



NEXT
GENERATION
WEALTH MANAGEMENT

NG Wealth Management Inc. 2008 Outlook

It is that time of year when Wall Street's prognosticators produce their annual lists of forecasts and predictions for the upcoming year. At Next Generation Wealth Management, our team has been a participant in this annual ritual for many years, and even decades - without the hype. This year is not any different than in years past.

As we state each year: The real value of our commentary and investment advice lies in the adjustments made to client portfolios as market conditions warrant. As we are well aware, it is the financial markets themselves that frequently seem to provide both unexpected opportunities and unanticipated risks.

BRIEF OPINIONS ON MISCELLANEOUS INVESTMENT OPPORTUNITIES

EMERGING COUNTRIES: Wow, these markets have provided great returns since 2001. But today, emerging market valuations compared to developed markets are no longer inexpensive, even if you adjust for their superior growth. It is time to rebalance and reduce your risk.

HEDGE FUNDS: Many of the best performing funds are not looking for new investors. However, many of these greedy managers will need to diversify, employing many strategies and aggressively seek new investors with the intention of going public. The hedge fund universe is over-populated and over-compensated, generally speaking.

PRIVATE EQUITY: In 2007 we quoted Wall Street guru Barton Biggs: "There is no asset class that too much money can't destroy." The flood of new investment has had a major negative profit impact on the quick turn model. The good news is that fundraising has slowed tremendously and the proven firms might find good, long-term investment opportunities.

REAL ESTATE: As anticipated and expressed throughout the past few years, residential real estate is obviously much cheaper than three years ago. While the cost of building a new house is also much lower, it still may be too early to consider a purchase. Commercial real estate and REITS are showing signs of a decline. Remember, real estate cycles (residential and commercial) tend to follow one another, but not necessarily at the same time.



COMMODITIES IN 2008

OIL: The world's energy crisis will not be resolved anytime soon, but should be resolved eventually. Alternative energy will be important just not this year. Similar to 2007, geopolitical events may temporarily increase prices easily above \$100 per barrel in 2008; however, a slowing global economy should depress the price later in the year. Our best guess, and yours might be as good as ours, is for a range of \$65-\$125 in 2008.

GOLD: In 2007, the price of gold averaged \$695 per ounce. As the current credit crisis fears ease and the dollar strengthens, we would expect the price of gold to decline as inflationary pressures subside.

NG Wealth believes the broad based increase in commodity prices during 2007 will be more selective as inflation momentum fades. As a matter of fact, the asset class may very well be peaking in terms of performance if not in popularity. Commodities as an asset class are not likely to repeat last year's strong based move.

THE 2008 ECONOMY

As we have discussed for several months, it appears as though a domestic recession is underway, possibly having started late in the third quarter of 2007. In reviewing the most recent economic data the U.S. may no longer be classified in a "soft landing" mode. We expect the consensus among Wall Street economists will move toward talk of a recession in early 2008.

It is important for us to emphasize our belief that we do not expect a global recession and that the United States will encounter a relatively short-lived recession (less than 24 months). China and the emerging countries across the world should experience slower economic growth, but not negative GDP growth.

The official U.S. recession decider, the National Bureau of Economic Research, has not identified recessions in the past until they are either over or almost finished. Also, keep in mind that from a larger viewpoint, recessions have served to correct many economic and financial excesses of late stage expansions (e.g., commodities, private equities).



2008 INFLATION

Inflationary pressures will continue to rise in the first quarter of 2008, but should begin to decline throughout the remainder of the year. The Consumer Price Index (CPI) will remain slightly above the historical U.S. average. A targeted range of 3.5% to 4.5% in 2008 would be probable.

While the inflation momentum rising during Q1 will be initially viewed as a negative for the financial markets, a gradual decline throughout the year will eventually be considered a positive, even though it will be the primary result from a slowing global economy. As we all are well aware, the CPI significantly understates the actual inflation being experienced by the consumer.

U.S. INTEREST RATES IN 2008

Interest rates on short term Treasuries are at, or very near, their lows for the upcoming year. The recent flight to quality over the past quarters has, in our opinion, driven the prices too high. Unlike during the Greenspan era, it would be unlikely the Federal Reserve will duplicate 1% rates due to ongoing inflation fears, the prevailing dollar weakness, and not with the foreign decreases in U.S. Treasury debt.

An investment away from risk in the fixed income markets should moderate in 2008 as prices decline and yields rise. Currently, the greatest risks that exist on Wall Street are: credit risk, the increased possibilities of default in a slowing economy and "what else" risk; are there other major market disruptive developments yet to emerge? These fears will eventually subside during the year.

A range of 3.50% to 5.00% on the 10 year U.S. Treasury is reasonable. A diversified fixed income strategy in 2008 continues to be the most appropriate approach as we monitor the many influences on the fixed income markets.

THE STOCK MARKET IN 2008

As we enter the New Year, the financial markets are trying to digest many factors: corporate earnings, the Federal Reserve, interest rates, the political landscape, the sub prime contagion, and much more. After quite some time of periods with lower volatility, we continue to anticipate an increase in the day-to-day gyrations across all indices throughout the year.



At NG Wealth, it is our opinion the first quarter of 2008 might be the most difficult period as inflation fears proliferate, earnings estimates are revised downward, the sub prime fears (or realities) begin to move toward the consumer, and the global markets focus on our Presidential election. A range between 12,000 and 14,500 for the Dow Jones Industrial Average and 1325 to 1550 on the S&P 500 would not be a surprise to us.

What will be the final outcome of our 2008 predictions? Of course, nobody knows for sure. The real purpose of our predictions is to continue to position client portfolios outside of the conventional Wall Street research or "groupthink." Mainstream and consensus expectations are simply that, and in many cases, are already reflected into current valuations. Rest assured, we will be watching this closely in the coming months.

If you would like additional information or would like to discuss our investment strategies, please contact **Next Generation Wealth Management, Inc.** at (262) 242-4433.

Or, if you prefer, you may visit our website at www.ngwealth.com.

Best wishes for a healthy and prosperous 2008!

Sincerely,

David A. Massart
President

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