

# Your Family's CFO Report

*A review of issues affecting your family's wealth*

## Welcome!

Welcome to the inaugural issue of *Your Family's CFO Report*, our new quarterly newsletter. The Chief Financial Officer, or CFO, of a company regularly reports to the CEO on the financial condition of the business. As your family's CFO, we will use this newsletter, and the enclosed portfolio report (for clients) to give you a brief overview of your family's wealth, and to discuss issues that may affect it. We look forward to this quarterly opportunity to share with you our experiences and thoughts on many aspects of wealth management. Please let us know how you like it!

Visit our new website,  
[www.smithhowardwealth.com](http://www.smithhowardwealth.com),  
to learn more about your  
family's CFO, and how we  
serve you.

## Our New Name and Look



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For nearly a decade, we have prided ourselves on providing proactive, actionable advice to our clients. While investment management is a critical part of every client relationship, we have an experienced, professional staff to serve you in other areas as well.

In the corporate sense, think of your family as the CEO, and us as your family's Chief Financial Offi-

cer. As your CFO, we help simplify your financial life, and bring an organized approach to dealing with all the issues that affect your family's wealth.

We believe our new name and look better reflect our commitment to providing comprehensive advice in all of these areas. In this space in future quarters, we will share with you examples of different ways we are serv-

ing clients, as well as other wealth management related information we think you will find interesting.

We consider it an honor to count you as a client or friend of our firm, and are grateful for the opportunity to serve as your family's CFO.



## Economic Review

The U.S. and world economies continue to hum along, despite continued weakness in the U.S. housing market, and the ensuing liquidity crunch brought on during the quarter by more trouble in the subprime mortgage loan area.

Overly aggressive mortgage borrowers, lenders and investors are certainly feeling pain that will likely take a while to work out, but there are currently still few signs that this worry

returned to the credit markets.

Globally, GDP is expected to have advanced at a blistering 5.0% rate in the third quarter.

Nevertheless, the Fed, in its constant effort to balance stimulation of growth in the economy with controlling inflation, put more emphasis on the former, as it acted

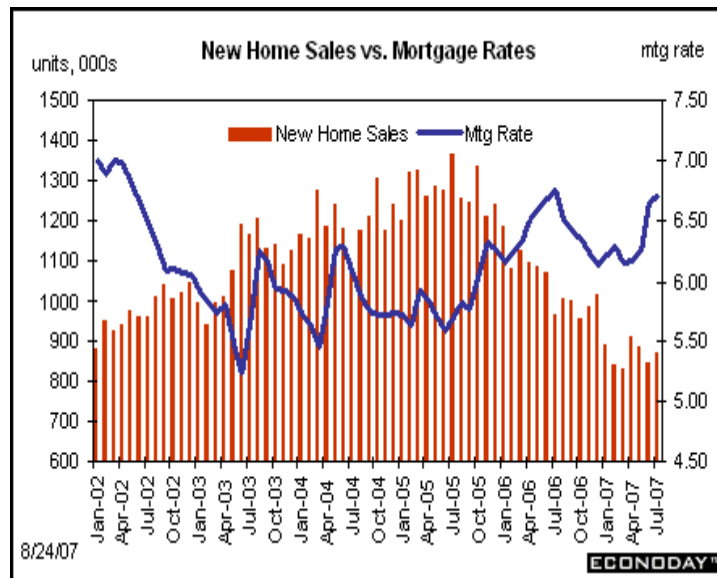
Meanwhile, to us the economy looks far from so anemic as to need an extra shot of liquidity.

Thanks to continued strength in most other measures of economic activity, many observers believe the majority of U.S. real estate markets will only experience a modest slow down.

Indeed, third quarter U.S. GDP will likely come in at about a 3% annual rate, after growing 2.8% in the second quarter. Additionally, incomes are rising, manufacturing indicators are strong, and the labor market remains tight (unemployment is 4.6% as of August).

### Economic headlines:

- *Federal Reserve cuts interest rates for the first time in 4 years*
- *Supply of homes for sale at 13 year high - first drop in prices since 1995*
- *U.S. dollar at all-time low vs. the Euro*



area will drag down the rest of the economy.

However, the highly liquid \$2 trillion commercial paper market (which funds short-term corporate borrowing) nearly ground to a halt at one point during the quarter, as investors shunned any investment that was backed by home loans. That market has since stabilized, and liquidity has largely

to cut short term interest rates by 0.50% in September.

While we welcome the market's positive response to this move, we were nonetheless a little surprised. Headline inflation, while recently retreating, remains a concern in the face of \$80 oil, \$700 gold and the U.S. dollar at a 15 year low.

# Market Review

## Dow Hits All-Time High



The Dow Jones Industrial Average (“Dow”) hit an all-time high during the quarter, crossing the elusive 14,000 mark for the first time.

It was not a straight ride up, however, as shortly after breaking the record, the Dow fell over 1,000 points in about one month, largely in reaction to tightness in the credit markets due to the subprime mess. The market staged a strong rally in September in response to the

Fed’s action, and closed the quarter again near 14,000.

The general real estate meltdown caused a sweeping repricing of risk, as those more speculative asset classes like small cap stocks and REITs, which have been the market’s darlings the past few years, came off their highs. High quality bonds performed very well for the quarter, as the flight to quality bid up prices for U.S. Treasuries and similar

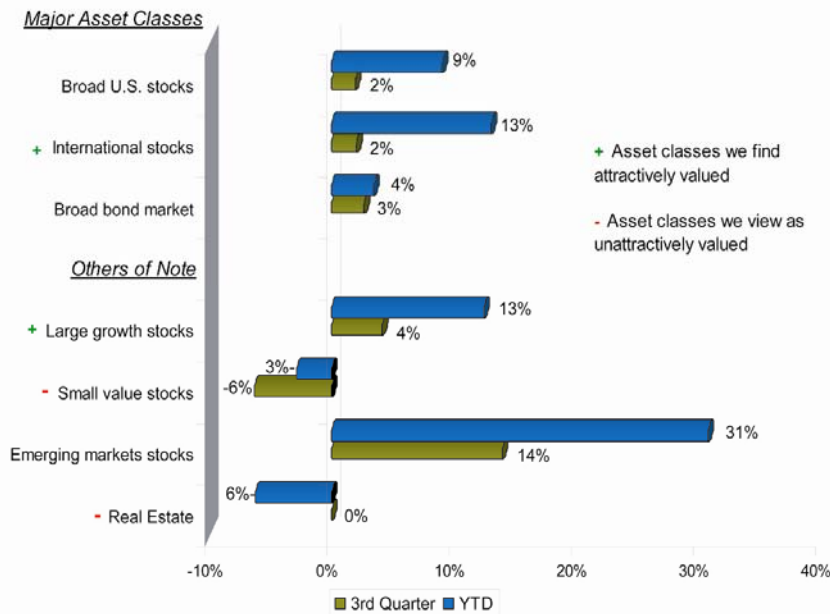
securities.

International markets continued to perform well, as the dollar again weakened against most major foreign currencies, and global economic activity appears to be advancing at a faster pace than in the U.S.

Emerging markets soared ahead 14% during the quarter, likely due to continued rising commodity prices.



Third Quarter 2007 Market Performance



*Despite a turbulent ride, most stocks rose in the 3<sup>rd</sup> quarter, and the broad market is up about 9% year-to-date.*

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## Portfolio Commentary

With the stock market continuing to trade near all-time highs, we took the opportunity to rebalance some portfolios back toward their target equity allocations. We had been overweighted to stocks for nearly five years, and have largely let gains run in most asset classes. We took this action not as a prediction of looming clouds for the stock market, but merely to capture some of the strong returns afforded our clients over the past few years.

We reduced or eliminated exposure in the asset classes we view as most overvalued:

- Small cap stocks, which are the most expensive relative to large caps as they have been in 20 years. Also, because of their mostly domestic focus, they may lag if U.S. growth trails that of foreign economies.
- REITs (real estate), which have seen five year returns that were nearly double their long-term average, are trading at high valuations, and now have dividend yields less than Treasury bonds. REIT yields averaged over 8% back in 2000-2001, when we first added them to the portfolio.
- High yield bonds, which we added to most portfolios when their yields were about 9% above U.S. Treasuries; now that spread is only 3-4% – not enough potential return given the potential risks facing the economy.

We continue to see opportunity in large cap growth stocks, which are more tied to the diversification of global markets (about half of S&P 500 company profits come from overseas). Their attractiveness is enhanced as the U.S. dollar has declined further.

## Of note...

***“To care for another enough to make their problems one’s own...the ultimate commitment of client service.”***

***- unknown***

### Charitable Giving Tip

Please consider using appreciated securities when making significant gifts to charity. Done properly, you receive a deduction based on the securities’ fair market value, while avoiding capital gains taxes on the appreciation.

Also, remember gifts can be made any-time of the year, and we often coordinate this for clients at other times, such as when the market has recently run up significantly.

Contact us for help with this or other giving techniques.

### Community Involvement

For the third consecutive year, Smith & Howard Wealth Management is proud to be a sponsor of the Bob Busse Golf Tournament. This event, which benefits the Special Olympics of Georgia, was held at Country Club of the South on October 8th. It’s a great cause, and an event to which we look forward each year.

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WEALTH MANAGEMENT**

*Your family’s CFO.*