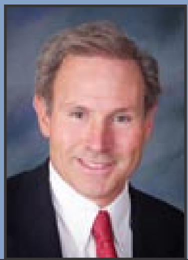

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Trusted Advisor

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In This Issue:

Third Quarter Review and Composite Performance Report

It was a volatile quarter that perfectly illustrated the value an experienced advisor can bring to the investment decision making process. Beginning with strong momentum carried over from the second quarter, investor peace of mind was punctured by six weeks of near panic spawned by a burgeoning crisis in the mortgage bond market. At one point, US stock markets surrendered virtually all the gains they had achieved for the year. Public voices of gloom and doom, including some prominent economists, caused investors with marginal understanding of their own holdings to surrender and retreat to the safety of money market accounts. Near the low point, we sent clients an e-mail entitled "Summer Sale On Wall Street". We observed: *"There are some very healthy industries such as manufacturing (United Technologies and General Electric are doing great) and energy production and distribution (all the oil companies are making record profits as are pipeline companies). There is no universal slowdown. Although interest rates had risen up until about a month ago, they were historically low by any measure."* We reviewed our quality investment positions and suggested we would be using the dip to pick up some bargains, which is just what we did.

In September, with the help of interest rate reductions by the Federal Reserve Bank, the ship righted itself - both the Standard & Poors 500 equities index and the Morningstar Stock Index finished up about 1.6 percent for the quarter. The Dow Jones World Index rose 2.7 percent. Since we chose to stay the course with most client holdings, managed accounts generally gained. For the trailing twelve months, a typical client has enjoyed an account increase of about 15 percent with similar annual returns over the past five years. [1]

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.

Comparing Trusted Financial's approach to "Index Investing"

As the accompanying graph will show, for the more than 6 years we have been managing investor funds on a discretionary basis, our clients (red line) have solidly beaten the Standard & Poors 500 Stock Index (blue line), and with less volatility. We also incorporate bonds and high dividend paying equities into the mix, so a comparison with bond performance is warranted. Consider the yellow line, an index consisting entirely of good quality bonds.[2] During the bear market in the early part of this century, bonds beat virtually any equity index, providing a place of refuge. However, had one retained too great an allocation to fixed income instruments, longer term gains were not too impressive (*See article on Certificates of Deposit below*).

A hallmark of our portfolios is relatively low month-to-month fluctuation, the most feared form of risk. At last quarter's market low point, our client accounts had declined, but to a considerably smaller degree than market indexes. The same held true five summers ago when, in the aftermath of the bursting Technology Bubble, and the terrorist attacks of 9/11/01, stock markets sold off dramatically. Our clients were able to ride through that storm with relatively mild losses, and recovered their previous portfolio values well ahead of the major equity indexes (*see graph*). Part of the reason for our success in navigating a fickle market is the use of stocks that display low volatility. This is difficult to achieve using passive index funds and index ETF's.[3] They collapsed in the 2000-2003 bear market and repeated the stunt this Summer. By contrast, our track record demonstrates the value of attentive portfolio management.

Also shown is a widely followed international Index (green line). Although it has done better than Trusted Financial's client composite over the same time period, it has been more volatile, and was notably weaker during the last bear market. Trusted Financial Advisors' balanced approach incorporates a wide range of investment instruments. The growth driver is equities, domestic and foreign and we favor a value investing approach. This means purchasing companies that appear to be priced below intrinsic value and that have a dominant market position, with astute, committed managers at the helm.

Note: Returns for "Gary Miller Composite" (Red Line) are net of fees.

The Illusion of Certificate of Deposit Safety in an Era of Rising Inflation

Even if you accept the government's measure of inflation, the Consumer Price Index, at face value,[4] [5] it's corrosive effect on after-tax buying power for money market or CD returns classifies this as a "non" investment for most people. To illustrate: assume average inflation is running at about 2.5%, and you are an investor with taxable income of $50,000. If Married, filing Jointly, your marginal Federal tax rate is 25% with a California bracket of 4%, a combined marginal net income tax rate of 28%.[6] A money market fund or CD yielding 4.5% will, after taxes, net the investor 3.24% gain. Back out the buying power erosion caused by average inflation and the "real" gain falls to .74%. But the story does not end here. For many upper middle class people who park money in Certificates of Deposit, their spending patterns give greater weight to highly inflating sectors like medical care and food and beverage, which rose by 4.5% and 4.2% respectively in the twelve months ended August 2007. High net worth individuals tend to consume services as a greater proportion of their household budgets relative to the government's "average" consumer, since they spend more on personal grooming, travel, entertainment and dining out. Consumables with a high service (i.e. labor) component tend to rise more rapidly than the other CPI components. Thus, it can be concluded that the inflation rate experienced by a successful family is greater than the 2.5% reported inflation rate. From these numbers, it can be concluded that upper middle class people who park money in Certificates of Deposit or Money Market funds for long periods of time are virtually guaranteed to lose purchasing power.

Stuck in CD's?

Most CD holders are aware of the indefensibility of their position. Usually their selection of short term money fund instruments like CD's was a reaction to a damaging experience in the stock market. We have run into folks who parked their money in CD's 5 years ago when the stock markets appeared to be collapsing with no end in site. The cost of this decision, in terms of money left on the table is startling. US equity markets, as measured by the Standard & Poors 500 and Dow Jones Industrial Average have risen at over 15% per year since the lows of October 2002. International Stocks have flown upward at twice that rate![7] CD holders are a little like the broken hearted. Rather than risk being hurt again, they retreat into anorexia. Better to survive rather than take a risk and thrive.

The Solution

The solution, for those who have reached a willingness to expand their investment horizons is to retain top notch investment advice. But, for many people, choosing how to invest their money produces the stress of a life-and-death decision. Just as they want the best surgeon or oncologist for a serious medical condition, smart investors should seek an extremely competent professional to advise them about their investment choices. Yet many high net worth investors fear permanent damage from taking the advice of a financial professional motivated by factors that may not be the best for their financial health, (AKA "Salesmen"). The challenge they face is how to separate the wheat from the chaff. To guide you in moving forward, we recommend you check the National Association of Professional Financial Advisors (**www.napfa.org**). There you can download a brochure "How to Choose a Financial Planner". You can also obtain a list of member planners in your area. Members of NAPFA, of which Trusted Financial Advisors is one, are pledged to act only in the best interest of their clients, as fiduciaries, and do not sell investment or insurance products.

They are "Fee Only" planners and many, like Trust Financial, are also Registered Investment Advisors who provide ongoing investment advice for a fee. They tend to guide you to use discount brokerage firms and no load mutual funds so as to reduce your transaction costs. NAPFA planners, like Trusted Financial, are trained to ask a lot of questions about your particular situation and to design a program that is personalized to your needs. Please also take a look at our web site to understand how we construct portfolios and actively manage them: **www.trustedfinancial.com**.

A Modest Proposal

A possible initial approach to help those who feel they want to move out of CD Purgatory and who are willing to take a limited amount of risk for better investment results might look like this: say you have $1,000,000 in liquid funds held in various accounts. Consider investing about one third in a balanced portfolio using a Registered Investment Advisor.[8] Avoid signing a contract that locks you in so you can change your mind if you decide to put your funds with another advisor or back into CD's. Plan to give this approach a test period of at least three years before deciding to commit more money or to return to your previous money market-only stance. Because you will have only a modest amount of your funds positioned for growth, a more variable approach, you are providing yourself with a psychological foundation that allows you to ride through possible market corrections. History has proven that those who are able to ride through the corrections and even the bear markets that periodically hit the equities markets have profited when recovery comes along.

Thanks for Your Feedback

We have been gratified to receive a significant number of e-mails and comments from clients congratulating the way in which we managed their portfolios this past summer.
Thanks for allowing us to be of service!

Footnotes:

1. Each Client has a unique portfolio based on our understanding of the client's needs. Composite performance referred to herein is meant to provide the reader a sense of how client portfolios as a group have performed but individual performance may have varied significantly. Past performance is not necessarily an indicator of future performance.
2. An index used by bond funds as a benchmark to measure their relative performance. The index includes government securities, mortgage-backed securities, asset-backed securities and corporate securities to simulate the universe of bonds in the market. The maturities of the bonds in the index are more than one year.
3. "Exchange Traded Funds", or "Closed End Funds"
4. Excluding food and energy, the CPI-U advanced at 2.3 percent in the first eight months of 2007, following a 2.6 percent rise for all of 2006.
5. For a discussion of how to calculate your personal inflation index go to the US Bureau of Labor Statistics discussion at : **http://www.bls.gov/cpi/cpifact5.htm**
6. Assumes taxpayer itemizes deductions and that CA income taxes reduce Fed income taxes at the 25% rate, 25% of 4% is a 1% savings on CA rate, or a net rate of 3%.
7. Source: Morningstar.com, data current as of 10/12/2007.
8. Typical fees for accounts under $1MM range from .25% of assets under management paid quarterly (1.00% rate per year) to 1.50% per year.

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