More than 80% of the votes cast were for the pro-democracy National League for Democracy (NLD), led by Nobel Laureate Daw Aung Suu Kyi. SLORC arrested hundreds of NLD members and supporters including Suu Kyi who has spent 13 of the past 19 years under house arrest.

Then in 1992, under enormous international pressure, SLORC lessened its harsh rule, reopened universities, released some political prisoners, and introduced modest economic reforms. In 1993, the junta established the "National Convention," ostensibly to draft a new constitution. The nation had been without one since the regime took over in 1988. SLORC maintained strict control over the Convention's proceedings and refused to allow any significant participation by the NLD or other ethnic minority groups. "Despite having no mandate from the people," the U.S. Department of State wrote in its Human Rights Report for 1995, "the SLORC seems determined to draft a constitution that will guarantee a dominant role for the military in the country's future political structure." In November 1995, the NLD withdrew from the National Convention in protest. In May 1996, SLORC arrested several hundred NLD members and supporters who were planning to hold their own constitutional congress. In 1997, SLORC changed its name to the State Peace and Development Council (SPDC).

Democrats and Republicans Agreed...Over the years, the U.S. Government and Congress have taken numerous steps to pressure the SPDC. These include the suspension of economic aid, an embargo on arms sales, and the denial of benefits under the Generalized System of Preferences, which grants duty free treatment to

specified products imported into the U.S. from designated developing countries.

...the Situation Demanded Action. In addition, U.S. states and municipal governments enacted selective contracting laws, effectively prohibiting awarding government contracts to firms that did business in Burma, in an attempt to indirectly put pressure on the the Burmese military regime. Although some of the laws were later held to be unconstitutional, the message to companies with operations in Burma was clear. Get out.

International pressure for democratic reform in Burma grew as well. Over the years, the United Nations General Assembly has repeatedly passed resolutions calling for, among other things, a transition to democracy in Burma, and the International Labor Organization (ILO) adopted a report criticizing the Burmese government's use of forced labor. The ILO is a Geneva-based agency of the United Nations that brings together workers, governments, and employers with a mandate to improve working conditions around the world.

Knock Knock. Whose There? Queen of Denial. Historically, Burma's neighbors, including China, have shown much more interest in trading with it than in pressuring the government to improve its human rights record. As one of Burma's main commercial and diplomatic backers, China effectively functions as the junta's chief international enabler. Despite repeated attempts by the world community to pressure the Burmese government to improve its human rights record, China consistently squelches all attempts to put economic and diplomatic pressure on the government. Trade between the two countries has reportedly increased by over 39% in the first seven months of this year, reaching a reported \$1.11 billion. In 2006, according to the U.S. Department of State's Bureau of East Asian and Pacific Affairs, Thailand (38%), India (14%), and China (10%) are Burma's three largest export partners.

While it is unlikely that Burma will become as important and as visible an investment issue as Sudan, market watchers would be ill advised to shrug off the possibility. After all, the problems there have been going on for 20 years now, and press coverage of protests around the world during the Olympics is sure to inspire a resurgence in interest.

* See 10/1/07 issue of "On Balance", *Behind the Purdah, Who is Who in Sudan* and, 8/1/07 issue of "On Balance" *Rogue State or Odious Scourge, Investors Give Khartoum The Evil Eye*



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