

Contact Us:

4128 Crosshaven Drive
P.O. Box 43828
Birmingham, AL 35243

(205) 298-8480
Birmingham

(256) 237-0000
Anniston

(800) 791-4087

Email Us:**Brooks Clark-**

Brooks@
ClarkFinancialAdvisors.com

Elizabeth Levant-

Elizabeth@
ClarkFinancialAdvisors.com

Eric McClain-

Eric@
ClarkFinancialAdvisors.com

Mario Humbert-

Mario@
ClarkFinancialAdvisors.com

To Our Valued Clients & Friends:

Self-inflicted wounds can be the most severe and painful. Thus, the unfolding mortgage and oil crisis, which I believe we have brought upon ourselves, could turn the current economic downturn into a prolonged period of modest growth and may turn out to be the cruelest of wounds.

**Housing**

You cannot protect people from themselves. While home ownership has always been seen as an “American dream,” I guess flat screen televisions, large SUVs, and personal indulgences trump home ownership. I base this observation on a recently viewed chart described as “U.S. Home Ownership as a Percentage of Household Real Estate.” More simply put...what percentage of your home do you own?

According to the chart, the average family in 1953 held about 80% ownership of their homes. That number fell slightly to 70% during the 1970s and into the late 1980s. However, that number has dropped to about 47% today, with the greatest decline occurring between 1999 and the first quarter of

2007—that’s a drop of more than 10% in just seven years. It’s important also to note that this data was calculated only through the first quarter of 2007...before the housing market began such a dramatic decline in value.

Americans allowed their ownership in their homes to fall by 10% during a seven-year period when home prices were soaring, a time when their ownership percentage should have increased dramatically.

Unfortunately, Americans used their homes as giant ATM machines withdrawing equity for debt consolidation and new purchases of durable goods and even borrowed funds to make second home purchases. Between the year 2001

and 2006, the amount of U.S. home mortgage debt increased by nearly \$3 trillion.

It would have been bad enough if all this new debt had been piled on in a traditional manner, but creative financing by mortgage lenders allowed home owners to keep their payments low with an assortment of teaser rates, interest only mortgages, adjustable rate agreements, piggy back loans and even negative amortization mortgages. The “trickier” the loan...the greater the commission to the mortgage broker. As a result, consumers were steered toward those mortgages that paid the broker the highest commission, yet made little or no sense to anyone who hoped to own

their home outright in the near future.

My "favorite" loan, which I recently read about, is the **Ninja** loan, which stands for "no income, no job or assets." These loans were generated by mortgage brokers with no documentation and falsification of information. Unfortunately, while this creativity has generated substantial commissions to the mortgage industry and investment banks, it has left the housing industry in a dismal mess—a mess that will probably lead to housing prices continuing to fall by another 10 to 15 percent between now and the first portion of 2009, leaving a good many people questioning whether they can stay in their homes.

There Is Good News, However

The Fed, by keeping interest rates low during the first portion of 2008, has allowed \$446 billion in adjustable rate mortgages to reset at relatively low interest levels. This five-month period of resetting mortgages in early 2008 represents a mortgage reset amount greater than all mortgages that reset in 2007 and will reset in the remainder of 2008 combined. This resetting of interest rates at lower rates will allow many people to stay in their homes, thus reducing the number of foreclosed properties hitting the market. This will not stop housing prices from falling, but by reducing the

number of foreclosures, the Fed has taken steps to lessen the pace, and possibly the degree, of home price declines.

The Bad News

It's an election year, and Washington will be pandering to voters with all types of proposed "suggestions" to "save the homeowner," none of which will be as effective in the long run or cost as little as what the Fed has already accomplished in early 2008.

Oil

Oil is the wild card, and it represents a self-inflicted wound, as well. While the country for years has been talking about energy independence, it has watched its annual energy outlay for imported oil increase from \$50 billion in the late 1980s to approximately \$100 billion in 2002 to more than \$302 billion in 2006. (And, that is long before the oil prices of \$138 per a barrel we are seeing today are taken into consideration.)

We drive large SUVs, still pay only about one half of what Europeans pay for their gasoline, and we feel like the world is coming to an end! "Well, aren't we special?"

I know this is harsh, but perhaps the best thing for the long-term energy policy of this country is \$5 per gallon gasoline. We cannot seem to protect ourselves from ourselves, although we should have

seen higher energy costs coming for more than 30 years. In fact, we have accelerated the problem by what we drive and by allowing such an irresponsible spending discipline at our government level. No one internationally wants to hold the U.S. dollar anymore, thus the price of oil continues to accelerate in price as the value of the dollar declines.

Inflation

You will recall that in our last quarter's letter I suggested that inflation is being severely understated by the method by which the government reports both increases and decreases in the consumer price index. This understating will continue this year due to the dramatic decrease



in housing costs and the fact that housing represents a substantial portion in the index. This decrease in housing expense will go a long way toward offsetting the rapid increase in fuel and food cost.

While the government will continue to tell you that the cost of living has only modestly increased, we experience the immediate pain in the pocket book. While we don't shop for a



"We cannot seem to protect ourselves from ourselves, although we should have seen higher energy costs coming for more than 30 years."

new home each month, we do fill up our automobiles and visit the grocery store weekly.

A Random Thought

I hate paying \$40 to fill up my car, but lately, I have found myself focusing on the increase in fuel cost per tank instead of the total bill. As an example, last year, I was paying about \$3 a gallon, but now I am paying \$4. I find myself now thinking of only the \$10 increase in the cost instead of the \$40 it took to fill up the car. I don't know whether it's this thought process or the Little Debbie oatmeal cream pie that I get each time that I fill up, but one of the two makes me feel a little better about the ridiculous increase in fuel cost.

The Bottom Line

In early May, I attended a Fidelity economic conference in Arizona. Fidelity assembled an impressive array of economists and money managers among whom

the consensus was that the economy should suffer no worse than a modest recession in the unfolding year. As for the stock market, they felt that the February and March lows should act as a support level for the investment market. The Dow, which drifted down to 11,508 early in the year, has indeed approached that level again as I write this letter. I hope the economists are correct in their prediction of a no worse than modest recession, as I am troubled that the continued high price of fuel will weigh heavily on the consumer in months to come.

While most families will continue with their already-planned summer travel and activities, the fall will provide another time for family budget reflection. If fuel prices will come down I believe the economy will begin to rebuild. If they do not, I believe it will be a "snug" holiday season, and we will have to depend entirely on the

corporate side of the economy to carry the investment markets.

I think (now here it comes) that fuel prices will fall in autumn, due to a dramatic downturn in demand and the collapsing of commodity funds' long positions in energy futures. I believe that there is a possibility that oil could fall by as much as 20%, yet the consumer will remain cautious until lower prices take hold. So, the holiday season will not be a blowout even if oil prices fall. I believe that the credit crisis is self-contained within the banks and that they have already taken their hit. The banks will have to recapitalize, which will be disappointing to existing shareholders.

This will, of course, be painful for many, but the economic downturn over the next 12 to 18 months may be replaced by a responsible rebuilding of an America dream that is built on hard work, paying for those things that we need, and saving for those items that we want.

There will be a decline in domestic profits for a while, yet the international sector will help, as the weakened dollar has contributed to a decline in the trade deficit (which was over \$800 billion last year). Slowly, international consumer products will get prohibitively more expensive while our products become cheaper (think GM vs. Toyota). At Clark Financial, we



"Be fearful when others are greedy and greedy when others are fearful."

—Warren Buffet



If you would like to have a copy of your statement from Clark Financial Advisors listing all of your accounts and their current values emailed to you, please email Lauren, and she can update your statement and email it to you as a PDF.

continue to maintain the conservative nature of our portfolios, yet I have recently shifted some of our idle cash to more conservative balanced funds. In viewing this subtle shift, let's remember our friend Warren Buffet's expression: "Be fearful when others are greedy and greedy when others are fearful." There is much to fear in the evening news, but we did not get here in a single day, and it will take more than a day to turn old habits around.

Warmest Regards,

M. Brooks Clark

The Numbers

	2 nd Quarter Change	YTD % Change	6/30/2008 Index
Dow Jones Industrial	(10.3)	(14.4)	11,350
S&P 500	(3.1)	(12.8)	1,420
NASDAQ	(5.3)	(13.5)	2,421
Russell Value	(5.9)	(14.8)	678
Russell Growth	(1.0)	(9.4)	553
Treasury Index	(4.2)	(1.0)	92

(Based on 6/30 Indexes)

CLARK FINANCIAL ADVISORS

Clark Financial Advisors is registered with the Securities and Exchange Commission (SEC) as a registered investment advisor and annually files an ADV with the SEC as required. The ADV II form provides background on the firm and its principals. If you would like to receive a free copy of this form, please contact Mario Humbert via email at Mario@ClarkFinancialAdvisors.com. You may also return this page of the newsletter with a note signifying your request for a copy of the ADV II filings for Clark Financial Advisors. Securities offered through Purshe Kaplan Sterling Investments, member FINRA/SIPC. Headquartered at 18 Corporate Woods Blvd, Albany, NY, 12211.