

Fagan Financial Report

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2008 Outlook

Unlikely as it may seem after this rough start to 2008, we believe that the major stock indices, including dividends, will conform to longer term historical returns of between nine and twelve percent with the Dow Jones Industrial Average rising from its 2007 closing value of 13,265 to 14,657 for a gain of 10.50%; the Standard & Poor's 500 rising to 1,622 from its 2007 closing value of 1,468, and the NASDAQ Composite rising to 2,930 from its 2007 closing level of 2,652.

In response to the recession affecting the housing market and the resulting weakness in the consumer sector, the Fed began cutting interest rates and has promised "substantive" measures in the future. Given these facts, we expect that the year will be back-end loaded with the best two quarters for equities being the third and fourth as the economy picks up steam in response to lower interest

rates and perhaps some fiscal stimulus coming from Congress. Even if the market does not perform as well as we anticipate, we think stocks and stock-based mutual funds will outperform their fixed income brethren, given the fact that the 10-year U.S. Treasury Note is currently yielding only 4.00%.

Despite the fact that volatility will once again remain high during 2008 as during 2007, stocks are our preferred asset class for 2008.

Two sectors drove the stock market during 2007; Oil & Gas and Basic Materials. Oil & Gas benefited over the past several years from a rapidly

expanding global economy causing more demand for petroleum based products than supply. Basic Materials also benefited from the above referenced global economic growth and from the fact that much of this growth emanated from the "BRIC" countries, Brazil, Russia, India and China. Other than these two sectors, 2007 proved an uninspiring year for stock investors. Furthermore, the problems with housing referenced several times above resulted in a twenty-percent decline in financial service companies. This will most likely linger into the first half of 2008.

We believe that 2008 will result in solid over-performance in Health Care including large biotechnology companies, medical instrumentation and equipment as well as health maintenance organizations. We like

Continued on page 2

those health care companies that help to contain cost. As the Presidential Election draws near and the “rebuild America” theme grows louder, your large cap industrial stocks should benefit. However, because general economic weakness will trump this theme early in 2008, we urge you to be patient. Another theme that we like going into 2008 is “feed the world.” Once again, we are going to exhibit patience in this sector given the run-up during 2007, it is due for a breather.

Other industries that we think will benefit from a re-accelerating domestic and global economies during the second half, are technology, basic materials and, dare we say, financial service companies. Digging a little deeper, we believe that the dollar remains relatively weak which should benefit those companies that export a relatively large percent of their overall revenue. We also continue to believe in investing in companies domiciled in other countries, specifically in Latin and South America, the Far East and Central Europe.

On the interest rate front, we believe that the Fed will continue to lower interest rates, therefore choosing an emphasis on economic growth rather than one of inflation-fighting, at least for the foreseeable future. Should the Fed assume this posture, and we have no reason to believe that they won't, short-term rates will continue lower as will longer-term rates. Then, once the cuts take hold and economic growth accelerates, we would expect to see a

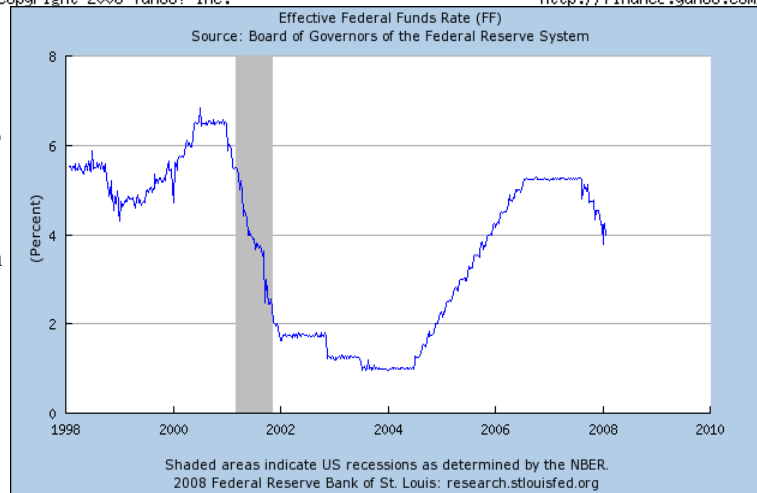
normalized yield curve (one in which long-term rates are higher than short-term rates) as well as higher interest rates along the entire curve. We project that the yield spread (difference between the two and ten year treasury notes) to be between .75% and 1.50% by the end of 2008. It is for these reasons that we believe short-term bonds best suit our clients. The time will come when we can extend those maturities, just not now.

ing “wage pull” inflation in check.

The risks to the assumptions noted above are many, not the least of which include the ever-present threat of terrorism. Other risks include unanticipated actions by Iran, an unanticipated spike in energy prices, and the potential that the Fed will not be aggressive enough in cutting interest rates. Also, if the consumer shuts down their habits of consumption, it could further lengthen the recovery process.

The question remains as to what Chairman Bernanke was referring to when he stated that the Fed was ready to take “substantive” action when fighting this economic slowdown. Time will tell. However, should Chairman Bernanke prove either unwilling or ineffective in fighting this economic slowdown, it may be a long year for the economy and the stock market.

In conclusion, we have much greater confidence in the stock market providing solid returns through the end of calendar year 2008 relative to the just concluded 2007. We also firmly believe that Chairman Bernanke will make the right decisions pertaining to interest rates. We also have a high degree of confidence in our enthusiasm regarding overseas markets and our estimate for interest rates. That said, we continue to be wary of geopolitical events as well as the impact on the economy of the malaise in the housing market.



We are NOT concerned about rampant inflation, noting that productivity growth in high-end industries such as technology and biotechnology in the United States remains strong and global competition for the commoditized industries is keen. This global competition quite often results in production overseas for many basic industries therefore keep-

The Record Read the Fagan Financial Report every week in *The Sunday Record*.

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

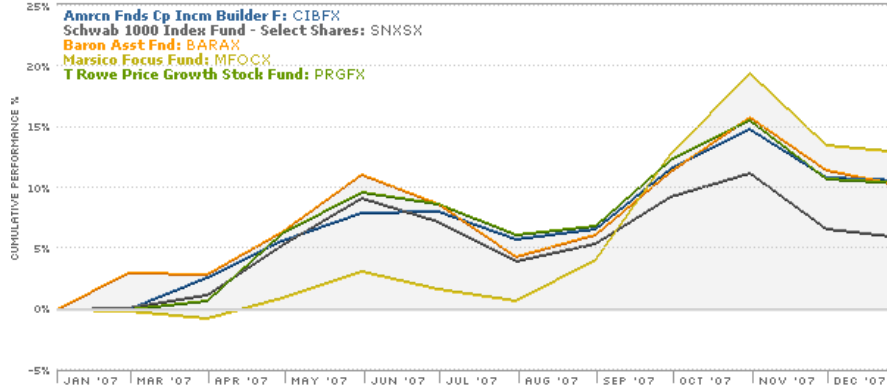
Fagan Associates, Inc. Largest Mutual Fund Holdings as of December 31st, 2007.

Domestic Equity Funds

- AF Capital Income Builder
- Schwab 1000 Select Fund
- Baron Asset Fund
- Marsico Focused Equity Fund
- TR Price Growth Stock Fund

Cumulative Performance: CIBFX, SNXSX, BARAX, MFOCX, PRGFX

DATA AS OF 12/31/07

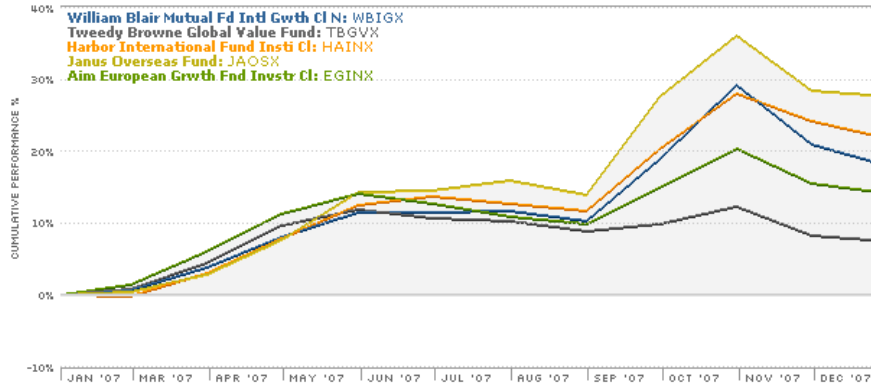


International Equity Funds

- William Blair International Growth
- Tweedy Browne Global Value
- Harbor International Fund
- Janus Overseas
- AIM European Growth

Cumulative Performance: WBIGX, TBGVX, HAINX, JAOSX, EGINX

DATA AS OF 12/31/07

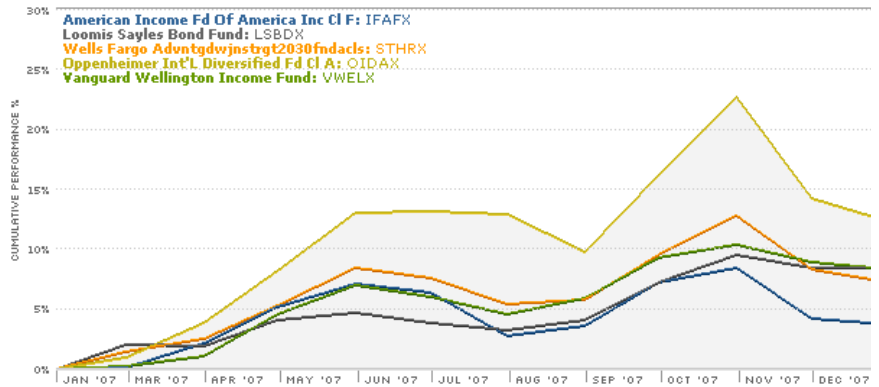


Hybrid/Fixed Income Funds

- Income Fund of America
- Loomis Sayles Bond Fund
- Oppenheimer International Bond Fund
- WF Short-Term High-Yield
- Vanguard GNMA

Cumulative Performance: IFAFX, LSBDX, STHRX, OIDAX, VWELX

DATA AS OF 12/31/07



FAGAN FINANCIAL REPORT

Fagan Associates, Inc., Sector Weighting
Master Portfolio Group, Combined Account Statement
December 31, 2007

Common Stock	Total Cost	Market Value	Percent of Assets	S&P 1500 Composition	Weighting Relative to S&P 1500
Energy	\$ 3,918,303	\$ 6,368,856	12.27%	12.78%	96.00%
Basic Materials	\$ 2,588,749	\$ 3,821,667	7.36%	3.70%	198.98%
Industrials	\$ 6,871,467	\$ 7,810,059	15.05%	12.01%	125.28%
Consumer Discretionary	\$ 1,624,398	\$ 2,162,680	4.17%	8.74%	47.67%
Consumer Staples	\$ 1,017,646	\$ 1,499,827	2.89%	9.60%	30.10%
Health Care	\$ 5,442,629	\$ 6,970,183	13.43%	12.40%	108.29%
Financials	\$ 10,871,052	\$ 12,500,473	24.08%	16.97%	141.91%
Technology	\$ 6,696,825	\$ 8,497,376	16.37%	16.21%	100.98%
Telecommunications	\$ 3,415,742	\$ 3,900,783	7.51%	3.31%	227.03%
Utilities	\$ 731,791	\$ 815,019	1.57%	4.09%	38.39%
Index Investments	\$ 1,402,638	\$ 1,523,474	2.93%		
Common Stock	\$ 44,584,322	\$ 55,873,091	100.00%		

We believe that 2008 will result in solid over-performance in Health Care including large biotechnology companies, medical instrumentation and equipment as well as health maintenance organizations. We like those health care companies that help to contain cost. As the Presidential Election draws near and the “rebuild America” theme grows louder, your large cap industrial stocks should benefit. By mid-year, we think technology, basic materials and, dare we say, financial service companies will benefit from re-accelerating domestic and global economies.

However, as general economic weakness continues into the first quarter of 2008, we urge you to be patient. Also, the risks to the assumptions noted above are many, not the least of which include the ever-present threat of terrorism. Other risks include unanticipated actions by Iran, an unanticipated spike in energy prices, and the potential that the Fed will not be aggressive enough in cutting interest rates.

The radio shows ...



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 and Chris' weekly visits with
Joe, Sundays, 8:30 a.m. - 9:00 a.m.
and with
Don Weeks, Fridays at 8:30 a.m.
We take your calls at 1-800-TALK-WGY or *WGY

- A Recap of the 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, including economic data and earnings reports.
- Monthly notable changes to our investment portfolios after the close of the prior month.
- Periodic interviews with other industry professionals, including mutual fund managers, insurance professionals, accountants and attorneys.
- Periodic interviews with local men and women making news that affects our lives.



Fagan Financial Report
Monday through Friday
5:40 p.m.—6:00 p.m.

Common Stock Portfolio Holdings**
Ranked by Market Value as of December 31st, 2007.

<i>Percent of Common Stock</i>	<i>Company Name</i>	<i>As of Dec 31, 2007</i>	<i>As of Nov 30, 2007</i>	<i>As of Oct 31, 2007</i>
5.99%	Exxon Mobil	1	1	2
4.97%	General Electric	2	2	1
4.61%	Loews Corporation	3	4	4
4.51%	Hewlett Packard	4	3	3
3.80%	Apple Computer	5	5	6
3.05%	United Health Group	6	8	18
2.88%	Gilead Sciences, Inc.	7	7	9
2.79%	Bank of America	8	6	7
2.66%	JP Morgan Chase	9	9	8
2.41%	America Movil SA	10	10	11
2.22%	NYSE Euronext	11	11	10
2.08%	AFLAC, Inc.	12	12	13
1.96%	Johnson & Johnson	13	13	16
1.96%	ICICI Bank	14	16	12
1.89%	McDonald's Corporation	15	14	15
1.83%	Manitowoc Co., Inc.	16	21	65
1.74%	Terra Industries	17	23	25
1.62%	Schlumberger, Ltd.	18	20	21
1.61%	Nokia Corp, ADR	19	17	22
1.60%	Goldman Sachs	20	31	31
1.57%	Cisco Systems, Inc.	21	18	19
1.55%	Citigroup	23	15	5
1.52%	Emerson Electric Co.	24	19	23
1.06%	Trinity Industries	30	29	17
0.30%	Varian Semiconductor	66	57	14

Common Stock Portfolio Holdings**
Ranked by Share Balance as of December 31st, 2007.

<i>Notes & Stock Splits; Avg. Cost Per Share</i>			<i>Company Name</i>	<i>As of Dec 31st, 2007</i>	<i>As of Nov 30th, 2007</i>	<i>As of Oct 31st, 2007</i>
\$30.09	1	1	General Electric	75,020	77,590	89,016
\$41.03	2	2	Loews Corporation	51,276	51,811	52,221
\$42.40	3	3	Hewlett Packard Co.	50,021	50,811	50,216
\$34.16	4	4	Bank of America	37,817	37,823	37,787
\$38.59	5	5	Exxon Mobil	35,748	36,222	36,591
\$32.25	6	6	Gilead Sciences	35,070	35,400	35,500
\$40.96	7	7	JP Morgan Chase	34,094	34,394	35,044
\$24.90	8	8	Cisco Systems	32,416	31,396	29,061
\$38.15	9	9	Citigroup	29,363	30,869	50,758
\$50.54	10	10	United Health Group	29,295	28,985	19,760
\$25.91	11	11	Intel Corporation	27,355	27,655	27,450
\$37.01	12	14	Nokia Corp ADR	23,450	23,550	20,825
\$53.67	13	15	America Movil SA	21,980	21,130	19,920
\$35.56	14	13	Trinity Industries	21,320	24,940	27,775
\$45.12	15	19	Manitowoc Co., Inc.	20,985	18,495	3,845
\$31.18	16	16	Terra Industries	20,355	19,965	20,205
\$32.95	17	17	Vimpel-Communications	19,460	19,000	0
\$53.42	18	18	AFLAC, Inc.	18,555	18,720	19,020
\$9.42	19	20	TrustCo	18,428	18,428	18,217
\$32.00	20	21	McDonalds Corp.	17,900	17,900	17,900
\$17.18	100	12	Corning, Inc.	1,885	25,035	25,035

Post-retirement financial planning: new priorities, new goals, new opportunities to build wealth

Retirees are living longer and you could easily spend 30 years or more in retirement. In fact, many seniors will spend more years in retirement than they did working, presenting opportunities and challenges in building a post-retirement financial plan.

Certainly, preserving wealth is a priority during retirement but don't rule out strategic opportunities to continue building wealth. With longer lifespans, this is becoming a necessity and most retirees need to change their investment strategies to address these issues. We work very closely with our retired clients to grow their assets in order to keep pace with distribution needs and inflation.

We start with the basics by reviewing your net worth, income and expenses. We use this information to determine the amount of growth you will need in order to cover expenses, establish emergency accounts, and maintain your

lifestyle. We then put together a diversified and properly allocated investment plan.

It is also very important to monitor your spending. A recent study by the Society of Actuaries, *Spending and Investing in Retirement: Is there a Strategy?*, reports that retirees often spend more money in retirement than they did while working and most base much of their financial behavior on instinct rather than establishing long-term goals. This lack of direction will lead many retirees to overspend in the early years of their retirement.

Next, we plan distributions to meet minimum requirements and to minimize tax liabilities. This can be tricky and advance planning can address the most profitable way (what and when) to liquidate assets. Also, once assets are no longer tax-deferred, investment decisions must be aligned with the taxable events that the activity generates.

Another interesting aspect of the new retirees is their desire to continue

working. Many Americans view their later years as a time for opportunity, **new careers**, and spiritual fulfillment. According to AARP, half of boomers plan to launch into an entirely new job or career in retirement. Those earnings can increase your portfolio significantly. Taking a job after retirement has other advantages. If you don't have to draw as much from your investments for living expenses, assets continue to grow. However, working may complicate the issue of when to take Social Security. Currently, Social Security recipients under age 65 in 2007 can earn \$12,960. Those at full retirement age do not face this restriction.

Most advisors, including Fagan Associates, Inc., offer a free, no-obligation consultation. Take advantage of this service for a post-retirement financial check-up. Invite family members, beneficiaries, executors, and trustees when appropriate. This is a good opportunity for them to establish a relationship with your financial advisor and be involved in the planning process.

The Presidential Election will have a lasting impact on two sectors of the stock market, namely health care and energy. If Democrats gain the White House, we will most likely see pressure on the shares of pharmaceutical companies and continued growth in the cost containment side of health care. However, should the Republicans triumph in November, big-cap pharma should continue to outperform.

Regarding energy, once again, Democrats and Republicans are on opposite sides of the fence. If the Democrats win, traditional energy stocks could suffer and alternative (wind, solar, biofuel, ethanol) soar. If the Republicans win, then your fossil fuel companies (XOM, CVX, HES, COP) will continue to outperform. We believe the wild card is nuclear which could benefit no matter who is occupying the White House come this time next year



Presidential Elections and Stock Market Cycles

Given the fact that over the past fifteen presidential terms, twelve times the stock market bottomed during the second year of the term, it could be beneficial to discuss the facts surrounding the phenomenon.

Presidential Election Years	Percent Change from October 1st of 2nd year (2006) through December 31st of Election Year (2008)	Percent Change from January 1st of Inaugural Year (2004) through September 30th (2006) of Second Year of Presidential Term
1952	35%	22%
1956	45%	8%
1960	16%	-2%
1964	52%	-9%
1968	39%	-19%
1972	40%	-47%
1976	70%	-4%
1980	32%	-12%
1984	37%	40%
1988	19%	11%
1992	38%	7%
1996	60%	42%
2000	34%	-36%
2004	36%	
2008	9%	

ETFs

Exchange-Traded Funds (ETF) have become the rage over the last year or so. They have challenged mutual funds for investment dollars. ETFs provide investors with the diversification of a mutual fund while allowing an investor to sell the position during the trading hours of the stock market. On the other hand, mutual funds tabulate positions at the end of the trading day, giving investors the opportunity to buy and sell at that time only.

As with mutual funds, you can invest in an ETF for a myriad of objectives. Certain Exchange-traded funds are conservative and buy only US government bonds while others find aggressive investments in emerging markets that gyrate wildly. Investors need to know the type of assets that are in an ETF before blindly putting money into them.

One ETF that seems to make sense to us right now is the iShares Dow Jones Select Dividend Index (DVY). This ETF is comprised of 100 of the highest yielding stocks in the Dow Jones Total Market

Index – excluding real estate investment trusts. Dividends can be a cushioning factor in a difficult market environment. Consider that through January 16th, the S&P 500 was lower by 6.31% and the NASDAQ Composite was down more than 10%. The DVY was off only 3.81%, had a dividend yield of 3.66%, and a low expense ratio of 0.40%. This makes it attractive for investors who want some income, a chance for growth, and low expenses. A low turnover ratio of six percent also gives investors comfort in that “what you invest in is what you get.” Some of the top 10 holdings (as of December 31, 2007) were Merck, AT&T, Altria Group and PNC Financial. There is a solid mix of dividend paying stocks – some having strong

performance while others have suffered with the sub-prime crisis.

The DVY is trading at nearly twenty percent off its 52-week high of \$75.82 at approximately \$61.00 per share. Given the current stock market environment, one in which we would expect to continue well into 2008, the iShares Dow Jones Select Dividend Index is a good place to gain market exposure yet have the comfort of dividend income. It is an appropriate investment for those seeking current income, diversification, and willing to accept the risk of a stock investment.

One word of caution when considering the purchase of an Exchange-Traded Fund. Many of these funds are not broad stock market index funds as they were once intended to be. The majority of ETF's are either sector, industry, region or country specific and therefore carry additional risk other than stock-market risk.



Fagan Associates, Inc. offers a wide variety of assets to meet all or your investment needs. We are an independent, fee only firm. We don't sell you a product to generate a commission. Dennis and Chris structure your portfolio to help you achieve your financial goals, without using any proprietary products.

When you call Fagan Associates, Inc., you will speak with your investment manager, not a salesperson.

If you have questions about ETFs or any other investment asset or strategy, please give Dennis or Chris a call at

518-279-1044 or 800-273-6026

Stocks, Mutual Funds, ETFs, Bonds and Fixed Income



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Underwrites

Locally Produced WMHT Business Series

Monday evenings at 7:30 p.m.
Rebroadcast Sunday at 1:30 p.m.



Once again, we are pleased to offer a tax preparation service to our clients with combined household portfolio values of more than \$100,000. As in the past, Fagan Associates will underwrite the preparation fee up to \$200 when you have your return prepared by Mary Grogan, CPA. Please call our office for details and a referral. **Furthermore, any accounting fee above \$200 will be billed directly to you.** It would therefore be in your best interest to contact Mary Grogan prior to your taxes being completed for an estimate. If you have any questions, please give us a call.

Compare Roth and Traditional IRAs		
	Roth IRA	Traditional IRA
Tax advantages		
Contributions	Not tax-deductible.	Tax-deductible, subject to certain limitations.
Earnings	Tax-free, subject to certain limitations.	Taxes are deferred until you begin withdrawing funds.
Withdrawals	Tax-free withdrawal of original contribution; potentially tax free withdrawal of earnings if part of a qualified withdrawal.	Taxable.
Contributions		
Annual limits	<p>2007: Up to \$4,000; \$5,000 for those age 50 and older.</p> <p>2008: Up to \$5,000; \$6,000 for those age 50 and older</p> <p>Contribution amounts subject to certain limitations.</p>	<p>2007: Up to \$4,000; \$5,000 for those age 50 and older.</p> <p>2008: Up to \$5,000; \$6,000 for those age 50 and older.</p>
Eligibility	<ul style="list-style-type: none"> No age restrictions. If you are single, you may have AGI (modified Adjusted Gross Income) of up to \$99,000 in 2007 (\$101,000 in 2008) to make a full contribution. If you are married filing jointly, you may have a modified AGI of up to \$156,000 in 2007 (\$159,000 in 2008) to make a full contribution. 	Anyone with earned income may contribute up to age 70.
Withdrawals		
Tax/penalty consequences	<ul style="list-style-type: none"> Contributions can be withdrawn at any time without taxes or penalties. Earnings can be withdrawn without taxes or penalties if you are 59, and your account has been open five years or more. 	<ul style="list-style-type: none"> All earnings and deductible contributions are taxable upon withdrawal. Penalties will be assessed if withdrawals are taken before age 59, or if withdrawals are not taken by age 70.
Distribution requirements	None.	Required minimum distributions upon reaching age 70.
Exceptions to penalties	Some exceptions are made if funds are used for a first-time home purchase, education or certain medical expenses.	Some exceptions are made if funds are used for a first-time home purchase, education or certain medical expenses.

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Thank you for your referrals! During the last several months, we have seen an increase in the number of referrals from our existing clients. This is extremely gratifying because when this happens, we know that you value our services and hold our relationship in high regard. Thank you for allowing us to assist you in achieving your financial goals.

Recent upgrades in our office technology and trading disciplines have made it possible for us to accept a limited number of new clients. If you know of anyone who might benefit from our services, please tell them to give us a call. We are pleased to offer a free consultation with no obligation. In fact, we encourage prospective clients to interview several advisory professionals before making the decision as to who will manage their hard-earned money.

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