

BEALL

Financial Planning • Wealth Management

Spring 2008

Important Dates!

- Birthdays: May 14th-Betty, May 30-Jim, June 21-Holst
- Office Closures: Memorial Day & July 4th.
- Colleen & Scott's Anniversary is May 18th!
- Note: Our Privacy notice is included on the website and with this quarter's newsletter.

Celebrating 50 Years of Banking & Finance!



Holst C. Beall, Jr. from when he worked at People's bank

Friends,

This year marks 50 years of banking and finance for me. Some of you have even been with me since I started in banking. To all of you, I want to say thank you for your trust and faith in me for all these years. It has been a rewarding experience for me.



Holst working today at Beall Financial Planning.

The Twilight Zone

Inside this issue:

Important Dates	1	You have now entered the Twilight Zone. That time of a recession where things start to look up. For instance some companies will report good earnings and the pundits will all want us to look at this and tell us the bad times are all behind us now. Congress is returning some of your hard earned money in May & June so that is good news.	over until Housing starts to recover and prices for food and energy start to stabilize. Expect the stock markets to be volatile, prices on most consumer goods to rise, and misleading statistics (it is an election year). Expect it to last longer than the pundits tell you and know that the sun will rise and the economy will grow again.
Celebrating 50 years!	1	This is the Twilight moment that sliver of sunshine before the darkness of night.	
The Twilight Zone.	1	However, the consumer is key in this recession and the consumer is cutting back to the necessities. It is due mostly to the rapid rise in energy costs and food costs. This recession will not be	
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Joshua at 7 months practicing his standing and walking technique.

One Year Ago...

One year ago, I wrote about the rising cost of corn and planting some in my garden. The corn from the garden was good and I am planting another garden this year. I also talked about how the Ethanol subsidy passed by Congress was leading to higher prices of food. The price went from \$2 to \$4 to today it is \$6.17! Costs have risen on land, energy,

fertilizer, food, & seed. These costs will all be passed on to the consumer. Worldwide demand for food will continue as the rest of the world grows and develops an appetite for a more western size diet. Higher food prices have lead to riots in several countries. The UN & the World Bank are worried about po-

litical stability in several countries due to higher food prices.

You should not expect to see lower food prices for awhile. Politics, drought, & increased energy costs have combined to make food inflation a fact we will have to live with for several years.

“You should not expect to see lower food prices for awhile.”

The Repricing of Risk *(A humorous spin on the market)*

Wall Street has once again come to our rescue. After all things had gotten boring, anyone could make money anywhere in the world. Thanks to the Maestro Greenspan, we had low rates, little oversight of the markets and well the kids of Wall Street & London went

to work devising SIVs & CDOs and rating slices of Sup-Prime loans as AAA. The good times were back! Sadly though what goes up must come down and what goes down usually comes back up; and interest rates did and the housing bubble popped

and suddenly risk was back in the market and it wasn't pretty. Things aren't boring now. The ratings agencies lost their credibility. Financiers are losing their jobs and portfolios. That's OK though Congress & Wall Street just want to send you the bill. (

Economic Outlook

Volatile. The economic outlook is volatile. The financial companies are still hiding some of their problems by using legal and accurate financial statements that take advantage of every loophole they can find as long as it makes the numbers look good. Treasuries have done

well this year. Cash has done well this year. Energy & Natural Resources has done well this year, but the year is still young. You have to be a numbers detective to find the truth in the reports that come out weekly. For instance one week the reports will say Retail Sales were up. That in-

cludes retail sales of Gasoline and Food; the two areas that we are seeing the most inflation. Take out Gas & Food and Retail Sales were down. It is often what is hidden that is most important to know in regard to the markets and performance. There are no quick fixes to the credit mess

the world is experiencing right now, there are no simple answers and there will be some more hard times before it is over. Fact: Some stores on the West coast of America are already rationing rice sales and it is already leading to hoarding and shortages.

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Special Report on Food & Energy

There are several fundamental changes that are occurring in the marketplace. You are feeling the effects currently in food and energy prices; the changes are going to have repercussions throughout the economy.

We are in the midst of a seismic revolution in the way the world works. Back when the Wall fell in Berlin the Capitalists won versus the Socialists. Much like the Battle of New Orleans in the War of 1812 where neither Andrew Jackson nor the British knew the war was over they fought a battle that was not necessary for the outcome of the war had already been decided. Today battles between Socialism and Capitalism are still being fought and while we know Capitalism won the war some Socialists don't want to admit defeat.

Socialism led to a lot of Central Government planning in large portions of the rest of the world that in turn led to a lot of inefficiencies.

Corn	40%
Gold	53%
Silver	53%
Crude Oil	67%
Platinum	91%
Wheat	114%
Soybeans	123%

15 month percentage price increases for various commodities. Data from the Commodity Research Bureau

These inefficiencies have resulted, as they have throughout history, in shortages of food and in our modern society shortages of energy. Regions of the world that have rushed to embrace the benefits of trade yet held onto the vestiges of socialism in protecting their various industries are starting to see that the demands of a rising world middle class consumer wants is more than the current system can supply.

There are over 6.5 billion people in the world. They want a better diet. They want to make more money. They want political stability and to make a living. They want the rich & middle class lifestyle and the consumer goods that go with it.

The energy to power those goods and services has to come from somewhere. The world has to develop energy sources to meet the demands of several billion people very rapidly. Since the politicians & regulators did not foresee this demand and a new refinery or nuclear plant takes years or even a decade to design and build; we are at a crunch period where prices will rise rapidly until the demand pressures ease. Until then, price and demand pressures are increasing on every facet of a modern capitalistic society.

The modern farm is very energy intensive. The tractors & combines and other machinery are usually large diesel machines that require

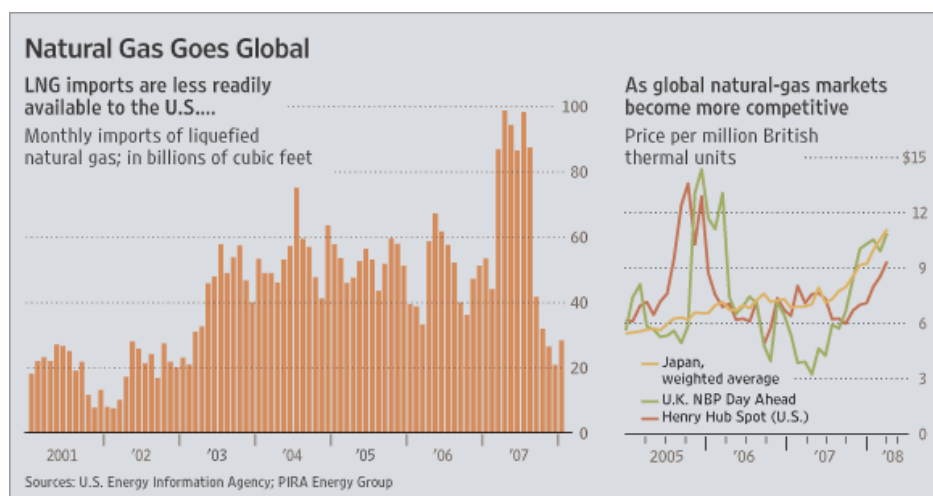
tremendous amounts of fuel to till and harvest the crops. The fertilizer for crops is made in factories that require energy or is made from oil distillates, natural gas and other commodities. The increased worldwide rise in energy costs has increased almost every facet of growing a crop. Now add in the following factors:

- Perceived Global Warming/ Climate change fears and regulation.
- Rising demand for food crops for Ethanol.
- Agricultural subsidies, government programs that pay farmers & ranchers not to produce on certain parcels of land, & import & export tariffs on food and energy.
- Worldwide credit market distress that is limiting the funds available to businesses that want & need to borrow money.

You have an almost perfect storm of events that will unleash worldwide inflation and an economic slowdown that has the potential to last several years. The effects will certainly be felt that long.

Now that you know what is happening it is time to look at the effects it is having on the rest of the world. (chart, WSJ 4/17/2008)

- Social & political unrest. Analysts at the UN, World Bank, and elsewhere have identified at least 35 countries that are at risk for social & political upheaval due to food price increases.
- Energy shortages in Africa plague over 30 countries with frequent power outages disrupting what had been the beginnings of an economic boom due to the increased demand for commodities & natural resources.
- In Haiti, where 3/4 of the population earns less than \$2 a day, the destitute eat a meal made of mud, oil and sugar.



- Crude Oil is at \$115.00 a barrel, Rice us up to \$22.85 a hundred-weight, Copper is at \$3.98 a pound.
- Despite a recent 93% increase Natural gas is expected to rise. Natural gas generates 20% of our electricity, heats over half of America's homes, and is used to make fertilizer.
- In three years the dollar has fallen approximately 40% raising the price we pay for almost every commodity we buy from overseas producers. In particular the price of oil which has increased from approximately \$25.00 seven years ago to over \$115.00 today.
- There is a shortage of butter and other food basics in Japan which relies on imports for a significant portion of their food needs.