

March 31, 2008

*“The Armageddon scenario of a full fledged economic and financial meltdown has low odds, but massive implications if it ever came to pass. Potential events with a very low probability but an extremely high impact should not be shrugged off, given the consequences of getting it wrong.”*

The Bank Credit Analyst

April 2008

Shanghai Composite Index



# Market Review

Volatility has been king in the first quarter as most investors have experienced large swings in their portfolio value. Our model portfolio is roughly flat for the year but considering there has been no place to hide...flat is good!

The subprime mess was the catalyst for the stock market decline in the early part of 2008. Massive institutions such as Citigroup and UBS lost roughly 30% of their market value. Bear Stearns lost basically all of its value in a forced sell-out to JP Morgan. Looking back, total earnings in the financial sector in the 4<sup>th</sup> quarter of 2006 were a healthy \$76B, while 4th quarter earnings in 2007 produced a loss of \$21B. A recent report by Goldman Sachs suggests that leveraged loan losses are down roughly \$460B so far with an estimated total loss of \$1.2T when all is said and done. The Federal Reserve has prevented financial disaster in the short term by acting as a backstop to support financial markets. However, over the longer term, this can only lead to inflation and higher taxes.

Asset allocation has been key, as the decision of “how much” and “where” have been critical in maintaining principle. We think the long term downside risk in stocks could be as high as 20%. In the shorter term, we think that a flat return is likely. There will be peaks and troughs along the way and we stand ready to act accordingly.

The bond market appears risky considering the current credit environment, and we are avoiding bonds with maturities longer than 5 years. Treasuries offer very little yield, and while we will continue to use 90 day T-bills as a substitute to money market funds, we are not currently buyers of government debt. South Korea’s large pension fund has indicated that it will no longer buy low yielding US treasuries and we expect similar announcements will be made by other large investors. Corporate bonds are much more attractive, and we will continue to look for investment grade bonds with decent yields. Municipals bonds are more interesting in this environment, but for most clients, we are concerned about liquidity.

Commodities did well with oil holding above \$100 per barrel. While we still feel that oil will trend lower, our prediction last quarter of \$75-85 per barrel appears unlikely. A recent article in Barron’s states that commodity long positions by speculators has risen to a record high \$89B in futures contracts while the commercials have taken the other side with \$80B in short positions. These contracts are usually leveraged 10 to 1, so the total dollar amounts are much larger. The commercial positions are the manufacturers/miners of a particular commodity and when they hedge themselves, they are usually doing so because the market has become frothy and they want to lock in today’s prices. This could mean the commodity markets are in for a struggle ahead. On the other hand, as the global economy continues to grow, demand will continue to increase. Making large bets on either side is not recommended.

Gold is up over 8% since the start of the year, and is currently trading near \$920 per ounce. However, two weeks ago, gold was near \$1030 per ounce. Gold is subject to the same risk as other commodities but it is also a hedge against inflation, monetary policy, and financial disaster. Ultimately, we think gold will trade sideways in a possible range of \$800-\$1000 for the next six months before ultimately breaking through to the upside late in 2008.

The US dollar finished the quarter down 6.4%. Short term interest rates are coming down in the US, but they are not necessarily following in the rest of the world. Australia and New Zealand are paying much higher interest rates than the US, and Europe is not moving nearly as fast as the US in cutting rates. Iceland just raised rates to 15% to help curb the Krona’s slide against the Euro and protect assets from leaving...talk about a strong dollar policy.

# Performance

As you can see in the performance table to the right, most of our portfolios did relatively well against the major indices. While our performance was roughly flat, we maintained most of our capital and will be around to fight another day. **We believe that the average investor lost between 8-12% for the quarter. This equates to a loss of \$40K-\$60K on a \$500K account.**

As mentioned earlier, asset class selection has been the key to performance for the first quarter, and we feel that this theme will continue throughout the year. We will continually be on watch for major trend changes, inefficient market pricing, and shifts in fundamental valuations so that we can adjust your portfolios and take advantage of whatever the market presents us.

MARKET	1Q
Regan Absolute Return Portfolio	.17%
Regan Aggressive Portfolio	-1.47%
Regan Futures Portfolio	3.1%
S&P 500	-10.0%
NASDAQ	-14.0%
Lehman Aggregate Bond	2.1%
Gold	9.4%
Commodity (GSCI)	9.6%
US Dollar	-6.4%
Oil	5.8%

# Our Portfolio

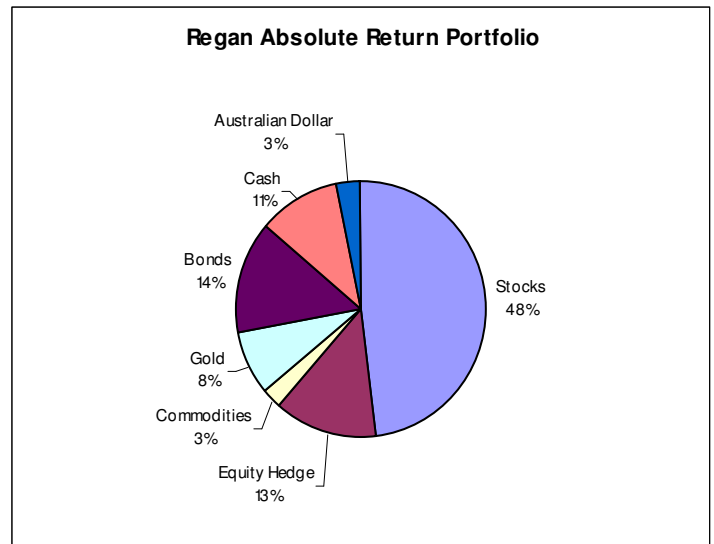
We added to Altria, McDonalds, Pepsi, and Pfizer. These are all good defensive names for a down market and Altria and Pfizer offer decent yields at 4.1% and 6.2% respectively. In addition, we recently bought the Australian dollar ETF. The currency yields 5% and the Australian economy is benefiting from the commodity boom.

Our newest stock position, Comcast, is a value play and we hope to hold it for the long-term. The company is near a 5 year low and is generating significant free cash.

Two of our sales (Berkshire and Gold) were mainly just reducing our exposure. We still love both for the long term, but reduced our exposure from about 12% to 8%. We completely sold out of Cisco after negative earnings and a general downturn in the markets. We also sold our position in the agricultural commodity ETF. We still like the agriculture story, but felt it was prudent to take our large gains and wait for a pullback.

We are still very defensively invested with about 22% net exposure to high-grade stocks (Stocks minus 2X Equity Hedge) which have low to fair valuations and a few high growth issues (Biogen, Celgene, Apple, etc). Our stock exposure is currently at historical lows and we will be looking to add additional names as valuations become more attractive.

We have increased our fixed income holdings and continue to favor the 1-5 year maturities. We will also be looking to replace maturing bonds with decent 3-5 year corporate issues.



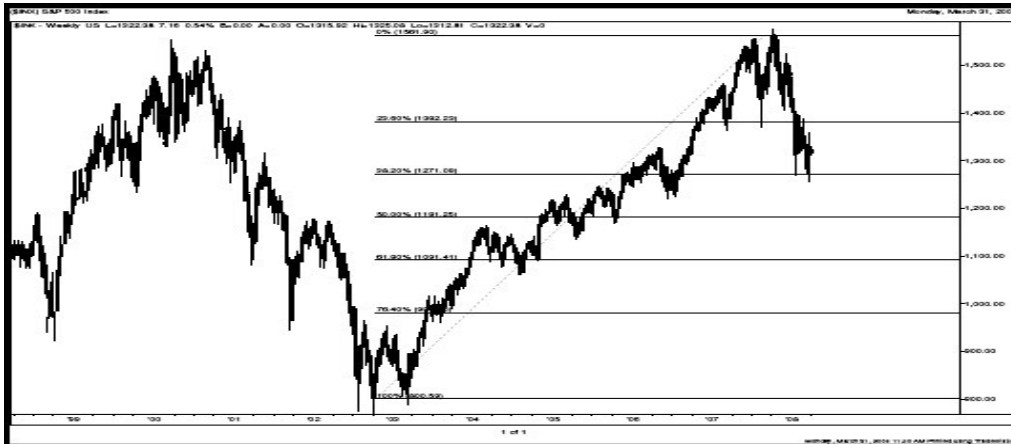
The Regan Portfolio is a proxy for our average account. Performance numbers may not accurately reflect each individual account. The portfolio is constructed using a weighted average of a group of accounts that are fully managed by Regan Investments Inc, and that are of a size congruent to our balanced account parameters. Past performance does not guarantee future results. Investing in the stock market involves investment risk including possible loss of principal. There is no guarantee that the views expressed in this communication will become a reality.

# Technical View

We like to look at the markets with both a fundamental and technical eye. With all of the black box traders and hedge funds, it is foolish not to pay attention to the technical charts. Here is what we see:

## S&P500

On the long-term chart below, the S&P 500 has formed a large double top. This has created formidable resistance and while we do not believe a retest of the 2002 lows is in order, we think a 50% retracement could easily occur, which would knock the index down an additional 10% from current levels.



The shorter term chart below shows that the S&P has been in a significant downtrend since late last year. Lower lows and lower highs do not make for good market action. A break of the down trend currently at about 1375 on the S&P 500 would be positive, and cause us to cover some of our hedges. The index would have to break resistance around 1425 before we would begin taking significant long positions.



Thank you for your continued trust and we hope you have a wonderful Spring!