

ARS Insights

Anderson, Riley, & Spoor, P.A.

Registered Investment Advisor

Index Returns

First Quarter 2008

• S&P 500	-9.9%
• Dow Jones Industrial	-7.6%
• Russell 2000	-10.2%
• EAFE (Int'l Index)	-9.5%
• Lehman Bros. Agg. Bond	2.2%
• DJ-AIG Commodity Index	9.9%
• DJ-Wilshire REIT Index	2.1%

"Be thankful we're not getting all the government we're paying for."

Will Rogers

Portfolio Stress Test - Tony Anderson, President

In August 2007, the economy and the stock market both began a downward trend with occasional bounces to the upside. The first quarter of 2008 was the worst quarter for the stock market in over 3 ½ years. I'm sure this doesn't come as a surprise to most of you given the gloomy news being reported daily.

Given the dual mandate of protecting our client's assets, while at the same time trying to achieve growth, we spend a lot of time focusing on ensuring that each account has the proper asset allocation. In times like these it becomes increasingly important that your account(s) have the right combination of stocks, bonds & commodities to achieve your investment goals.

When the market declines, as it

has since August 2007, it gives us the opportunity to see how our strategy held up, thus it acts as a "Portfolio Stress Test". As I review the performance of our accounts over the past twelve months I'm very pleased with their returns. If you would like to review how your account(s) have performed, please contact our office and we would be happy to go over it with you.

I'd like to answer a few "Frequently Asked Questions" that have arisen lately:

Why does my account have so much cash in the money market?

Some accounts currently have a higher than normal cash balance of (5% to 15%). This is by design. We are fully invested in bonds and commodities. The excess cash represents money

that will go into stocks over time.

I've noticed higher than normal trading activity over the past six months. Why?

For most accounts, there has been higher than normal trading activity over the past six months. There are several reasons for the increased activity: periodic portfolio rebalancing, reducing riskier positions, selling underperforming assets, etc. Given where we are in the market cycle and in order to protect our clients' assets, it has necessitated taking a more proactive approach to managing the risk within the portfolios. Please remember that ARS does not receive any compensation related to trading.

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"The only constant is change..." - Kurt Ulrich, CFA, Chief Investment Officer

...and that change involves an ongoing paradigm shift in the world's economy that began several years ago. Never before has a majority of the world's population practiced some form of capitalism...and the results are stunning. This change is moving the emerging countries from the third-world (and third-rate) economies to some of the strongest on the globe. Their balance sheets are rock solid with hundreds of billions in excess reserves. One hundred-fifty million Chinese are moving into the middle class enjoying two to three square meals a day, driving more cars, enjoying heated homes with electricity and so on. As these huge popu-

lations undergo such dramatic shifts in prosperity its impact on the entire world's natural resources and basic materials is unprecedented. To maintain above average inflation adjusted-returns investors must adapt to these changes by allocating capital to markets that will benefit from these shifts. Ironically, many of the markets that now appear to have the strongest fundamentals (and lowest risk) have been chronic poor performers in decades past.

Surging demand for raw materials, energy and food has drained inventories of these goods to some of the lowest levels on record with prices

soaring as a result. Historically, when food and energy prices rise in unison inflationary pressure has always ensued. It seems quite obvious to us we are on the vanguard of a shift from low inflation to a period of higher inflation. How high? No one knows at this point but supply/demand and inventory data point to much higher prices in the years ahead for all types of food, energy and other basic materials. In fact, escalating food prices are beginning to cause riots and unrest in some of the poorer countries around the globe.

In the mean time, the US is faced with its worst financial crisis in decades, the nature of

which has never been experienced. Fortunately, much of the crisis is confined to the financial sector (banks, mortgage and investment companies). The impact of this crisis has caught many CEOs by surprise and no one really knows when it will end or how bad it will become. This is the primary reason the Federal Reserve (Ben Bernanke) is doing everything in its power to control the damage. We feel it is prudent to proceed with caution during this period of economic uncertainty. In addition, the money that is being invested for growth will be allocated to industries/sectors that

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Anderson, Riley & Spoor, P.A. has made a strong commitment in talent, resources, and technology to address the financial needs of affluent individuals and their families. ARS is committed to finding solutions for building and preserving wealth for our clients. ARS offers objective, independent fee-only investment advice to our clients. We are able to offer choices and flexibility that many other investment managers can't even consider. ARS has been managing assets for our clients since 1997. Our affiliation with Spoor & Associates, P.A., a CPA firm with over 30 years experience, means we have the knowledge and expertise to handle our clients' unique financial needs.

If you would like additional information about the services offered by Anderson, Riley & Spoor, P.A., please contact us at (727) 322-7681.

We're on the Web! www.arsinvestments.com

Portfolio Stress Test... (cont'd. from pg. 1)

We have no incentive to make a trade unless we believe that it is in the best interest of our clients.

As the market continues to work through this correction phase of a typical stock market cycle, there are several things to keep in mind. (1) Your asset allocation will help limit the risk of the portfolio. (2) The market is forward looking and much of the current bad news is already priced into the market. (3) The market moves based on expectations. Currently expectations are extremely low and investors' attitudes are very pessimistic. This doesn't mean we are at the bottom, but it does indicate that we may be close.

Given the market's volatility, there is no time better than now to call our office and schedule an appointment to review your portfolio(s). We don't take our role as your financial advisor lightly and we don't take for granted the trust you have placed in us. Please contact us if you have any questions. We look forward to a continued long relationship.

Regards,

Tony Anderson

President

News Flash.....We would like to congratulate Kathy Meachum for the birth of her baby daughter Elyse Suzanne. Elyse was born on April 3 and mother and daughter (and husband, Tom) are all doing well. Kathy looks forward to her new role as a stay at home mom. We'll miss her and we wish her and her family all the best.

The only constant is change... (cont'd. from pg. 1)

are defensive in nature or, will participate in this shift in global demand.

While the financial mess continues to unfold here in the US and around the developed world, demand for raw materials from the "emerging world" remains robust. The inflation data seems to indicate a sizable increase in the CPI (Consumer Price Index) in the future. Inflation is, perhaps, the biggest long-term challenge to investments in the months and years ahead. Interest rates typically rise during inflationary periods putting downward pressure on the prices of financial assets and reducing the purchasing power of US Consumers. It is for this reason we continue to monitor and invest in those areas that should benefit from this environment and/or in industries that are able to pass through these rising costs to their customers.

Once again, these are exciting times with lots of opportunities despite the economic turmoil here in the US. The "traditional" approach of building an exclusive portfolio of US stocks is no longer the best means to position for the future. As our firm navigates through these times we remain flexible, attempting to adapt and change with them in order to accomplish our primary objective which is to protect your assets. Secondly, we seek to achieve above average inflation-adjusted returns in order to maintain the purchasing power of your account against a backdrop of rising costs. With a little good fortune and lots of work we should be able to accomplish these goals.

All the best,

Kurt

If you would like a copy of the most recent version of our Form ADV Part II, one is always available to you upon written request.