



Economics 101: A Reality Check

In these days of 24-hour news channels, media 'entertainers' and editorial sensationalism, investors need to take some time to do their own investigating into the reality of the US and global economy. Are things really as bad as they sound on the airways? Or are we all victims of sound bites? Please read on for insight from Garrett R. D'Alessandro, CEO and President of Symphonic Financial Advisors.

Economic Outlook: What Really Matters? Looking ahead, we see five forces that will influence how the financial markets and economy perform in 2008.

1. **Monetary Policy** - The Fed must consistently take proactive steps to reduce interest rates enough to solve the credit constrictions in the banking system, and ease the housing and mortgage challenges. Lower interest rates are the oil that keeps the economic engine running.
2. **Credit Availability** - There seems to be more negative news concerning our US banking system now, than at any other time since the saving and loan crisis of the late 1980's. However, the fear concerning our banking system today is completely

overblown. This is not indicating that some banks are not facing really serious challenges, but rather that the focus of attention should be on the US banking system as a whole, not a few banks that failed to practice prudent loan practices.

3. **Consumer Spending** - We see the consumer as healthy enough to sustain modest spending growth despite the challenges of rising energy costs, falling home values, and heightened debt levels. This scenario is predicated on consumer incomes rising and employment levels being maintained. Employment has been positive and wages have been rising. On the strength of these measures, there is enough reason to believe that the consumer will continue to have the ability and the willingness to spend.
4. **Global Economic Growth** - Global growth is having a pronounced effect on the US economy. Currently, global growth is driven more by China's contribution than by the US. This is positive for our economy because it adds to our export growth, which has offset much of the nega-

tive impact from our housing decline. Instead of concentrating solely on the negative impact of the housing market on growth, a more global perspective is required. Indeed, housing is in what now appears to be the second leg of a recession, with a bottom not expected until late 2008. However, it is important to understand that its negative impact has largely been offset by positive contributions of export growth.

5. **US Corporate Profits** - Corporations' balance sheets are in the strongest position they have been in many years, and earnings (excluding the financial banks) are growing reasonably well. The corporate sector has enjoyed 6 years of good earnings and growth, and we expect another year of overall positive earnings growth.

Recession Risk? We see the risk of a recession rising to 50% for 2008. Our recommendation is to have a discussion with your advisor to review your personal tolerance for probable market volatility.



Is It Time For A Portfolio Check-up?

The current market volatility may have you feeling nervous or unsure as to how much of your portfolio is exposed to risk. Communication with a financial professional who understands your fears, and understands volatility, is vital. Take the time to set an appointment to review the current situation, the long-term expectations, and if there are any recommended adjustments.

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When Uncle Sam gives you money...

So, have you made a decision as to what you are going to do with your tax rebate? We all agree on the basic choices, save it or spend it, but there are so many options to choose from to spend or squirrel away.

Spend:

- Pay off debt
- Take a trip
- Make a purchase
- Donate to charity
- Sign up for a college course
- Support a candidate



Okay, we've looked at spending, now let's look at some saving ideas.

Save:

- Invest in an IRA (Roth or traditional)
- Open an emergency reserves money market account
 - Buy some stocks - the prices are low!
 - Invest in a college savings plan for your child or grandchild
 - Purchase a Certificate of Deposit (CD)

Is It Tax Time Already?

Another year of tax forms has swiftly arrived. In order to assist you with some of the issues, here are some highlights of 2007, and previews for 2008.

2007

- Individuals in the lowest two tax brackets receive the benefit of the lower capital gains rate of 5%.
- The kiddie tax rules apply to children under the age of 18. This rule may tax a portion of your child's unearned income at your marginal tax rate (e.g., interest, investment earning, taxable gain resulting from the sale of an asset) exceeding \$1700.00.
- You can contribute to an IRA until April 15th, 2008 for a 2007 contribution. The contribution limit is \$4000, or if you are age 50 or older, you can contribute up to \$5000.
- Documentation requirements are

more stringent for charitable cash donations. You must have receipts from the charity, or a canceled check.

2008

- Beginning January 1, 2008 and continuing through 2010, the maximum federal income tax rate on long-term capital gains and qualifying dividend income drops to zero for individuals in the 10% and 15% federal tax brackets.
- The kiddie tax rules apply to children who are under 19, and to full-time students under age 24 for amounts exceeding \$1800.00.
- IRA contribution limits increase to \$5000 in 2008, with an over 50 catch-up amount of up to \$6000.

See your tax professional for more advice and changes that may affect your personal situation.

"To accept good advice is but to increase one's own ability"

- Johann Wolfgang von Goethe