

THE SWEETWATER PERSPECTIVE

Our Views on Investing & the Economy

July 2007

Watch out for the Bull - the US stock market that is. Before discussing current market conditions, let's take a look at our January forecasts and see how things are panning out. In January, even after a strong performance in 2006, our contention was that the US stock market remained undervalued. Combine powerful earnings growth with low interest rates - and lack of enthusiasm from individual investors and the media - and you have a recipe for higher stock prices. These factors prompted us to forecast a rise in the Dow this year through the 14,000 level. We're already there. Last December, investors had given up on energy stocks and commodities in general. We believed otherwise. Well, so far so good on that as well. One forecast that has not played out (at this time) is our call for a weaker US economy and thus lower interest rates. Despite the sub-prime loan "crisis," the economy continues to expand. As strong as the equity markets have been, Sweetwater client portfolios continue to power ahead at a pace about double that of the market. Although not necessarily the goal, we're not complaining.

So where do we go from here? Higher - we suspect. Areas within the US stock market that continue to appear attractive are energy, basic materials and the reemergence of telecom and technology. Yes, technology! Tech earnings are quietly strengthening and we believe this area will provide superb performance going forward. As for energy and commodity stocks, unlike many, we are not looking for the next shoe to drop. Every time someone offers up a negative spin on the global economic expansion (read China), investors race for the door and sell commodity stocks. One reason for this paranoia has been the past cyclicity of energy and basic material companies. What we see now is not a cyclical story, but a secular wave of sustained growth from the emerging markets like China, India, Brazil and Russia - a story on which we have capitalized handily. The hardest thing to do is to turn off the noise from pundits and stay invested in these sectors.

As good as things look here in the US, we think economic and political reform in Europe and especially emerging Eastern Europe, offer even more attractive values. Corporate taxes in the European Union (EU) average only 24% while our US corporate tax rate is 40%. Couple low taxes and low government interference in Europe and you have an appealing

investing environment across the pond. As for Eastern Europe, countries like Poland, Slovakia, the Czech Republic and Croatia offer tremendous growth. The flat tax structure emerging all over Eastern Europe is proving to be even better than suspected.

Let's talk bonds. Bonds, in our view offer little value now other than a hedge against unforeseen calamity. It's for this purpose that we maintain a modest allocation. While we appreciate the diversification element bonds possess, they appear fully valued. This is precisely why we are attracted to certain outside-the-box investments that may offer stability along with the opportunity for growth. This asset class is defined as "Market Neutral." Market Neutral investments are typically structured as a fund and designed to produce returns in the eight to ten percent range with a low correlation to the stock market (*i.e. neutral to the market*).

In conclusion, we have experienced a profitable stretch through the first six months of this year and over the trailing twelve months. Even though we are Bullish over the next year, we are somewhat cautious, near-term, especially after the run we have had in many of our asset classes. Based on this view, we are making modest adjustments and have trimmed the more volatile emerging market positions and taken some profits in the MLP sector. We often remind ourselves however that *keeping what you make is the name of the game*.

I invite you to call to discuss matters related to managing and growing your wealth.



Mark Snelling serves the private clients of Sweetwater Financial Advisors, LLC, a wealth management and financial planning firm with locations serving Houston, Texas and San Antonio, Texas. Mark can be reached at 830.537.5194.

PS - If you know someone who has recently retired or sold a business, I'd greatly appreciate a mention of our firm.



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