

Fagan Financial Report

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THIRD QUARTER 2007

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Fagan Associates, Inc.
Registered Investment Adviser

The Independent Financial Voice of the Capital Region

Locally owned and managed since 1989

No proprietary products

Individually managed portfolios

No outsourcing to institutional money managers

INVESTMENTS * FINANCIAL PLANNING * RETIREMENT PLANNING

Current assets under management exceed \$100 million.

www.faganasset.com

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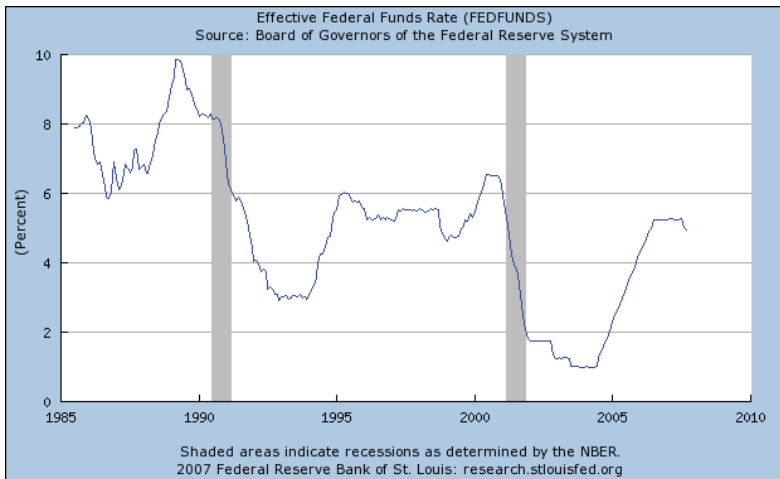
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Strategies Before and After the Rate Cut

As we expected, the Federal Funds rate was cut from 5.25% to 4.75%, the first reduction in more than four years. The Discount Rate by the same amount to 5.25% which followed the 0.50% cut on August 17, 2007. We believe that this action was the most positive action for the economy as well as for the stock market. It is a clear signal that the Fed is on top of the problems surrounding the housing and financial services industries and that it is willing to take the steps necessary to combat this softness.

Read the entire Fed statement at <http://www.federalreserve.gov/newsevents/press/monetary/20070918a.htm>

But, our analysis of the Fed's strategy did not end there. As portfolio



managers, we had to create strategies prior to the announcement that would align anticipated market movement with portfolio management. That way, whatever the Fed's decision, appropriate action could be promptly implemented. If the Fed had taken a

more tempered approach and not cut interest rates, we would have reduced the equity portion of our portfolios by approximately 15% because it would have appeared that the Fed was behind the recessionary curve would have led to a longer period of consolidation for stocks. With the 0.50% cut and corresponding statement which indicated a proactive approach to economic stability, we took the opportunity to invest in some economically sensitive companies as well as those in Basic Material sector.

Looking ahead, we will be watching closely the economic reports including; Consumer Confidence, Existing

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Homes Sales, Durable Goods Orders, Gross Domestic Product, New Home Sales, Personal Income, Personal Consumption Expenditures, Chicago PMI, Construction Spending, and the University of Michigan's Consumer Sentiment Index. This data will give us additional information about the economy.

We wanted to go through this process with you to illustrate how investment strategy is much more than buying a stock. Your stock represents ownership in a company and that company does not operate in a vacuum. Before investing in it we research the company, its management, the industry. In addition, economic data and geo-political issues will likely impact growth or the lack thereof. We get very concerned when we hear about the popularity of stock market games and day trading. This is serious business. Discipline and knowledge are the keys to success.

Please note that all data is for general information purposes only and not meant as specific recommendations. 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. Research any investment thoroughly prior to committing money or consult with your financial advisor. Please note that Fagan Associates, Inc or related persons buy or sell for itself securities that it also recommends to clients.

20th Anniversary of Stock Market Crash

It is important to identify what led to the '87 crash, recognizing that if we do not learn from history we are doomed to repeat it.

We attribute the crash of October 1987 to three main factors.

- The first were statements made by then U.S. Treasury Secretary James Baker in response to increasingly large U.S. Trade deficits failing to defend a "strong dollar policy," The fear for stock investors was that a falling U.S. dollar relative to the currency of other countries would cause an increase in import prices and therefore an increase in inflation and interest rates.
- Adding to the mix was the fact that interest rates on long-term bonds as well as Certificates of Deposit had risen from 7.6% at the start of 1987 to nearly 10% at the time of the crash. Americans were still feeling the effects of the nearly 50% decline in stock prices during the 1970's, a decline that was brought about by interest rates in the high-teens. Investors were fearful of a repeat performance. When interest rates hit 10% during the summer of 1987, many investors began to contemplate withdrawing money from stocks and locking in these high fixed rates of return.
- Finally, as in any type of a "bubble," overvaluation led to the crash. The Dow Jones Industrial Average had risen from 776 during August of 1982 to 2,722 during August 1987 for a total return of more than 250% and an annualized return of nearly 30%.

Combine these three factors; a declining U.S. dollar, rising interest rates and an overvalued stock market, and you have a recipe for disaster. Could this happen again? To that we respond, certainly. Let's take a look at what could trigger such a decline and how to mitigate the losses.

Most obvious is another terrorist attack, one of the magnitude or larger than the previous one. In addition, one current economic trend that worries us is the continued decline of the U.S. dollar relative to other currencies. The impact is pricier imports as well as the ability of domestic producers to raise prices. Furthermore, with the burgeoning U.S. budget deficit which, along with the trade deficit, puts ever increasing dollars into the hands of foreigners, we fear that as these foreigners lose money on U.S. denominated investments such as U.S. Treasury notes and stocks, they will pull money from our markets, thereby reducing demand and causing the stock market to drop and interest rates to rise.

With strict investment disciplines, we prepare as best we can for any downturn in the stock market. We remain bullish for stocks over the next six to twelve months, but recognize that by always remaining wary, we remain ready.

Save the Date!

Year-end Client Seminar and Luncheon
Saturday, December 1, 2007
11:30 a.m.— 1:30 p.m

We hope you can join us at our annual year-end seminar. The seminar is an opportunity to review the past year as well as provide guidance for 2007.

Watch for your invitation in the mail. If you know of anyone who might be interested in our services, please call the office and we will add them to our invitation list.

Tax preparation service

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 \$200.00 when you have your return prepared by Mary Grogan, CPA. Please call our office for details and a referral.

Remember to contact us if there are any changes in your financial situation or investment objectives or if you wish to impose, add, or modify any reasonable restrictions to our investment management services.

The Record

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

FAGAN FINANCIAL REPORT

PURE NO-LOAD MUTUAL FUNDS

NO SALES LOADS IN

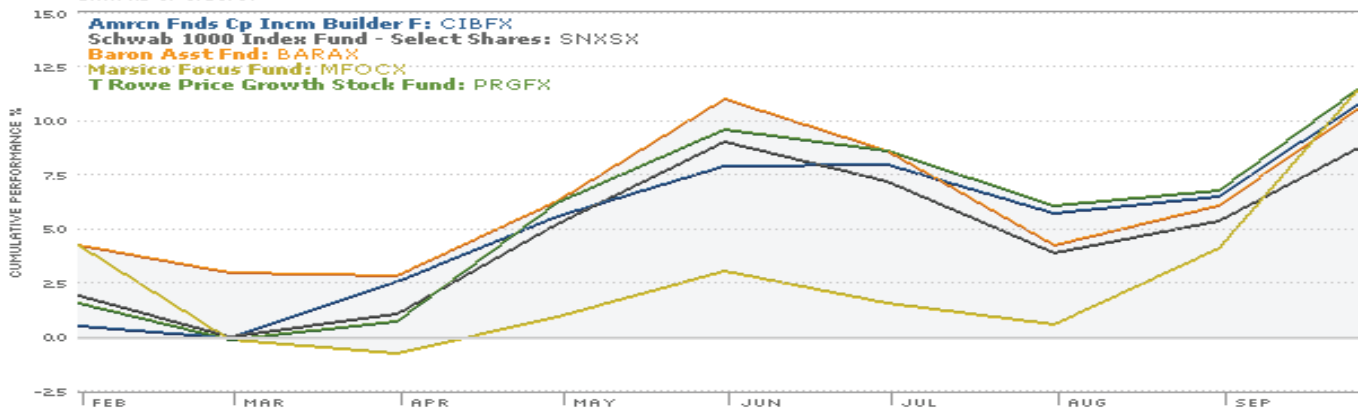
NO DEFERRED SALES LOADS OUT

Fagan Associates, Inc. Largest Mutual Fund Holdings as of September 30th, 2007

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

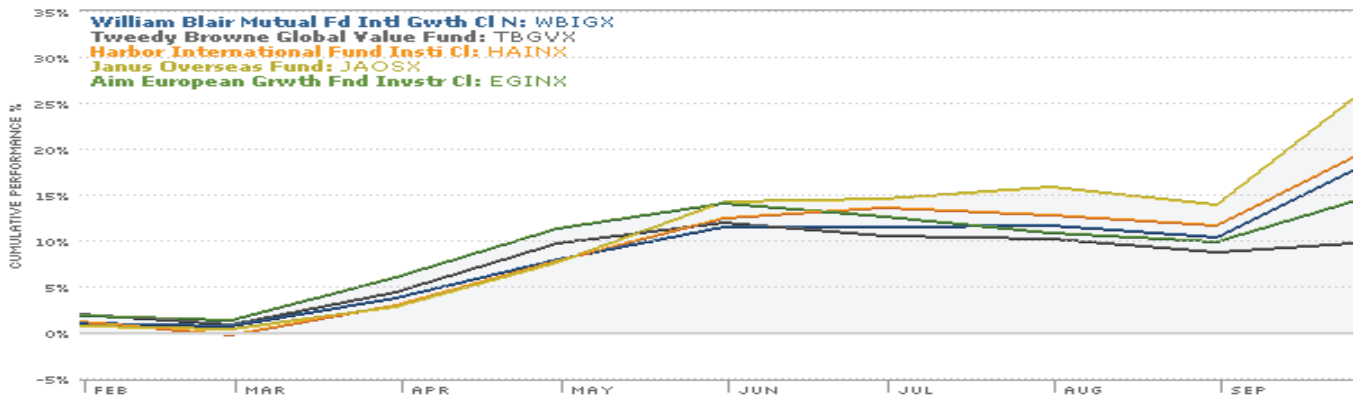
Cumulative Performance: CIBFX, SNX SX, BARAX, MFOCX, PRGF X

DATA AS OF 9/30/07



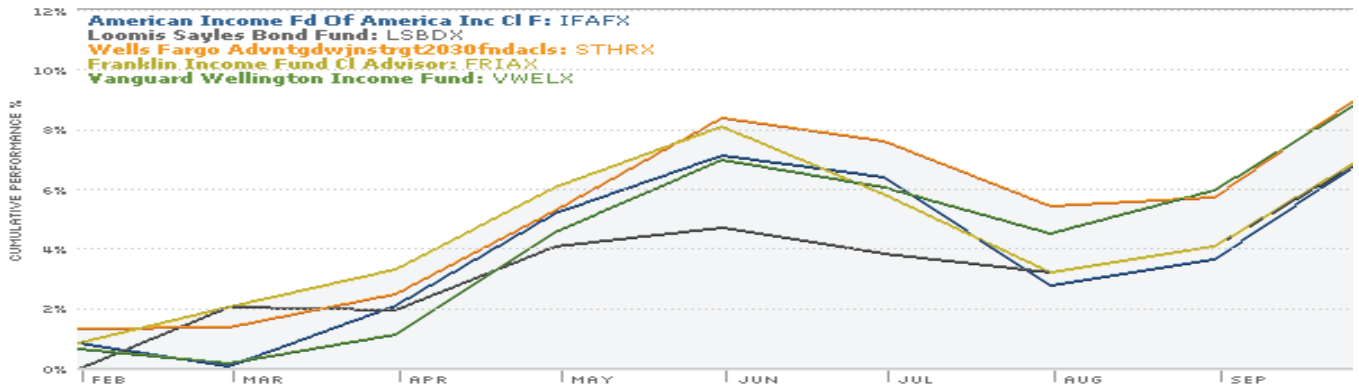
Cumulative Performance: WBIGX, TBGVX, HAINX, JAOSX, EGINX

DATA AS OF 9/30/07



Cumulative Performance: IFAFX, LSBDX, STHR X, FRIAX, VWELX

DATA AS OF 9/30/07



FAGAN FINANCIAL REPORT

Fagan Associates, Inc., Sector Weighting
Master Portfolio Group, Combined Account Statement
September 30, 2007

Sector	Total Cost	Market Value	Sector Weight	S&P1500 Index Fund as of 9/30/2007	Weighting
Financials	\$12,502,636	\$14,793,178	25.64%	19.64%	Over
Technology	\$ 8,017,446	\$ 9,913,487	17.18%	16.08%	Over
Industrials	\$ 6,124,966	\$ 7,791,993	13.51%	12.05%	Over
Energy	\$ 4,121,885	\$ 6,678,111	11.58%	11.09%	Over
Health Care	\$ 4,526,813	\$ 5,548,205	9.62%	11.68%	Under
Consumer Discretionary	\$ 2,918,589	\$ 4,166,688	7.22%	9.95%	Under
Basic Materials	\$ 2,506,889	\$ 3,124,135	5.41%	3.55%	Over
Telecommunications	\$ 1,670,512	\$ 2,068,947	3.59%	3.32%	Over
Index Investments	\$ 1,244,521	\$ 1,440,737	2.50%		
Consumer Staples	\$ 808,240	\$ 1,404,145	2.43%	8.60%	Under
Utilities	\$ 714,701	\$ 764,497	1.33%	3.79%	Under
Common Stock	\$45,650,421	\$57,006,313	100.00%		

- Strong Sectors: Oil and Gas; Basic Materials; Industrial
- Weak Sectors: Consumer Goods; Consumer Services; Financials

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 receive a referral, we know that you value our services and hold our relationship in high regard.

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.

Thank you for allowing us to assist you in achieving your financial goals.

The radio show ...

**810WGY's
Fagan Financial Report
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.



**Fagan Associates, Inc.
Underwriter**

Locally Produced WMHT Business Series
The Bottom Line with Wally Altus
Season Three
Monday evenings at 7:30 p.m.
Rebroadcast Sunday at 1:30 p.m.



CBS News at Noon

Fagan Financial Report
Monthly financial commentary

November 15, 2007
December 20, 2007
January 17, 2007



Fagan Associates, Inc. Common Stock Portfolio Holdings** **Ranked by Market Value as of September 30th, 2007**

Percent of Common Stock	Company Name	As of Sept 30, 2007	As of August 31, 2007	As of July 31, 2007
6.31%	General Electric	1	1	1
5.80%	Exxon Mobil	2	2	2
4.22%	Hewlett Packard	3	3	4
4.09%	Citigroup	4	4	3
3.48%	Loews Corporation	5	5	5
3.20%	Bank of America	6	6	6
2.82%	JP Morgan Chase	7	7	7
2.63%	Apple Computer	8	9	9
2.59%	Las Vegas Sands	9	11	11
2.51%	Gilead Sciences, Inc.	10	10	8
2.38%	Varian Semiconductor	11	8	10
1.86%	AFLAC, Inc.	12	12	13
1.83%	Trinity Industries	13	13	12
1.76%	Johnson & Johnson	14	14	15
1.67%	McDonald's Corporation	15	17	18
1.67%	America Movil SA	16	15	17
1.63%	ICICI Bank	17	21	20
1.60%	NYSE Euronext	18	16	14
1.47%	Nabors Industries	19	18	19
1.39%	Emerson Electric Company	20	25	26
1.43%	Harley Davidson	19	16	28

Fagan Associates, Inc. Common Stock Portfolio Holdings** **Ranked by Share Balance as of September 30th, 2007**

Notes & Stock Splits; Avg. Cost Per Share			Company Name	As of Sept 30th, 2007	As of August 31st, 2007	As of July 31, 2007
\$30.49	1	1	General Electric	88,787	88,567	94,076
\$39.90	2	2	Citigroup	51,049	52,049	53,308
\$41.95	3	3	Hewlett Packard Co.	49,386	49,941	49,806
\$38.65	4	4	Loews Corporation	41,951	43,911	44,356
\$33.86	5	6	Bank of America	37,082	36,672	36,547
\$38.86	6	5	Exxon Mobil	36,536	36,851	36,956
\$41.20	7	7	JP Morgan Chase	35,854	35,929	36,118
\$32.26	8	8	Gilead Sciences	35,740	35,740	41,450
\$37.09	9	11	Trinity Industries	28,345	25,450	27,395
\$32.61	10	9	Nabors Industries	27,830	27,985	28,990
\$25.98	11	12	Intel Corporation	27,250	23,817	23,817
\$42.97	12	10	Varian Semiconductor	25,930	27,855	25,015
\$22.82	13	13	Cisco Systems	23,786	23,681	23,281
\$18.83	14	14	Cypress Semiconductor	22,915	22,915	23,020
\$20.57	15	15	Applied Materials	21,567	21,567	21,567
\$11.07	16	16	Evergreen Solar	20,800	20,800	20,800
\$20.30	17	17	Corning, Inc.	19,135	19,135	19,435
\$53.42	18	18	AFLAC, Inc.	19,020	19,020	19,175
\$44.25	19	19	Hospitality Prop Trust	18,530	18,265	18,305
\$9.41	20	20	TrustCo	18,202	18,202	18,202
\$25.70	23	21	Statoil, ASA	17,820	17,945	18,345

The Second Twenty

Quite often, the real activity in an equity mutual fund or managed investment account does not occur with the largest ten or twenty holdings, but rather with the next tier, the second twenty. The rationale for this is quite simple. The largest holdings tend to be core or companies that, generally speaking, the investment manager wishes to hold for the long term. Absent any substantial changes in the revenue and/or earnings outlook, most top holdings remain relatively constant with the investment manager “pruning” these positions as they become too big relative to the entire portfolio. It is with these second twenty that the investment manager, especially of a large-cap equity fund, tries to add incrementally to overall returns.

From time to time we have made reference to our “Twenty Largest Holdings,” those holdings that, as ranked by market value, comprise the largest individual company positions in the our client portfolios. Many of our top twenty have been long-term holdings for our clients, some of which include, in order from largest to smallest, General Electric, Exxon Mobil, Loews Corporation, Hewlett Packard, Citigroup, Bank of America, JP Morgan Chase, Apple Computer and Gilead Sciences. These are obviously household names.

The purpose of this column is to identify some “second-tier” stocks, many of which are not household names. Please keep in mind that these are strategies not individual portfolio recommendations. Generally speaking, these

are securities that we do not intend to hold forever, but intend to hold for twelve to twenty-four months in anticipation of capital gains as a result of a company specific catalyst. Furthermore, some are volatile and speculative in nature. Within the above referenced parameters, we believe the following companies have the potential for capital appreciation.

Trinity Industries is a leading manufacturer of railcars and component parts as well as products in the usage of highway construction projects as well as products used in wind-generated power. We believe this security merits a look because of the increasing demand for ethanol, the necessity to repair our road and bridges as well as the demand for other alternative sources of energy. One caveat, a slowing economy may negatively impact the earnings of Trinity.

ICICI Bank, domiciled in India, employs more than sixty thousand people. This bank should benefit from a burgeoning Indian economy as well as an expanding middle class. Again, a caveat, ICICI bank is richly priced, domiciled in an emerging economy, and volatile.

Construction and mining equipment manufacturer, Caterpillar is benefiting from a rapidly expanding global economy in dire need of the type of equipment Cat manufactures. We believe the company is in the midst of a secular bull market. However, like Trinity Industries, a slowdown in the global economy or perhaps a rise in the dollar will negatively impact earnings at Caterpillar.

Hospital Properties Trust is a real

estate investment trust which sports a current yield of 7.20% and operates dozens of hotel properties, including Courtyard by Marriott, Residence Inn by Marriott, among others. This company is best suited for conservative investors seeking income, but willing to accept some risk to principle. Always looking for the downside, we believe that should the economy slow, demand for hotels will slow and therefore earnings at Hospitality Properties Trust.

Mosaic Company manufactures fertilizer and crop enhancement products including phosphates, potash and nitrogen. Like Caterpillar, we believe that Mosaic is in the midst of a secular bull market as global demand for its products continues strong. This “feed the world” play should have many years to run.

Equities are not be the proper asset for every investor. We analyze our clients’ long-term time horizon, risk tolerance, goals, and current debt situation among many other factors before we purchase a stock for a portfolio. Please feel free to call us with any questions or concerns.

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 2007, 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.