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Fourth Quarter 2007 Market Commentary

In spite of the many unpleasant surprises for economic policymakers and investors during 2007, few years historically have better shown the resiliency of the U.S. economy and equity markets. Consider the following: Oil approached \$100 per barrel while the U.S. dollar lost substantial value against most major currencies. The housing market collapsed, accompanied by the sub-prime mortgage market meltdown. Poor lending (and borrowing) practices and imprudent ratings on debt consolidation pools led to large write downs at several major U.S. banks and brokerage firms. Banks reacted by slowing lending activity to consumers and other banks. Discontent with the war in Iraq and national political leadership continued. In spite of these events, the U.S. economy continued to expand and the U.S. stock market (as measured by the all equity Wilshire 5000 Index) rose 5.6% for the year.

The economic outlook for 2008 is likely to follow on from the last half of 2007. Given that the U.S. economy is clearly slowing and that mild recent core-inflationary pressures will likely abate, the Federal Reserve Board will undoubtedly continue to lower short-term interest rates. The probable result will be a continued weakening of the U.S. dollar versus major foreign currencies. In particular, the currencies of Asia Pacific countries (e.g. Indonesia, Singapore, Malaysia and Australia) seem destined for further gains due to strong import activity from neighboring trading partners China and India. Sovereign wealth funds from many of those same countries will likely continue their investments in troubled U.S. financial and industrial companies.

As the global economy continues the process of rebalancing between nations that are borrowers and importers versus those that are lenders and exporters, WMN client investment portfolios will have ongoing exposure to multiple investment themes. Larger cap domestic stocks remain attractive relative to smaller cap stocks, while companies with a large percentage of profits from overseas operations also remain attractive. We continue to have tactical weightings in emerging market currencies (through short-term bonds) and commodity indexes. All three of those allocations added value during 2007. Shifting global demands for energy resources, water purification infrastructures, and environmentally friendly energy generation continue to provide opportunities for investors. Hedging tactics within the alternative strategies asset class will continue to provide insulation against short-term "surprises" within our longer-term secular themes.

In our view, the range of possible outcomes for the financial markets in 2008 is wider than usual. Short-term volatility and hypersensitivity to "economic news" will likely continue during the coming months. In addition, investment returns could be back-end loaded, with strength emerging in the second half of the year. Delays in clarity regarding the likely nominee from each major party in the Presidential election will also contribute to financial market uncertainty.

We will continue to focus on doing our best to maintain adequate risk protection over a one-year time horizon based on the risk tolerance of each client, while keeping an eye on the more important goal of long-term returns. This common sense approach has served us well for many years.

We thank each of you for entrusting us with the management of your liquid investment portfolio assets and wish you health and happiness in the New Year.


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