

09/30/2007 Quarterly Newsletter

Discipline is the key to success

With every approach to the stock market, bear in mind that there will always be periods of over-performance and periods of under-performance. Here at Disciplined Wealth Management (DWM), our goal is to concentrate your portfolio in the leading asset classes while avoiding the performance-sapping lagging asset classes; over the long term, our approach strives to provide you with better performance compared to the overall stock market average (the S&P 500) and with less risk. In summary – stay disciplined during times of under-performance; don't become emotional and abandon a proven long-term strategy during a usually short period of under-performance, but stick with it and let the strategy work for you. If someone says they are never wrong, they have just proven themselves otherwise.

General commentary –

Volatility Returns

Volatility returned with a vengeance in the 3rd quarter, and U.S. markets fell into dangerously low territory. The key problem continued to be sub-prime mortgages and related securities. As confusion mounted about which institutions might be exposed to major losses, the corporate bond markets came to a standstill. This led to selling pressure in equities and a huge rally in short-term Treasury Bills. Without the help of multi-billion dollar liquidity injections by the Fed, and later an order from President Bush loosening FHA restrictions on refinancing, it seems likely a much bigger crisis would have developed and still may develop.

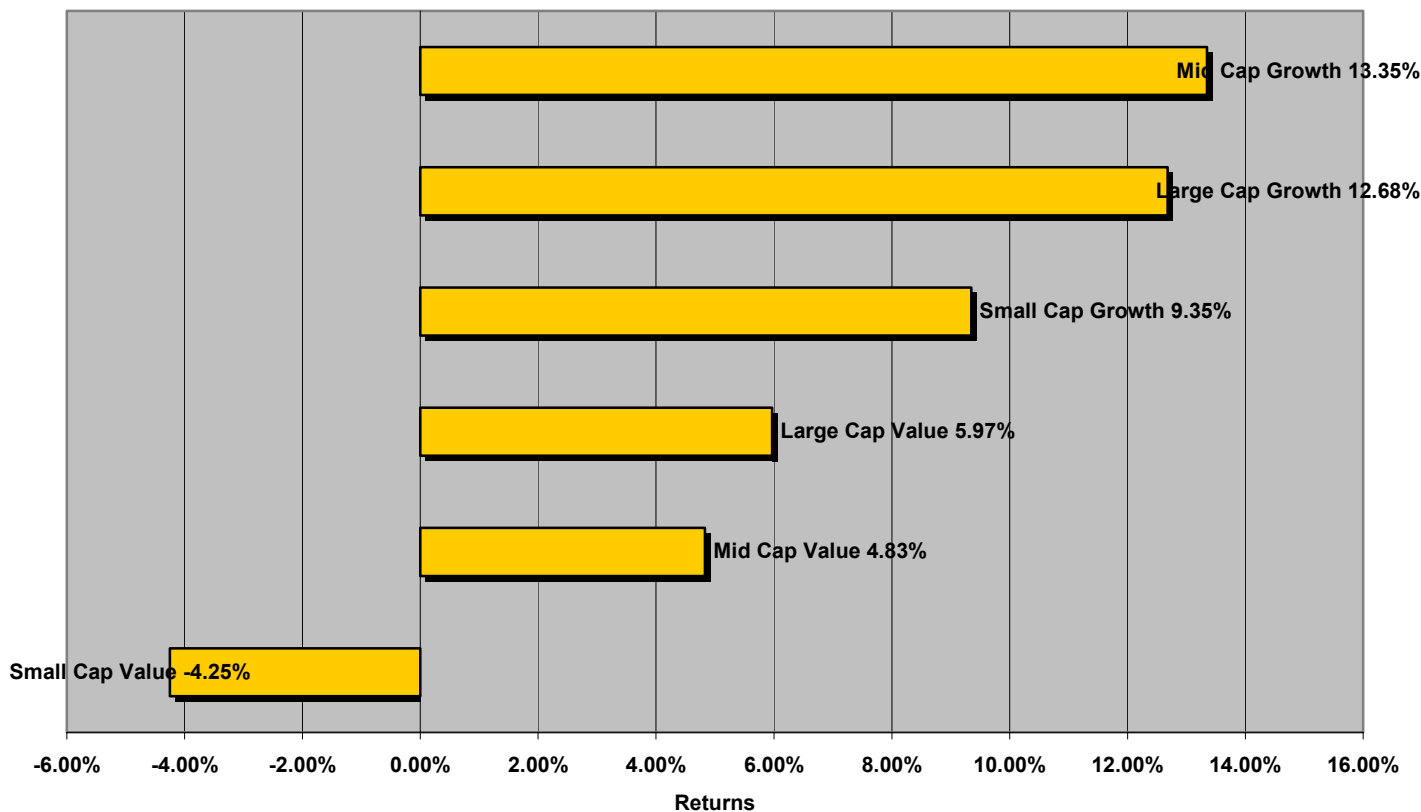
The positive quarterly returns for the major benchmarks mask the massive volatility for this three month time period. To put things in perspective, the S&P 500 started the quarter with a strong rally advancing 3.3% the first twenty days, followed by a decline of 9.4% over the next twenty-seven days only to be followed by another strong rally advancing 8.5% over the last forty-four days. The S&P 500 ended the 3rd quarter with a 1.6% gain while money markets finished with a gain of 1.2%. These were very similar returns. However, one ride was much smoother than the other. Risk Management is a huge part of Disciplined Wealth Management's investment philosophy, and this explains why our analysis had us heavily invested in the safety of money markets for a majority of the 3rd quarter.

As we go to press, the overall market environment indicator turned Bullish, as all our programs went from being partially to fully invested. We will continue to monitor this indicator and make the necessary adjustments.

Please note that, in the following pages, the charts showing the performance of certain asset classes are for illustrative purposes only and they do not reflect the ranking system utilized by DWM.

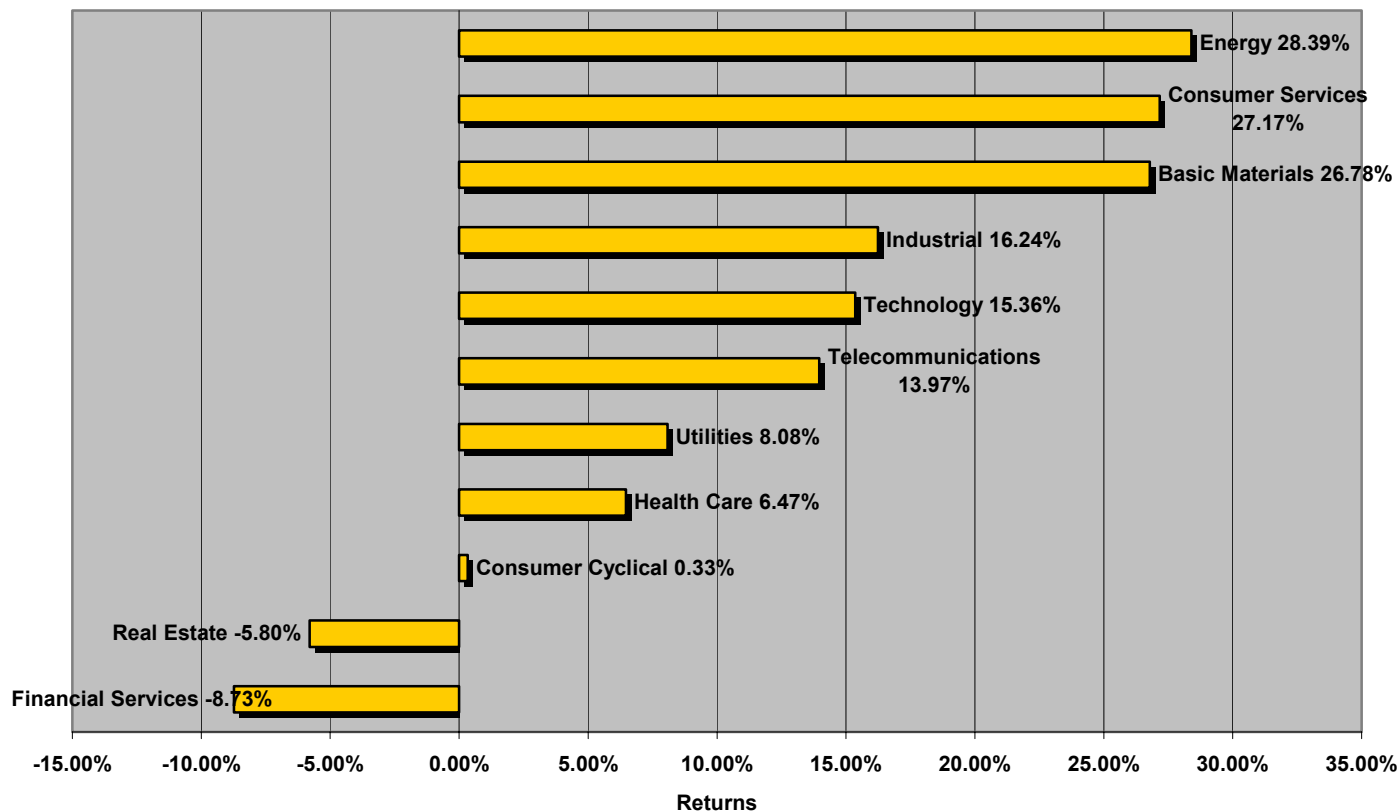
Style boxes – Among style boxes, a long-term shift from value to growth seemed to pick up momentum in the 3rd quarter. As Large Cap Growth claimed the #1 position in our Relative Strength work for the first time in almost five years. Large Cap Growth experienced the largest move in our ranks jumping three spots from the #4 position. Growth is possibly starting to reclaim it's dominance over Value as Growth now accounts for the top three spots in our Relative Strength work. However, Value has been dominating our ranks for a majority of the past seven years. To show the power of relative strength we wanted to show the significant difference in returns over this time period. Small Cap Value gained +114%, Large Cap Growth lost -19%. Once again this was a great demonstration of how things change in the market place. Yesterday's winners/leaders can and will become tomorrow's losers/laggards and vice versa. There's no guarantee that the recent dominance by Growth will continue; this is why we will continue to rely on our time-tested relative-strength analysis to guide our investments surrounding style boxes.

Return 12/29/2006-09/28/2007



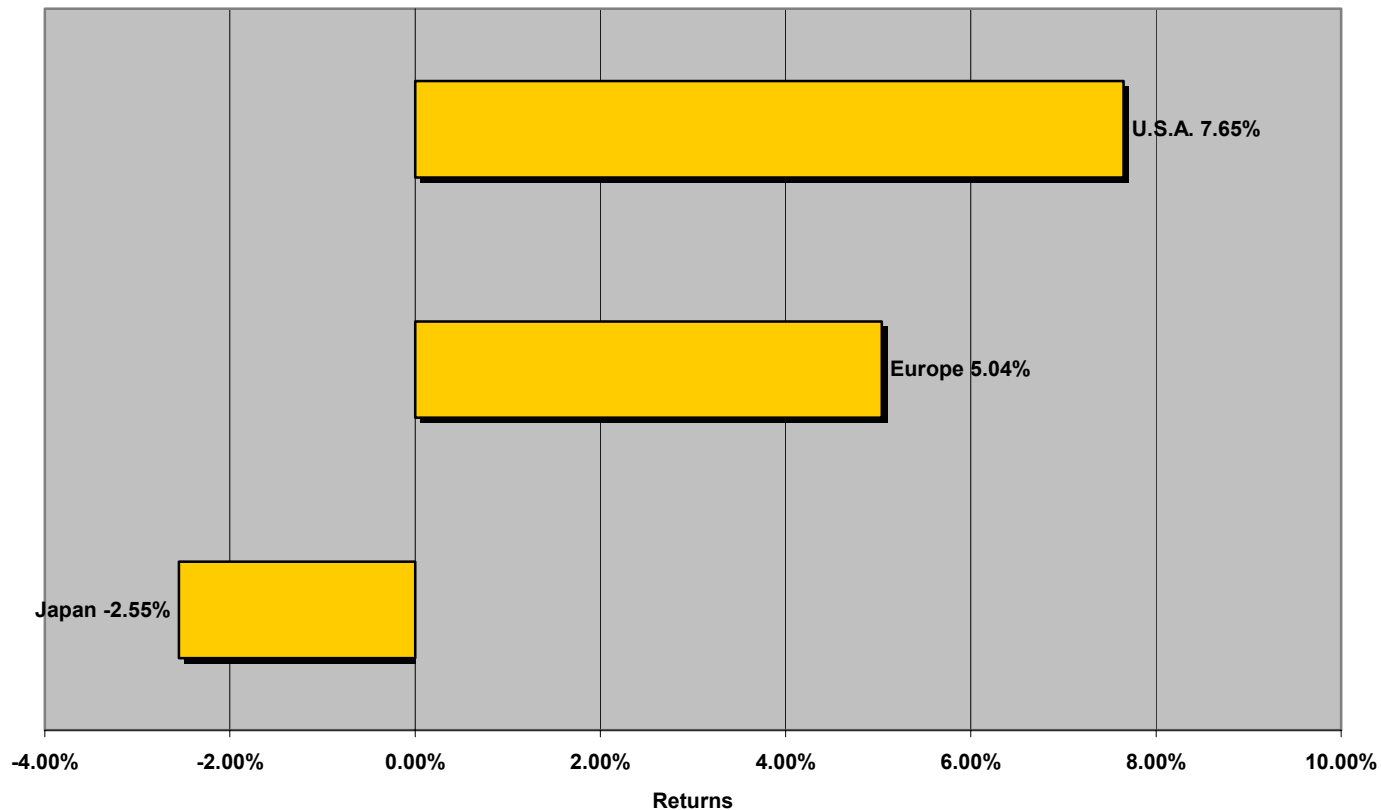
Sectors – Technology performed well during the 3rd quarter revealing its limited exposure to financial services stocks. Technology experienced the largest move in our ranks jumping four spots from the #6 position to the #2 position. Energy continues its dominance in our relative strength rankings, moving from the second best position to the #1 position. It pushed Basic Materials from the #1 spot to the #3 position. Financial Services and Real Estate have been the areas to avoid with the sub-prime meltdown. DWM took its profits in Real Estate the beginning of April and has moved on to better sectors. Real Estate funds dropped over 25% on average from their peak to their low. Always remember that Risk Management is a major tool in Disciplined Wealth Management’s toolbox. It delivers successful portfolios to my participants. It’s not only concentrating on the winners/leaders but avoiding the losers/laggards that give my investors the possibility of better returns with lower risk. As usual, we will continue to rely on our time-tested relative-strength analysis to guide our investments surrounding sectors.

Return 12/29/2006-09/28/2007



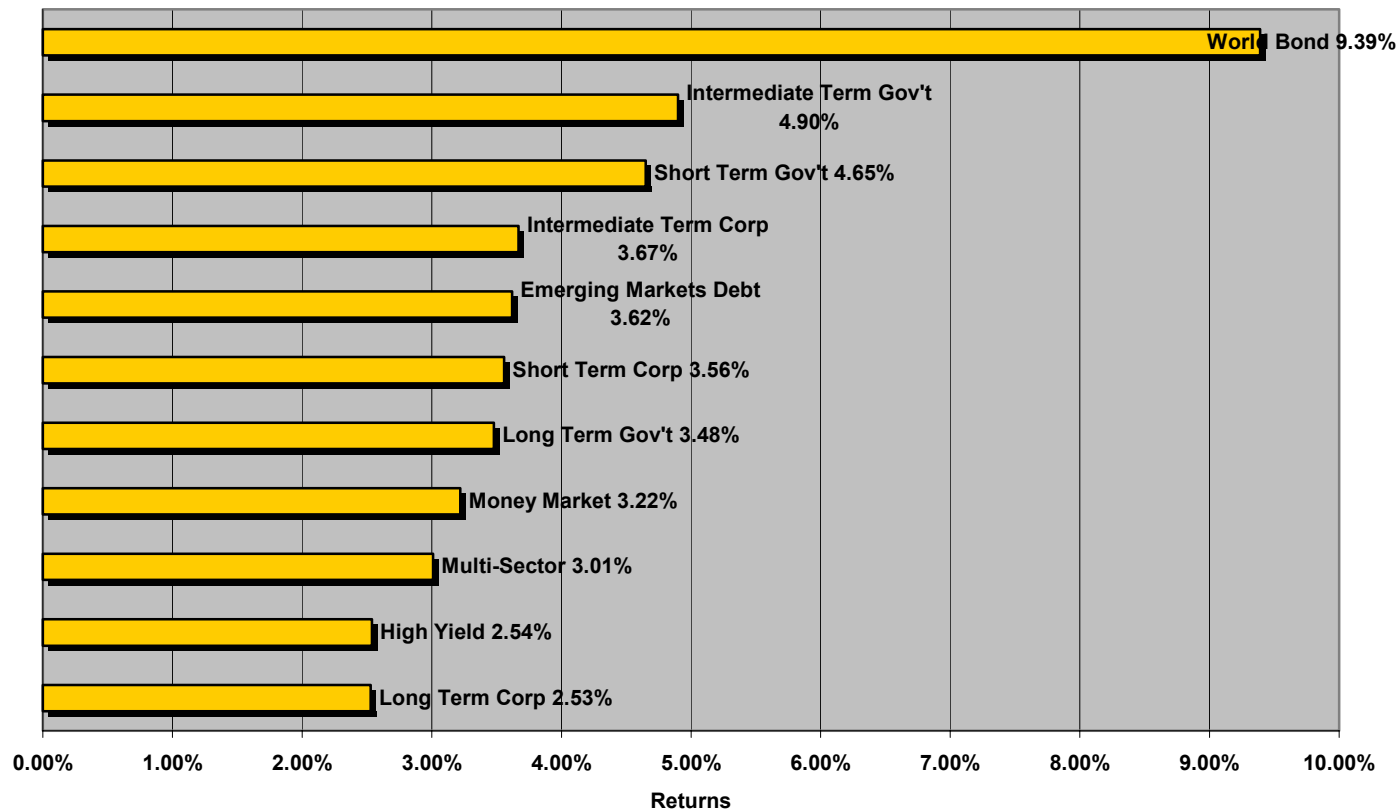
Internationals – European stocks fared much better than Japanese stocks in the third quarter. European stocks as measured by the EuroTop 100 Index were down 2.4% while Japanese stocks as measured by the Tokyo Nikkei Index were down over 7%. However, neither one of these indexes takes into consideration currency fluctuation, and when the falling dollar is thrown in the mix (effecting U.S. investors) these numbers change as follows: European stocks were up slightly under 2% and Japanese stocks were still down but only by 1%. So the call to favor European stocks over Japanese stocks last quarter turned out to be a good one. Will European Stocks continue their dominance over Japanese stocks? No one knows for sure. However, our relative strength work continues to favor Europe over Japan. It all comes down to discipline and doing what your time-tested analysis tells you when it tells you to do it. This is why you want to have DWM managing your account. As usual, DWM will continue to rely on our time-tested relative-strength analysis to guide our investments surrounding internationals.

Return 12/29/2006-09/28/2007



Bonds – International Bonds are nearing their two-year anniversary of being ranked in the top portion of our relative strength analysis. International Bonds became a buy at the end of 2005 and have outperformed all other bond asset classes since then. To put this into perspective, it has outperformed the second best performing bond asset class by better than 75% over this time frame. International Bonds were up 23% and the second best, High Yield Bond was up 13%. International Bonds continue their strong hold on the #1 position. Government Bonds claim the next three positions in our ranks. High Yields were hit hardest as they fell nine spots to the #11 position. As usual, we will continue to rely on our time-tested relative-strength analysis to guide our investments surrounding bonds.

Return 12/29/2006-09/28/2007



Forward-looking statement –

The CEO of Countrywide gave a pessimistic outlook for the economy. Basically, the growing sub prime loan defaults are dumping more and more houses onto the market and eroding home prices. This causes pressure on new home construction, a major driver of the U.S. economy.

I knew someone who had this unfortunate experience in the last six months. A young acquaintance had to relocate out of state for work related reasons. He put his home on the market in the Denver area. Almost immediately, what had been a strong market for sellers, turned abruptly into a buyer's market. Several homes in the neighborhood were in foreclosure, with the banks slashing the prices for a quick sell.

At first he hoped they would sell quickly so firmer prices could return. That did not happen, as several were sold, only to be replaced by others in foreclosure. Home owners under pressure to sell lowered prices to match. Along with lower prices, fewer buyers qualified as the market tightened its lending criteria. The end result was a sale, but for a price almost 18% below the original appraisal and less than his purchase price four years prior. Losing all his equity, he can no longer afford to buy in his new location.

Is this just an isolated example? Probably not. The problems in the housing market can take on a spiral effect, impacting more and more families. Not wanting to be overly pessimistic, I worry we may be in the early stages of this cycle. We have seen estimates that over one trillion dollars in adjustable rate mortgages (1st and home lines of credit) will be adjusted higher over the next eighteen to twenty four months. We are only at the beginning of this adjustment and already records are being set for foreclosures. And keep in mind this is all occurring while the economy is going great with unemployment near seven year lows. What would happen if the economy weakened appreciably? I'm not sure anyone knows how bad this might get.

Could the meltdown in the real estate market reach beyond home prices? No one knows for sure and only time will tell. DWM will continue to rely on its tactical tools to keep us in line with what the market is actually doing. Always remember: the key to investment success is to stay disciplined and flexible in an ever-changing market environment. The moment you start to second-guess your decisions is usually the time you shouldn't.

Troy M. Schield, CFS, BCS
President
Disciplined Wealth Management – DWM
Registered Investment Advisor
Troy.Schield@DWManagement.net
303-618-9878

Disclosure: The information provided in DWM Quarterly Newsletter should not be considered a recommendation to purchase or sell any security. There is no assurance that any information mentioned in DWM Quarterly Newsletter will become a recommendation for the purchase or sale of securities according to the investment analysis for a portion or an entire balance of a model portfolio. Further, it should not be assumed that the information provided herein will prove to be profitable or that investment decisions or recommendations DWM make in the future will be profitable. Past performance does not guarantee future results.

Sources:

- Style box data = Russell Indexes. Source www.russell.com and Investors FastTrack.
- Sector data = DJ US Sector Indexes with the exception of Basic Materials and Real Estate utilizing I-Shares. Source Investors FastTrack.
- International data = EuroTop 100 Index for Europe, Tokyo Nikkei Index for Japan, S&P 500 Index for U.S.A. Source Investors FastTrack.
- Bond data = various bond mutual funds and exchange traded funds (ETF). Source Investors FastTrack.