Volume 3, Issue 4

Fourth Quarter 2007

ARS Insights

Anderson, Riley, & Spoor, P.A.

Registered Investment Advisor

Index Returns

Year-to-Date 9/30/07

S&P 500	9.13%
NASDAQ Composite	11.85%
Dow Jones Industrial	13.31%
Russell 2000	3.16%
EAFE (Int'l Index)	13.15%
Lehman Bros. Agg. Bond	3.85%
DJ-AIG Commodity Index	10.98%
DJ-Wilshire REIT Index	-4.64%

Winding Down 2007

-Tony Anderson, President

I've heard people compare investing to baseball, which I think is a good analogy. In baseball, the goal is to hit the ball and get on base. A player who can be successful 30% of the time will have a batting average of .300 and will probably qualify as an All-Star. In investing, the goal is to buy low and sell high. While all money managers as well as baseball players strive to "bat a thousand," or be right 100% of the time, the reality is it never happens. If we can consistently be correct the majority of the time (hitting singles and doubles) and if we can minimize the losses (striking out) then we and our clients will be successful in reaching our goals.

As we enter the 4th Quarter of 2007, I find myself reflecting on what happened during the first three quarters of the year. I'm glad to say that a lot of what has transpired in the market we've actually been expecting for some time. Over the past year we've written and talked extensively about our expectations for the U.S. dollar to weaken, oil and commodity prices to rise, and the U.S. economy to slow down. Fortunately, most of our clients' portfolios have been positioned in a way that has allowed them to benefit from these trends.

As we look out over the next 12 months, the picture becomes less clear. Several issues that will impact the markets going forward are:

1. Political Uncertainty (here and abroad)
2. Higher Commodity Prices (oil, food, etc.)
3. Rising Inflation
4. Weakening Dollar
5. U.S. Housing Slowdown

Our goal is to position our clients' portfolios in a way that will allow them to benefit from these trends, while at the same time minimizing their risk. In Kurt's section below, he discusses in more detail how we propose to do this.

We appreciate the trust you've placed in us and always seek to exceed your expectations. If you have any questions or if you would like to schedule an appointment to sit down and review your investments, please contact our office.

-Tony Anderson

Times are Different Indeed....

-Kurt Ulrich, CFA, Chief Investment Officer

In attempting to understand this "crazy" market, it appears one of the main drivers behind the recovery of the July-August correction was massive global liquidity. There is a huge amount of excess capital in the banks of foreign governments, in particular those in emerging countries (over $5 trillion held in reserves by foreign central banks around the globe). When the Fed lowered rates it caused the US Dollar to weaken. This devaluation made US Stocks cheaper to buy in foreign currencies. As a result, demand from foreign purchasers increased, helping to fuel the recovery in stock prices. Much of the demand seemed to favor large multinational companies with significant overseas exposure, along with commodity-related stocks and the commodities themselves. (Oil and Wheat hit all-time highs; Gold is nearing an all-time high.)

Much of this excess global capital is in the hands of emerging countries such as China, and oil-rich nations such as OPEC. This is a most interesting change from the 1980s, when emerging countries were burdened by huge amounts of debt and failed economic policies. The emerging governments of today have learned their lessons and are practicing capitalism like never before, allowing their economies to flourish while avoiding the temptation of excessive debt. These emerging countries are financially as strong as ever, experiencing huge excess reserve growth and robust demand for their currencies. In fact, China's currency (the Yuan) is so strong that their government has been selling it and buying US dollars, attempting to keep their currency pegged to ours. This helps to hold down the prices of their goods, allowing them to remain competitive in the global marketplace. In addition, many foreign governments have established "sovereign wealth funds" for investing some of their excess capital into publicly traded stocks and other assets rich in natural resources around the globe. Times are different indeed.

History does keep repeating itself, albeit with some differences. Probably the biggest threat to US financial markets (aside from geopolitical events) is inflation, which has been fairly tame since the '70s. When the Fed cut rates in mid-September, stocks took off…but so did gold and other commodities, including oil. In addition, the US Dollar index (a basket of 6 major currencies around the globe) traded at an all-time low. All these facts signal mounting inflationary pressure. We've been believers for a long time that inflation (cont'd. pg.2)

Anderson, Riley, & Spoor, P.A.

Registered Investment Advisor

6830 Central Avenue, Suite A
St. Petersburg, FL 33707

Phone: 727-322-7681
Toll Free: 888-322-7681
Fax: 727-345-3116

Anthony Anderson, MBA
President & COO
taa@arsinvestments.com

F. Gordon Spoor, CPA,PFS
Vice President
fgs@spoorcpa.com

G. Kurtis Ulrich, CFA
Chief Investment Officer
gku@arsinvestments.com

Robert J. Riley
Principal
rjr@spoorcpa.com

Kathy Heintz, MBA
Operations Manager
kjh@arsinvestments.com

Kathleen Byer
Investment Operations Administrator
khb@arsinvestments.com

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

Times Are Different Indeed... *(cont'd. from pg. 1)*

would return due to the supply/demand imbalance for natural resources combined with the potential for a weakening dollar, and have positioned portfolios accordingly. The question we continue to ask ourselves is "How high might inflation go, and what will its impact be on asset prices in the US and across the globe?"

Arguably the most important commodity on this planet is oil, which just recently traded at all-time highs (non-inflation adjusted). Oil is trading high for lots of reasons, the most important of which is supply-related. Many experts suggest that the world's ability to produce oil has peaked. The world is not going to run out of oil anytime soon, but our ability to meet daily demand is waning. The International Energy Agency projects worldwide oil demand for the 4th Quarter to be approximately 88 million barrels per day, and supply at only 85 million barrels per day for a DAILY shortfall of nearly 3 million barrels. If this projection proves accurate, there could be a price spike. Hopefully, increasing oil prices will then cut into demand and ease the supply/demand imbalance. However, even if demand weakens, oil prices should rise for many years as supply continues to diminish.

Fortunately, as things change, new opportunities emerge. Our current investment thesis assumes that inflation will continue to increase along with the demand for natural resources and other commodities (agriculture, precious and industrial metals, energy, livestock, etc.) due to the growth in emerging countries. With this in mind, there are many opportunities for companies positioned to participate in this growth. In addition, investments in commodities themselves should also prove rewarding over the next several years. We are able to gain exposure to this latter group through exchange-traded funds (ETFs) at a very reasonable cost.

These are most interesting times to be an investor. Diversification is as important as ever, as this global marketplace continues to progress. Economic prosperity is a great elixir for political unrest. Let us hope China, India and other emerging nations continue to practice free trade and recognize the importance of what makes a true democracy work. If they do, worldwide prosperity will continue... to the benefit of us all.

-Kurt Ulrich

A New Addition to ARS

Please join us in welcoming Kathleen Byer to the ARS staff. Kathy joined us early on in September and has quickly stepped in to handle a great deal of our operational processes. Along with her responsibilities within Anderson, Riley, & Spoor, she will also assist our affiliate Spoor & Associates, particularly during tax season.

Kathy came to us most recently from the CPA firm Janssen & Igar in St. Petersburg. She's acquired a great deal of Trust and Probate experience during a strong career with former employers such as Sabal Trust Company, SouthTrust, and Chatham Trust.

Should you have any questions or need any assistance with your accounts that are operational in nature, please give Kathy a call here at extension 206. We feel very lucky to have found her, and she has already proven to be a wonderful new addition to our "family" here!

-Kathy Heintz

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.