



Financial Focus

PEGASUS ASSET MANAGEMENT

July 2007 • 3rd Quarter

2nd Quarter Wrap Up

The second quarter of 2007 echoed first quarter concerns of economic advancement, inflation, housing, as well as consumer confidence and spending.

For nearly a year, the U.S. economy has been stagnating, most of the blame attributed to the housing slump. The spike in mortgage rates came at a bad time for the housing industry, as home builders continue to struggle with excess inventory and sales of existing homes on the downfall. In addition, new foreclosures hit a record with in the first quarter.

The subprime mortgage meltdown is not going away anytime soon, as the delinquency rate is still climbing and consumer ability to refinance is diminishing. The government reported that the U.S. economy grew just 0.7% in the first three months of this year, experienced the weakest expansion in more than 4 years; a reminder of the crippling effect of the housing market.

Setting aside inflation worries seemed to be an arduous task for the Federal Reserve due to a tight labor market, sharp gas and energy costs and higher import prices. Inflation remains the greatest threat to U.S. growth. Higher interest rates could have an impact on homeowners considering cash-out mortgage refinancing to do home improvements, giving them reason to wait for lower rates. For buyers: rate increases would just be another squeeze on affordability.

Considering the rising cost of food, energy, health care and mortgage payments, along with the decline in home values, surprisingly, consumer spending is on the rise. While job growth and the low unemployment rate can be accredited to the increase in spending, borrowing has slowed, due to interest rates concerns and lower personal savings. Rising rates would mean consumers who are refinancing or buying a home will have to spend more of their disposable income on monthly home payments than in the past, hurting consumer spending and the broader economy. Borrowers are now turning to "safer" mortgages, more likely opting for fixed-rate home loans.

News of lower than expected gasoline supplies during the last week of the quarter helped boost oil prices ahead of the U.S. summer driving season. Crude-oil prices topped \$70 a barrel for the first time in nine months, with concerns over the availability of summer supplies and rising global political tensions. Gold received a mild boost from a combination of a declining dollar and firmer oil prices.

Gold ended the quarter underpinned by crude-oil prices and concerns about inflation, as the demand for the metal still remains in question.

The Dow Jones Industrial Average closed the quarter at 13,408, gaining 8.5% in the quarter. The S&P closed at 1,503, advancing 5.5%. The NASDAQ composite gained 7.5%, ending at 2,603. Yields on 10-year Treasuries closed at 5.117% for the quarter, after the Commerce Department reported that headline consumer prices climbed only 0.1% in May. The Russell 2000 Index finished at 833.69, gaining 4.1% in the quarter.

Consumers will be enduring the effect of the ongoing price surge in oil, as this will in turn continue to affect everything from travel, to food and retail price increase as gas prices are expected to remain above \$3 a gallon for the remainder of the summer. Natural gas, oranges and cotton are among the commodities still being kept under a watchful eye, with the highest risk to production in the event of an active hurricane season in the Atlantic. The U.S. government still contends that the economy will pick up later this year. But, with interest rates remaining steady until the fall, anxiety still lingers for the months ahead.

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

Number of US households in millions with a net worth in excess of \$5 million not including a primary residence in 2006...1.14

Number of US households in millions with a net worth in excess of \$5 million not including a primary residence in 2005... 0.925

Number of US households in millions with a net worth in excess of \$5 million not including a primary residence in 1996...0.25

Number of US households in millions with a net worth in excess of \$1 million not including a primary residence in 2006...9.0

Number of US households in millions with a net worth in excess of \$500,000 not including a primary residence in 2006...15.3

Percentage of the world's wealth owned by the richest 1 percent of adults...40

In billions the estimated number of tons of usable coal reserves in the US...250

The estimated number of years that domestic coal reserves will last in the US...300

In billions the estimated number of individuals world wide living in towns and cities, representing more than 50 percent of the population, in 2008...3.3

In billions of dollars, the total number of taxable mutual fund distributions in 2003...376.6

In billions of dollars, the total number of taxable mutual fund distributions in 2006...418.5

Percentage of eligible 401K participants with outstanding loans on their accounts...19

Percentage increase in men's earnings between the years 1990 and 2003...8.1

Percentage increase in women's earnings between the years 1990 and 2003...25.6

Percentage of Americans 65 years or older receiving pension income from their own or spouses former employer in 2003...45.6

Percentage of Americans 65 years or older receiving pension income from their own or spouses former employer in 1995...44.3

Estimated percentage of all dollars spent in 2016 that will be spent on health care...20

Percentage of working heads of families participating in employee-sponsored retirement plans in 2001...48.7

Percentage of working heads of families participating in employer-sponsored retirement plans in 2004...46.1

Percentage of heads of working families participating in employer-sponsored plans in 2004 that have stayed in the plan since 1992...61

Percentage of employees eligible for private-sector pensions who had a lump sum option available in 1995...15

Percentage of employees eligible for private-sector pensions who had a lump sum option available in 2006...50

Percentage increase in audits conducted by the IRS on taxpayers earning \$100,000 or more for 2006 from 2005...18

Percentage increase in audits conducted by the IRS on S Corporations for 2006 from 2005...34

Of all IRS audits, percentage conducted by mail focusing usually on a specific tax issue...75

Bill Gates' total net worth as a percentage of the US Gross Domestic product...0.657

John D. Rockefeller's total net worth at his death in 1937 as a percentage of the US Gross Domestic Product...1.54

Percentage of the US population who volunteered for an organization at least once between September 2005 and September 2006...26.7

Percentage of the US population who volunteered for an organization at least once between September 2002 and September 2003...28.8

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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