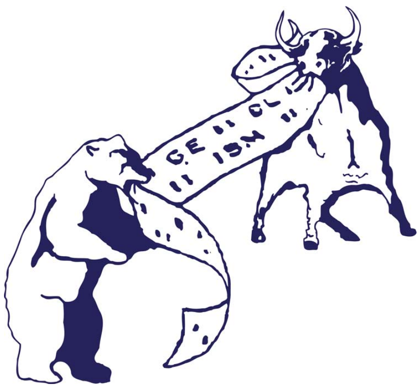
CFA NEWSLETTER



CONTACT US

4128 Crosshaven Drive
PO Box 43828
Birmingham, AL 35243

(205)298-8480 - Birmingham
(256)237-0000 - Anniston
(800)791-4087
(205)298-8470 - Fax

Website:

www.clarkfinancialadvisors.com

Email us:

Brooks Clark -
Brooks@clarkfinancialadvisors.com

Mario Humbert -
Mario@clarkfinancialadvisors.com

Lauren Hanks -
Lauren@clarkfinancialadvisors.com

TO OUR VALUED CLIENTS AND FRIENDS:

I. A Quick Introduction
II. What a Quarter!
III. Inflation

I. We take pride in introducing a new look for our quarterly newsletter delivered to you today in a “spiffy” PDF format, which allows the inclusions of pictures, charts, and the ability for you to forward the letter on to your friends if you want to share a point of interest. We offer a tip of our cap to Tim Barton, who assisted us in introducing the latest Apple iMacs to our office, which provide the illusion that we may have arrived at the cutting edge of communication technology. A big thank you to our young and agile staff who took to the new iMacs with glee, while I can successfully say that I did a great job getting the empty boxes to the dumpster and the old computers placed in the storage area. (We each have our talents).

II. What A Quarter – If you were lucky enough to leave for a summer cruise in early July, you missed an opportunity to see just how volatile the markets can be. On June 29th, the Dow Jones Industrial Average was at 13,408, and as I write you today, September 20th, it stands at 13,766, for an increase of 2.6%. Not bad for the summer quarter…you could have stayed on the boat for a few more weeks. What you did miss, however, was the opportunity to watch the Dow Jones Industrial Average climb to 14,121 and then drop to under 12,500 by mid-August. This was a 1,600-point drop or about 11%, which momentarily relieved investors of about $1.9 trillion, that is with a T, of investment wealth (By the way that trip took only 45 days).

A quick effort to put things into perspective…was the loss warranted? This downdraft in investment value was triggered by the concerns over the sub-prime debt being held by investors and financial institutions. I suggest that you revisit our first quarter letter, which provides instructive background and a prediction addressing the potential unraveling of these instruments. All of the sub-prime loans in the mortgage industry make up about $1.5 trillion. Of that figure, approximately 10%, or $150 billion, is presently in arrears, and of that figure, half is now in default, and the properties will be foreclosed on by the banks. The foreclosure proceedings will result in about a two-thirds recovery of value, resulting in a final loss of about $37 billion.

Now, nobody likes to lose $37 billion, but compared to the investment market’s drop of $1.9 trillion in invest value, this may appear to be an overreaction on a scale of about 50 to 1.

Sometimes good things actually come from an overreaction, and this substantial market loss has prompted the Fed to move forward in shaving 50 basis points from both the Fed funds and discount rates. This will assist in keeping borrowing cost low for all those homeowners who will see their adjustable rate mortgages resetting during this next year. This is indeed the silver lining within the sub-prime storm cloud, because the adjustable rate mortgage crowd makes up about 40% of all mortgages made in the last five years. Having those mortgages reset at a higher price would have cut deeply into this group's trips to Wal-Mart and Target. This could have possibly slowed the economy down below the 2% growth rate, which I feel is needed to avoid recession.

[It is important to understand how dramatic and devastating the result of an adjustable rate mortgage resetting can be. Many homeowners had their rates tied to the one- or three-month London Inter-bank offered rate (LIBOR). As an example, the LIBOR rate was 1.3% in 2003. Today, that rate is 5.5%, an increase of over 400% since 2003. A monthly payment on a $200,000 mortgage would increase by over $733 with the mortgage resetting to the new LIBOR rate. The Fed rate cut this week has resulted in LIBOR dropping by a full 1% from the beginning of the week].

About consumers spending… should we be concerned? If recent history is any indication, I may have been overly concerned about the potential reduction in consumer spending as consumers faced higher mortgage payments and the possibility of Petrol at over $85 a barrel. Consumer spending has fallen only once since 1959, slightly in 1980, and even when the Dot Com bubble crash wiped out $7 trillion of investor's wealth, consumers continued to spend. Shucks, Americans may not be able to save a nickel, but, boy, can we spend a dollar!

The market, approaching the end of the quarter, appears to have momentarily regained its footing, and even if the country does enter a recession in the coming months, recessions seldom last more than two quarters. Nevertheless, with the Fed's recent rate cut, I believe we need to keep our eyes on the next topic.

III. **Inflation** - *Inflation is an increase in money supply, excluding the increase caused by economic growth. This may cause a persistent rise in the general price level as measured against a standard level of purchasing power.*

The Fed says that they are keeping a close eye on inflation and "it" is under control (about 2% a year for the past several years.) I am having a difficult time understanding this 2% inflation rate because everything I seem to want to buy is going up in price more quickly. Have you priced a luxury car lately and compared the price to the base price of the same car in 2004? How about a home, grocery expenses or a gallon of gas? Ask homeowners watching their adjustable rate mortgages reset this year if they are experiencing only a 2% rise in the cost of living? I am sorry, but I can't seem to maintain my "standard of purchasing power" by increasing my expenses by only 2% a year. I must not be able to find those items that the Fed is carefully selecting to report that inflation is under control at such a modest rate.

I believe that the Fed's recent cut may accelerate an increase in the cost of goods and services as foreign owners of U.S. dollars express their discount with the rate cut, which effects the yield on their U.S. dollars investments. As I write today, the exchange rate on the Euro is $1.40. You may recall that when the Euro was introduced, it was introduced at a one-to-one ratio with the U.S. dollar. The Euro, after falling to approximately 90 cents for a short time, has now rallied over 55% against the U.S. dollar resulting in the purchase of European goods being 55% more expensive than they were only a few years ago.

Unfortunately, the only way to defend the dollar is for the Fed to increase interest rates, making U.S. dollar investments more attractive. The Fed does not seem to be considering a rate increase as a possibility for the coming year. The result will be that foreign goods and raw materials will become more expensive. This may lead to the possibility that oil may begin to be priced in other currencies instead of U.S. dollars. This is a very real possibility, as OPEC does not like selling its commodity in exchange for a falling currency. This conversion to pricing oil in Euros could easily lead to oil selling at over $100 a barrel, a prediction that was made less than 24 months ago that was discounted.

Because of this concern, I have continued to maintain a substantial amount of international exposure in our portfolios and may be adding a dollar bearish index fund, as well.

Please note: All checks to be added to your accounts should be made payable to: Fidelity.

Tired of getting so much mail from Fidelity? Call us today and we will have your trade confirmations sent to you quarterly to reduce the amount of ongoing mail you receive from Fidelity.

This investment would benefit from the falling dollar while invested in a combination of moneyed instruments in the Euro, Japanese Yen, British Pound, Canada dollar, Swedish Krona and the Swiss Franc.

We will continue to watch the economy closely. If the Fed decides to cut interest rates again, which I predict they will before the year, it will be because the economy is slowing and the Fed is trying to add "fuel" to economy by providing additional liquidity. This is fine, but this additional fuel may provide the ingredient for inflation to become an even greater problem.

A final thought:
While I am pleased with the Fed cutting rates, I remind you that the Fed's purpose in taking such action is because of their concern for the economy. The last time the Fed cut rates was January the 3rd of 2000, and although the S&P 500 jumped 5% in a single day on the news of the cut, the index fell 43% over the next 21 months.

Warmest Regards,

M. Brooks Clark

MBC/lh

Index	12/29/06	3/30/07	6/30/07	YTD % Change
DOW	12,436	(0.6)	7.8	11.7
NASDAQ	2,415	0.2	7.8	11.8
S&P	1,418	0.1	6	7.6
Russell Value	818	0.6	4.8	4.4
Russell Growth	554	0.7	7.4	11.5
Treasury	88.47	(0.1)	(3.7)	.2
REIT Index	83.82	1.7	(7.8)	(8.9)

In observing the numbers it is apparent that growth is outpacing value in the market place. The Russell growth index is outpacing the Russell Value index by almost a three to one margin. This is the first time in almost 6 years that growth has outpaced value for two quarters in a row.

While large cap stocks and their indexes have performed well for the year broader indexes are not keeping pace. The Russell 2000 is up only 3% for the year, or about 1/3 of the Dow Jones Industrial Average. The market advance is not brand based.

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 copy of this form please contact Mario Humbert via email at Mario@Clarkfinancialadvisors.com to receive a free copy. You may also return this page of the letter with a note signifying your request for a copy of the ADV II filings for Clark Financial Advisors.**

WWW.CLARKFINANCIALADVISORS.COM