



Financial Focus

PEGASUS ASSET MANAGEMENT

April 2007 • 2nd Quarter

1st Quarter Wrap Up

The first quarter of 2007 held on to the continuing concerns that preceded us in the prior year. Inflation worries, the ongoing battle with Iraq, and the receding housing market continued to top off the focal points throughout the quarter.

On February 27th, the Dow Jones Industrial plunged 416 points, resulting in stocks suffering their worst loss since the September 11, 2001 terror attacks, the seventh-largest point drop in Dow history. The major fall was prompted by a tremendous sell-off in China's stock market, but this was not the only force that fueled the record drop. Higher oil prices and disappointing economic news also contributed to the plunge. The sell-off was compounded when computers controlling orders to the New York Stock Exchange couldn't keep pace with the record volume.

The anticipation of rising consumer confidence has yet to be seen. Consumer confidence dropped for the first time in five months in March, citing reasons such as rising gasoline prices and the recent turmoil in the stock market. The stumbling housing market is also a key factor for consumers. Sales of newly constructed single-family houses slowed yet again in February, bringing it to the lowest level seen in nearly seven years. Inventories of unsold homes rose to a 16-year high, suggesting that the nation's housing market is softening heading into the spring buying season. In an effort to reduce the increasing home inventories, incentives have been piled on to entice consumers that include offers ranging from free vacations to new car giveaways.

Subprime lending also led a slew of top concerns for the economy. The mortgage market problems began during the housing boom, when overaggressive selling, as well as borrowing, arose. As the fastest growing segment of the mortgage market, subprime loans reportedly helped boost US homeownership to a record 69 percent of households. But at what cost? Increasing pressure came in late February amid concerns that a meltdown in the subprime mortgage market may tighten credit conditions, accentuate the downturn of the housing market, and take down the economy. Imposition of stricter lending standards may put more stress on what's already a shaky market.

On the commodities front, weather played with both supply and demand for gasoline and heating oil. Now that the country appears to be out of the deep freeze, driving will increase, pushing demand for gasoline even higher. Supplies may not be able to keep up with the demand, further raising costs of already soaring prices.

Crude oil prices have again broke the \$ 60 per barrel level. During the last week of the quarter, crude oil futures surged to trade at their highest level of 2007, as mounting tensions

between Iran and the U.K. ignited concerns about supply disruptions in the Persian Gulf.

The Dow Jones Industrial Average closed the quarter at 12,354.27, sitting on a loss of 0.9%. The S&P closed at 1,420.75, posting a 0.2% gain for the first quarter. The NASDAQ composite advanced 0.3% for the quarter, ending at 2,421.64. Yields on 10-year Treasuries closed at 4.65% for the quarter, down 1/32 to 99-26/32 with a yield of 4.65%. The Russell 2000 Index finished at 800.57, gaining 1.7%.

With rising costs in energy, food, healthcare and rent/mortgages, inflation remains uncomfortably high, according to Fed Chairman Ben Bernanke. Amid continually rising costs, coupled with a heightened sense of uncertainty and concern, consumer spending appears to be bleak for the foreseeable future. This will have a greater impact on the overall economy, as two-thirds of our overall economy stems from consumer spending. The tone for the housing market should be more evident within the next three months, since prime selling begins in March. Commodities to watch: due to the ethanol boom, corn is atop a list of continual interest; so much so that it may be affecting other commodities, such as cotton. The long term affect could be a cotton shortage and much higher prices. If tensions persist in the Middle East, this will be yet another very uncomfortable and pricey driving season, as oil and gasoline prices could potentially mirror last spring and summer season's disturbing prices.

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

Percentage of income earned after taxes that was saved in the United States for all of 2005...**-4**

Percentage of income earned after taxes that was saved in the United States for all of 2006...**-1.0**

Percentage of income earned after taxes that was saved in the United States for all of 1933...**-1.5**

Percentage increase of total reported income in the United States for 2005...**9**

Percentage increase of total reported income in the United States for the bottom ninety percent of earners for 2005...**-6**

Percentage increase in overall spending for the United States in 2006...**6**

Percentage of United States households in 2005 with annual incomes between \$19,178 and \$91,704...**60**

In dollars, the median household retirement savings of working Americans...**22,500**

In billions of dollars, assets of equity-focused hedge funds for 2006...**743**

In trillions of dollars, total hedge-fund assets for 2006...**1.89**

In trillions of dollars, the collective value of the ten largest corporations in the Standard and Poor's 500 index at the end of 2006...**1.8**

In trillions of dollars, the collective value of the ten largest corporations in the Standard and Poor's 500 index at the end of 2005...**3.1**

Percentage of eligible American workers age 21 – 30 who contribute to their 401K plans...**33**

Number of times greater the net worth of the top 1 percent of households in the early 1960's were versus the median net worth in the United States...**125**

Number of times greater the net worth of the top 1 percent of households today are versus the median net worth in the United States...**190**

In millions of dollars, total worth of art sold in less than three hours at Christie's auction in late 2006...**491**

Percentage of income American homeowners spent on housing costs in 1999...**19**

Percentage of income American homeowners spent on housing costs in 2005...**21**

In dollars, the price of one share of Berkshire Hathaway Inc. stock when Warren Buffett took control of the textile company in 1965...**18**

In dollars, the price of one share of Berkshire Hathaway Inc. stock at the end of 2006...**109,990**

Level of the Saudi Arabia stock market index at the start of November 2006...**8,019**

Level of the Saudi Arabia stock market index at it's peak in February 2006...**20,634**

In billions of dollars, total bonuses awarded for 173,000 employees of the five largest brokerage firms in the United States in 2006...**36**

Percentage increase of the costs at a four year public college over the past five years, after adjusting for inflations...**35**

In dollars, the average cost for tuition, fees, room and board at a private four year college in 2006...**30,367**

Percentage of employees of large companies enrolled in health benefit plans in 1996...**87.7**

Percentage of employees of large companies enrolled in health benefit plans in 2004...**81**

In millions, the estimated amount of junk e-mails sent each week worldwide, touting company stocks...**100**

Percentage of all internet e-mail estimated to be spam in 2006...**86.2**

In millions of dollars, the value each day, shareholders of Ford lost, during the five year tenure as CEO of William Clayton Ford until he stepped down in September 2006...**7.32**

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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