

03/31/2008 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 –

March Madness

Everyone is familiar with the phrase “March Madness” as it plays out on the basketball courts all around our great nation, but it also applies to other areas. Take the financial crisis during the month of March. The fire sale of Bear Stearns stunned Wall Street and pummeled global financial stocks amid fears that few banks are safe from deepening market turmoil. The combination of Bear Stearns' bailout and the Fed's March 16th offer to extend direct lending to securities firms for the first time since the Great Depression highlighted just how hard the credit crisis has hit Wall Street. The combination of the financial crisis and the nervousness of investors set the stage for March Madness on Wall Street.

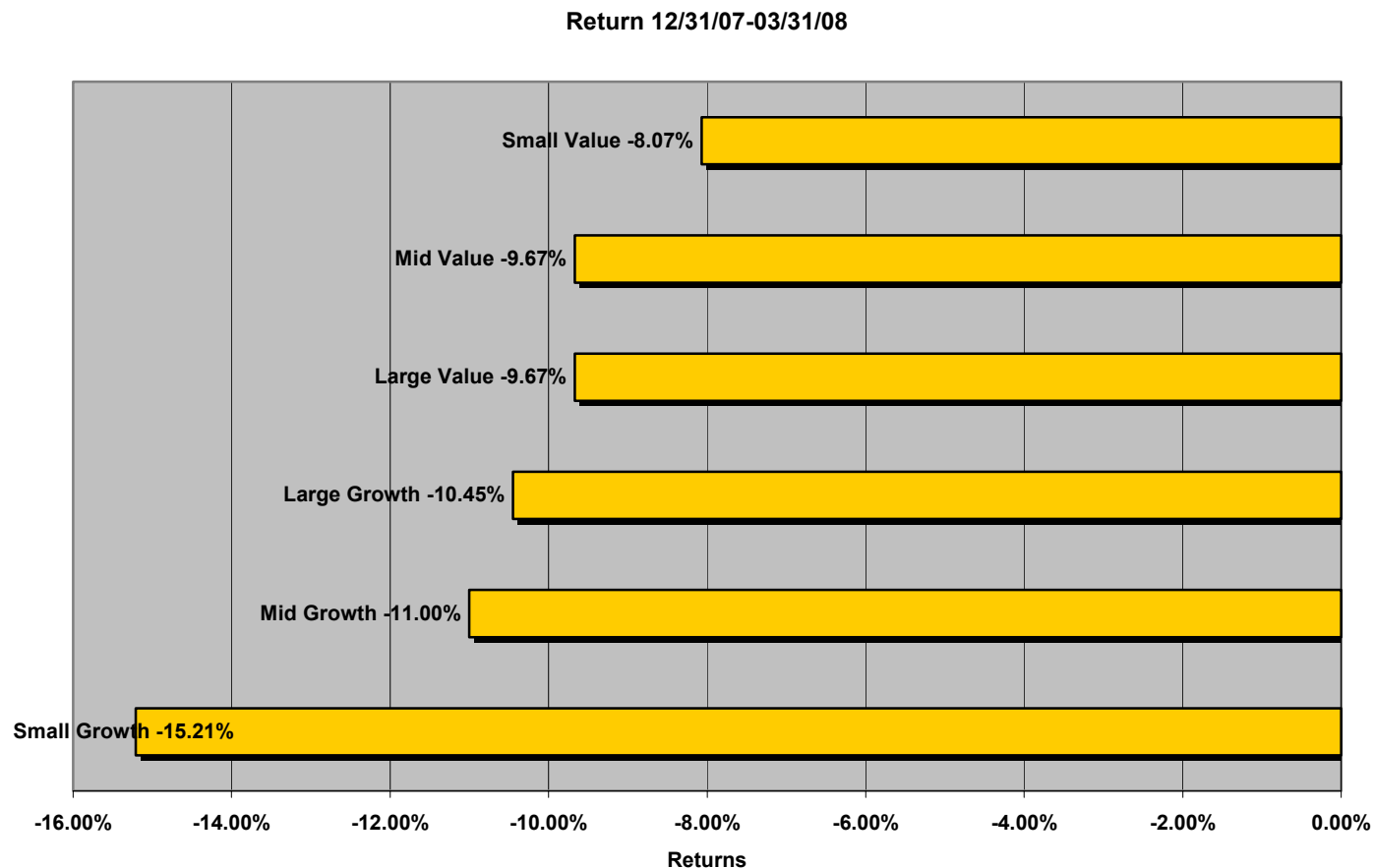
However, most investors overlooked the turmoil and volatility as they were only seeing from point A (beginning of March) to point B (end of March). Looking from point A to point B one would say, “Hey, this month wasn't too bad for the stock market.” If you like volatility that statement would hold true – but most investors don't like volatility.

Looking between point A and point B one can see that the S&P 500 actually experienced a wild ride. It dropped 4.3% in the first six trading days, advanced 3.7% the next trading day, dropped 3.3% the next four trading days, advanced 4.3% the next trading day, dropped 2.4% the next trading day, advanced 4.2% the next three trading days, and then dropped 2.2% the last three trading days. Add these moves together and you have the S&P 500 moving a whopping 25% – but from point A to point B it was down only 0.4%. Anyone that was fully invested in the stock market during the month of March experienced these wild day-to-day swings. 'Cause let's face it – they were fully invested *every day*, not just the first day of March (point A) and the last day of March (point B). In my opinion, that type of volatility for a flat month just isn't worth it. This is why I was so comfortable with having up to 60% of my clients' assets protected in the safety of money markets. Risk and reward are important in any investment. But the Madness (risk) that took place in the month of March just wasn't worth the reward.

As we go to press, the overall market environment indicator remains **Bearish**. We will continue to monitor this indicator and make the necessary adjustments.

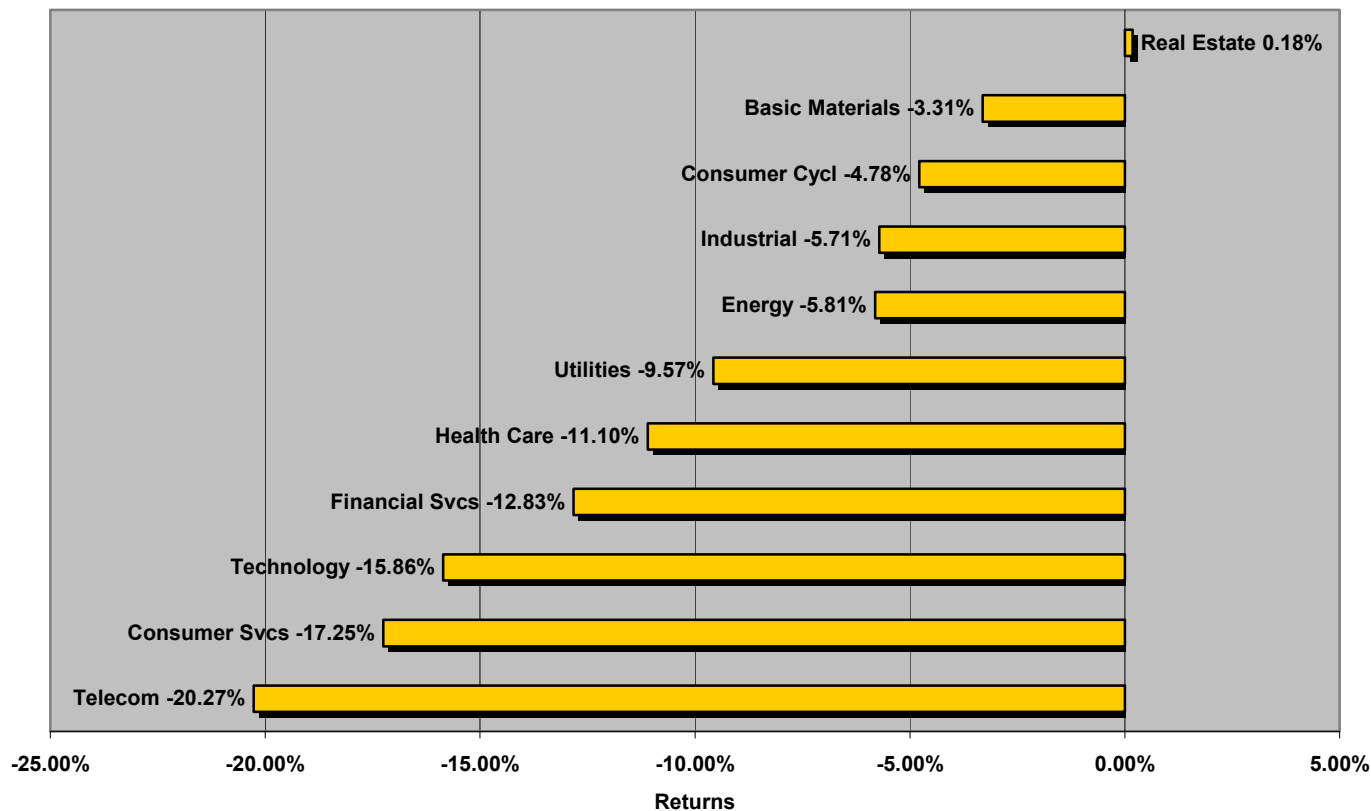
Please note that, in the following pages, the charts showing the performance of certain asset classes are for illustrative purposes only and they do not reflect the ranking system utilized by DWM.

Style boxes – Large Cap Growth and Mid Cap Growth continue their dominance, maintaining the #1 and #2 positions in my ranks. With the rest of the world doing better than the U.S. economy, it is therefore not surprising to find Large Cap Growth being one of the better performing styles on a relative basis. Many Large Cap Growths find a large part of their earnings coming from abroad versus the Small Caps, which predominately generate local earnings. The big change was evident in the Small Cap Arena as Growth and Value swapped places. Small Cap Growth dropped three spots to sixth position as Small Cap Value did the exact opposite, jumping three spots to third position. As usual, we will continue to rely upon our time-tested relative-strength analysis to guide our investments surrounding Style Boxes.

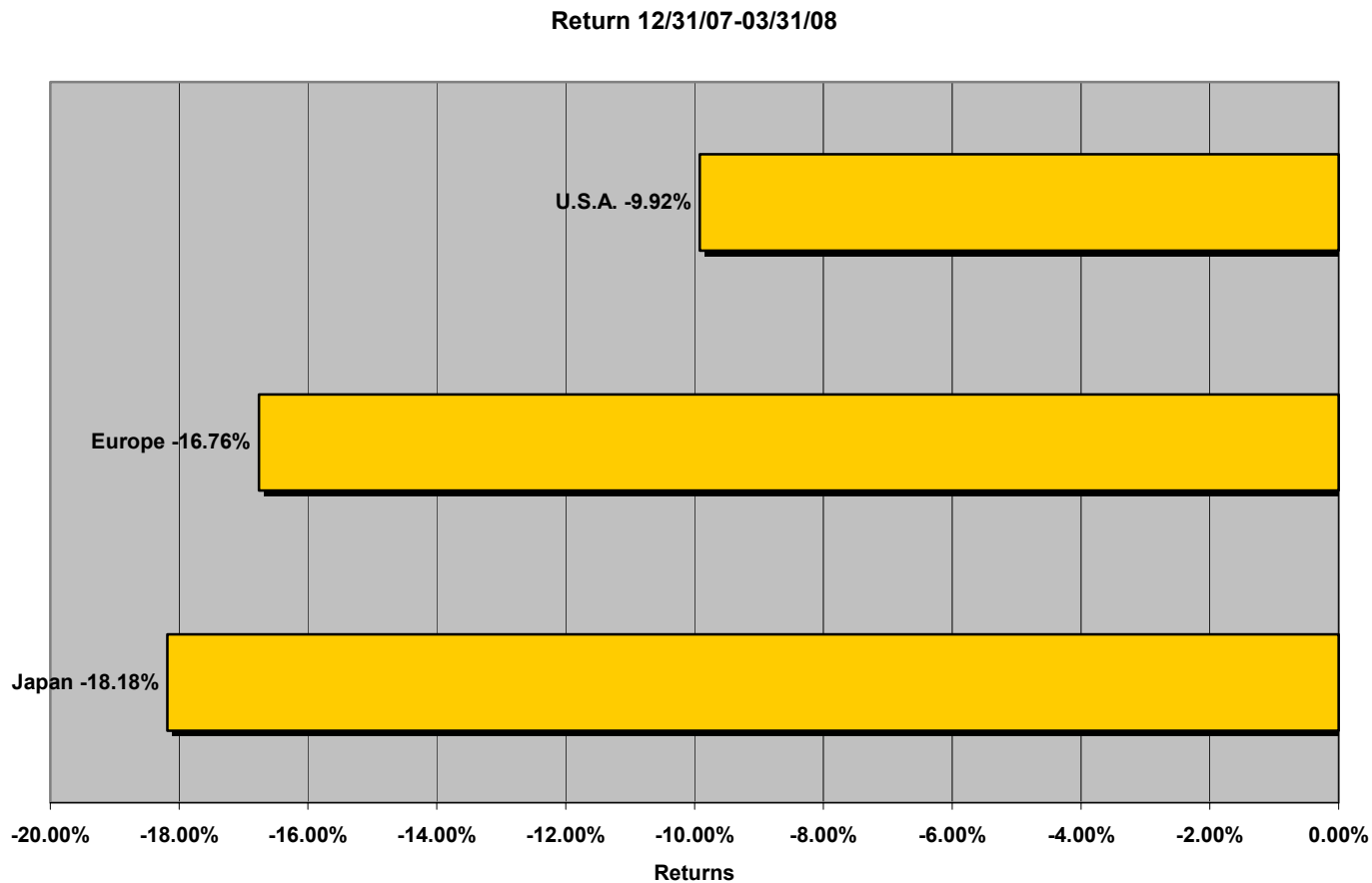


Sectors – A minor shuffle for the #1 position has taken place since my last Newsletter as Basic Materials claimed the top slot from Energy. It should come as no surprise to see Basic Materials and Energy with a strong hold on the top two positions, with oil breaking above \$100 a barrel and gold breaking above \$1,000 an ounce, both for the first time. Financial Services continues to struggle at the bottom of my ranks, which should come as no surprise. The ongoing carnage in banking, brokerage and insurance stocks continued and even accelerated in the first quarter. Bear Stearns has been getting a lot of air time from the talking heads and headlines in almost every financial publication recently, so I will use this financial stock as an example. Just a year ago Bear Stearns Stock (BCS) was trading at \$150 a share. Just a few short weeks ago, Lehman Brothers offered to buy Bear Stearns for \$2 a share, proof that relative strength works. My relative strength work has kept my investors away from the Financial Services sector since the end of 2006. As usual, we will continue to rely upon our time-tested relative-strength analysis to guide our investments surrounding sectors.

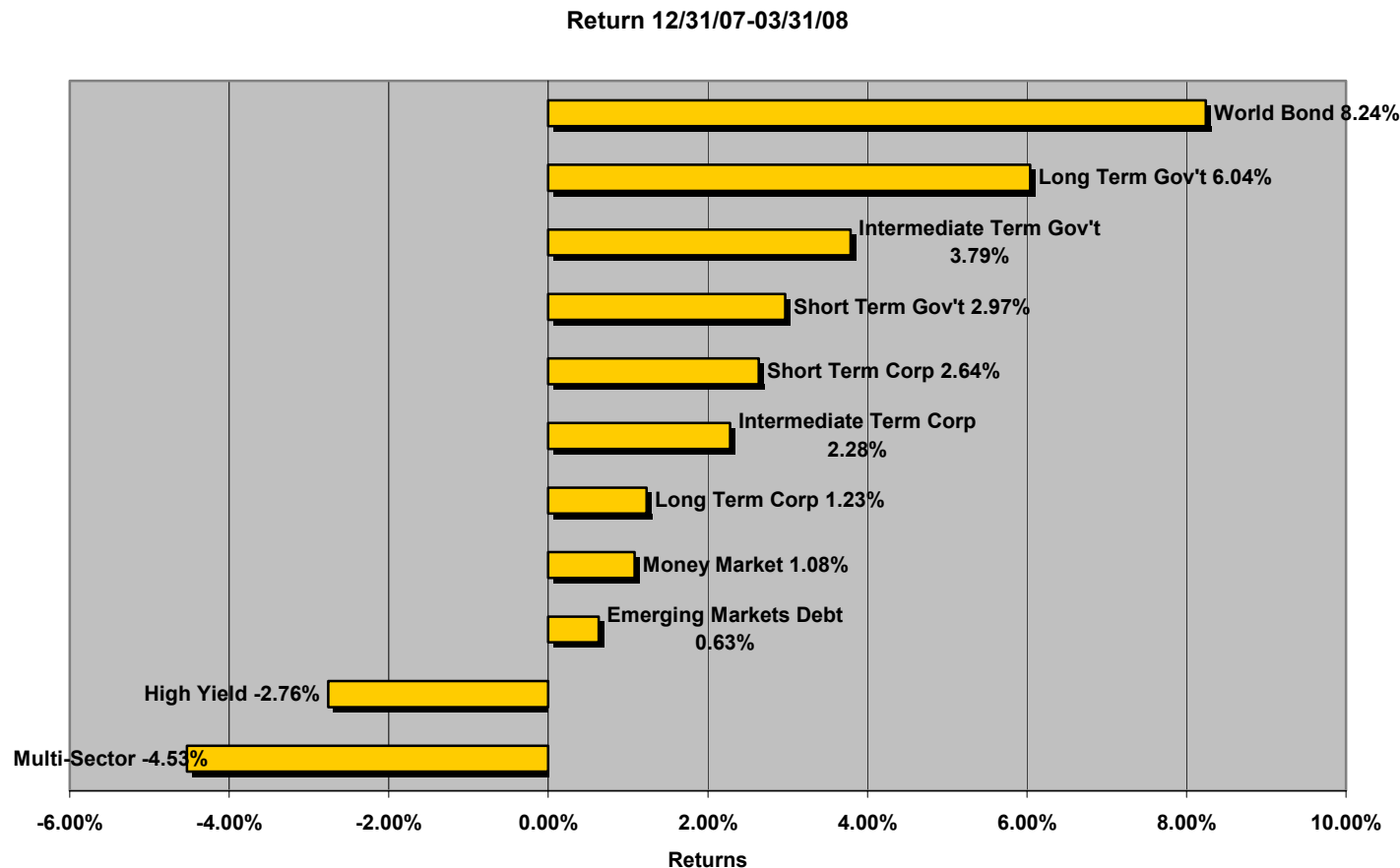
Return 12/31/07-03/31/08



Internationals – Gains in international markets were driven largely by currency machinations. With some exceptions, commodity-producing emerging markets are showing higher relative strength than most developed markets. One very interesting development is that Japanese stocks are showing some initial signs of a bottom. If this bottom holds true and Japanese stocks start to rally, our relative-strength work will identify this and positions will be taken accordingly. However, until this happens we will continue to overweight European Stocks as they continue their domination in my ranks. As usual, we will continue to rely upon our time-tested relative-strength analysis to guide our investments surrounding internationals.



Bonds – The Federal Reserve’s determination to push short-term rates lower along with never-ending credit concerns combined to create more chaos in the bond market. However, the bond positions that my relative strength picked up on at the beginning of the quarter were the shining stars. Intermediate Gov’t Bonds, as measured by the I-shares Lehman 7-10 year Treasury ETF (IEF), was up over 6%; Long Gov’t Bonds, as measured by the I-Shares Lehman 20+ year Treasury ETF (TLT), was up over 3.5%; Short Gov’t Bonds, as measured by the I-Shares Lehman 1-3 year Treasury ETF (SHY), was up over 2.5%; and last was the Intermediate Term Corp Bond, as measured by the I-Shares Lehman Aggregate Bond ETF (AGG), up over 2.2%. It was a great first quarter for being in the right bond positions. Will it continue? No one knows for sure, but we will continue to rely upon our time-tested relative-strength analysis to guide our investments surrounding bonds.



Forward-looking statement –

Will the cuts make a difference?

The Federal Open Market Committee (FOMC) voted to cut the Federal Funds Rate by 75 basis points to 2.25% on 3/18/2008. Many market participants were expecting a 100-basis point ease, but by limiting the size of the cut, the Fed signaled its continued commitment to fighting inflation, even though encouraging economic growth is presently a higher priority.

To help restore confidence in the financial system, Fed Chairman Ben Bernanke has been relying not just on monetary policy, but on a variety of unconventional tools designed to make it easier and less costly to trade illiquid securities. In addition, the government will shortly begin sending taxpayers checks as part of a stimulus package, and talk of a broader sub-prime bailout is still making the rounds on Capitol Hill.

This follows the pattern of previous financial crises. What followed most of them – and eventually led to recoveries – was a series of significant interventions by the government.

Will it work this time? No one knows for sure and only time will tell. DWM will continue to rely upon 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
www.DWManagement.net
Troy.Schield@DWManagement.net
Office 303-471-5189
Mobile 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 via 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.