



Registered Investment Advisor

STEIN WHITTINGTON DENIEL INVESTMENT ADVISORS

Wealth Manager

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WHAT ARE WE DOING IN A NERVOUS MARKET?

This year has been a scary one for most investors. Inflation has reared its ugly head as the price of oil and other commodities have climbed precipitously with no abatement in sight. It is well known that inflation is detrimental to equity markets. Given this environment, we want to assure our clients that we have not sat idly by watching the markets deteriorate. We have taken two important steps — in addition to Covered Call Writing — to protect portfolios and reduce volatility in this difficult market environment. The steps we have taken have produced performance results better than the DJIA, S&P 500 and NASDAQ.

First, it is important to remember that Covered Call writing, our centerpiece investment strategy, provides a level of downside protection in falling markets — it is a recognized hedging technique. Therefore, if we did nothing else, we would do better than the major indices in this market environment. However, we have taken other significant measures to protect the asset value of our clients.

First, we have purchased for most accounts some “short” Exchange Traded Funds. A “short” ETF is countercyclical to the market, it goes up when the market goes down and vice versa. Therefore, so long as the markets trade within a range, up and then down, these securities (short ETFs) have worked to stabilize our clients accounts to a large extent. These ETFs include the UltraShort QQQ, QID; UltraShort Russell 2000, TWM; the UltraShort Dow 30, DXD; and UltraShort S&P500, SDS. Each of these short ETFs enjoy large liquidity — millions of shares traded daily — as well as generous Covered Call premiums.

In addition to the protection of Covered Calls, two strategies to deal with the current markets: Countercyclical ETFs and ETFs in Sectors that perform well in inflationary markets...

Secondly, we have purchased several ETFs which perform well in inflationary markets because they invest in commodities, minerals, precious metals, etc. which appreciate in this type of environment. Examples of these ETFs include, MOO and DBA (agriculture); GDV (gold); DBC (Commodities), as well as several oil and gas ETFs. Thus, as designed, our client portfolios should perform reasonably well in an inflationary market environment such as the one we have presently.

No matter what happens in the long-term, rest assured that our Covered Call strategy as well as the market action described above provide robust strategies for our clients' portfolios in a market plagued by inflation fears.

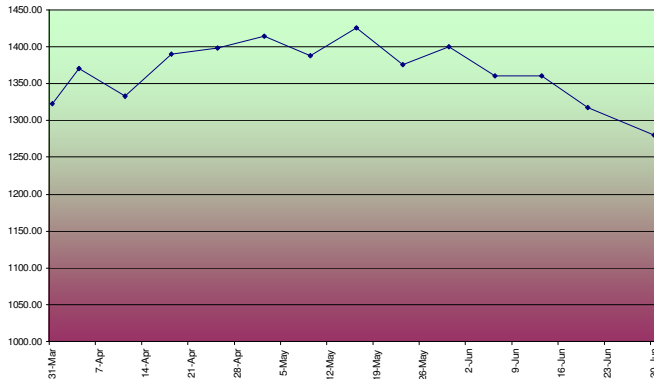
We remain ever confident that the market performs in a cyclical fashion; it always has. Given this well-proven phenomena, we are always aware that every difficult cycle produces opportunity to reap potentially large gains as cycles change from bull to bear and back again. While in the midst of a bear cycle, it is easy to forget the expanding international markets, the strong growth in third world countries as well as much of Europe and Asia, even if the United States has yet to recover from this recession or near recession.

As the markets recover, therefore, you will notice we will again change some of the strategies described above and adjust to the markets as they recover when inflation fears subside giving way to renewed growth.

Remember, bear markets are driven more by pessimism than by fundamentals. Moreover, market corrections, just like bull markets, are generally exaggerated. Do not get caught in the pessimism; remain confident that the markets will recover as they always do.

THE QUARTER IN REVIEW

SP 500 INDEX
 April 1 - June 30, 2008



The second quarter of 2008 demonstrated abysmal performance as the DJIA closely approached a 20% correction from the highs of October 2007 when the DJIA closed at 14,093.

For the second quarter, the DJIA was down 7.4%; the S&P 500 down 3.2%. The NASDAQ was the only index to eke out a tiny gain, up 0.6% for the past quarter.

During the first six months of the year, the DJIA, S&P 500 and NASDAQ are significantly down: 14.4%, 12.81% and 13.54% respectively.

The price of oil has been a significant contributor to the current financial environment. On the last day of the quarter, crude spurted past \$143 a barrel, settling just above \$140 a barrel. In the beginning of 2008, a barrel of crude oil stood at \$96. During 2008, the price of crude oil, gasoline at the pump, as well as most foods and commodities have risen dramatically, both in the US and throughout the entire world. The Fed, caught between a recessionary economy in the US, and exploding inflation, has lost much of its flexibility and it is fairly certain the next move for interest rates will be up, not down, in order to curb inflation.

The geopolitical developments, as well as electioneering in the US, no doubt have also contributed to the feeling of uncertainty. Israel, is not likely going to sit back as Iran's radical leader, Ahmadinejad, continues to threaten it with destruction. The entire stability of the Middle East is threatened by Iran's intent to become a nuclear power.

For the economy, one of the important implications

of these issues lies in the fact that Iran has threatened to cut off oil shipments through the Straits of Hormutz where approximately 40% of the world's oil supply passes daily adding to the level of uncertainty.

Other factors affecting the economy are the continuing credit and mortgage issues facing financial institutions. Money Center and regional banks have flushed out most of their problems but there may still be some surprises. In addition, their need for additional capital will keep their stock prices lower.

Once the Presidential election is over in November, the negativity attendant to political uncertainty will subside. With this negativity removed, the markets should benefit, depending upon what steps the new administration takes.

At the same time, with the present bear condition in the markets, there has been a significant sell-off; many indicators show the markets are over-sold. Valuations are reasonable, some cheap, by historical standards. As the credit and housing woes subside, and as the entire world adjusts to more inflation, the markets will stabilize and growth will resume.

Housekeeping Item:

Schwab Alliance: Please remember to call the Schwab Alliance Team (800) 515-2157, #3 and request enrollment. They have a good team assisting clients on the phone; they will walk you through the enrollment process while you are online. Please ask to enroll in e-Confirms, electronic delivery of annual reports and 10K's and e-Statements. This will entitle you to receive reduced commissions on equity trades. Schwab continues to improve its website offerings, including viewing statements and 1099 tax reports. You will need to establish a password. This also works for business accounts and profit sharing plans.

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