Delta Financial Advisors

June 2008

Economic Comments

At its June end meeting, the Federal Reserve stood pat on overnight interest rates. While continuing to express concern over the ongoing housing contraction, rising energy prices and tight credit markets, the Fed chose to take no current action on interest rates. Although Chairman Bernanke expressed his belief that inflationary pressures will abate as the year progresses, we believe that the Federal Reserve will be forced to take action in raising rates well before the end of the year.

The Chairman has been attempting to have his cake and eat it too. While emphasizing the Fed's resolve to slow inflation, he has equivocated on the timing of future rate increases. So far, the results have been mixed as analysts have been challenged to guess his true course of future action. Unfortunately, Mr. Bernanke has also shared his belief that current economic problems will persist into next year.

So far, the U.S. is not technically in recession as only the National Bureau of Economic Research has the authority to formally declare U.S. recessions. In making its assessment, the Bureau first looks at gross domestic product growth and then also looks at four other economic gauges. The challenge being that all four indicators peaked at least several months ago and have since seen recent declines, while GDP growth has recently been extremely tepid.

Looking at pricing data, the Produce Price Index for May was up a sharp 1.4%. However, the core rate (which strips out energy and food prices) showed a more modest 0.2% increase, a decline from the prior month's sharp 0.4% rise. The soaring energy and food prices were also reflected in end prices to consumers. The Consumer Price Index (CPI) increased by an enormous 0.6% while the core inflation number (excluding these two components) rose a more modest 0.2% for the period.

Unfortunately, recent inflation has resulted in a decline in American workers' earnings in real inflation-adjusted wages. In comparison to a year earlier, the average worker in real terms is now earning 1.2% less than in mid 2007. All of these issues have had an impact on consumer confidence, which has now declined to its lowest level since 1992.

Energy prices continued to play havoc as they jumped 5% in May with gasoline prices climbing by more than 9% for the month. Oil prices finished the month of June having finally broken the $140/barrel threshold. The continued price hikes are having a measurable impact upon consumer activity, as U.S. oil consumption has declined 2.3% this year compared to the same period in 2007.

Looking at the other economic bugaboo, the poor housing market, there remains no end in sight. On a year over year basis, a major home price index declined by 15.3%.

One current challenge facing the economy and markets is the need for foreign holders of U.S. dollars to re-invest them. With the U.S. running a current account deficit of ~5% of gross domestic product, it says that foreign capital has to flow into the U.S. to fund the trade deficit. Following the mortgage debacle, overseas interest in U.S. paper has been sharply diminished. As a result, foreign investors have been looking to place their dollars in real assets such as U.S. real estate or in ownership of U.S. companies such as Anheuser Busch. There remains a meaningful concern in the U.S. about these purchases. The irony of course being that the U.S. remains the world's biggest foreign investor.

Looking forward, we see an economy struggling to regain its footing in the face of mounting energy prices and tight credit. While credit markets remain tight, private investors have continued to show a remarkable interest in replenishing/ strengthening the balance sheets of distressed companies. Particularly in the face of the continued rise in energy prices, we now believe it possible that the expected rebound in economic activity could be delayed into early/mid 2009.

Market Comments

To put it gently, it was a brutal June for the stock market. The market was severely impacted by the fear that the Federal Reserve is going to start aggressively raising interest rates to combat inflation. Further aggravating the market's distress was the realization that the, at best tepid, economy would be negatively impacted by these economically injurious rate hike(s). Continuing to lead their recent hit parade, the financial sector declined by almost 19% for the month followed by the industrial sector's 12.5% decline. The only market sector showing modest gains was the energy sector with gains of almost 2¼% in the face of oil prices surging over $140/barrel.

In the fixed income market, rates remained largely unchanged during the month. Over the last several months, however, rates have crept up as investors have demanded to be paid more in the face of

Delta Financial Advisors, L.L.C.

Performance as of 06/30/08				
	Close	***Month***	***YTD***	***1 Year***
DJIA	11350.01	-10.04%	-13.37%	-13.27%
S & P 500	*1280.00*	-8.43%	-11.91%	-13.11%
NASDAQ Comp.	*2292.98*	-9.10%	-13.53%	-11.91%
	Month end yld.	***Prior Yr. end yld.***	***12 mo. prior yld.***	
10 yr. U.S. Treasury	*3.98%*	*4.03%*	*5.03%*	

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greater inflation risks

A continued impact upon market sentiment has been oil and energy prices, largely because the continued increases have fanned inflationary fears, but also because of their negative impact on consumer spending and corporate profits. However, we continue to question the viability of current oil prices as we believe a large part of the recent run up has been the result of financial players rather than core fundamentals as financial instruments for the commodity sector have increased by almost seven fold over the last five years

The current equity market remains bifurcated with the financial, mortgage and housing related stocks suffering extreme losses. Meanwhile, the rest of the markets' earnings remain at or near record levels. The challenge in this environment is the increasingly high likelihood that the disruption in the financial/housing sectors will/is spreading to those areas that have hitherto been unscathed by the recent turmoil.

We continue to anticipate the market to remain volatile in the face of current challenges. However, we believe that stocks present an increasingly attractive investment profile in the face of recent price declines. While the recent market down-turn has been excruciating for all, we anticipate attractive returns over the next 24 months as current issues are resolved.

Analyst Corner

With all of the turmoil occurring in the financial markets, we wanted to discuss a major U.S. bank, the Bank of America *(NYSE: BAC)*. The largest consumer bank in the country, Bank of America has such an enormous base of stable retail deposits.

In recent months, its corporate and investment banking division (a major profit engine) has been severely struggling. Making a bold gamble, the company recently acquired Countrywide Financial, the nation's largest mortgage originator. While the housing industry is currently struggling, the bank's management believes that the longer-term prospects for this segment remain appealing.

Faced with continued elevated levels of credit losses and possible additional capital required to run its new mortgage unit, the bank's stock has seen a sharp decline this year and is now trading at levels last seen in mid 2000. Despite these risks, we believe that the company remains an attractive investment opportunity for the longer-term.

Planning Thoughts

Following Katrina, many individuals (including, we hope, all of our clients) re-examined their home's insurance coverage. As a general rule of thumb, rebuilding a well made house costs in excess of $175 per square foot. If you know the square footage of your house, you can calculate a rough benchmark for the minimum amount for which your house should be insured. Typically, homeowner's policies insure the home's contents for half of the value of the house. A policy providing for $500,000 of coverage for the house provides $250,000 in coverage for contents such as clothing, furniture etc.

However, most policies limit the insurance coverage on high value items such as jewelry, collectibles, furs and silver to less than $10,000. In those cases where the homeowner's policy does not provide sufficient coverage, a personal articles rider is available. This coverage specifically insures the item in question and provides more comprehensive coverage than the standard homeowner's policy. Unfortunately, many homeowners do not take the time to assess recent purchases or acquisitions to insure that they have sufficient coverage on these types of items.

If it has been a while since you checked this part of your insurance coverage, we would encourage you to do so. If you have any questions regarding this matter, please pick up the phone and call us.

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