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FINANCIAL CONCEPTS, INC. – QUARTER 2 - 2008.

MARKET RESEARCH & INVESTMENT COMMENTARY 3:

Dear Clients:

The past few weeks have officially begun summer on Wall Street as well as coincided with the ending of the second quarter. Historically, this is the *slow season* during the year for the markets, but there are several areas we are watching:

CONSUMPTION:

Consumer spending which accounts for 70% of gross domestic product rose 1% in the first quarter of 2008 versus a 2.3% gain in the first quarter of 2007, thus supporting the fact that domestic spending is relatively weak. Recent economic stimulus checks from the federal government are expected to help the consumer despite higher food and energy costs.

The index of producer prices jumped 1.4% in May, the largest increase since November 2007, as economists predict even higher food prices due to ethanol based demand for crops and the catastrophic flooding taking place in the Midwest. Driven by these factors, the average annual inflation rate for consumer prices has jumped from 2.85% to 4.08%.

Personal income growth edged up 0.2% in April, just half the 0.4% rise in March, while the savings rate held steady at 0.7% in April, the same level as in months past. U.S. productivity rose at a 2.2% annual rate in the first quarter, a sign that companies are cutting back on workers and hours resulting in overall payrolls being reduced this year. *(see footnote 1)*

EARNINGS:

For the most part earnings season is basically complete, with the majority of S&P 500 companies reporting numbers that were in line and or better than expected compared to overall estimates. This represents a slight loss in the 2nd quarter, solid earnings growth in the 3rd quarter and an expected strong 4th quarter as we approach the winter months. *(see footnote 2)*

EMPLOYMENT:

The government estimates that the economy grew at an annual rate of 0.6% in the first quarter of 2008, with growth expected to pick up as a result of lower interest rates and the economic stimulus plan. The Bureau of Labor Statistics reported unemployment for non-farm payrolls rising to 5.5% in May, making it the largest increase in more than two decades, as the economy has shed on average about 65,000 jobs per month during most of 2008. *(see footnote 3)*

RETAIL SALES:

The rise in May retail sales and upward revisions showed stronger figures than previously reported this spring, allowing economists to feel more secure that the economy is experiencing a current slowdown and not a full blown recession. The Commerce Department reported retail sales rising around 1% for much of March and April, the largest increase since November 2007. These figures came mostly from general retailers, department stores, and merchandisers. *(see footnote 4)*

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OIL PRICES:

Soaring oil prices continue to dampen the outlook for stocks, as crude prices have risen 39% so far this year and more that doubled in price within the last 52 week period. Futures prices recently touched $142.00 per barrel, as market momentum continues to push prices deeper into record territory after an unexpected slump in U.S. oil inventories.

As the world's largest crude exporter, Saudi Arabia, has hinted it may raise output by roughly 500,000 plus barrels a day in the next few months to come, so that new supplies will approach 10 million barrels. For much of this past spring, the daily oil output has been range bound from 9.2 to 9.6 million barrels a day, as higher prices threaten economic growth.

OPEC cut its oil consumption forecast for the year, largely because of high prices and a slowing U.S. economy, but said demand in developing nations continues to grow. The petroleum consortium now expects demand to increase by 1.28% to an average of 86.9 million barrels per day, down from a previous forecast of 1.35%. *(see footnote 5)*

TRADE DEFICIT:

The U.S. trade deficit has jumped to its highest level in the past year and a half, driven mostly by increases in petroleum imports as the cost of oil is expected to rise even higher in coming months. Many economists are looking for the deficit to shrink this year as cuts in consumer demand for imports and the weak dollar should boost U.S. exports. *(see footnote 6)*

HOUSING:

The state of the housing market continues to weaken, with Standard & Poor's announcing a record 14.1% year-over-year drop in the Case-Shiller National Home Price Index for 20 major cities in the first quarter. Over the past year, the number of foreclosures per 10,000 homes jumped from 23 to 131 locally, while the national average increased from 58 to 87. Even if demand stabilizes, the large number of unsold new and existing homes may continue to put pressure on prices.

In most major cities, with New York as the exception, prices are falling and sales statistics indicate that the number of homes currently for resale climbed 10.5% in May. It would take a record 11 months to unload the entire existing inventory, compared to historical sales levels of just 5 months. Mortgage applications for the entire country fell 8.7% in June, with refinancing activity dropping to a 2 year low with applications for loans falling 4.3% respectively. *(see footnote 7)*

INTEREST RATES:

In overseas markets, the European Central Bank recently raised interest rates to 4.25%, while the Bank of England kept its benchmark rate steady amid Euro zone inflation hitting 4.0% in June from a rate of 1.9% a year earlier. Rising inflation has increased the pressure on both the ECB and BOA to raise interest rates, despite the risk of slowing economic growth.

The Federal Reserve decided to leave interest rates unchanged at 2% on June 25th and currently does not see a compelling case for raising interest rates before the Fall, unless the current outlook deteriorates considerably. Investors will be looking at several employment reports and several gauges of inflation that will be released by Labor Day weekend.

Officials acknowledge they are fighting a difficult, two-front war against slow economic growth and high inflation fed by soaring commodity prices. These reduced expectations reflect the continuing housing downturn and credit crunch, as well as rising prices for food and energy. This all points to the notion that rates may remain unchanged for 2008. *(see footnote 8)*

THE DOLLAR:

The dollar hit its highest level against the yen in more than three months on the back of stronger U.S. retail sales data and fresh concerns about inflation from the Federal Reserve. The U.S. currency has been range bound for several months, anticipating any and all moves in interest rates. As the European Central Bank will most likely raise interest rates in July to curb inflation, the spread between the euro and the dollar could widen, further depressing the dollar's value. *(see footnote 9)*

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FINANCIAL MARKET DATA AND STATISTICS FOR JULY 11, 2008

Year to Date Statistics	Current Rates	Current Yields
DOW – Down 15.3%	Oil Price - $141 a barrel	Federal Funds – 2.00%
NASDAQ – Down 14.9%	Gold Price - $940 an ounce	30 Year Mortgage – 6.27%
S&P 500 – Down 14.6%	Euro per Dollar – 0.6338	10 Year Treasury – 3.81%
Russell 2000 – Down 12.5%	Core Inflation – 4.08%	5 Year CD – 4.06%
Volatility – UP 13.7 %	Unemployment – 5.5%	Money Market – 2.43%

In closing,

We decided a few weeks ago to put only 20% of existing cash balances to work and keep the remaining investable assets in money market cash equivalents. We are again waiting for another opportunity to make further investments this year.

Thank you,

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Foot Note Source Disclosure:

footnote 1 – Investors Business Daily, June 2008; footnote 2 – The Washington Post, April 2008; footnote 3 – Barron's, May 2008; footnote 4 – Business Week, May 2008; footnote 5 – The Wall Street Journal, April 2008; footnote 6 – Equities Magazine, June 2008; footnote 7 – Yahoo Finance, June 2008; footnote 8 – Fortune Magazine, April 2008; footnote 9 – Trader Monthly, April 2008; and footnote 10 – Wealth Manager – May 2008.

There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio in any given market environment. The price of commodities is subject to substantial price fluctuations of short periods of time and may be affected by unpredictable international monetary and political policies. The market for commodities is widely unregulated and concentrated investing may lead to higher price volatility. Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications, and other factors. Foreign investments involve special risks including greater economic, political, and currency fluctuation risks, which may be even greater in emerging markets. Indexes cannot be invested in directly, are unmanaged and do not incur management fees, costs or expenses. Investors should be aware that there are risks inherent in all investments, such as fluctuations in investment principal. With any investment vehicle, past performance is not a guarantee of future results.

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