



2nd QUARTER MARKET WRAP-UP

Second quarter of 2008 on Wall Street...

Considering consumer prices are up 4% over the past year with energy, food and healthcare leading the way, some economists are beginning to compare the current state of affairs to the era of the 1930's. With record gasoline prices, slumping home values, credit woes and continued talks of recession, consumers grow less optimistic and anxiously await reprieve. Despite the expected boost from rebate checks consumer confidence reached its fifth lowest reading ever recorded, related to concerns about the economy and jobs. Overwhelmed by rising costs, a drop in stock and home prices, fewer consumers chose to spend their rebate checks.

Housing

Four years of gains in home prices have been erased, dropping a record 15.3% in the past year and are now back to where they were in the summer of 2004. In all of 2007, 776,000 new homes were sold, down from 1.05 million in 2006. In May, new home sales fell 2.5% to 512,000, as sales in the West fell to a 26-year low.

As builders continued to drop their prices to sell homes, the median sales price in May was \$ 231,000, down 5.7% from a year earlier. Foreclosure activity rose 7% in May, up 48% from the same period last year. Reports indicate that one in every 483 US households received a foreclosure filing during the month, the highest monthly foreclosure rate since January 2005.

With many homes on the market and foreclosures rising, prices are likely to keep falling further, by as much as 10%. Millions of Americans now owe more on their homes than they are worth.

Job growth

First-time jobless claims remained unchanged at 384,000 during the final week of the quarter. Averaged out over the past four weeks, first-time jobless claims stood at 378,250, the highest level since early in October 2005. Readings consistently higher than 350,000 signal that the labor market's in a fragile state, and initial claims figures have been above that mark since the end of April.

Commodities

Another day, another new record in gas prices... The average US retail price for a gallon of regular gasoline climbed to a new record level of \$ 4.086 on the last day of the quarter; up 40% from a year ago. One consequence as a result: June was recorded as the worst month in car sales in over a decade.

Oil hit a record high on June 30th, reaching \$ 143 a barrel,

amidst tensions in the Middle East and concerns about Nigerian production.

Corn-based ethanol has become a battle ground commodity between the gas and food industries, as the US is the world's largest corn producer, accounting for nearly 40% of the world's production in 2007. Due to the increase in demand, and with recent floods in the Mid-Western states, and drought plagued areas elsewhere worldwide, the battle for this precious commodity grows daily. Recent floods are likely to push the inventory levels for corn to a much lower level, possibly to a level the US hasn't seen since World War II.

Potential coffee shortage? Global coffee demand has been exceeding production for several years, and 2008 year-end stock levels are expected to fall to the lowest level in 48 years. The reason behind the potential shortage? Classic supply and demand. In addition, there is a growing concern of winter frost in Brazil, the world's largest producer of coffee, which could cripple coffee production.

Paying more for that candy bar? As yet another sign of the times, you could be. As dry weather in major cocoa-producing countries dampen supplies, the price of the main ingredient of chocolate has doubled since last year, and has hit the highest level since 1984. West Africa, the main cocoa-producing region, has been enduring severely dry weather, cutting production in Ghana and the Ivory Coast, the world's top two cocoa producers.

Market Overview

The Dow Jones Industrial Average finished the quarter at 11,350.01, down 7.4% for the second quarter, down 14.4% year to date. The S&P closed the quarter at 1,280, down 3.3% for the second quarter, down 12.9% year to date. The NASDAQ finished the quarter at 2,292.98. Yields on 10-year Treasuries closed at 3.98%, while the Russell 2000 Index ended at 689.66.

What's ahead? As consumers cope with all that is plaguing the US economy, it is forcing them to shift their spending habits, turning to money-saving options that range from transportation to healthcare. It's no longer a question of what they want, but only a matter of what they need. According to some economists, this will be somewhat of a permanent change for Americans, who may continue to face a declining standard of living over the next 20 years. As retail food prices are expected to rise at least another 4% this year, and while many homes remain stagnant on the market with foreclosures rising, prices have eroded Americans' wealth, leaving them with a very difficult outlook toward the future.

Sources: *MarketWatch*, June 2008; *Wall Street Journal*, June 2008



NUMBERS TALK

Percentage of investors working with an advisory firm who are satisfied with the service they receive...71.4

Percentage of delinquent home borrowers who turn to the Internet instead of an alternate lender for information on avoiding foreclosure...25

Percentage of retirees who say they are spending more than anticipated on medical expenses...33

Percentage of people age 65-74 who had a mortgage on their primary residence in 2004...32

Average out-of-pocket cost to care for an aging parent or spouse, annually ...5,500

Percentage of baby boomers who plan to take Social Security, at a discount, when they turn 62...31

Percentage of baby boomers who plan to take Social Security at 65+ in order to receive full benefits...32

Percentage of baby boomers willing to relocate for retirement...25

Percentage of retirees who annually withdraw 10 percent or more of their retirement savings...28

Of this group, percentage of individuals who feel confident their savings will last...91

Percentage of workers who borrowed from their 401(k) plan in 2007...18

Percentage of workers age 55 and over who have less than \$ 10,000 in total savings and investments...28

Percentage of parents who give money to their adult children to pay for major expenses, such as credit card balances and student loans...90

Percentage of taxpayers who are planning to spend their \$ 600-\$1,200 tax rebate checks, versus saving it or paying down debt...21

Percentage of individuals earning between \$ 50,000 and \$ 100,000 who consider paying off credit card debit their highest priority...37

Percentage of that same group who considered saving for retirement a top priority...23

Percentage of individuals earning between \$ 50,000 and \$ 100,000 who plan on relying primarily on a 401(k) plan and/or IRA to pay for living expenses in retirement...52

Percentage of American couples who argue over money at least once a month...60

Percentage of men making between \$30,000 and \$60,000 annually who are willing to marry for financial gain...50

Percentage of women in the same category...66

Percentage increase for the cost of flour from April 2007 to April 2008...46

Within the same time period, percentage increase of Grade A large eggs, in percent...28

Percentage price surge per gallon of whole milk, April 2007 to April 2008...21

If you would like to discuss any of the topics contained in this issue of "FINANCIAL FOCUS," contact Pegasus Asset Management, Inc. at 845-369-9422, or via e-mail:

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