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CERTIFIED FINANCIAL PLANNER™

The Quarterly Report

VOLUME 12 ISSUE 3 OCTOBER 2006

THIRD QUARTER OVERVIEW

With oil prices dropping and the Fed finally pausing after a lengthy string of rate hikes, the markets have had a nice run in the past few months. From its most recent bottom in mid-July, the S&P 500 is up almost 9%. Normally a rising stock market makes stocks more expensive, but earnings (helped by a reduction in the supply of stock) have also been positive over this stretch. Investors who buy a share of stock are really buying a share of a company's future earnings, and rising earnings have kept the valuation picture from changing as much as one might think.

The Fed's often-cited model—which compares the consensus 12-month forward operating earnings estimate for the S&P to the current 10-year Treasury yield—suggests undervaluation of more than 30%. Several other approaches we look at tell a similar story; the degree of undervaluation varies quite a bit from one method to another, but even the more conservative of these valuation methods suggest the market is at worst in a fair-value range. (This is not to say that all experts believe the market is undervalued—some do not—but they generally use quite different valuation methods in which we have less confidence.)

"Be thankful for what you have; you'll end up having more. If you concentrate on what you don't have, you will never, ever have enough." ~ Oprah Winfrey

Explanation of Our Smaller-Cap Reduction

Last month we reduced the small-cap exposure in our portfolios and moved the proceeds into large-caps. In reaching this decision, we looked at data from several sources, and in every case these metrics showed small-cap valuations at or near the high end of their historical range relative to large-caps. The chart below shows the historical relationship between large-cap and small-cap P/E ratios. A ratio of ratios may be difficult to get one's arms around, but it's worth understanding. A P/E ratio on its own tells us how much it costs to buy a dollar of earnings: a higher P/E ratio means you are paying a higher price for that dollar, and a lower P/E ratio means you are paying a lower price. This chart is nothing more than a way of comparing the "costliness" of large-caps and small-caps relative to one another based on their P/Es. Right now, this data shows that small-caps are expensive relative to large-caps. In fact, they are nearly as expensive as they've ever been, an observation supported by other data sources as well.

The Economy and Bonds

The Federal Reserve has finally put on hold the string of interest rate hikes that began more than two years ago.

Over this time period, the Federal Funds rate climbed from 1% to 5.25%, making it one of the sharpest tightening cycles on record. Decelerating earnings growth, a slowdown in the housing market, and a drop in oil prices, among many other factors, all undoubtedly contributed to the Fed's decision to hold off on further hikes. Among the sources we look at, there is a growing consensus that the economy is slowing down, but there remains a wide range of opinions as to what happens next.

Some bears argue that the decline in housing prices will have a material effect on the economy: a negative wealth effect will cause consumers to cut back on spending, and the construction and financial industries that experienced job growth during the housing boom will turn the other way as that boom reverses. Combined, they argue, these factors will result in a meaningful recession.

The bulls, meanwhile, argue that corporate America is in great shape, and that even if housing takes a nosedive, the data do not support a meaningful contagion effect throughout the broad economy. The fact that there is disagreement even within particular firms—reinforces our belief that economic forecasting is a notoriously tricky process.

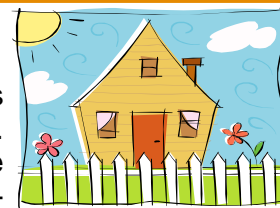
We are pleased that there are tactical opportunities in short-term emerging markets bonds, commodity futures, and larger-caps versus smaller-caps in our portfolios. We are confident these moves will modestly improve our return prospects while helping mitigate certain risks over coming years.

<i>Mutual Fund Yardsticks</i>	<i>1 Year</i>
<i>S&P 500</i>	<i>10.79 %</i>
<i>Average U.S. Stock Fund</i>	<i>7.64 %</i>
<i>Average Foreign Stock Fund</i>	<i>19.83 %</i>
<i>Average Bond Fund</i>	<i>3.70 %</i>

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Making a Home Senior Friendly



Many older Americans want to age in place, to live in their homes rather than relocate to a nursing home or an assisted living facility. According to the National Aging in Place Council (NAIPC), home safety and fitness, financial planning and budgeting, in-home health-care and chore services, home accessibility issues, reverse mortgages, and transportation and meal services are among the topics that should be considered in this decision.

Indeed, many older Americans will need to make their homes "senior friendly." Entry ways, bedrooms, bathrooms, kitchens, lighting, and the yard all need to be examined and remodeled if need be. The NAIPC recommends remodeling homes such that they have barrier-free entry ways, including no-step entries, no-step thresholds, and garage lifts, to make it easier for a family member or friend who uses a wheelchair, walker, or cane.

The NAIPC also suggests the following modifications to a bathroom: build a roll-in shower with multiple showerheads (height adjustable handheld showerhead and fixed); lower the bathroom sink and make sure there's proper knee clearance; install an elevated toilet and grab bars. In modifying a bedroom, make sure there's ample maneuvering clearance; build a walk-in closet with storage at differing heights; and install rocker light switches that are easier to turn on compared to a more common flip switch. Kitchens likewise need to be "user-friendly": ensure there's ample maneuvering space; vary the height of countertops; install a sink with knee clearance; install a raised dishwasher, lower cooking surfaces; and mount a wall oven or microwave at reachable heights.

Besides remodeling, Americans should consider their chances of developing a debilitating health condition. It's important to estimate the cost of home care by evaluating what, if any, family and friends can serve as "unpaid" health aides as well as the cost of paid health aides in a specific area. For instance, a person who needs just a few hours of help from a home health aide in the morning and at night could easily spend \$72 per day, or \$2,160 per month, according to the NAIPC. On the other hand, Meals On Wheels programs, which usually ask for only a voluntary donation, have helped many stay well nourished and at home when shopping and cooking become difficult.

Living at home with a chronic condition can also limit a person's ability to age in place. Those who need help with activities of daily living (ADLs) have limitations that require daily attention. These include feeding oneself, bathing, dressing, transferring from a bed to chair, and using the bathroom safely. Meanwhile, those who need help with instrumental activities of daily living (IADLs) have limitations with activities such as shopping, cleaning, cooking, using the telephone, and money management. These can often be accomplished with intermittent help. Ultimately, difficulty with household activities is often a sign that the elder is becoming frail and that they will need more help in the future.

It's also very important to remember that family and spouses also need a break from the incredibly hard work - mentally and physically - of taking care of a loved one around the clock. Even if it is only for an occasional night off or a long weekend to "recharge the batteries", the family helpers can use a few hours of home care support now and then. It should be part of the planning and the budget. *[Financial Planning Association]*



We here at Tull Financial Group are truly blessed...so much so that we might say our "cornucopias overfloweth." So in this season of Thanksgiving, we would like to share just a few of the very many things we are oh-so-thankful for:

"I'm thankful for cell phones as I can reach my college-attending son anytime, anywhere." ~ Robert W. Tull, Jr., CFP®

"I'm thankful to live in America—it's cliché, but it truly is the land of opportunity, where anyone can pretty much be, do, have, and say anything. This kind of freedom is priceless." ~ Mikki Black, Director of Special Projects

"I'm thankful that I haven't seen any huge spiders in my office for almost three weeks." ~ Kirstin Hark, Associate Adviser

"I'm thankful that Kirstin didn't see the huge spider that was in her office last week." ~ Terry Crawford, Office Manager

News to Use

As the American life expectancy increases, making the retirement nest-egg last can get even trickier. Trying to determine your life expectancy can help in the planning process. Start by examining your family health history and current health. Visit the website www.livingto100.com/quiz.htm for a quiz that helps calculate life expectancy.

