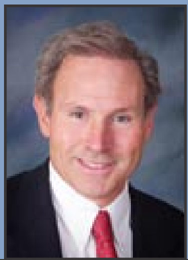

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Trusted Advisor

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In This Issue:

Year's First Half Puts US Equities on Road to Above Average Year

Having lost nearly all its gains of the first quarter, the US stock market roared back to life in the recently finished second quarter. As measured by the Standard & Poors 500, US equities gained 6.28%, creating the lion's share of the index's year-to-date 6.96% return. By contrast, broad International indexes barely changed in the second quarter, with MSCI World Index up .67%. The year-to-date for international is far better, up 10.16%. Trusted Financial Advisors' clients have captured about 90% of the US market gains to date, but with a pattern more similar to that of the international indexes — most of our gains came in the first quarter. This is not surprising, as we are significantly invested in international equities. Also, as balanced managers, our clients hold many high dividend paying stocks and bonds. With interest rates rising throughout the past quarter, values for these instruments were depressed. On the strength of energy issues, a blowout quarter for ITT Educational services and our great stable of mutual funds, we are closely tracking US equity performance so far this year, and a good year it is! Year to date, Trusted Financial Advisors' client composite shows an average return of 6.25%, so a composite measure of our clients' performance indicates they have captured 90% of the market's upside, while invested in a more diversified, balanced manner. "Moderate Allocation" Balanced mutual funds were reported by *Morningstar* as being up 5.50% year to date. Since our style is comparable to this category, we are pleased to be beating the category for this three month period. As always, we caution that anything less than a three to five year holding period is simply too short a time period in which to judge the performance of an investment manager. Our full track record will be published in August.

Certified Financial Planner™

Gary Miller is in his 33rd year of providing financial guidance to individuals and pension plans. He is a Registered Investment Advisor and a Certified Financial Planner ™ Practitioner. Gary holds a Certificate in Personal Financial Planning from the University of California, Irvine and has served as a Board member of the Financial Planning Association, Orange County Chapter.

The recent quarter featured profit taking on a number of long-term holdings, especially REITS such as Senior Living REIT, and Prologis. Despite a dreadful quarter, we doggedly cling to our last US REIT holding, HRPT Properties (HRP). We've reviewed the company's fundamentals and believe that it continues to have a place in income producing portfolios, especially given it's dividend of about 8%. The big Kinder Morgan Inc. leveraged buyout was finally approved by regulators after a long delay. We decided to sell prior to finalization of the deal, but captured nearly all of the upside available. As a private company, Kinder Morgan Inc. will continue to act as general partner of Kinder Morgan, L.P. and Kinder Morgan LLC which remain in many client portfolios. Private buyers have been gobbling up many other publicly traded companies over the past year, as well. Beside the Kinder Morgan buyout, many of our clients have been beneficiaries of this trend in other ways. A mutual fund holding held in virtually every household portfolio[1] has an impressive track record of choosing public companies whose private market value may be considerably higher than the stock price. Another fund we own specializes in merger arbitrage. While not a barn burner, it is highly stable and has produced long term returns north of 5%. Recently, we've begun positioning clients in a third mutual fund whose strategy is driven in part by the wave of private capital that has been snatching publicly traded companies off the listed exchanges. The fund seeks to own companies that have accumulated a large horde of free cash and are likely to make a special dividend payout. This is a way to make the company less attractive to potential buyers. Yet, the large payouts make it appealing to public shareholders, such as our clients.

During the quarter, long time favorite Valero, LP changed it's name to *Nustar (NS)* in an effort to underscore the fact that it no longer depends on former parent Valero Energy Inc. for the majority of it's pipeline volumes. We've been through some ups and downs with the company over a three plus year holding period, but have enjoyed a sizeable dividend all along the way, and over the three to four year ownership horizon, this has been a very successful investment. I'd be happy to find a few more Valero's ...er... *Nustars.*

Market Outlook

We do not predict general market trends, having learned it is more profitable to spend time looking over industries and businesses that may offer superior market position, management and returns on equity for long term investment. Yet, one cannot ignore macro issues like politics or pending legislation that may affect specific industry groups. Greg Valliere, of *Washington Research Group* is an astute observer of the political scene. In his comments in early June, he opined that the prospect of Democrats taking control of all three branches of government after November 2008 is reason to rethink the attractiveness of certain industries. Recent legislative moves to change the tax treatment of income for hedge fund partners is telegraphing the message that the "rich" may begin losing "loopholes". While the specific proposals floated would seem to affect only a small group of ultra wealthy Wall Street moguls, upon further examination, it may be but a stalking horse to increase taxes on other sheltered investments like Real Estate Investment Trusts (REIT). As clients know, these entities are not taxed at the company level so have more cash available to distribute in the form of dividends. The previous quarter saw a meaningful retreat in the prices of domestic REITS. I do not think this was due to a fear of the loss of special tax status, as this was not a concern until the last weeks of

July. Rather, the dividend yields on many of these issues have been driven down in the past year as prices skyrocketed. However I will certainly be watching Washington's changing complexion, and factoring in possible risks before entering new REIT positions.

Another target of Democrat ire is the high cost of our capitalist health care system. Yet government controlled healthcare has proven to be an irresistible tool for politicians of both parties. President Bush convinced a lot of conservative Republicans to vote for the Medicare drug coverage bill, which he signed into law in December, 2003. According to Wikipedia, *"One month later, the ten-year cost estimate was boosted to $534 billion, up more than $100 billion over the figure presented by the Bush administration during Congressional debate. The inaccurate figure helped secure support from fiscally conservative Republicans who had promised to vote against the bill if it cost more than $400 billion. It was reported that administration officials had concealed the higher estimate and threatened to fire government analyst Richard Foster if he revealed it."*

We've already anticipated a fundamental change in the way healthcare is provided in our country by reducing our clients' commitment to vulnerable sectors of this industry. While demographic trends suggest companies serving the needs of an aging population should benefit from expanding demand for many years, their profits are in danger of being regulated away by penurious Medicare spending and the government's growing economic influence over all aspects of medical care. Michael Moore's recently released movie "*Sicko*" may re-ignite efforts to control drug prices. I well recall the collapse of Merck Pharmaceuticals in early 1992, just before it became evident that Bill Clinton was the Democrat's favorite candidate for President. Had the Clinton plan for an expanded national medical system succeeded, drug company profits would no doubt have suffered. Are we about to repeat this experience with drug and healthcare stocks? I don't know, but am being particularly careful with regard to this industry group.

Five Years Ago on Wall Street

"Jul. 20--The Dow Jones industrials shattered their post-Sept. 11 lows Friday in a dramatic 390-point sell-off, adding to the already gloomy atmosphere on Wall Street soured by accounting scandals and company collapses.

It was the Average's biggest one-day point drop this year, and the seventh largest in history, sending the blue-chip barometer to its lowest close in nearly four years. " – Chicago Tribune

The above news article is a reminder of how quickly equity profits can dissolve. We are seeing increased volatility in recent weeks. Still, well run companies with smart business strategies and a management committed to value creation should generate profits for shareholders with a long-term investment horizon. *We are committed to the long term success of our clients.*

Classes and Workshop Schedule

Title: Financial Independence for Women
Location: Saddleback Community College
Date: Three Thursday Evenings
Sept 6, 13 & 20
Time: 6:30-9:00PM
Register: Call 949-582-4646
or visitwww.saddleback-ce.com

Mary, How Does Your Garden Grow?

Long time client Mary Markus of Garden Grove, California shows off the bounty of her garden to Gary Miller, CFP® on his recent visit to her home

Check our website for financial updates:
www.trustedfinancial.com

Footnotes:

1. We withhold the fund's name for competitive purposes.