

J. L. BAINBRIDGE  

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Dear Client:

Last week we attended a Charles Schwab sponsored seminar where the highlight was a presentation by Fritz Meyer, Senior Investment Officer, AIM Advisors, Inc. entitled Economic and Market Outlook 2008 and Beyond. In his opinion, which we have been stating since last fall, the likelihood of recession is low because:

- The globalization of trade is causing an explosion of exports from the USA which will exceed one trillion dollars this year and is growing 15% annually.
- The Federal Reserve's aggressive interest rate cuts and infusion of money into the banking and investment industries.
- The fiscal stimulus package that will put \$150 billion of cash in consumer's pockets.

Relative to the market, Mr. Meyer presented a one hundred year chart plotting the S&P 500 through all the recessions that have occurred over this period. In all cases the market declined in the first half of the recession, reached its low point in the middle of the recession and recovered in the second half well ahead of the point when the economic outlook brightened. For those investors that panic and sell everything with the idea they will reinvest when the sky clears, the past one hundred years demonstrate any such reinvestments will be at substantially higher prices. This behavior is caused by the media as evidenced by a 2007 analysis of all business and stock market stories carried by ABC, CBS, NBC and the four largest newspapers found that two-thirds were negative and one-third positive. Consequently, a ten year study from 1998 through 2007 found investors under-performed the S&P 500 with an annual return of 5.6% versus 9.1% because fear causes selling at the wrong time when the market falls and optimism causes buying at the wrong time when the market rises. While a 3.5% difference may not seem that significant, the impact on building and maintaining retirement assets is material. For example \$250,000 invested for ten years at 5.6% grows to \$431,000 while at 9.1% grows to \$579,200 and in twenty years the numbers are \$743,100 and \$1,341,900 respectively.

Relative to the long-term outlook for the economy and stock market, it is all about exports and demographics. While the current weakness of the dollar helps, exports will remain strong for decades regardless of the value of the dollar because America produces many high quality, innovative products required to build the infrastructure that is necessary for developing nations to grow their economies. In addition, positive demographic trends in America will also drive growth. Although the "baby boomer" generation, which number 84 million, gets all the attention, the "echo boom", which are the children of the baby boomers, who number 116 million, will drive future growth and provide a young, well educated, vibrant workforce. Bear in mind, this generation is entering their thirties which is the prime age for first time home owners. It is estimated over the next two decades the demand for new homes will be two million annually which is just one example of how they will facilitate growth and prosperity.

Jerry Bainbridge, President