Lesjak Planning CORPORATION

The Advisor

SUMMER 2007

Market Comment

As usual, just when you least expect it, sanity returns to another market segment. In year 2000, it was the technology bubble; this past month the loose lending practices in the mortgage business came to roost. Although the subprime lending market (loans granted to those with questionable repayment capabilities) reached its peak over a year ago, the slowdown in housing sales has magnified the effect on the lenders. Add to this the fact that the media has thrown its full attention to this “impending doom” and we have seen the emotional trading that occurs in the markets as investors sell now and ask questions later.

One can argue that borrowers who took out variable rate mortgages will not be able to pay the higher payments due as interest rates increase, will default on their loans and then lose their homes. Therefore, lenders will suffer significant losses that will ripple through the economy. However, our research tells us that this scenario probably won't play out. There were many loans made that were questionable, and a few more firms will close their doors as they simply run out of money. But, for the most part, bad loans continue to be a manageable percentage of the major lenders' portfolios.

The implications of this current credit crunch can be widespread, which is the reason it is receiving so much attention. As lenders tighten their lending requirements and slow the availability of cheap money, they begin to choke off related industries that depend heavily on the availability of easy credit.

Homebuilders rely on readily available credit to sell houses. Many have built spec homes which they haven't sold that now sit in their inventory at a cost. They lay off their workers which in turn affects the workers ability to pay their own debt. This vicious cycle often gets quite scary until it works itself out. Depending on the actions of the Federal Reserve Board and their decisions regarding interest rates, this volatility could last well into 2008. The return to sanity is never easy or predictable.

The good news is that overall, the companies that offer their stock on both our domestic and international markets, seem to be in good financial shape. Earnings continue to be good and valuations are near their historical norms as calculated by the management teams we choose to use. Unlike the bubble in 2000, companies for the most part are fairly valued today. Recently, conferences with our select investment managers verify that they are not having trouble finding new companies to buy that meet their criteria of value.

Other areas in the investment arena are not so rosy. Bonds of high risk companies have, until recently, been purchased in droves with no regard to the risk these companies presented. Even bonds rated at a low “C” rating sold briskly. No more. Abruptly a few weeks ago, investors realized the risks they were taking and demanded to be compensated immediately through higher interest rates. The market imploded. These so called defensive hedge funds

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that became so popular five and six years ago can multiply their losses very quickly using the same strategy that magnified their gains in the past.

Investors not happy with the paltry 6%-7% returns in the markets following the decline from 2000 to 2002 looked anywhere for higher returns. As in the past, a vehicle arose to accommodate them. Private Equity firms specialized in buying and rebuilding troubled companies. The funds used for buying these businesses were mostly borrowed at cheap rates. Many borrowed up to 80% of the purchase price or more. Flush with cash from new investors, these firms began pushing up prices to wild heights. It was not uncommon the past few years to have several private equity firms bidding against each other to get a deal done. To give an example how far this went, the average buyout price of a company in 2002 was just four times cash flow. By early this year the average buyout price was up to 15 times cash flow! This is about the same level that the leveraged buyout market blew up in the late 1980's.

The bottom line again is greed taken to the extreme. Suffering this time again will not be limited to the pros or the wealthy. Ordinary investors, who got sucked into the frenzy of the private equity plays, or even junk bond mutual funds, will feel the pain before this is over.

We feel that quality investments with good business models will come through this emotional upheaval well and will actually attract money as it moves from investors fleeing the current trouble sectors. Our experience from these market cycles in the past help us to stay in tune with viable strategies with good management. We are confident that in the long run this strategy will permit consistent growth with manageable volatility.

Market Summary
Year to Date

Dow Industrials	+ 3.1%
Dow Transportation	+ 2.5%
S&P 500 Index	- 0.5%
NASDAQ Composite	+ 1.5%
Russell 2000	- 2.4%
International	- 3.0%

How is our economy...Really!

Recently, the Wall Street Journal printed an article about how media reporting can influence Americans' view of our economy. In their story, they quote an economic forecasting survey taken in July that shows 49 out of 60 forecasters expect American Gross Domestic Products to grow at 2% or faster this year. Of the remaining 11 forecasters, only two expect growth of less than 1%. For 2008, these forecasters are even more optimistic, with none forecasting a recession. These results, it would seem, point to an economy that is expected to expand in the near future. These forecasters believe this and in fact have believed so for the past four or five years.

Another poll taken in late July, found that 68% of Americans thought our economy was either in a recession already, or would be in one during the next 12 months. Interestingly, this same survey question was asked at least five times since 2002. Each time a majority of between 65% and 85% thought a recession was imminent. This shows Americans have been bearish on the economy for quite a while.

No one is suggesting economists are always correct, but the numbers prove them out over the last five years. Unemployment is almost a full percentage point below its 20 year average of 5.5%. Recent research shows that incomes for the bottom fifth of wage earners have risen faster in the past few decades than income of the top tier. Stranger yet, the report states that a July poll in which 68% of those surveyed rated their own financial situation as “good, very good, or excellent.” This is a large increase from the 46% of Americans polled in 2003 that said they were “hopeful or happy” about their financial situation.

So, if the actual economic data and the views of professional economists, along with the self proclaimed personal situations of the majority of Americans have improved this much, why then are people taking such a dim view of the economy? More and more fingers seem to point to the watching of the news. It may be that the format behind most business journalism skews perceptions and creates pessimism. We've all heard that old phrase, “good news doesn't sell papers.”

In today's world of constant technological advances, along with the strong global economy, the living standards for billions of people have been raised considerably, and promise to be even better in the years to come. Take some time to enjoy the prosperity you have worked hard to achieve and stop fretting over the future. Although the past cannot guarantee the future, it has amassed a pretty strong track record.

Survey Results

We would like to thank everyone who participated in our most recent survey. The number of responses was outstanding and we are very pleased with the results. Our commitment to you has and always will be first and foremost in our minds. If you did not have an opportunity to complete the survey, please contact us to request an additional copy. Results for the survey can be viewed on our website at www.lesjakplanning.com/survey. If you desire, please call for a hard copy.

thanks

The Homestead Exemption for Ohio

The Homestead Exemption allows eligible Ohio homeowners to shield $25,000 worth of the market value of their home from their local property taxes. Based on current data, this would save the average homeowner roughly $400 per year. Until recently, the exemption was only available to senior citizens who met certain income requirements.

As of June 30, 2007, the exemption is now available to all Ohio homeowners who are over the age of 65 or permanently and totally disabled. A homeowner is also eligible if they are the surviving spouse of a qualified homeowner and was at least 59 years old on the date of their spouse's death.

The new Homestead Exemption starts with tax bills payable in 2008. However, you must apply for the exemption by October 1, 2007 to receive the exemption for 2008. Contact your tax accountant if you feel this is something you can benefit from. For further information contact the county auditor in which your personal residence is located or visit the Ohio Department of Taxation website (www.tax.ohio.gov). Please contact us if you would like assistance in gathering the information or discussing it in more detail.

Nursing Home Usage Declining

Recent studies are reporting the use of nursing homes is on the decline. In particular, the decline is greatest among the oldest of the old. Conventional wisdom would suggest that nursing home usage should be increasing since people are living longer. However, there are several factors believed to be responsible for the decline.

Interestingly, a greater amount of people are pursuing alternatives to nursing homes such as home care, assisted living facilities, and community based services. Government programs are providing more money for the alternative services and more long term care programs are covering such services. The report also concluded that older individuals are healthier than in the past, and are wealthier, giving them access to alternative programs.

Specifically, the report found that nursing home usage by Americans over age 65 declined from 4.2% in 1985 to 3.6% in 2004. The greatest decline occurred among those over age 85 from 21.1% down to 13.9%. Not surprisingly, considering the improvements in health care over the past 20 years, the average length of stay declined from 2.9 years to 2.4 years.

Fourth Annual Charity Golf Classic

Mark your calendar for Monday, **September 17th, 2007**. This year the golf outing will benefit Lakewood Hospital Foundation Children's Diabetes Program. Over the previous three years, the golf outing has generated $20,000 to benefit local charities in the Westlake, Ohio area. We look forward to another successful outing with plenty of friendly banter and enjoyable company. If you would like to participate in the outing, please call the office to reserve your spot. Please note that space is limited.

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Information cutoff date: 8/16/07