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First Quarter Newsletter

A Guaranteed Gain

There are very few guarantees when it comes to investing, but the one you should never overlook is employer matching contributions to your retirement plan.

If your employer offers a matching contribution to your retirement plan, contribute whatever the employer is willing to match, even if it is only a percentage of your contribution and not a dollar for dollar match.

It would be difficult to find an investment today that offers a guaranteed 5, 10, 15 or 25% return. By taking advantage of your employer's matching contribution, you in essence, insure instant growth (assuming no early withdrawal penalties apply and the matched funds are fully vested). In addition, you receive a tax deduction on your contribution. When you withdraw the money, you'll have to pay income taxes, but you will have enjoyed the increased earning power in the meantime.

Matching contributions are most commonly found within Section 401k, 403b, and 457 plans, and Savings Incentive Match Plan for Employees (SIMPLE IRA). Even if your employer only makes a partial match up to a cap, take advantage of this opportunity. This is free money. There's no better investment you can make in terms of return or risk.

If you need help setting up your contributions, talk to your plan administrator today. Make certain you understand how the plan works, your investment options and what will happen if you should leave the company. And, if we can assist you in the investment of your funds or rolling over an employer-sponsored retirement plan, just call.

Financial News and a Grain of Salt



“While financial news can be great entertainment, it’s easy to get a distorted view of the financial markets and individual investments if you rely on the news media.”

In one of our favorite money manager interviews, the manager is asked to account for his recent investment success. He replies that it was due to deciding to ban financial news broadcasts from the office. Turning off the television not only saved time spent watching market updates but also gave the manager an opportunity to form his own unbiased view of the market and individual investments.

While financial news can be great entertainment, it’s easy to get a distorted view of the financial markets and individual investments if you rely on the news media. In fact, one contrarian indicator is to bet against any company or market prognosis featured on a major magazine cover. The theory is that by the time the trend reaches the cover of a major publication, the news is already fully reflected in stock prices. The only way for prices to go is in the opposite direction.

To test the contrarian indicator, three finance professors at the University of Richmond reviewed headlines from stories in *Business Week*, *Fortune*, and *Forbes* for a 20-year period. Their goal was to determine whether positive cover stories were followed by superior future performance and negative stories preceded inferior future performance in comparison with an index or another company in the same industry and of the same size.

Based on 549 cover stories, categorized positive and negative, the professors found that after the stories were published companies that received the most positive coverage underperformed while those who suffered negative coverage overall managed to beat the market.

What’s happening?

By the time news makes the front cover of a major publication, all too often, it’s not news. The market has typically already priced the information into share prices. The market decline in 1987 resulted in a rash of articles at the market’s bottom that were the exact reverse of future reality. Among the 1987 cover stories were:

U.S. News – How to Ride Out the Bear Market

Newsweek – Heading Off Hard Times

Time – The CRASH

BusinessWeek – How Bad?

As the researchers pointed out in their paper, “positive stories generally indicate the end of superior performance and negative news generally indicated the end of poor performance.”

The market has repeatedly turned around and performed exactly opposite of media expectations. Individuals who use the news coverage as the basis of their investment decisions are all too often destined for failure.

Our advice to individuals is to regard financial news as entertainment rather than a reliable view of the future. Take it with a grain of salt. Be aware that favorable news may already be reflected in the value of the investment. Investing based on news coverage has a very poor track record of success.

First Quarter 2008 Securities Markets Commentary

Q1 2008 Outlook – Slowing Economic Growth and Corporate Earnings; Continued Market Volatility; Fundamentals Matter

- In our view, equity valuations for the broad U.S. stock market remain fair, but are based on unrealistically optimistic earnings expectations. Since the October 9, 2007 peak, the broad U.S. stock market, as measured by the Russell 3000 Index, has declined 14.5%. In Europe, valuations are slightly better than in the U.S. and prospects for growth appear somewhat more solid. In the emerging markets and Asia (ex-Japan), we believe stocks are slightly above fair valuation, but are supported by demonstrated above-trend growth.
- We believe that the odds of multiple expansion are low, given the current level of dividend yields and an expected slowdown in earnings growth. It remains our view that there is currently a higher risk/reward tradeoff for systematic portfolio exposure to companies with higher credit quality and greater liquidity. Certain “value-oriented” sectors of the U.S. equity market have been hit hard due to on-going problems in the credit markets and the slowdown in household consumption. In our view, valuations appear attractive and value exhibits the potential for superior return over growth.
- We expect that corporate earnings will continue to ease relative to earlier double-digit robust levels. In our opinion, there is still no clear sign of a bottom in the housing market, and with mortgage security-related difficulties and more stringent lending criteria, it is uncertain when this drag on the broader economy will subside. We believe that consensus expectations for growth in 2008 are too optimistic. Currently, 2008 earnings growth for the S&P 500 is forecasted to be 18% (compounded). However, real economic growth is expected to fall far short of the long-term average trend rate; thus, we expect that consensus expectations may be revised lower. In Europe, we expect a somewhat better environment, despite lower rates of growth in the U.S and pressure on the export sectors as the euro remains near record levels relative to the dollar.
- We view the current market environment as very challenging, but we remain focused on the investment and economic factors that we believe drive long-term security prices: valuation, corporate earnings growth, real economic growth, and the overall level of interest rates.

CIMCO Portfolio Update

- As a result of the above macros issues, we made the following shifts in our respective models:
 1. **Fiserv CIMCO Momentum I model** shifted out of domestic large-cap growth and into government bond funds.
 2. **Fiserv CIMCO Momentum II model** shifted into commodity/natural resource funds and out of domestic large-cap funds.
 3. **Skandia models** were in money market funds for the majority of the quarter due to deteriorating market conditions.

Window Opens to Capture Long-term Gains with 0% Capital Gains Taxes

If you want to sell some long-held investments but have been holding back because you would face substantial capital gains taxes, you may have a window to do so with lower tax consequences. Beginning this year, and extending through 2010, the long-term capital gains tax rate for individuals in the 10% and 15% tax brackets will drop to zero.

What hasn't been widely reported in the financial press, however, is that even if your taxable income exceeds the 15% bracket, you may still be able to qualify for the 0% rate for at least a portion of any capital gains you realize in 2008 through 2010. The reason for this is the progressive structure of our tax rates, where the last dollar is typically taxed at a higher rate than the first.

Who qualifies for 0%:

Based on the 2008 tax brackets, individuals must make less than \$32,550 in taxable income while couples have to remain within the \$65,100 tax bracket to take advantage of the 0% capital gains tax break. Taxable income includes all sources of income less any allowed "above-the-line" adjustments – itemized and standardized deductions, and exemptions.

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2008 Tax Brackets

Tax Rate	Single	Married Filing Jointly
10%	Not over \$8,025	Not over \$16,050
15%	\$8,025 - \$32,550	\$16,050 - \$65,100
25%	\$32,550 - \$78,850	\$65,100 - \$131,450
28%	\$78,850 - \$164,550	\$131,450 - \$200,300
33%	\$164,550 - \$357,700	\$200,300 - \$357,700
35%	Over \$357,700	Over \$357,700

What investments qualify:

The favorable capital gains treatment applies to net long-term capital gains minus net short-term capital losses, but excludes sales from collectibles, IRC section 1202 qualified small business stock (both of which are taxed at no more than 28%), and sales of depreciable real property (i.e., unrecaptured section 1250 gain, which is taxed at no more than 25%). For most taxpayers, this is simply the sum of net capital gains from the sale of stock, bonds, or mutual funds. If you sell a stock for \$60,000 that you purchased for \$30,000, only the \$30,000 in gain counts as taxable income.

Strategies to consider:

(1) If you have a choice of sources of income, such as withdrawals from a tax-deferred retirement account or liquidating stock and bond positions with long-term capital gains, you may want to consider using the proceeds of capital gains sales before other sources of income. For example, assume you file a joint return and have taxable income from various sources of \$30,000, and capital gains of \$50,000. You would pay no capital gains tax on the first \$35,100 of capital gains; this is the difference between the \$30,000 of other income and the \$65,100 maximum for the 15% bracket. You would pay 15% capital gains tax only on the remaining \$14,900, that portion that exceeds the \$65,100 maximum.

(2) If you provide financial assistance to individuals in the 10-15% tax brackets, consider gifting highly appreciated stock or bonds that you have held for over a year. The investments can be sold without capital gains taxes as long as the recipients' income remains under the maximum income levels for the 15% tax bracket. Individuals can give up to \$12,000 a year, per person, without having to file gift tax return. For married couples, this can mean \$24,000 a year without having to deal with gift-tax rules now. If you're considering gifting to a child, be aware that the Kiddie Tax rules have been extended to children up to age 24 who are full-time students, if their income is less than or equal to half the amount of their support.

(3) This may be the time to take losses or make expenditures that will reduce your taxable income to the 10-15% tax brackets to take advantage of the 0% capital gains taxes .

(4) Consider using the 0% capital gains tax opportunity to rebalance taxable portions of your portfolio to reduce individual stock risk, or to use more appropriate asset classes.

With only a three-year window, time is limited to take advantage of this 0% capital gains tax rate. Barring action from Congress, capital gains rates are scheduled to sunset in 2011, and revert to the pre-2001 rates of 15%, 28%, 31%, 36%, and 39.6%, depending upon your income bracket.

As with all strategies to reduce taxes, be mindful of unintended consequences. Be sure you will qualify for the 10-15% tax brackets before you begin selling assets. Not all gains may be eligible for the tax break. Gains from the sale of capital investments could trigger taxes on Social Security benefits, offsetting the savings from the 0% capital gains rate. Financial gifts can also impact an individual's eligibility for programs such as Medicare. Talk to your tax adviser before you make any decisions. Future legislation could change the capital gains tax rate prior to 2011.



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