

Financial *notes*

INSIGHTS TO ORCHESTRATE FINANCIAL INDEPENDENCE

FROM THE OFFICE OF DR. SCOTT STRATTON, CERTIFIED FINANCIAL PLANNER (TM)

Issue 8, Volume 2

January 2008



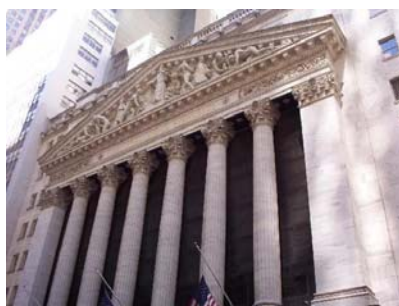
Dear Scott,

Welcome to the January edition of my monthly financial newsletter. This month, we look back at 2007 and consider what it means for the year ahead. For many investors, the key to building wealth is through saving in tax advantaged accounts, so be sure to increase your contributions to match the new IRA limits this year. I look forward to working with you and your family to plan your financial goals for 2008.

The Year in Review

2007 was a dramatic year in the stock market

Wow, what a ride! 2007 was the most turbulent year we've seen in the stock market in recent years. While the S&P 500 was up 5.49%, the modest numbers belie the volatility we've experienced. The Dow twice fell from over 14000 to under 12700, before finishing up 8.88% for the year. In previous years, stocks



seemed to move in lock-step - the whole market would go up or down in unison. That was definitely not the case for 2007. This year we saw a dramatic polarization of returns by sector and industry. Some stocks did great - Apple was up 133%. But many stocks were lousy - even defensive "blue chips" like Citigroup and Home Depot were down 45 and 31 percent respectively. It will come as no surprise that the worst industry was the homebuilders, down 48.6% in 2007.

The notable trends in 2007 were the continued dominance of international stocks over domestic stocks and the long-anticipated shift to growth over value and large cap over small cap. This was the 6th year in a row that the EAFE international index outperformed the domestic S&P 500, going up 11.17%. This rise was aided by the falling US Dollar, which reached almost \$1.50 exchange to the Euro in the fourth quarter.

In This Issue

[The Year in Review](#)

[2008 Retirement Contributions](#)

[The Year Ahead](#)



The best compliment you can give me is the referral of a friend or family member!

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THIS MONTH, SCOTT IS...

During the holidays, I had the sad experience of attending the funeral of a friend who died in a motorcycle accident. I learned that he didn't leave his finances in great shape for his wife and three children. To me as a financial advisor, it was an ugly reminder of the

2007 saw a change of leadership domestically from value to growth and from small to large cap. Value and small cap had been in vogue since the end of the tech bubble in 2000. Growth stocks and large cap stocks finally reached compelling valuations to be attractive in 2007. Of the 9 style boxes, the top performers were large growth (+12.34) and mid growth (+19.70); the worst was small value (-8.15%).

All data from Morningstar.com as of Jan. 2, 2008. Past performance is no guarantee of future results

importance of life insurance. Without it, you could be risking your family home, your spouse's retirement, and your children's college education. Are you covered?



2008 Retirement Contributions

For 2008, here are the new contribution limits for retirement plans:

IRAs and Roth IRAs: \$5000 (plus \$1000 catch-up if age 50 or older).

SEP or Defined Contribution plan: \$46,000

401k plans are unchanged at: \$15,500 (plus a \$5000 catch-up)

SIMPLE IRAs also unchanged: \$10,500 (\$2500 catch-up)

Income eligibility limits for traditional IRAs increase to \$53,000 (single) and \$85,000 (married), and for Roths: \$101,000 (single) and \$159,000 (married).

The Year Ahead

Knowing where we've been over the past 12 months, how should we plan for the year ahead? Here's my take on how to profit from trends of 2007.



International has outperformed domestic for 6 years in a row and I'm concerned that some investors are ignoring the risks

abroad. Stocks from emerging markets like China have reached extremely high valuations. Some of these stocks are bound to disappoint and could be re-valued in a very harsh manner.

The dollar has fallen so far versus the Euro, it could be stable or even appreciate in 2008. We will continue to hold diversified international funds, but we want to pay attention to valuations, knowing these stocks can not outperform forever.

Seven years ago, small caps traded at a significant discount (a lower P/E ratio) to large caps. Small companies had done so well through 2006 that small-caps were valued at a premium to large-caps in 2007. With a falling dollar, larger companies are more likely to profit from increased revenues from abroad. For these reasons, I

expect small cap to continue to be weak in 08. However, I believe that a good stock picker could still have a great year in 2008 in small caps. Which brings me to my last point: I believe that in 2008 we will continue to see a market with wide variation of returns. I don't think we're out of the woods in the financials and real estate sectors, and now is still a dangerous time to make big sector bets. I believe that active managers who are focused on stock picking could have a good year whereas funds that closely mirror the overall market are likely to underperform. I suggest you:

- 1) Stay diversified but don't ignore international risks;
- 2) Add to large-cap funds;
- 3) Know your fund manager;
- 4) Keep saving and investing!

*Everyone has the brainpower to follow the stock market.
If you made it through fifth grade math, you can do it.*

PETER LYNCH

As always, please feel free to call me anytime with any questions or concerns. I'm here to help! Thank you for your business.

Sincerely,

Scott Stratton, CFP(R)

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