

OCTOBER 2007 – SUMMER VACATION

The Dow Jones Industrial Average closed the second quarter on June 29th at 13,408; the S&P 500 closed the quarter at 1503. As of the close of the third quarter on September 28th, both indexes are slightly above their second quarter closing levels. Smooth sailing while you were away on vacation, right? Well, as we all know, anything but the case! The long anticipated popping of the inflated asset bubble took place shortly after the major indexes hit their respective highs on July 20th, 2007. Within less than one month, the indexes went through a wrenching and volatile correction of approximately 10%. At times, the volatility and the volume in the markets were down right nail biting for many people. What was different this time was that the debt markets also went through a major price correction. In fact, except for U.S. treasury bonds, many sectors of the bond market went through price corrections which were more volatile than the major stock indexes. (This is not your father's bond market!) Yet, at the end of the third quarter, equity indexes had fully recovered and produced modest profits from where they ended in June.

What's going on? Has anything really changed? Is it business as usual? The answers are: a lot went on; Yes, things have changed; and, No it is not business as usual. Our job as advisors and portfolio managers, within the portfolio management program of Smith Barney, is to be proactive in attempting to foresee these events; advise you of their coming; and, take proper actions where possible. We, within The Narmi Group at Smith Barney, feel we have done a very good job in doing all of the above for you. We wrote numerous times in our quarterly newsletters that we were wary of real estate valuations, easy lending practices and overall increasing leveraged lending. As a result, we attempted to manage and advise accordingly. Your September account valuations should bear proof of that advice and those efforts.

We tend to be put off by analysts that spend most of their time explaining what happened, and little time talking about what might happen in the future. After all, forecasting is a risky business. We concur with Smith Barney chief analyst, Tobias Levkovich, that the markets are headed higher still yet. We concur that U S economic growth will slow, but still be pleasantly positive, and that large mega cap stocks will enjoy the benefits of their multi national businesses outside the U.S. We do also concur that as the political races heat up in the second half of 2008, that there will be some natural trepidation that comes into the equity markets. Who will be the next president? What will the taxation policy be? Will the new president be business neutral, friendly or hostile? What will be the composition of the new congress? All important questions that will have some bearing on market valuations as we move forward. However, it is really too early to handicap the political scene. A lot of milk is spilled before it gets into the barn.

We find increasingly that those clients who are using the financial planning services that The Narmi Group at Smith Barney now offers through partner, Theresa Rynaski, are pleased with the process and much more comfortable with their investment plan. I would encourage you to take advantage of this complimentary service which we provide. Call to make an appointment. If you have already done so and are pleased, please tell a friend or relative that you think needs our help.

We want to thank all of our clients and friends that recently voted The Narmi Group at Smith Barney for the Nonpareil reader's choice award as the financial advisor group of the year. We do try our best and it is wonderful to receive community recognition of our efforts. In addition, Jon has been nominated by Smith Barney as a finalist for the "Research Magazine Financial Advisor Hall of Fame-2007"

Other personal notes of interest are that Theresa's son, Alec, earned a 33 on his college ACT test out of a possible 36; this is really a big deal! Austin's wife recently left the Douglas County Public Defender's office to take a job with a non-profit group called Justice for Our Neighbors. Nick and wife, Stephanie, are having a second baby. Ellie's oldest started 1st Grade. Charlie and Melissa are making house plans, and Jon and Candy celebrated the birth of their fourth grandchild, Noah, on September 2nd. It has been a busy and rewarding summer for all in The Narmi Group at Smith Barney.

We close with the reminder that markets will continue to fluctuate; if they didn't there would be few opportunities. Our job is to find the opportunities for you and to implement them where prudent and possible. We also remind you that the best dividends in life are earned when you share some of your excess with your church, family or school. We want more Alec Rynaski's!

Until then,
It's time in the market, not market timing that really counts.....

The Narmi Group at Smith Barney in Omaha

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*** Standard and Poor's market returns provided by the Consulting Group division of Smith Barney.*

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