

Freedom One Investment Advisors Market Commentary - May 2008

By Norman C. Leon, Investment Analyst

Domestic stock markets made healthy upward progress in May, returning 1.3% using the large company S&P 500 Index as proxy, though the S&P is down 3.8% for the year. Small and mid-sized company stocks were notably strong during May, up 5.3% for the S&P MidCap 400 Index and 4.6% for the small-cap Russell 2000 Index. These two indexes the two best-performing major stock market indices year to date, up 3.4% and down 1.8%, respectively. Meanwhile, after a strong first quarter, the Lehman U.S. Aggregate Bond Index, was down 0.7% for May, up 1.2% year to date.

Despite the moderate gains in May, the ride was anything but calm, as soaring oil prices simultaneously fueled both inflation and recession fears, which lead to a sell off in bonds and financial stocks. Efforts to explain the breathtaking rise in oil prices to a recent high of \$135 per barrel have touched off a flood of commentary from the media. Lower interest rates have caused the Dollar to weaken which has increased the price of many items, but especially crude oil which is traded globally in U.S. Dollars. In our view, the direction of oil prices over the balance of 2008 and 2009 will be a key influence in how the U.S. equity markets and our economy perform over this period. In fact, the Fed may need to raise rates to curb inflation. Anecdotal evidence suggests that the long-awaited demand response may have begun. Airlines are slashing capacity, high fuel-consumption SUV's and truck sales have declined markedly, while mid-size and economical cars are flying off the lot, and public transportation through buses and railroads has dramatically increased. The supply/demand response takes time, but have reached a tipping point.

With current interest rate levels, the Federal Reserve and Chairman Ben Bernanke have been imploring banks to continue recapitalizing and strengthening their balance sheets. Year-to-date the Federal Funds Target Rate, the interest rate financial institutions *loan from one another* to meet lending requirements, was reduced a cumulative 2.25% and the Fed added new lending facilities to meet the liquidity needs of financial intermediaries across the full banking spectrum. Though we may not be 'out of the woods' yet with the sub-prime mortgage/credit market contagion, the combined efforts of both the Federal Reserve (thru monetary policy) and the Administration and Congress (thru fiscal policy) can not be underestimated.

Before closing, we'd like to highlight a couple of other encouraging developments. Despite the ongoing credit market crises, continued weakness in housing, and the recent spike in oil prices, the U.S. economy appears to

have narrowly avoided recession, to this point at least. The nation's economy's first quarter Real GDP growth was modestly positive (up 0.9% year/year). Clearly our nation's ability to absorb bad news without buckling has been quite impressive.

In light of these challenging times in 2008, we encourage you to pursue your strategic initiatives by selecting amongst the five risk-based Managed Account Portfolios (MAPs). Being a long-term investor (beyond ten years), and knowing that market timing is impossible to do on a consistent basis, it's imperative you stick to an appropriate risk-based asset allocation portfolio that is consistent with long-term financial goals. For additional information, contact Freedom One's Client Service Department at 248-620-8100. You can also speak with your Retirement Consultant at your next open enrollment.

Market Overview – Total Returns			
	Past 12 Months	Year-to-Date	May 2008
U.S. Bonds <i>(Lehman Aggregate Bond Index)</i>	6.9%	1.2%	-0.7%
U.S. Stocks <i>(S&P 500 Index)</i>	-6.7%	-3.8%	1.3%
International Stocks <i>(MSCI EAFE Index)</i>	-2.0%	-2.6%	1.2%
Source: Zephyr StyleADVISOR Past performance is not a guarantee of future results. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.			

