



NORTHSTAR

FINANCIAL
PLANNING INC

OCTOBER 2007

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2007 Q3 Investment Letter

The world turns in its ceaseless chase around the sun and the seasons spin by faster and faster. Just yesterday it seems that we were hearing the spring peepers and hearing the sounds of boys and girls at play in the schoolyards, let loose from the weight of winter parkas and mittens. Today the leaves are turning red in the swamps, the Red Sox have made it to the American league playoff series (whew!) and the mailbox is filled with "Thanksgiving special!" ads.

How does the economic and stock market world look right now? We recall that if you had asked that question a few months ago to most folks in the media, the answer would have been: *"Run for the hills! Sell, sell! The real estate collapse is going to bring down the whole stock market and maybe the world economy! Get out now!"* Guess what- it didn't happen! Actually, we're looking for a better than average year in the market.

As we write, the Dow Jones Industrial average has crossed the 14,000 mark and the S&P 500 (the broad market index) is at 1,545. Even if the market goes sideways for the next three months (that's highly unlikely) and the S & P closes 2007 at 1,550 that would be a nice 10% gain for the year. In January, we forecast a level of 1,560 as our S & P target close for the year. Based on what we have experienced so far, we have revised our year - end expectation for the S & P 500 to around 1,650, which would be a broad market 13-15% total return for the year.

What's behind our revised outlook? Goldman Sachs recent [Investment Outlook](#) provides a foundation for our thinking:

- o The US public equity markets still appear under-priced, even if one assumes a slowing of corporate profits and moderately higher interest rates in 2008.
- o S & P 500 earnings per share are projected to grow in 2008 at 6-6.5%.
- o Corporate equities remain more attractive than bonds, even though the earnings (yield) spreads are widening as interest rates rise on the long end of the yield curve.
- o Real estate investment buying opportunities are starting to appear, with several REITs now at attractive pricing levels.

We see no reason to change our basic asset allocation models and remain committed to the precept that the best long term strategy for almost every long-term investor is to create a globally diversified portfolio of low cost index mutual funds and ETFs that can capture available market returns in a tax-efficient manner, consistent with your capacity for financial risk - and then stick to your strategy!



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As testimony to the efficacy of our investment philosophy, even considering the “sub-prime mortgage summer meltdown”, our broadly diversified portfolios not only withstood the down-draft and stock market semi-panic, they actually increased in market value, as International, Emerging Markets, Energy and, yes (once again proving the stability that bonds can bring to a portfolio) Short-Term Bonds were all up in total return for the first three quarters of the year.

As we move into the last quarter of the year, two investment-related planning activities will move to the forefront in our activity. We will be reviewing your taxable accounts for positions that have incurred a capital loss since the original purchase was made and then “harvesting” that loss to apply against capital gains that may be realized as we rebalance your portfolio. Tax losses are never great news but like so much else in life, they can have a silver lining. Long-term capital losses can directly offset long-term capital gains, dollar for dollar. The first \$3,000 of any unused losses can then be applied against ordinary income and any excess beyond that carried over to the following years.

Secondly, for those of you who are over 70 & ½ years old and have an IRA or other tax-deferred investment account with TD Ameritrade, this is the quarter in which you must complete your required minimum distribution activity for 2007. The exact amount you must take out is a function of your age and type of beneficiary (spouse, child, trust, etc) and must be withdrawn before December 31, 2007.

Lastly, in a bit of good news for those who have college-bound children or grandchildren, a recent article in the Boston Globe (8/7/2007) found that considerable financial aid is in fact available from the so-called “elite” colleges such as Harvard, Stanford and Yale!

At Harvard, the average needs-based grant for families in the \$100,000-\$140,000 income range was over \$21,000 last year. At Stanford, a family with more than \$100,000 in income with more than one child in college could get about \$30,000 in academic aid, up from \$5,000 a decade ago. In fact, even for families with annual income levels exceeding \$160,000, over 350 students at Harvard got financial assistance-about 10% of all those receiving grants or scholarship aid last year.

Best regards,

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