

PRAETORIANSM GUARD



CLIENT NEWSLETTER
JULY 2007

MARKET COMMENTARY JANUARY THROUGH JUNE 2007

Stock markets began the year with continued momentum from the solid second half performance of 2006 and have steadily advanced for the first half of the year with few exceptions. A relatively large one day correction in late February arose from the Chinese market sell off of almost 9% in one day but it proved short lived.

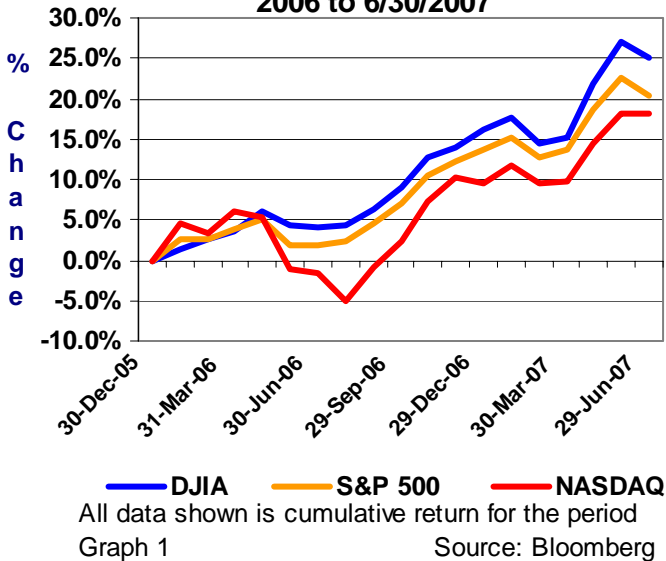
The general consensus for earnings in the first half of the year were overly pessimistic as analysts expected slowing US GDP to flow through to earnings. As firms exceeded these low expectations, indices responded by moving higher. We believe there are three important aspects to this: First, markets discount future economic performance and the stronger than expected earnings in Q1 implied a stronger second half to 2007. Second, economic activity outside the United States has accelerated and that has helped both international stocks and to a substantial degree the larger US multinational corporations that generate significant profits

from their foreign divisions. Finally, there remains significant liquidity worldwide and mergers and acquisitions (led by private equity) have continued their strong pace, which we expect will continue at least through the third quarter of 2007.

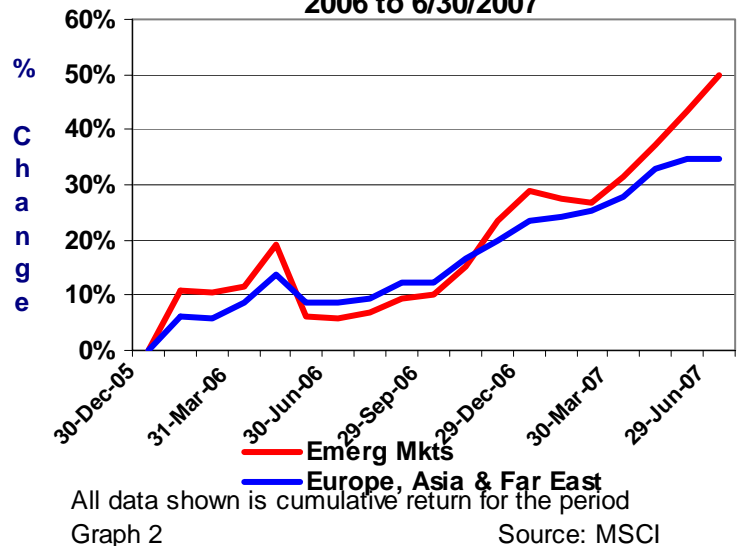
The Federal Reserve stayed on the sidelines and deserves credit for having the patience to allow its 17 rate hikes to impact the economic data upon which further rate decisions rely. Monetary policy works with a long and unpredictable lag and so far, Fed Chairman Mr. Bernanke has resisted calls for additional “action” which is not clearly called for in the observable economic statistics.

As shown below in both graphs, since the Fed ended its current tightening cycle (June 2006), markets have been steadily rising despite the continued housing market slowdown and volatile energy prices.

**US Equity Markets
2006 to 6/30/2007**



**International Equity Markets
2006 to 6/30/2007**



PRESIDENT'S COMMENTS

A pause at the mid-point of the year to reflect on where we've been and what we learned seems appropriate. Markets have generally been performing well, with a few rough patches. The two events that stand out are the February decline of over 400 points in one day for the Dow Jones Industrial Average and the attention paid to the sub-prime mortgage situation as two Bear Sterns hedge funds ran into trouble in June.

In both cases, the ability of "the market" to contain potential trouble before causing sustained economic damage points to better risk control and understanding than in past crises like the Long Term Capital Management blow up in 1998.

We remain committed to making sure your assets are protected first and foremost through broad diversification and alignment of your goals with your portfolio's holdings. We value the trust you have placed in our team.



Dick Hewitt

INVESTMENT OUTLOOK FOR THE REST OF 2007

We expect the last six months of the year to be marked by steadily increasing US economic strength. The 0.7% GDP growth in the first quarter will be the low point of the year and we anticipate 2.5% to 3.1% growth over the remainder of 2007.

Corporate profits did indeed slow to single digit growth and we expect that to be slightly better in the third and fourth quarters, but they will be hard pressed to break above 10%.

Divided government in Washington has brought back gridlock to the political lexicon. With the acceleration of the primaries in early 2008, there will be little of substance accomplished in Washington.

Long term rates on US Treasury 10 Year notes

have remained below 5% for most of the last five years and Corporate investment grade bonds are below 6%. We expect that this will be little changed with yields on Government 10 year notes remaining below 5.5% for the remainder of 2007.

Inflation concerns remain the Fed's primary focus and the data is not clearly signaling a need to either cut or raise rates, so we expect they will sit on the sidelines until at least the first quarter of 2008.

In summary, the strong moves in the markets since January lead us to expect the 3rd quarter will likely see a period of consolidation and a relatively narrow trading range until the economic situation for 2008 becomes clearer.

ECONOMIC DATA TO WATCH

The two economic data points most interesting for the remainder of the year will be the price of a barrel of oil and the Federal Reserve's preferred measure of inflation, the Core Personal Consumption Expenditure (PCE) deflator.

Oil has returned to mid-seventy dollar levels per barrel and that concerns us as it may harm US consumer spending in the second half of the year as well as provide a financial windfall to states that are hostile to our long term interests. For the Fed's focus on inflation, removing food and energy due to their volatility helps determine macro inflation trends and inflation remains its most pressing concern for the remainder of 2007. Until the data clearly requires a change in policy, expect "tough talk."



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TAX UPDATE

Congress will spend time in the fall trying to arrange another one year patch to the Alternative Minimum Tax (AMT). While many will speak of the need to address this ‘second tax system’ the truth is that Congress needs the revenue it raises. The new leadership in January 2007 restored ‘Pay-Go’ which requires offsetting budget cuts OR tax increases for new initiatives. The practical impact is that *eliminating* the AMT will be politically impossible until 2009 following the elections of November 2008.

In the never ending tension between the IRS and the taxpayer, we note that the Internal Revenue Service released its 2006 Data book during the second quarter and it confirms that audit activity has increased over the period 2003 to 2006. The positive news is that most US citizens are compliant with the tax code, no small feat given its complexity. While individual filers with total positive income greater than \$100,000 stand only a 1.3% chance of an audit, those audits result in a higher tax liability almost 75% of the time. However, estate tax returns overall have a 10% chance of being examined but that increases to slightly over 23% for gross estates larger than \$5 million.

The estate tax examination statistic leads us to strongly encourage our client families to consider having a conversation on family financial matters—very broadly defined but at a minimum location of accounts, insurance policies, and related assets because knowing where you stand now is critical.

Source: IRS Publication 55B, 2006

INVESTMENT MANAGER PROFILE

Praetorian Guard has had an on-going relationship with The Moorings Group of Atlanta, Georgia since 2005. The Moorings Group specializes in building custom tailored state municipal bond portfolios for our clients whose tax situation dictates a greater sensitivity to after tax yield.

The Moorings Group investment team is headed by Michele Poirier. Michele serves as the Chief Investment Officer and brings over 25 years’ bond portfolio management to bear in constructing customized portfolios for our clients.

The Moorings Group’s other partners are Connie Morris and Keith Mitchell, both of whom have a wealth of experience serving the institutional market and garnering their expertise on behalf of our clients is tremendously beneficial.



THE MOORINGS GROUP

www.mooringsgroup.com

CLOSING THOUGHT

When asked what the stock market will do, J.P. Morgan replied “It will fluctuate.”