

Fagan Financial Report

VOLUME 10 ISSUE 1

FIRST QUARTER 2007

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Change in Fed Language

The Open Market Committee of the Federal Reserve (FOMC) meets several times a year to set monetary policy.

Among other items, the FOMC establishes target levels for short-term interest rates known as the Federal Funds and Discount Rates. Furthermore, the FOMC has the mandate of altering these interest rate targets either upward or downward as their perception of the current economic environment dictates.

Wall Street awaits these decisions by the Fed with bated breath because of the short-term and sometimes a long-term impact on investments. Furthermore, leading up to the release of the decision by the Fed, always at 2:15 on the last day of the meeting, investors are bombarded with opinions by talking heads as to what the Fed might do regarding monetary policy.

This last Fed meeting was no different. However, the curiosity was not in whether or not the Fed would hike or lower interest rates. (It was a foregone conclusion that that rates would not change.) Investors wanted to know other details of the statement in the press release.

"Bottom line, the stock market looks very healthy after the most recent 8% pullback and, at this time, we are bullish over the balance of 2007."

For the past several months the meeting-end press release contained the phrase *"the committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as im-*

plied by income information."

That portion of the statement was replaced with *"Recent readings on core inflation have been somewhat elevated. Although inflation pressures seem likely to moderate over time, the high level of resource utilization has the potential to sustain those pressures. In these circumstances, the Committee's predominant concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information."*

The bottom line for investors was the elimination of the words **"additional firming,"** which for Wall Street is defined as further interest rate increases. Investors took

Continued on page 2

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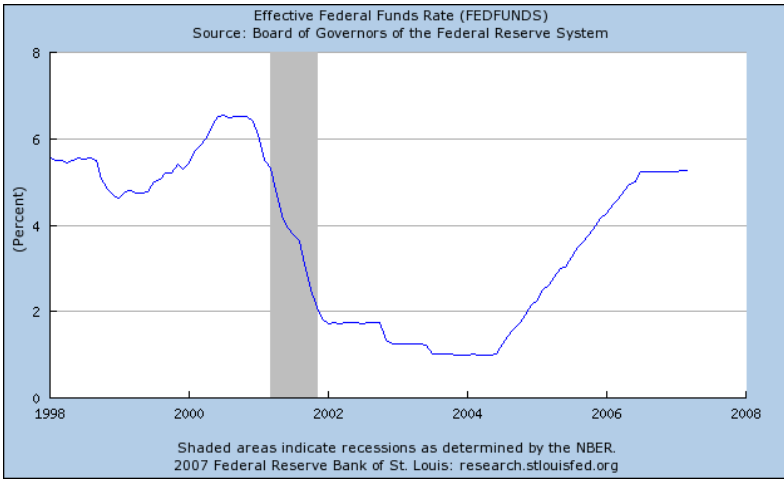
Published by: Fagan Associates Inc., 767 Hoosick Road Troy, NY 12180, 800-273-6026

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this as an implication that the Fed is not as worried about inflation as they were recently and that perhaps their next move would be to cut interest rates rather than raise them.

The Fed works in incremental steps. The prior bias was to raising interest rates while the current one is neutral. Regardless of what the Fed does in the future, this provides enough wiggle room to adjust monetary policy by either raising or lowering interest rates as economic data is received.

While these details may seem insignificant, stocks powered ahead more than one percent immediately after the release, marking the end to the recent correction.



Federal Funds Rate

The rate set by the Federal Reserve and that banks charge each other to borrow money overnight (the overnight inter-bank lending rate). Currently at 5.25%, with the most recent rate change being a 25 basis point rate hike on June 29th, 2006. The most recent hike had been the seventeenth consecutive one-quarter point hike since June 30th, 2004.

Discount Rate

The interest rate charged to commercial banks and other depository institutions on loans they receive from the Federal Reserve. Currently at 6.25%. Most recent change was a twenty-five basis point hike on June 29th, 2006.

Don't Believe Everything You Read or Hear

We may be shooting ourselves in the foot with that title. However, something occurred last week that made it apparent that investors react to what they read and hear. Moreover, they seldom follow up with their own research.

For instance, a well known financial talking head touted a company in the biotechnology sector. The next day we received several calls from clients who wanted to purchase shares of this speculative company. (Please note that the callers did not do any research, but were merely acting on the advice of an analyst.)

Against our better judgment, we made the purchase for these clients. We say against our better judgment, not because we have anything against this company, but simply because we did not know enough about it to put the hard earned money of our clients into something in which we were not certain.

Needless to say the stock market has been very bullish these past four years, especially for mid-cap stocks like the aforementioned one. However, whether in a bull or bear market some investors make basic mistakes that, over the long run, end up costing them money.

The first mistake was made when they purchased the stock immediately after a positive article. A rule of thumb when investing is, ***never invest in a company that has recently been in the news, either positively or negatively.*** Rather, look for companies that have been quietly going about their business out of the spotlight. Once the spotlight is focused on the firm, the fluctuation of the share price, in both directions, becomes less predictable.

The second mistake resulted from a lack of due diligence. The investors did not dig for further information pertaining to the company, including operations and competitor data.

Market share data as well as any pending regulatory or technological issues that might positively or negatively impact revenue or earnings growth should be thoroughly researched. Finally, what is the current investing environment for similar securities?

A third mistake made by investors is that they looked at the transaction through rose colored glasses. We have learned over the past two decades of providing investment advice that when something looks like a sure thing it probably isn't.

Let us conclude by stating that it is somewhat irrelevant where the share price of a company goes in the short term. Remember, just because a stock goes up after you purchased it, does not mean that you made a good choice. Conversely, if a stock declines soon after the buy, does not mean you made a bad choice. Only time and investment research will tell.

PURE NO-LOAD MUTUAL FUNDS
 NO SALES LOADS IN
 NO DEFERRED SALES LOADS OUT
 MANY WITH LOW INTERNAL EXPENSE RATIOS

Fagan Associates, Inc. Largest Mutual Fund Holdings as of March 31st, 2007

<i>Domestic Equity Funds</i>	<i>International Equity Funds</i>	<i>Hybrid/Fixed Income Funds</i>
Schwab 1000 Select Fund	William Blair International Growth	Loomis Sayles Bond
AF Capital Income Builder	Tweedy Browne Global Value	WF Short-Term High Yield
Baron Asset Fund	Harbor International	Northeast Investors Trust
TR Price Growth Stock Fund	Janus Overseas	Income Fund of America
Marsico Focused Equity Fund	Vanguard International Growth	Franklin Income Fund

Stocks vs. Bonds

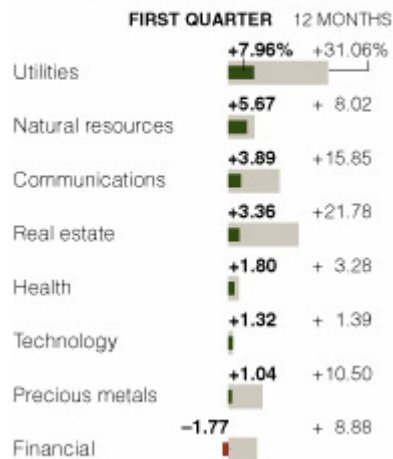
Average returns, by mutual fund category, for the first quarter of 2007 and the past 12 months.



Source: The New York Times

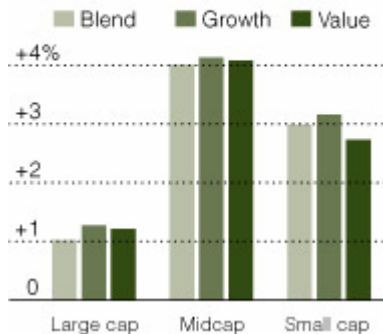
Sector by Sector

Utilities funds led other sectors this quarter and the past 12 months.



Growth vs. Value

Growth stock funds had the biggest gains in the first quarter.



Selecting mutual funds that can help you achieve your long-term objectives is like “wading through a bowl of alphabet soup.

- “A” shares - upfront sales charge
- “B” shares, no upfront sales charge, but a deferred sales charge that can last up to seven years. “B” shares also carry MUCH higher internal expense ratios that usually add an additional 1% per year to the cost of the fund.
- Then there are “C” shares, “D” shares, “F” shares, “M” shares and “Y” shares – all of which come with their little twists and turns. Twists and turns that, many times, you are unaware of until you need to withdraw some money.



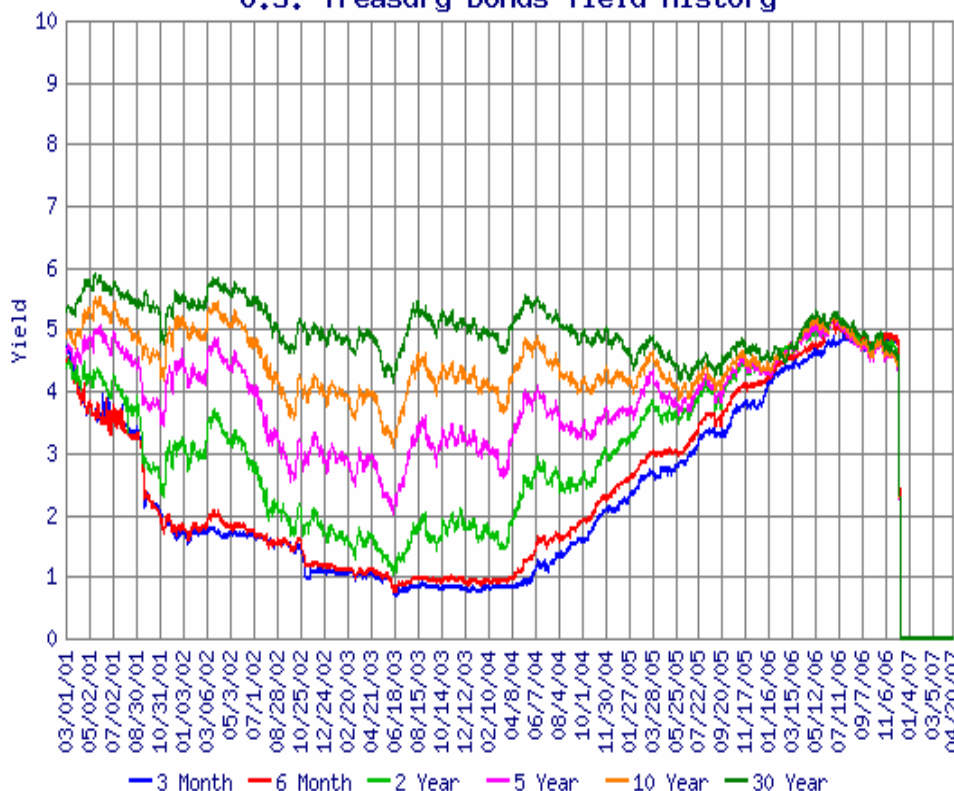
Fagan Associates, Inc.
 Underwrites
 Locally Produced WMHT Business Series
 Monday evenings at 7:30 p.m.
 Rebroadcast Sunday at 1:30 p.m.



Fixed Income

Our theme of “invest in stocks for growth and bonds for income” has been a consistent one for well over a decade at Fagan Associates as it pertains to **fixed income funds**. We do not expect this to change during 2007. We also subscribe to the theory that broad diversification over differing types of bonds (government, high grade corporates and high yield corporates) will result in a higher yield with less volatility. With this in mind, we believe 2007 will be marked by a return to a normalized yield curve during which longer-term maturities pay a higher rate of return than their shorter-term brethren. To achieve our objective of maximizing income with as little volatility as possible, we will maintain an average maturity of approximately five to ten years or more specifically, intermediate-term bond funds.

U.S. Treasury Bonds Yield History



Source: <http://www.bondtalk.com/global.cfm?>

<i>Yield On Selected United States Treasury Obligations</i>						
	<i>Apr 13th, '07</i>	<i>Mar 30th, '07</i>	<i>Mar 23rd, '07</i>	<i>Dec 31st, '06</i>	<i>Dec 31st, '05</i>	<i>Dec 31st, '04</i>
3 month T-bill	5.00%	5.03%	5.05%	5.01%	4.07%	2.23%
6 month T-bill	5.08%	5.06%	5.09%	5.08%	4.36%	2.59%
2 year T-note	4.76%	4.58%	4.60%	4.81%	4.39%	3.10%
3 year T-note	4.70%	4.53%	4.53%	4.73%	4.36%	3.26%
5 year T-note	4.69%	4.54%	4.51%	4.69%	4.35%	3.65%
10 year T-note	4.76%	4.65%	4.61%	4.70%	4.39%	4.25%
30 year T-bond	4.93%	4.84%	4.80%	4.81%	4.54%	4.85%
Spread b/t 2- & 10 Yr.	+00 bp	+07 bp	+01 bp	-11 bp	0 bp	115 bp
Current Prime Rate	8.25%	8.25%	8.25%	8.25%	7.25%	
Current 3-mo LIBOR	5.35%	5.35%	5.35%	5.36%		

The radio show has moved...

Look for 810WGY's Fagan Financial Report at a new time, Sundays, 10:00 a.m. - 11:00 a.m. following the Joe Gallagher Weekend Morning Show

And, don't miss Dennis Fagan's weekly visit with Joe, Sundays, 8:30 a.m. - 9:00 a.m.



- A Recap of the past week's financial markets, including company specific and economic news.
- “The Record Review” – an outline of our column that appears in the Troy Record every Sunday.
- “Widely Helds” – a look at the price action and news releases from the most widely held stocks.
- A spotlight on one or some of our **mutual fund holdings or ETF holdings**.
- A look at the upcoming week, economic data and earnings reports.
- Monthly notable changes to our investment portfolios after the close of the prior month.

Common Stock Portfolio Holdings

Top 20 holdings represent 51.55% of the common stock portfolio as of March 31, 2007

<i>Common Stock Portfolio Holdings**</i>				
<i>Ranked by Market Value as of March 31st, 2007</i>				
<i>Percent of Common Stock</i>	<i>Company Name</i>	<i>As of March 31, 2007</i>	<i>As of Feb 28, 2007</i>	<i>As of Jan 31, 2007</i>
5.75%	General Electric	1	1	1
4.90%	Exxon Mobil	2	2	3
4.55%	Citigroup	3	4	2
4.25%	JP Morgan Chase	4	3	4
3.04%	Bank of America	5	5	5
3.00%	Gilead Sciences, Inc.	6	7	15
2.93%	Loews Corporation	7	6	7
2.73%	Hewlett Packard	8	8	9
1.95%	Las Vegas Sands	9	9	8
1.88%	Aetna Life	10	11	12
1.83%	Apple Computer	11	16	16
1.82%	Trinity Industries	12	12	17
1.82%	Keycorp	13	13	14
1.82%	NewsCorp	14	14	13
1.68%	Johnson & Johnson	15	10	10
1.61%	Valero Energy	16	18	24
1.53%	Goldman Sachs	17	17	22
1.53%	Hospitality Properties Trust	18	23	19
1.48%	McDonald's Corporation	19	22	21
1.46%	ICICI Bank	20	15	11
1.43%	American International Group	21	20	18
1.42%	Nabors Industries	22	19	20
1.05%	Three M Company	28	28	6

<i>Common Stock Portfolio Holdings**</i>						
<i>Ranked by Share Balance as of March 31st, 2007.</i>						
<i>Notes & Stock Splits; Avg. Cost Per Share</i>	<i>Company Name</i>	<i>As of March 31, 2006</i>	<i>As of Feb 28, 2007</i>	<i>As of Jan 31, 2007</i>		
\$30.30	1	1	General Electric	88,603	89,196	89,196
\$37.94	2	3	Citigroup	48,298	47,458	47,458
\$39.66	3	2	JP Morgan Chase	47,825	48,595	48,595
\$20.95	4	4	NewsCorp	39,730	40,680	40,680
\$40.71	5	6	Hewlett Packard Co.	37,071	35,621	35,621
\$35.99	6	7	Exxon Mobil	35,395	34,422	34,272
\$34.08	7	5	Loews Corporation	35,111	35,956	36,121
\$31.08	8	8	Bank of America	32,493	32,480	32,958
\$25.75	9	10	KeyCorp	26,505	26,505	24,805
\$32.58	10	11	Nabors Industries	26,095	26,355	26,355
\$9.98	11	9	First Niagara	25,354	29,079	29,329
\$35.57	12	12	Trinity Industries	23,705	24,650	21,895
\$26.25	13	13	Intel Corporation	23,545	24,320	24,320
\$33.09	14	14	Aetna Life	23,350	24,015	24,015
\$10.91	15	15	Evergreen Solar	22,625	23,645	24,145
\$15.16	16	19	Cisco Systems	22,199	19,939	20,089
\$18.53	17	17	Cypress Semiconductor	21,920	22,820	18,620
\$28.68	18	16	ICICI Bank	21,610	23,055	23,355
\$63.46	19	18	Gilead Sciences	21,315	21,275	14,675
\$36.64	20	27	Archers-Daniel Midland	19,375	16,390	15,650
\$19.78	22	20	Corning, Inc.	19,210	19,210	19,210

**Please note that all data listed on this and the preceding page are for general information purposes only and are not meant to be specific recommendations. Any change in ranking by either market value or share balance are not meant to conclude that Fagan Associates recommends a purchase or sale of the referenced security. Please consult with your financial advisor prior to making any changes to your portfolio.

Dissecting the Stock Market Since the February 26th Plunge

Any stock investor who had money in the market this past February 26th will not soon forget the 300 point plunge in the three plus minutes preceding 3 p.m. Nor will they forget that the Dow Jones Industrial Average closed down 416 points, this after being down 553 at the height of the decline. The decline was precipitated by a nine percent drop in the Chinese stock market and the belief that this decline would result in a slowdown in the Chinese economy, indirectly affecting demand for the goods and services produced in the United States.

Today, as represented by the Dow Jones Industrial Average, stocks have completely reversed that drop and are at or near record highs. It is a good time to review your disciplines regarding your investments.

First, prior to a crisis in the stock market, make certain you have a plan of action and, more importantly, once the crisis begins, stick to that plan of action.

Second, when there is a precipitous decline such as the one we recently witnessed, an investor must determine what precipitated the decline and whether or not this decline is a short-term event or one that has long-term implications for your portfolio. As noted above, the drop in the Chinese market precipitated the sharp drop in our markets. However, after just a little research and some reading, we were quickly able to conclude that this was a short-term market event and the move downward in the Chinese stock market would not slowdown their economy and, therefore, would not have a negative impact on the United States.

Third, once you determine whether the market decline is news (long-lasting) or noise (short-term, temporary), you can implement the plan of action that you developed prior to the start of the crisis. For this crisis, we purchased some stock on the pull-back recognizing that the market historically recovers from these "noise declines" in six to eight weeks.

DJ INDU AVERAGE (DOW JONES & CO
as of 20-Apr-2007



Generally speaking, we utilized a three-pronged approach dividing our purchases between blue chip stocks (those that are the largest companies domiciled in the United States and that pay a dividend), electronically traded index funds, and investments that would bounce back quicker than the overall stock market. We utilized blue chip stocks in case we were wrong and the market continued heading downward; electronically traded funds to get broad market exposure; and high-beta stocks that had greater rebound potential than the overall market.

Furthermore, we did not go "all in" on the initial decline but rather nibbled at the stock market recognizing that the bottom of a decline is usually a process and not a one-day event.

The Record

The Fagan Financial Report has returned to *The Sunday Record*.

Please note that the opinions of the authors are not a recommendation to buy or sell the stock, bond market or any security contained therein. Securities contain risks and fluctuations in principal will occur. Please research any investment thoroughly prior to committing money or consult with your financial advisor. Fagan Associates, Inc. services are offered only to United States citizens and residents. The information on this site is intended solely for such persons. Copyright 2006, Fagan Financial Report. All rights reserved. Broadcast, publication, or storage is strictly prohibited. Information in this document is provided "as is," without warranty of any kind, either expressed or implied, including but not limited to the implied warranties of merchantability, fitness for a particular purpose and freedom from infringement. The user assumes the entire risk as to the accuracy and the use of this document. We will not be liable for any damages of any kind arising from the use of this information, including, but not limited to direct, indirect, incidental, punitive, and consequential damages.