



FISCHER & HUTCHINSON
WEALTH ADVISORS

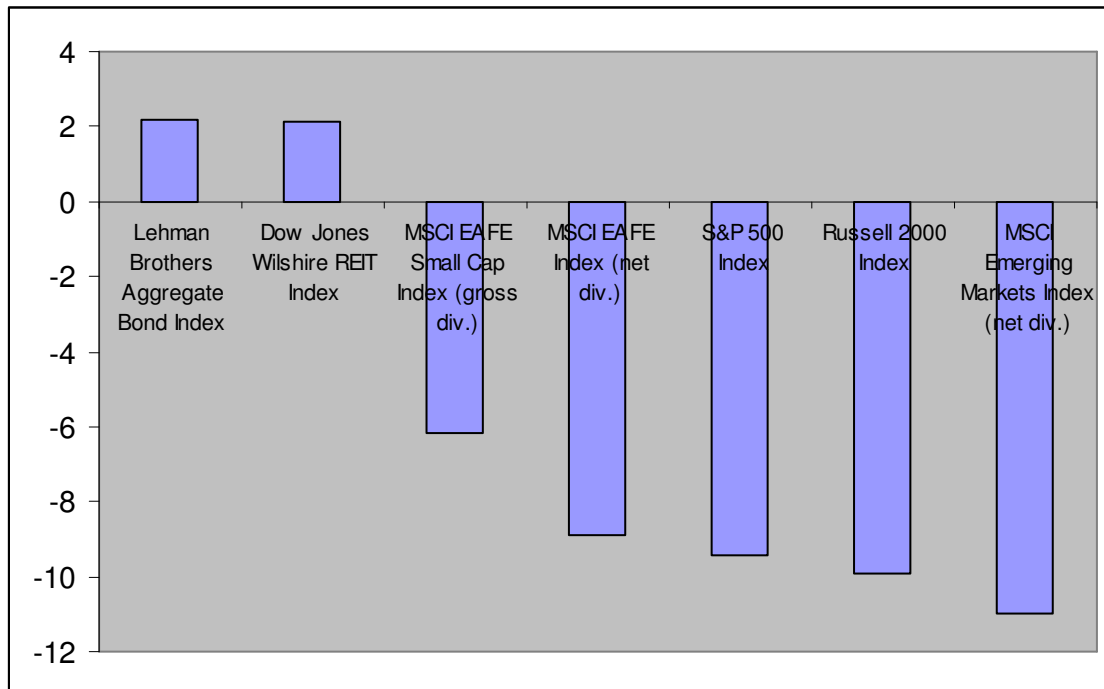
Quarterly Commentary | April 2008

The first quarter of 2008 has provided us with a mix of excitement and anxiety. On the local front, Fischer & Hutchinson Wealth Advisors completed the realignment of our client accounts from BLH Financial Services and Wealth Management Group. *We especially want to thank all of you who cooperated with us to provide copies of your driver's license to meet our Anti-Money Laundering (AML) compliance requirements.*

For those of you who may need it we are pleased to announce that we have complimentary in-house NOTARY SERVICES available in our Lewes office.

Market Analysis:

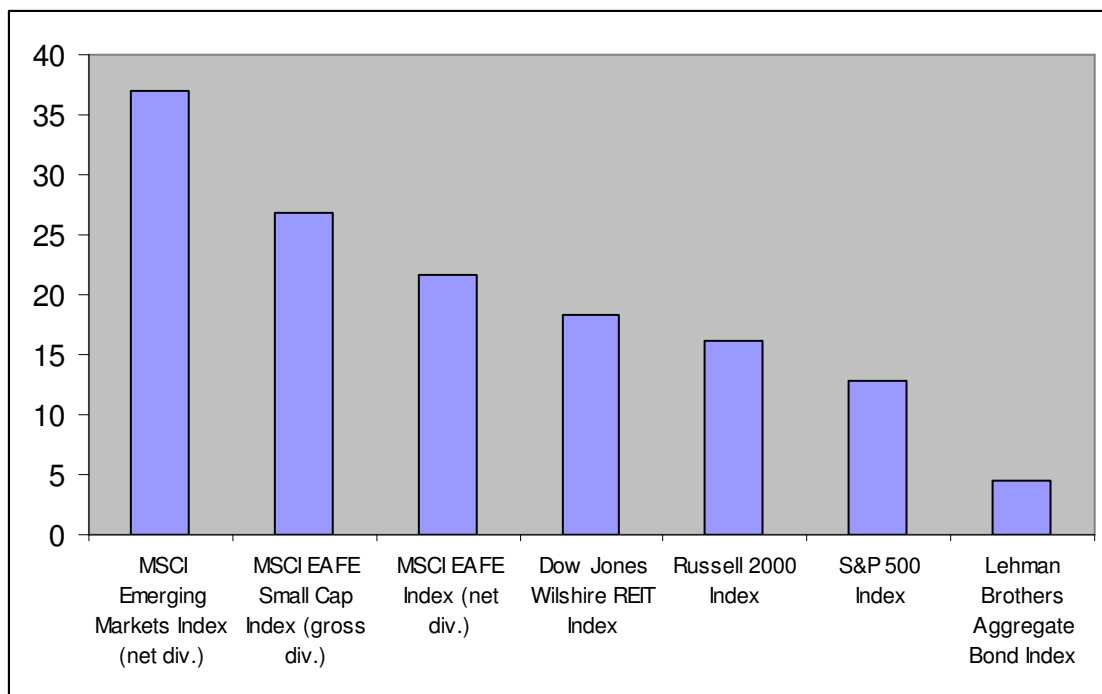
To say it has been a difficult period for investors would be an understatement. Stock markets have finished lower, with losses on broad indexes in the 9% to 10% range. High-quality bonds gained more than 2% as investors fled to quality.



It's clear that the severely troubled housing and credit markets are beginning to have an impact on the health of the overall economy. It is probable that we are already in a recession or on the verge of entering one. In the coming weeks, the United States Gross Domestic Product (GDP) will be released and many market commentators are expecting another contraction and probably a negative number.

Another issue for the economy is the rising cost of living. We are all feeling the pinch from higher gas and food costs. This issue is making the Federal Reserve's job more difficult. As they add liquidity to the market to fight the credit crunch and to stimulate the economy, they are aiding inflation. Nevertheless, as the saying goes, "desperate times require desperate measures". The mechanisms to take such action appear to be in place as indicated by the unprecedented decision by the Federal Reserve to save the fifth largest US investment bank, Bear Stearns Corporation (BSC) from bankruptcy by lending directly to a brokerage firm (normally reserved for commercial banks), and accepting potentially low credit quality mortgage paper as collateral. Though the Fed's moves have not been received by the market as positively as they would like, extending this borrowing capacity to brokerage firms has provided an additional layer of asset protection for investors with firms facing financial failure. We discuss the topic of asset protection in greater detail below.

Clients have heard us speak numerous times about our patient, strategic investment approach that focuses on long-term expectations, with relatively little reaction to short-term disturbances, and we still believe in this strategy. While this past quarter's performance is worse than we've seen since 2002, it's important to remember how exceptionally good the last five years have been. Aggregate gains since 2003 through the end 2007 were stunning as you can see below.



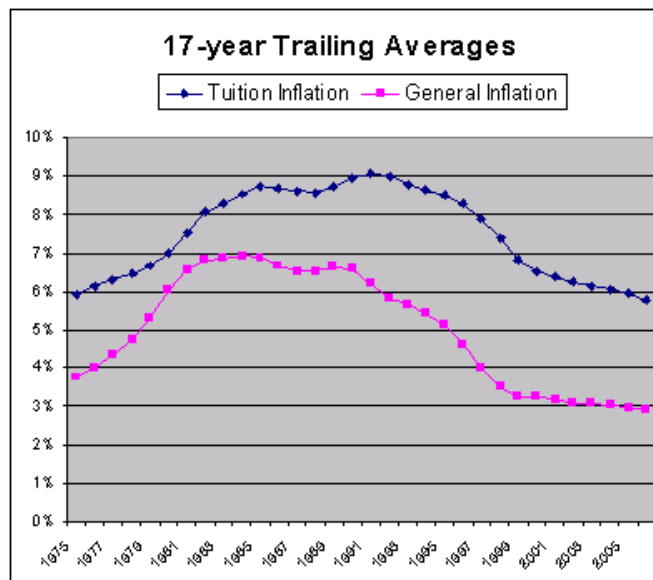
When markets hit turbulent times, everyone's temptation is to try to seize short-term advantage by "doing something"; however, our experience tells us that no one has been able to consistently achieve a durable advantage from short-term moves and history is very clear that the cost of being wrong in those moves can be great. Taken in context, declines in asset values from recent highs should not be overly concerning. These general declines since last October are well within the range of normal, periodic retrenchments which may continue for another quarter or longer and do not, themselves, give cause for changes in long-term strategic asset allocations. Further, the heightened day-to-day volatility in recent months **[there were 13 days this quarter when the**

commonly watched Dow Jones was up (5 days)...or down (8 days) more than 200 points] reconfirms the wisdom of our practice in not trying to “time” market movement.

We have built out clients’ portfolios for their unique needs, such as their risk tolerance and their personal financial goals, as well as other factors, and do not see any reason to make changes to portfolios based on current market conditions. Therefore, we are still rebalancing our clients’ portfolios based on their investment policy statement and will continue to do so. One area where some clients have seen a difference is on the fixed income side of their portfolios. We have been buying Certificate of Deposits in place of individual bonds. Currently, CDs are paying higher interest rates and, in our opinion, are the better option at this time. These CDs are broker sold CDs and trade in the secondary market like bonds. Unlike CDs you would purchase through a local bank, there are no early withdrawal penalties on these, but their market values will fluctuate with interest rates just as bonds do. However, as described below, these CDs are FDIC insured and will pay their face value if held to maturity, as is generally our plan.

Paying for College is Becoming More Difficult:

We all agree that a college education is an important tool for our children and grandchildren to be successful. The cost of college education is growing at a much higher rate compared to general inflation as you can note from the table below.



by FinAid Page, LLC

Historically, parents and college students have funded college with various methods. However, some of these vehicles are becoming less viable or even nonexistent. Here is what is happening:

- The credit crunch that rattled mortgage lenders has spread to the education lending market. If the situation doesn't ease in coming months, student may have a difficult time finding funding for their college education.
- Traditionally, it has been the schools which secure lending relationships on behalf of students. Many universities have a list of private lenders for students to use for financing. This "preferred lender" list has been an issue lately for a few universities as the New York Attorney General filed a lawsuit against them for taking funds from the private lender to include them on their preferred lender list. What we would call a “Pay to Play” program.

- For various reasons, the private lenders are leaving the market. In a recent survey prepared by the National Association of Independent Colleges and Universities which represents private colleges, it was stated that 43% of private colleges said one or more lenders on their "preferred lender" list have stopped offering private student loans.
- Federal loans are still available directly from the US government through the Direct Loan Program. There are two problems with the Direct Loan Program:
 - To be eligible the student must be attending a school that participates in the direct loan program and not all schools do. You should talk with the school's financial aid department to determine their participation.
 - The caps on how much students can borrow have lagged far behind college costs. Freshmen, for instance, cannot borrow more than \$3,500 in federal loans.
- Without these loans, students will have to turn to other financing opportunities. Many people use their home equity to pay for college. The possible issues with this approach are:
 - As home values have plummeted in many parts of the country, some families now owe more on their mortgages than their homes are worth, leading lenders to freeze home equity lines.
 - Home equity debt is not deductible when you are subject to the Alternative Minimum Tax. This makes these loans less cost effective and may cause an increase in the debtor's overall tax bill.

As these financing issues persist, college students and their parents are going to have to find other ways to pay for their education. This may include gifts or possibly loans from family members. If you are thinking of assisting a family member with their college education, please do not hesitate to contact us so we can prepare an analysis of an efficient way to do so.

Asset Protection

With all the news about the subprime mortgage crisis and, more recently, the emergency action taken by the Federal Reserve to assist investment bank, Bear Stearns Corporation (BSC), two key questions are undoubtedly on your minds:

- Are the firms they are using likely to have similar issues?
- How am I protected in this type of situation?

To answer the first of these, one must understand the difference between BSC and the broker/dealer custodians, Charles Schwab and Fidelity Investments, that our clients use: BSC is an **investment bank** which focuses on issuing and selling new securities (e.g. Initial Public Offerings) and buying and selling products **on their own behalf**. Schwab and Fidelity are **retail broker/dealers and custodians** which focus on buying and selling marketable securities (stocks, bonds, mutual funds, etc.) when directed **on behalf of the investor**.

At both Schwab and Fidelity, there are several layers of protection built into the system to protect client assets in the event of a brokerage failure, including:

1. By law, both Schwab and Fidelity are required to keep client assets **segregated** from their balance sheet which, in theory, should keep them from being subject to the firm's creditors in the event of bankruptcy.
2. Under the **"net capital rule"**, the SEC requires all U.S. brokerage firms to maintain "readily marketable" assets sufficient to repay all current obligations to customers.

3. Despite these provisions, if a client's assets were found to be missing and/or unavailable, both Schwab and Fidelity are members of the **Securities Investor Protection Corporation (SIPC)**. The SIPC either acts as trustee or works with an independent court-appointed trustee in a brokerage insolvency case to recover these securities. If unable to locate client securities, the SIPC will first divide remaining firm assets among clients and, if necessary, utilize funds from the SIPC reserve to satisfy the remaining claims of each customer up to a maximum of \$500,000. This figure includes a maximum of \$100,000 on claims for cash (see www.sipc.org for more information).
4. As further assurance, both Schwab and Fidelity also maintain additional insurance **beyond the SIPC limits**
5. Finally, while the SIPC covers money markets, investors can rely on **FDIC** insurance for CDs and other assets held in bank accounts, up to the **limits for each issuing institution** based on how the account is titled as listed in the following table:

Account Title	Limit
Individual, Trusts*, and/or Custodial	\$100,000
JTWROS	\$100,000 per name listed on account
IRAs	\$250,000
*if certain conditions are met per owner for each qualifying beneficiary	

If you have any additional questions or concerns regarding this topic, we encourage you to review the articles and links on our website at www.fhwealthadv.com or call us at 302-644-3540.