

2008 – A TRANSITION YEAR

The 2007 financial world was striking for the veritable minefield of problems that faced investors. The year included a sub-prime mortgage meltdown, hedge fund implosions, a worldwide credit crisis, record high oil prices, and a plunge in the value of the U.S. dollar. In other words, it was a particularly volatile and tricky year for investors. Yet, the typical Pring Turner Capital portfolio largely avoided these disasters and delivered stable returns. **We are pleased to report another successful year for your portfolio especially considering the treacherous financial landscape.**

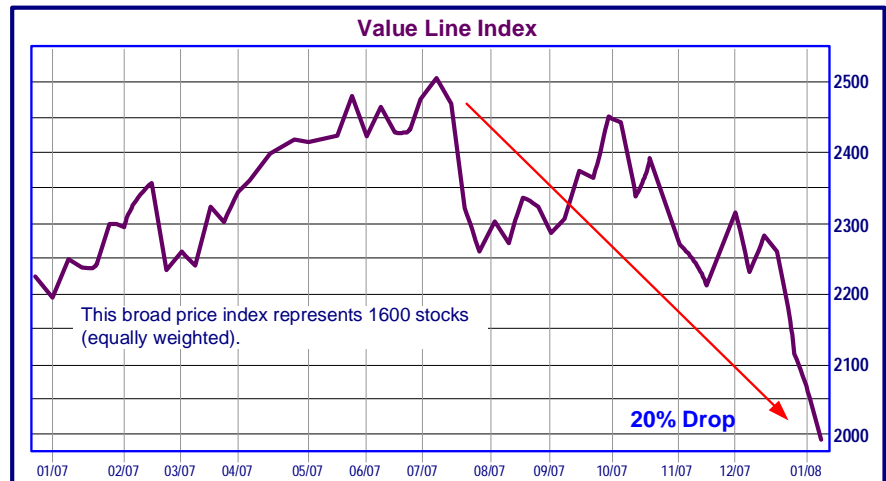
The combination of above average money fund balances, quality bond positions, and high income producing stocks helped anchor portfolios and led to positive overall returns. Your defensively positioned portfolio continues to perform well in this year's harsh environment.

The opening days of 2008 find the financial markets suddenly realizing an economic slowdown is taking hold and recession is on our doorstep. Clients and readers of our past few newsletters should not be too surprised about the real estate induced crisis plaguing

the financial system – we have often sounded the alarms about these risks! Our January 2007 newsletter warned of a volatile year and we implemented a game plan to reduce portfolio risk in

a variety of ways. While for the full year the S&P 500 registered a 5.5% total return, stocks did suffer three sharp sell-offs during the year. We are starting off 2008 with yet another nastier decline as the stark reality of a full-blown economic contraction begins to grip investors.

The Average Stock Peaked 7 Months Ago . . .

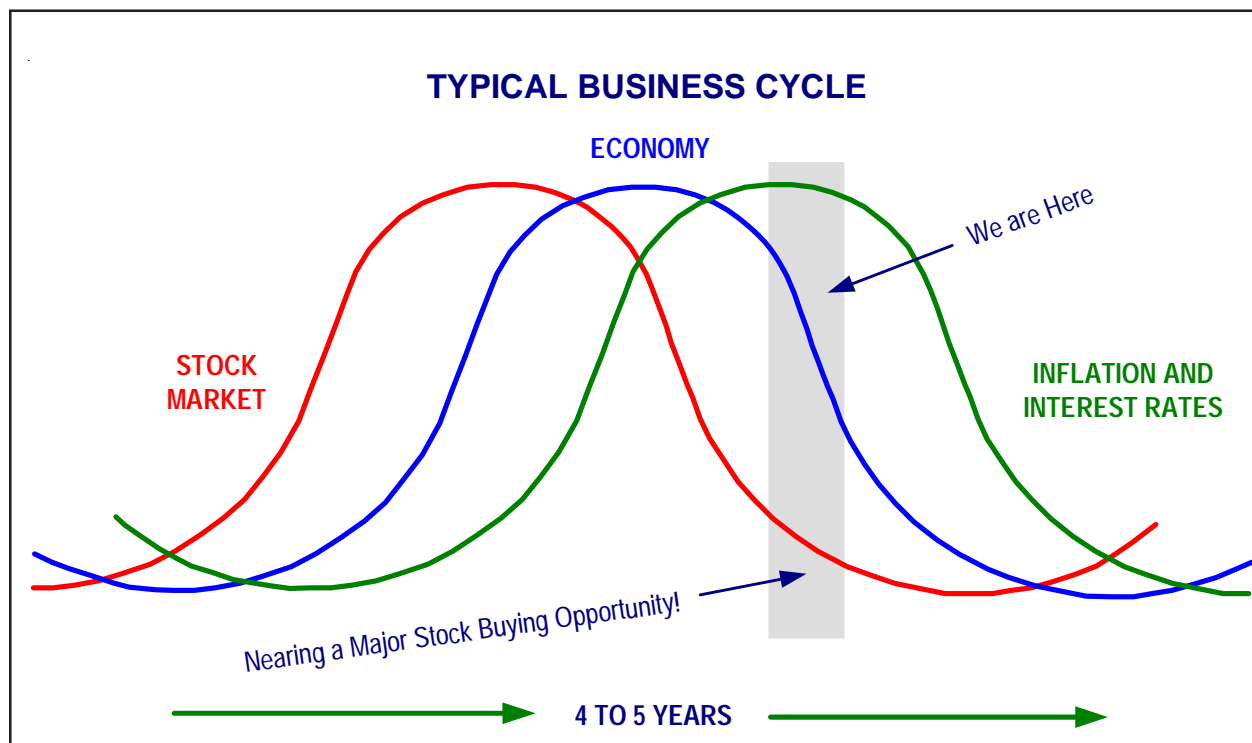


And Prices Are Approaching Bargain Levels!

Economic expansions, contractions, and recessions have always had a distinct impact on investments. In fact, financial markets have been following economic cycles for more than 160 years and are linked in a logical, rational, and sequential relationship to business activity. Understanding the repetitive 4-5 year business cycle allows Pring Turner Capital to take advantage of periodic crises and turn them into opportunity for you. On cue, today's economy is traveling full circle from boom to bust. The oncoming recession is a painful mechanism that clears out the excesses of the previous business expansion. **Our career long study of the business cycle helps us remove uncertainty from the investment decision-making process. It also drives our strategic asset allocation changes to optimize portfolio returns.**

The current perception for stock investors is the economy is only now entering a slowdown. As our business cycle schematic illustrates the stock market typically peaks out well in advance of the economy. True to form the average stock peaked out in June of 2007 and as of this writing is down in excess of 20% – qualifying this as a bear market!

The Stock Market Always Leads the Economy



Expect the economic news to get a lot worse, but remember stocks always bottom long before the economy improves!

The average bear market over the past fifty years has lasted for twelve months and prices declined roughly 28%. We expect this to be another typical bear market, and thus the 20% decline for the average stock over the past seven months positions us about three-quarters of the way to the stock market low for this cycle. Contrary to current perception, the worst of the decline is mostly behind us and risk has been substantially reduced. The last major opportunity to buy stocks at bargain levels, in a recessionary environment, was about five years ago. We look forward to this next one. As the year progresses, we will take advantage of the best stock market opportunity in years by gradually shifting our portfolio strategy from defense to offense. **This shift to offense will lay the foundation to build new levels of wealth for you as we move toward the next business cycle expansion.**

Our outlook for the first half of 2008 is for a continuation of the choppy (up and down) trend since mid-2007. The transition from defense (bear market) to offense (bull market) is an evolving process. Not all stocks and sectors bottom at the same time. Our objective is to acquire long-term values as they reach attractive price levels during periods of market weakness.

We are confident in our experience, decision-making capabilities and asset allocation knowledge to continue building your net worth over both good and bad economic conditions. We wish you a very healthy new year, and we promise to do our best to make it a prosperous year as well. Thank you for your confidence. As always, please feel free to contact us with any questions regarding your portfolio.

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