Financial Focus

PEGASUS ASSET MANAGEMENT

3rd Quarter October 2007

Housing, a greater than anticipated federal rate cut, the labor market and consumer confidence make considerable waves approaching the final quarter of the year.

In boldly cutting the overnight lending rate by half a percentage point to 4.75%, the Federal Open Market Committee said it was acting to pre-empt a bigger slowdown stemming from the collapse of the housing market and the credit squeeze in financial markets.

Sales of new homes dropped 8.3% in August to a seasonally adjusted annual rate of 795,000, the slowest sales since June 2000. Sales are now down 21.2% in the past year, with no sign of a bottom in the already weakened housing market.

The last time prices fell so drastically, it took over eight years for home prices to return to their peak level. As the result of lacking sales, the surplus of unsold homes on the market will have mounted pressure on current pricing and new construction. In order to alleviate this situation, prices will likely have to fall further to bring the rising supply and weakening demand back into balance.

Not a comfort to current homeowners: falling values make it more difficult for homeowners to tap into their home equity or refinance their mortgages. The severe credit squeeze forced additional mortgage lenders out of business and made nonconforming mortgages, including jumbo mortgages, harder to obtain. Millions of homeowners who took out adjustable-rate loans in 2005 and 2006 face sharply higher mortgage payments this year and next, with foreclosures having already soared as a result of payment resets. It is estimated that about 2 million adjustable-rate mortgages are on track to reset to higher rates by the end of next year, with many more foreclosures expected as a result.

With sales of existing homes falling to a five-year low, consumers are getting increasingly more concerned with the economy. The consumer confidence index fell sharply for a second consecutive month, hitting depths not seen since Hurricane Katrina brought devastation two years ago. Households are increasingly concerned that the housing recession and credit crisis will impact future job security and income.

First-time applications for unemployment benefits fell by 15,000 in the last week of the quarter to 298,000, the lowest since the week ended May 12th. The drop below 300,000 in initial claims may lead financial markets to re-evaluate the chances for another Fed rate cut in October. Economists expect job growth to rebound and grow by 112,000 in September.

Commodities: Crude-oil futures were up more than 3% to finish near $83 a barrel, with reformulated-gasoline and heating-oil futures also posting strong gains. Gold's rally has been built on longer-term inflationary pressures, as demand is continuing to rise and producers are continuing to struggle with bringing the supply to the market. Gold is also getting a boost in response to crude-oil prices.

The Dow Jones Industrial Average closed the quarter at 13,895.63, gaining 3.6% for the quarter. The S&P closed at 1,526.75, advancing 1.60%. The NASDAQ composite gained 3.8%, ending at 2,701.50. Yields on 10-year Treasuries closed at 4.579% for the quarter. The Russell 2000 Index ended the quarter at 805.45, down 3.4%.

Consumer confidence and spending will continue to be on the decline into next year, according to economists, which may lead into a recession. When asked about the housing effect and the immediate future of the U.S. economy, former Fed Chairman Alan Greenspan believes that "a big overhang of property will bring U.S. prices down further, but it is too early to say if the economy will plunge into recession." The future of housing is still very much in doubt, as its current decline may further depress other aspects of the U.S. economy. Another rate cut by the Federal Reserve to come? It still remains a possibility if a weakening labor market is evident. Gasoline prices are expected to rise in the coming weeks to catch up with oil's recent advances. Investors are also keeping an eye on a number of tropical weather systems. Concerns whether there will be tightening in the oil supply will be evident entering the fourth quarter.

Sources: *MarketWatch*, September 2007; *MoneyCentral*, September 2007

## *Retirement Corner...*

### Did you know?

That Company Sponsored Retirement Plans, such as 401(k)'s, account for the sole savings of more than 50% of plan participants? With such an important part of the nest egg, what are your employees doing to ensure it is being managed properly? We can help. For more information contact John Sebastiano at 845-369-9422 or jms@pegasusassetmgt.com.

### Roth 401(k) Plans

401K plans will be permitted to allow employees to designate their contributions as Roth contributions. These Roth contributions will be subject to the same rules as Roth IRAs. This will allow employees to contribute money that has been taxed into a Roth where contributions and earnings will grow tax free until the participant retires.

## NUMBERS TALK

Record low percentage of S&P 500 company's earnings in 2007 paid out as dividends…30

Percentage dividend yield for the S&P 500 index in July of 2007…1.8

Percentage of S&P 500 companies paying out dividends in 1980…94

Percentage of S&P 500 companies paying out dividends in 2007…77

Percentage of 60 to 65 year olds in the United States still working in 1996…45.8

Percentage of 60 to 65 year olds in the United States still working in 2006…52.5

Percentage of individuals 65 years and older in the United States still working in 1996…12.1

Percentage of individuals 65 years and older in the United States still working in 2006…15.4

Average age of an individual moving into an assisted living facility in 2007…83

In months, the average stay for an individual in an assisted living facility in 2007…27

Percentage of the total bills paid for assisted living facilities by insurance…3.4

Percentage of long-term care insurance claims denied by carriers in California during 2005…25

Percentage of workers in the United States ages 45 to 55 who have less than $25,000 saved for retirement…33

How much $1,000,000 in 1957 would buy in today's dollars…136,986

Percentage of baby booms who feel their financial future is riskier today than in the past…75

Number of personal charitable family foundations in 1984…25,000

Number of personal charitable family foundations in 2007…71,000

Ranking of the United States among all countries in philanthropic giving as a percentage of Gross Domestic Product…1

The philanthropic giving for Britain, ranked second in the world as a percentage of Gross Domestic Product, as a percentage of the United States' giving…50

Percentage increase in the number of millionaires in the United States (excluding the primary residence) from July 2003 to July 2006…50

Percentage of all millionaires in the United States (excluding the primary residence) that live in Los Angeles County, the County with the largest percentage…3

The percentage price increase for structural concrete over the last two years…73

Number of miles of U.S. highways built between 1960 and 1965…144,000

Number of miles of U.S. highways built between 2000 and 2005…59,000

The number of congressional "earmarks" for projects in members districts in 1994…1,300

The number of congressional "earmarks" for projects in members districts in 2005…14,000

In millions, number of individuals who volunteered for an organization at least once in the United States between September 2005 and September 2006…61.2

Total median number of hours individuals in the United States spent of volunteer activities between September 2005 and September 2006…52

*If you would like to discuss any of the topics contained in this issue of **"FINANCIAL FOCUS,"** contact either Rodd Berro or John M. Sebastiano, at 845-369-9422 or e-mail us: rberro or jms@pegasusassetmgt.com.*



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