LOTUSGROUP ADVISORS
Portfolio Management | Wealth Generation | Asset Protection

Q4—2007

CLIENT UPDATE

INSIDE THIS ISSUE:

The Perfect Holiday Gift

The holidays are just around the corner and it's the perfect time to contribute to your children's or grandchildren's 529 plan.

Don't have one yet? Contact us to help select the right one for you and to set it up. We can also setup an electronic link for auto contributions if you'd like.

Contact family, grandparents and friends. Let them know about your child's 529 and ask them to contribute for the holidays and birthdays.

Make your 529 plan part of your LGA portfolio. 529 plans provide a variety of investment options, some better than others. It may make sense to integrate that into your overall portfolio to make sure it too gets the attention it deserves.

LGA would like to wish you and your family Happy Holidays.

www.lgadvisors.com

BEING "SAFE" VERSUS HAVING "FAITH"

In investing, higher returns are the reward for taking on greater risk, typically defined as the ability to (a) live with greater short-term volatility, and (b) be comfortable with less liquid investments. As an example, cash has historically been touted as a low-risk investment because it has virtually no volatility (e.g. a dollar today is the same as a dollar tomorrow), and it is highly liquid (e.g. you can use it for trade in your every day affairs). Conversely, an investment in a startup company is a higher risk investment as it can have extreme volatility (e.g. the business could go boom or bust), and is extremely illiquid (e.g. you only can get your money out if the company goes public or sells it shares to another investor). Overly conservative investors often ask their advisors to have a low-allocation to "risky" assets because they are not comfortable with large market swings. Additionally, investors often move to conservative cash / CD and bond allocations in their retirement years to match the conventional wisdom of reducing portfolio risk as they age.

However, the above approach to risk management does not consider the potentially greater risk of inflation. In the US, inflation has risen at a historical pace of 3.43% since 1913, and 4.62% since 1970. Healthcare costs are constantly increasing, prices at the gas pump are rising, and even a gallon of milk seems expensive today. Essentially, if you aren't increasing your net worth over the long-term by greater than 3-4% annually, then you aren't even keeping up with inflation. This has serious implications for the conservative investor described in the previous paragraph. These people will generate only 2-3% after taxes and costs, and will have serious trouble accumulating wealth. It has even greater implications for the retirees who have fixed incomes, inflating budgets, and may live a whole lot longer than their savings will support them through.

A solution to this problem is the diversified portfolio that spreads risk while allowing for participation in higher returning investments. Granted, temporary declines could occur. In fact, over the last century there have been at least a dozen 20%+ declines in the US stock market; and they are hard to stomach when they hit (especially for a newly retired couple). However, we would argue that this may be the least risky approach because (a) it is one of the few approaches that will generate a long-term return greater than the rate of inflation (the stock market has averaged approximately 10% annual returns in the last century); and (b) market declines have proven to be temporary on every occasion.

In our view, a successful investor needs three main qualities, none of which are technical in nature. The investor certainly does not need to know how to read financial statements, choose stocks or time the market. Rather, the following qualities must be developed and practiced on an ongoing basis (especially during market corrections and downturns):

- <u>Discipline</u>: The need to "pay yourself first." We must fund our long-term plans with savings before (and, if necessary, instead of) re-modeling the kitchen or getting a new car. It is also imperative to fund our savings plan month in and month out, as opposed to holding out because we think the market is going down...in fact, that may be the time to be funding it even more aggressively. Finally, the sooner we start saving the better.

We appreciate your referrals as they are the lifeline to our business. Please let your family, friends and colleagues know about our wealth management services.

Having "Faith" (continued)

- Faith: It is impossible to invest successfully in a future of which one is fundamentally afraid. Despite all the doomsday theories and negative media hype, all historical experience supports the idea of having faith in the global economy (especially the economy in America). When a reported "crises" hits, we must have the faith to believe that it will eventually pass and our investments will continue to grow, despite their temporary reduction in price / value.

- Patience: If you are a non-smoking 62 year old, odds are you have approximately 30 more years of life ahead of you. If you are 32 years old, you have 60 more years. Being overly concerned about the return in any single quarter or even any single year is absurd, considering the need for an investment approach that will deliver real returns over 30 - 60 years.

Of course there are exceptions to investing in higher returning and more volatile investments, such as the need to preserve capital for a near-term need. In this situation, the investment time horizon is greatly reduced, and the risk to a temporary decline is large. In general though, the best way to generate lasting wealth is to save heavily in the early and mid-years of life, and to become more comfortable with volatile investments even amidst negative media hype and doomsday theorists. LGA will be with our clients each step of the way to help stay on-track, remain positive, and continue focusing on the long-term.

As always, we are available to discuss any questions you may have regarding our progress towards your investment and financial objectives.

Please call or email us to schedule a time to review.

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High-Level Market Update

There has been heightened volatility across investment markets during Q4 / 2007 due to continued fears of the credit crisis and housing downturn in the US. Equities markets have pulled back from the late Q3 run-up and are trying to find a bottom. Throughout this short time period, our portfolios have experienced lower volatility and smaller declines relative to the market as our diversified asset allocation strategy contributed positive returns from investments such as bonds and commodities. We remain focused on the long-term despite the negative press, and believe that the current decline has provided us with an opportunity to buy back into certain investments that were previously overpriced.

Referral Program

We have had great feedback from our LGA clients and are happy to be receiving referrals. There is no better compliment than to put your trust in us to take care of your family and friends.

We are excited to announce the start of a referral program at LGA where we will credit clients with $200 as a thank you.

We believe that together, we can help achieve your financial goals, while also helping those you care about.

Thank you, as always, for your continued involvement in helping grow our collective futures.

We encourage you to pursue life's dreams as we manage, protect, and grow your wealth.

Your LotusGroup Team,

Andy Seth and Raphael Martorello
Client Management and Investment Strategy