

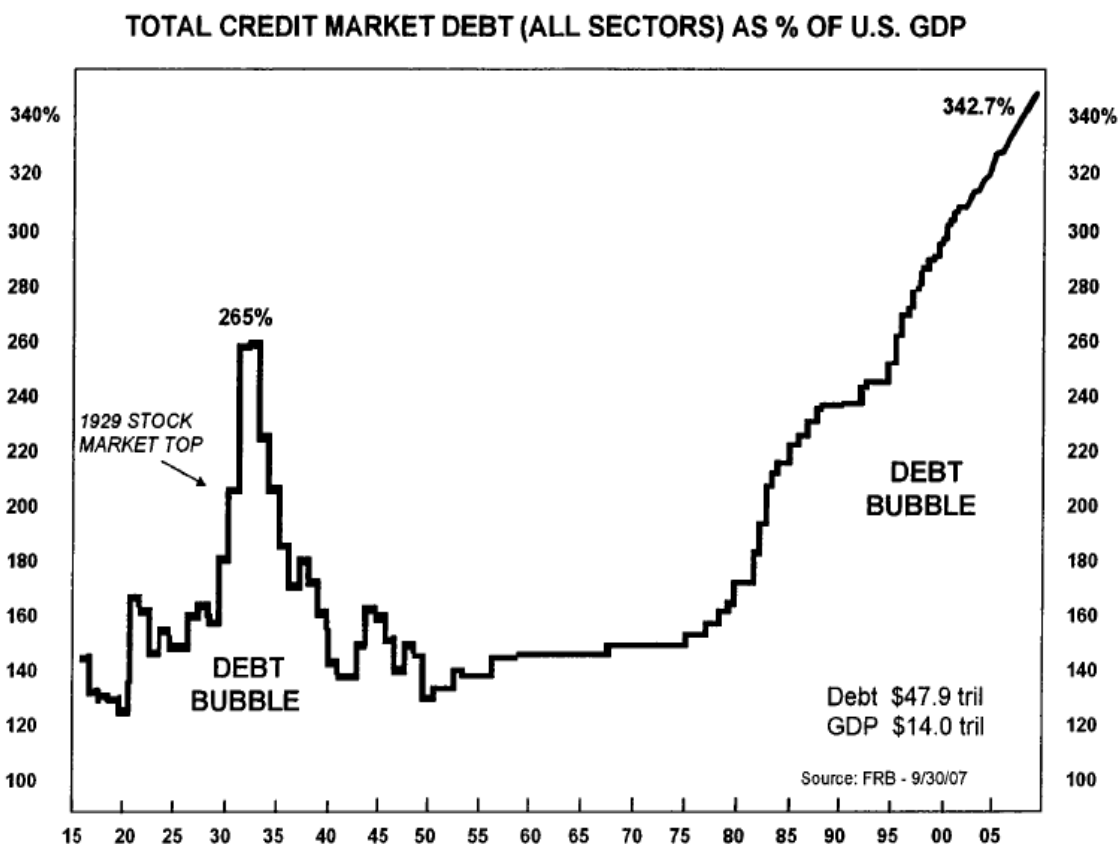
## 1<sup>st</sup> Quarter 2008 Market Commentary and Outlook U.S. Housing Crisis Morphs into Global Margin Call

While Beaumont has long been positioned for the current storm battering the financial markets, the storm's severity and reach has been both unpredictable and sobering. We think weather forecasting is an appropriate analogy in this case. Like meteorologists, we also utilize models and history in an attempt to predict the direction, speed, severity, etc. of a coming financial storm. The common problem that weather forecasting and financial advising share is the many unknowns; the random variables. In the case of financial markets, the major random variable is investor psychology and emotion. Why is Bear Stearns worth \$30 one day and virtually nothing the next? Why do depositors trust their bank one day and then run on them the next? What started out as a mortgage finance/housing crisis in the U.S. has now morphed into a "global margin call". The U.S. economy and, specifically, the U.S. consumer are leveraged to levels not seen before (See Total Debt to GDP Chart below) and as a result are in a very precarious position. **In a nutshell, the U.S. economy has been substituting credit for savings over an extended period of time and has used it to inflate asset prices. The U.S. consumer has been funding an unsustainable life style with paper profits generated from these leveraged assets while their savings rate has declined to zero.** The reversal of this leveraging spiral (hopefully a slow process) will unfortunately be a very painful experience for our economy and, potentially, the global economy as well.

<u>Total US Debt</u>				
(source Merrill Lynch)				
(seasonally adjusted, billion of US\$) – by sector				
	<u>1990</u>	<u>2007</u>	<u>% of total</u>	<u>'90-'07 CAGR</u>
Domestic Nonfinancial Sectors	\$10,835	\$31,212	64%	6%
Federal Government	\$2,498	\$5,122	10%	4%
Non-Federal Dom Nonfin Sectors	\$8,337	\$26,090	53%	7%
Households	\$3,596	\$13,825	28%	8%
Home Mortgages	\$2,504	\$10,509	22%	9%
Consumer Credit	\$824	\$2,551	5%	7%
Non-financial Business	\$3,753	\$10,075	21%	6%
Non-farm Non-financial Corp	\$2,536	\$6,330	13%	6%
State & Local Govt	\$987	\$2,190	4%	5%
Domestic Financial Sector	\$2,614	\$15,751	32%	11%
Foreign Sector	\$318	\$1,845	4%	11%
Total Economy Wide Debt	\$13,767	\$48,808		8%
GDP	\$5,849	\$14,084		5%
DEBT as a % of GDP	<u>235%</u>	<u>347%</u>		

### You Do The Math!

As one can see from the highlighted areas in the table above, the most egregious growth rates over the past 17 years came in the home mortgage and domestic financial (Wall Street) sectors, 9% and 11% respectively. These two sectors account for 55% of the total \$49 trillion of debt in the U.S. economy. For those non-math majors, if we turn dollars into seconds - (a million seconds is 12 days, a billion seconds is 32 years, a trillion seconds is 32,000 years and 49 trillion seconds is 1.5 million years)! The chart below (source: Gamco Mathers Fund) gives a longer term perspective regarding the growth of debt (all sectors) in our economy relative to GDP. Prior to the 1980s, this ratio ran at levels closer to 150% of GDP (compared to the almost 350% today). In a word, what has happened is SCARY!



**Warren Buffet recently commented “the tide is going out and we will now find out who has been swimming naked”.** Bottom line, many investors will be caught holding assets that have market values below the debt that was used to finance them with financial losses likely to occur. PIMCO portfolio manager Bill Gross estimates that 10% of all U.S. homeowners now find themselves with little or no equity as a result of declining home values. This number could approach 20% if housing prices continue to decline. For those that do not find themselves directly impacted, there still will be pain to share. At present, we have a somewhat desperate Federal Reserve that is flooding the economy with liquidity in an attempt to let the air out of the leverage balloon slowly. The sad truth is they really have no other

option. Unfortunately, the result will be further weakening of the U.S. dollar and “serious” inflation. Both results will have long term negative implications for the standard of living in our country.

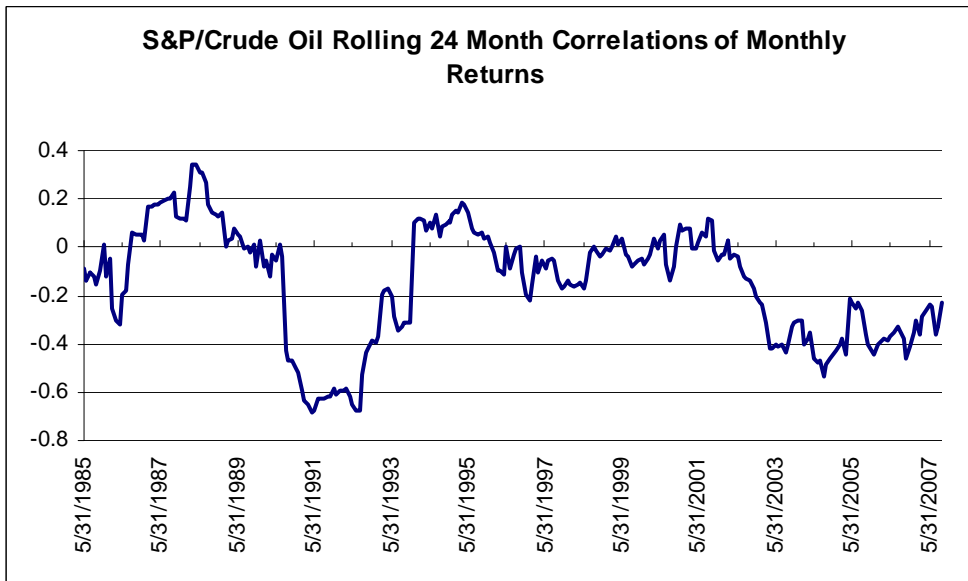
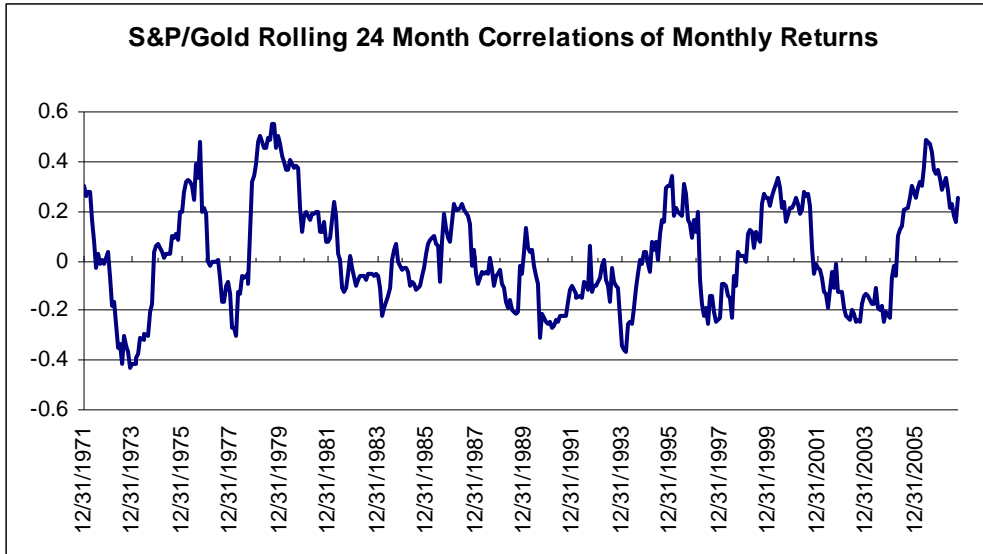
**How Beaumont Financial Partners is Positioned to Protect Client’s Assets and Capitalize on the Coming Inflation...**

Similar in thought to the leaders in the endowment space (Harvard and Yale), BFP has been an early adopter of the progressive asset allocation outlined below. While these allocation statistics represent a composite view of Beaumont and do not represent a single client, they do demonstrate the clear conviction and commitment to hard assets. Unlike the traditional 60/40 or 70/30 portfolio mix of less sophisticated advisors, our approach emphasizes exposure to non-traditional “alternative” asset classes. For Beaumont, this includes exposure to energy, precious and industrial metals, currencies, and agricultural commodities.

<b>Asset Allocation</b>	<b>BFP</b>	<b>Harvard</b>	<b>Yale</b>
<b>Equity</b>			
<b>Total Equity</b>	<b>29%</b>	<b>31%</b>	<b>27%</b>
<b>Fixed Income</b>			
<b>Total Fixed</b>	<b>21%</b>	<b>13%</b>	<b>4%</b>
<b>Alternative Investments</b>			
<b>Total Alternative</b>	<b>40%</b>	<b>61%</b>	<b>69%</b>
<b>Cash/Cash Equivalent</b>	<b>10%</b>	<b>-5%</b>	<b>0%</b>
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

**Asset Allocation – Risk Control and Alpha (performance) Generation**

BFP not only utilizes our asset allocation methodology as an alpha (performance) generator, we also use it as a risk control tool. Due to their low levels of return correlation, (see following charts where 1 = perfect correlation, 0 = no relationship, and a negative number indicates that the assets actually have returns that move in opposite directions) combining hard assets including precious metals and energy with traditional asset classes has been an excellent way to reduce total portfolio return volatility (risk). While individual commodities have a history of volatility, when they are combined with traditional asset classes the peaks and valleys tend to offset each other. Therefore, not only do we see these assets as excellent inflation hedges and hence performance generators, they also offer very low return correlations and an excellent mechanism for risk control over time.



Source: Morgan Stanley

**Strong 2007 Results Carry Over in the Face of a Tough 2008 First Quarter**

Performing well in up markets like 2007 is a satisfying experience. However, the true test of our investment philosophy and process is our ability to minimize damage in down markets. In that context, with traditional benchmarks off (S&P 500 -9.4%, DJIA -7%, NASDAQ -13%) during Q1, to be able to deliver flat to slightly negative results for the majority of our clients is a testament to our allocation strategy.

If you have any questions or comments please contact us at 781-237-7170 or e-mail me at [mstack@bfparkers.com](mailto:mstack@bfparkers.com).

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