

PRAETORIANSM GUARD



CLIENT NEWSLETTER
JANUARY 2008

2007 MARKET COMMENTARY

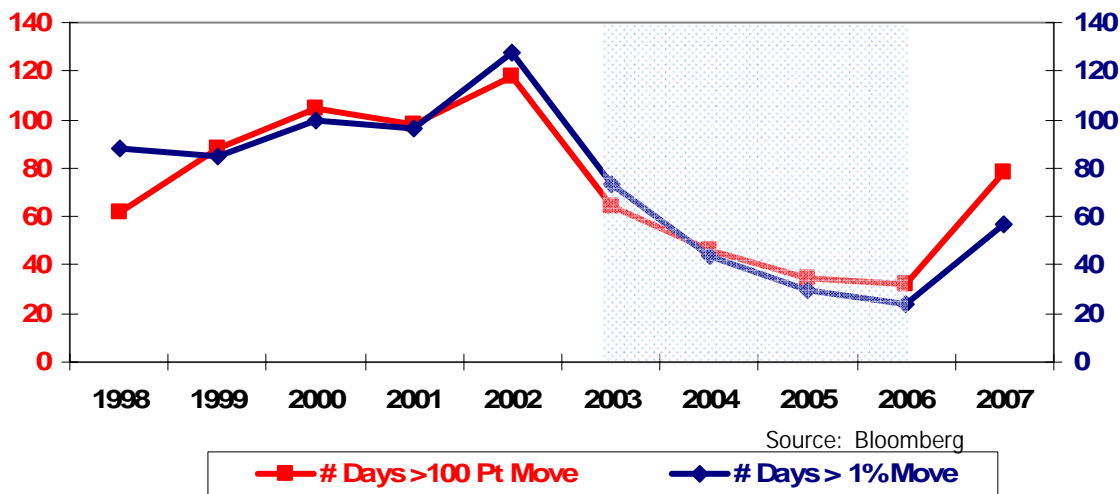
We begin our review of 2007 by defining a critical concept that will aid in putting the year 2007 into clearer perspective:

Recency Bias: the tendency to place higher importance on events and information that occurred in the not too distant past and simultaneously discount equally valid information that may have taken place a longer period ago.

We observed several major trends for 2007 that are vital to placing the sometimes roller-coaster ride the markets provided into context. The first is the return of volatility after a three to four year period of below normal market fluctuations. We chose to use the Dow Jones Industrial Average, largely because our clients refer to that as their “benchmark” for a day with a large market move (which we define as a 100 point or greater change in the average from the previous day).

As the graph below shows, the period 2003 to 2006 were marked by abnormally low volatility: four consecutive years with less than the 10 year average for the number of days with greater than 100 point market moves AND greater than 1% changes in a single day. 2007 “felt” more volatile but in reality it was normal when we move away from the recent experience of ‘03 to ‘06. The period 2003 to 2006 had served to “anchor” our perception and its recency to 2007 clouded our ability to see a return to normal volatility. Finally, fully 72% of the days with negative 100 or more points declines in the Dow occurred in the period July 1st to December 31st (a total of 27 out of 37), yet we also experienced 28 days during the same period that had positive 100+ point moves.

**Volatility in the Dow Jones Industrial Average
1998-2007**



While the fluctuations may be “normal” in a historical sense, we understand that a 100 point drop certainly feels different than a 100 point gain. Day to day moves are the “trees” and you are invested in the “forest”.

The second major trend for 2007 was the change in equity market leadership from Value to Growth with each segment of the US market (large cap companies with market capitalization greater than \$10 billion, mid cap \$5-10 Billion and small cap \$1.5 to 5 Billion) all showing better returns in the growth than value orientation (see graph 1 on page 3)

PRESIDENT'S COMMENTS



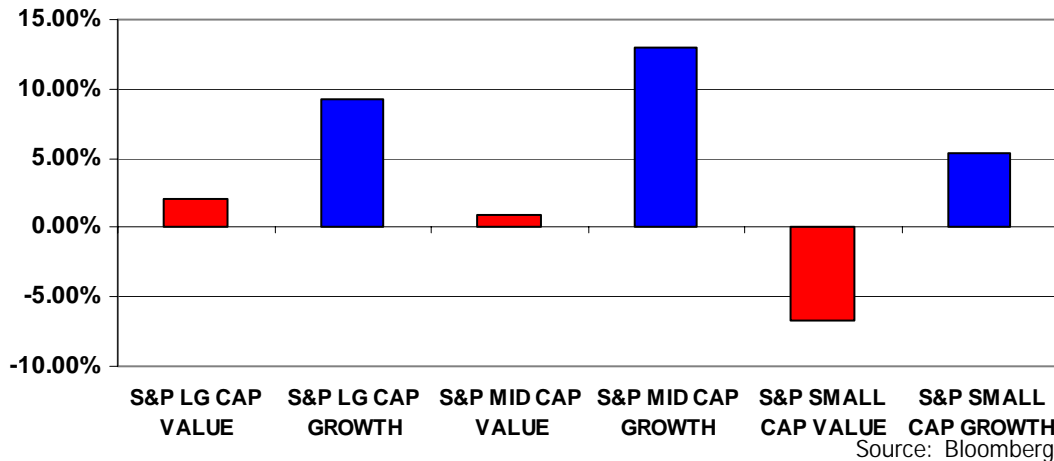
First I would like to thank all of you for your trust in Praetorian Guard. The opportunity to serve your families and help you navigate the challenging investment markets, tax code and related wealth management areas is one we value greatly. We are humbled by your trust and committed to exceed your expectations.

We continue to grow and in November added another talented member to our team, Ed Leszynski and his wife Amy Jo. Ed serves as our Director of the Mid-West Region, based outside Chicago and brings 10 years' service in the US Air Force, a Master in Business Administration and the tax knowledge of a Certified Public Accountant to our team. We are grateful to Ed for bringing his tremendous abilities to Praetorian Guard and look forward to many years together.

Dick Hewitt

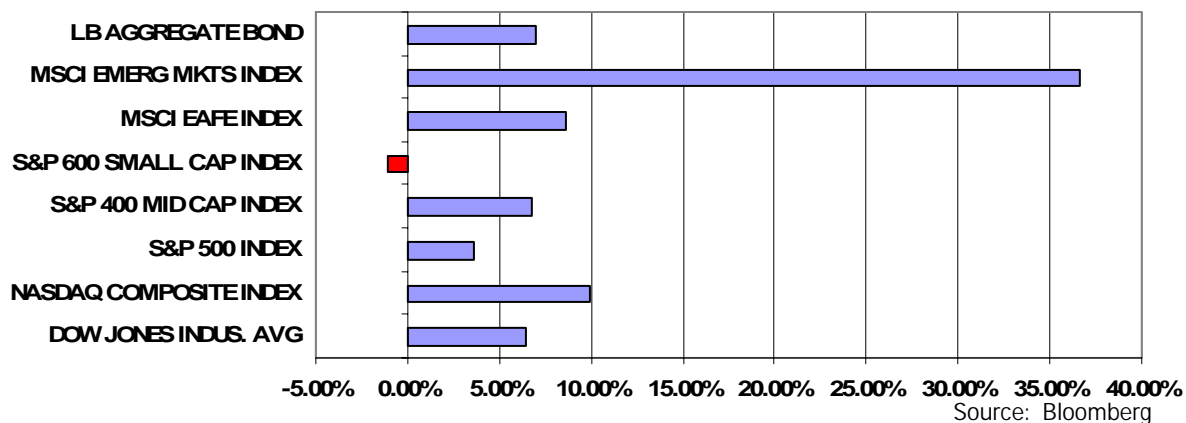
2007 MARKET COMMENTARY (CONTINUED)

2007 Returns S&P Indices



The final trend we believe to be noteworthy is that small cap stocks (measured by the Russell 2000 Index), after having bested large cap (measured by the Russell 1000 Index) for seven of the previous eight years, saw large caps outperform small caps by 7.35% in 2007.

2007 Returns, Various Indices





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INVESTMENT OUTLOOK FOR 2008

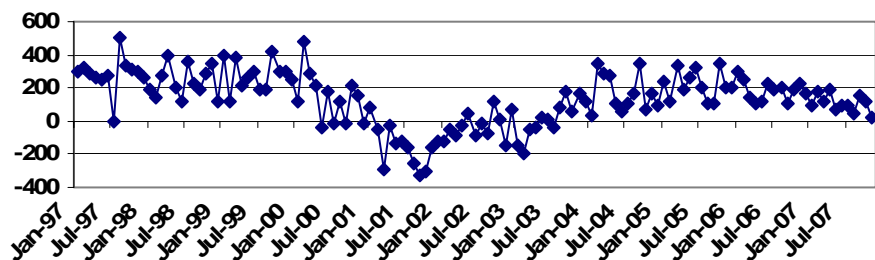
Our market outlook for 2008 begins with acknowledging that significant headwinds exist: the continuing credit crunch as an outcome of the sub-prime and housing drag, growing concern of a significant slowdown in the U.S. economy and possible recession and the inherent uncertainty of a major change come November 2008 with the first Presidential election since 1952 without an incumbent President or sitting Vice President on the ticket for either party. Our take on all this follows:

First, we believe that while the U.S. economy has slowed and may continue to see very low growth ranging from 1% to 1.75% for the first six months, there are reasons for cautious optimism. The sub-prime issues have been identified, significant write-downs have occurred, the major banks are raising capital to shore up their balance sheets and all of this is positive movement to correct the problem. We don't expect to make any moves back into individual financial stocks until several quarters have passed without any more "surprises". We believe that this double dose of slow growth (with its attendant lessening of inflationary concerns) and need for liquidity will prompt the Fed to continue to cut rates by at least 50 bps in the first six months and about a 20% chance of a 75 bps cut before summer. After July, the Fed will be done until the end of the election cycle.

Second, while the U.S. economy has slowed, the decline of the dollar has brought some needed adjustments to our trade balance and led to a significant rise in our exports to the rest of the world. This will play a major part is off-setting the housing drag, which we estimate has shaved a minimum of .5% growth from US GDP over the second half of 2007.

Overall, we project flat to slightly positive markets by June 30th. Markets, actually a collection of people trading on imperfect and sometimes wrong data, are nervous after the fourth quarter and will likely over-react to economic information and geo-political developments. Keep your eye focused on the long term of 3-7 years: the US economy creates 1 million+ jobs annually, consumers keep spending at a steady rate and likely will continue to do so in the first half of '08.

Monthly Job Creation 1997-2007



CLOSING THOUGHT

“Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it.” —Warren Buffett