

## SUMMER WILDFIRE SEASON IS HERE

It was another good quarter as selective investment themes along with emphasis on income worked well to increase portfolio values. Interest rates jumped higher during the quarter and now stand at their highest levels in five years. Higher rates are welcome news for bond investors, and we will gradually take advantage of the opportunity by locking in attractive income and continue adding high quality bonds and preferred stocks. The stock market can tolerate higher interest rates for short periods of time, but risks increase as the cost of money rises and successful stock performance becomes much more selective. As we enter the heart of the summer wildfire season, we think it appropriate for investors to heed Smokey the Bear's famous "Be Careful" warning. **Higher interest rates combined with the "tinder" of abusive lending practices in real estate and certain hedge funds could make for a volatile mixture and bears careful watching.**

In recent newsletters, we have pointed out the excesses in the housing sector and likely negative impact it will have on consumers and the overall U.S. economy. Consumer spending has indeed slowed as major retailers such as Best Buy, Home Depot, and Macy's have recently reported sales below expectations. A number of sub-prime mortgage lenders have already gone bankrupt and closed their doors. Several large banks and finance companies have written off billions of dollars

in losses including a unit of General Electric

**"Foreclosure Activity Rises Dramatically  
Bay Area defaults, auctions, repossessions nearly triple;  
nationwide notices are up 87%."**

*S.F. Chronicle, 07/12/2007*

that just last week announced a \$200 million hit and decided to "exit" the sub-prime lending business altogether. **Both lenders and consumers are feeling the pinch from climbing mortgage foreclosures, and now investors in these low quality mortgage pools are starting to get burned as well.**

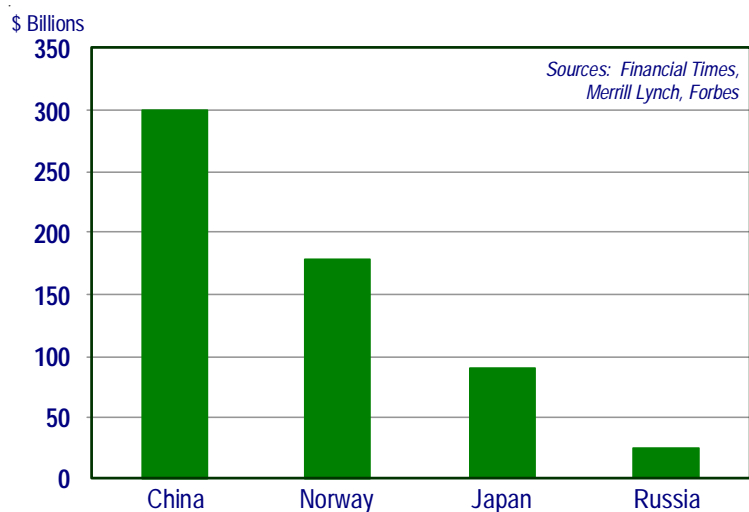
Some hedge funds (private capital pools for wealthy speculators) purchased these questionable sub-prime mortgage bonds with shocking amounts of borrowed money (margin). For example, major Wall Street investment house Bear Stearns started the "High-Grade Structured Credit Strategies Enhanced Leverage Fund" less than a year ago with about \$600 million in investor assets. To "enhance" returns (and earn more fees for themselves) the fund borrowed more than \$5.5 billion to expand the investment pool to over \$6 billion – a ten to

one leverage ratio. But their sub-prime mortgage bets went wrong leaving fund investors with losses and scrambling to redeem what remained in these illiquid assets. Facing margin calls and forced liquidation of portfolio investments, Bear Stearns was compelled to bail out the investment fund to the tune of over \$1.6 billion so far. How many other risky investment schemes like these are out there? Over the past six years, Wall Street firms created more than *\$1.8 trillion* (yes, that's trillion with a "t") securities backed by questionable sub-prime mortgages. The frustrating part for us, acting as your trusted investment advisor, is there is no way of knowing the depth of the problem and whether a credit or financial crisis could spread quickly, like wildfire, through the financial system. **Right now, we are particularly cautious, and being prudent with your precious capital until we see if this fire spreads to other financial areas.**

Last quarter we introduced a checklist for the financial background that will allow or force the Federal Reserve to effectively create a "firebreak" from a potential crisis. The Fed will respond to any economic firestorm by lowering interest rates, thus forming a more favorable environment for both stocks and bonds. While the problems with certain hedge funds noted above have certainly caught the Fed's attention, it has not yet progressed to the "crisis" mode and altered their relatively tight monetary stance. We have intentionally built your investment portfolio to withstand any potential crisis by owning high quality bonds, stocks, preferred stocks, and keeping ample levels of cash available for future opportunities. Like the vigilant forest ranger in the lookout tower, we continuously scour the investment landscape in an effort to identify the next dangerous "hot spot" to avoid. **We are dead serious about our job – not only seeking solid investments to add to portfolios for growth and income but just as importantly, identifying where major risks are to avoid potential big losses.**

Offsetting our cyclical concerns about the housing and mortgage markets in the U.S. economy is the global strength displayed by Asia, Europe and Latin America. The recent development of sovereign wealth investment funds will have long-term beneficial effects on global financial markets. Sovereign wealth funds are a nation's excess financial assets or savings that are pooled into a state controlled fund for long range investment returns. China has perhaps the most visible fund and recently announced they

### Sovereign Wealth Funds – A Long Term Positive!



### Potential New Demand for Stocks & Bonds

will start investing a portion of its \$1.3 trillion in reserves into global stocks. Norway and Russia have already decided to do the same and other countries with substantial reserves, including Japan's massive bankroll, could also follow suit. **Bottom line, this growing international movement will gradually find its way into the U.S. financial markets. We believe these funds will seek out the quality, large-capitalization companies that are favored at Pring Turner Capital Management.**

We are cautious over the near term, but excited about longer-term opportunities to grow your wealth. We have a number of investment ideas that we are tracking and patiently waiting to reach our targeted price range. **Patience and discipline are key factors in investment success.** Thank you for your continued confidence and please feel free to call us with any questions regarding your portfolio.

**SPECIAL ACKNOWLEDGMENT:** Our talented, multi-tasking office manager, Nancy King, will be out of the office from July 25<sup>th</sup> through August 10<sup>th</sup>. Nancy is celebrating 20 years at Pring Turner Capital Group. She has tirelessly helped clients solve problems and kept us out of trouble at the same time!

Nancy and daughter Roxayn are looking forward to an exciting Baltic Sea cruise. Please join us in wishing Nancy a well-deserved Bon Voyage. Thanks Nancy, for everything and all you do to make our operation run smoothly. We appreciate it all (but hurry back...we will miss you)!

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