

May 2007

Dear Clients & Friends:

After a challenging winter, spring has arrived! As is customary in our periodic newsletters, we would like to make you aware of recent personal financial news, trends and issues, and keep you informed of developments at PFPFG.

FINANCIAL MARKETS

Foreign stocks and real estate investment trusts continue to be the market leaders so far in 2007. Their five-year average annual returns (exceeding 15% and 20% respectively) trump all other traditional asset classes through 3/31/07. Close behind is the performance of small-company stocks, which have bested large caps by a wide measure over the same period.

The upshot, in our estimation, is that these assets may be reaching the end of the current cycle of relative outperformance. Valuations by traditional measures are not especially attractive. Foreign stocks have bested domestic peers by an average of almost 10% per year since 2002. REITs have experienced a massive decline in dividend yields since 1991 (one measure of priciness) and they now yield less than 10-year Treasury Bonds – an inversion of the usual relationship. Small-cap stocks as a group are selling at a premium to their long-term norm based on earnings.

The good news is that blue-chip US stocks do not look demonstrably overvalued. Moreover, bond yields appear reasonably attractive and money-market rates are still compelling. As always, we encourage investors to exercise caution and not let themselves drift from established long-term strategy unless there is a good reason to do so. Nobody can reliably predict the direction of the overall market or its various segments, so broad diversification remains paramount.

RESIDENTIAL REAL ESTATE

Home sales in Maine continue to show signs of weakness. In March, statewide sales fell 12% compared to the prior year's period, although the median sales price rose slightly. Southern Maine, where most of our clients live, was relatively weak through the first three months of the year. Both prices and sales volume fell slightly in Cumberland County versus 2006 Q1, but declined more dramatically in York County. Lincoln and Sagadahoc counties have had mixed results.

On the whole, the cooling market is probably good news for buyers, while sellers may have to be more patient in finding a buyer willing to pay full value. We feel that the housing market is extremely sensitive to any economic slowdown and to rising interest rates. If either occurs this year, the softening of home values will be sustained and likely deepen.

SEC DECISION CLARIFIES FIDUCIARY STANDARD

On May 15, the Securities and Exchange Commission announced that it would not appeal a recent court decision to strike down the "Merrill Lynch Rule," which allowed broker-dealers to offer fee-based account services resembling those offered by financial planners without adhering to fiduciary standards stipulated in the Investment Advisor Act of 1940. The Financial Planning Association representing

CFP practitioners had filed a lawsuit against the SEC to the chagrin of many broker-oriented trade groups and associations. TD Ameritrade was the only major brokerage firm to support the elimination of this glaring loophole.

What is a “fiduciary”? It is an advisor who holds a position of “special trust and confidence” and who acts with “undivided loyalty to the client”. This higher standard of ethical practice has always applied to financial planners and registered investment advisors like PFPG. However, brokers offering “incidental” financial planning have been regulated under a different system which is ambiguous as to their legal duty. Now brokerage firms will have to better disclose what service they are providing and whose interests they represent.

PFPG GIVING PROGRAM

Last year PFPG donated a percentage of our profits to the Natural Resources Council of Maine, a nonprofit organization committed to protecting Maine’s environment; Pro Mujer, which helps Latin America’s poorest women to build livelihoods for themselves and their families; and the Portland Public Library. If you’d like to know more about these organizations and what they do, please check out the links in the “Charitable Giving” section of www.pfpg.com.

Brian will again be supporting the American Lung Association of Maine by participating in the three-day Trek Across Maine bicycle ride. Held annually on Father’s Day weekend, the ride covers approximately 180 miles, from Sunday River in Bethel to the Owls Head Transportation Museum near Rockland. To learn more about the American Lung Association of Maine or to sponsor Brian for this good cause, visit the link posted on www.pfpg.com in the “Community Involvement” section.

PFPG NEWS

Tom attended the annual NAPFA Conference in Chicago in early May to learn the latest about portfolio management, retirement planning, and estate planning. Speakers included Lee Eisenberg, author of a fascinating book called *The Number: A Completely Different Way to Think About the Rest of Your Life*. In January, Brian traveled to Denver to participate in the Standards Setting Meeting for the Certified Financial Planner Board of Standards. This panel of CFP professionals helps set the benchmark for financial planners seeking to pass the CFP certification exam. Brian will participate in a comparable process at the CFA Institute, in which Chartered Financial Analysts from around the world will evaluate the Institute’s examination standards.

We’re quite happy to announce that Debra Yoo joined our team as Office Administrator in early April. Debra was formerly the Assistant Registrar for Continuing Studies at Maine College of Art, where she had ample opportunity to make use of her organizational skills and database experience. She is also a fine artist with work in many private and corporate collections, and recently she participated in a three-person still life exhibition at Whitney Art Works in Portland. You can see examples of her work on her Web site www.debrayoo.com and in our office. Debra holds a BA in Fine Arts and the Humanities from the University of Chicago. She lives in Portland with her husband David and cat Sophie.

Have a fun-filled summer!



Suite 814
477 Congress Street
Portland, Maine 04101

Phone (207) 771-8821
Fax (866) 855-8210

www.pfpg.com

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