Ladenburg Thalmann Asset Management
LAMP Market Commentary
June 2008

Market Overview

Since the Fed began cutting rates last August (from 5.25% to 2%), the price of oil has more than doubled and the price of agricultural commodities has increased by more than 50%, contributing to global inflation. While much of this is due to increased global demand and the inelasticity of supply, there are other factors to consider such as a decline in the value of the dollar, speculation, and the increased use of agriculture for the purpose of creating alternative energy sources. Through May, CPI (Consumer Price Index - a gauge of inflation) has increased at an annual rate of 4.2% while core CPI (excluding food and energy) was just above the Fed's comfort level (1-2%) at an annual rate of 2.3%. The Fed seems most concerned with stabilizing the prices for core goods and services. Unemployment through June was 5.5%, which is still below historical averages, but higher than it has been in recent years. While there are expectations for a rate hike later this year or early next year, we expect the Fed to hold off until prospects for future economic growth and the employment outlook in the U.S. is more optimistic. That being said, the Fed has not ruled out near term rate cuts completely, although it is unlikely based on inflation concerns. In light of the negative factors facing current market conditions, projected real GDP growth for the U.S. remains positive for Q3 and Q4 at 1.7% and 1.2% respectively.

Domestic Equities

We continue to hold a large cap and growth bias for domestic equities since growth positions, specifically large cap, tend to have more global exposure than value and have historically performed better during periods of weaker economic conditions. Our growth tilt continued to pay off, as growth outperformed value by 4.24% for the first half of 2008. While large caps outperformed mid caps and small caps (as shown by the Russell stock indexes) during 2007 and first quarter 2008, large caps underperformed mid caps by 4.56% and small caps by 2.47% for the second quarter. Much of this can be attributed to the inflationary pressures seen in the second quarter and the outperformance of the energy and utility sectors, which make up higher allocations in the mid and small cap spaces.

Fixed Income

Our fixed income positions, Treasuries in particular, have provided our portfolios great protection over the last few quarters as the overall economy has experienced a downturn which has caused a strong flight to quality. The price of bonds typically moves in the opposite direction to a change in interest rates. Inflation, on the other hand, reduces the value of cash flows from a bond in terms of their purchasing power. The duel environment will likely negatively impact this asset class. Therefore, we are keeping a close eye on the Fed's actions as they weigh the need to keep rates steady to stimulate economic growth or increase rates to fight inflation. In some of our portfolios, we are increasing the exposure to Corporate Bonds. While Treasuries have outperformed Corporates over the last 12 months, the yields on Corporates compared to Treasuries have become attractive and should outperform over the next 6 to 12 months. Corporates tend to outperform Treasuries in inflationary periods; therefore, the shift will help to hedge our portfolios if inflation continues to be a problem.

Emerging & Developed Foreign Markets Equity

Much like the first quarter, both the developed and emerging market asset classes saw a decline in the second quarter on par with declines in the U.S. markets (all down between -10% and -12% for the first half of 2008). Inventory surpluses, stronger central banks, and less dependency on the US economy have caused emerging markets to be less volatile than historically seen but inflation still remains the biggest concern. Although not as severe, Europe (developed) has also experienced inflationary pressures. In an attempt to avoid worsening inflation or possibly stagflation, the ECB (European Central Bank) raised interest rates by 0.25% to 4.25%. Even though these asset classes have been more correlated to the US Market during this volatile market, they are still attractive from a diversification and long-term performance standpoint.

Alternative Investments
Natural Resources – The natural resources asset class has outperformed all others (up more than 14% in 2008) and has helped buoy our performance and reduce risk in the overall portfolio. In June, we reduced our exposure to this asset class to lock in profits as well as to hedge against the possible slowdown in growth. We are monitoring it closely because the soaring prices of food and energy are taking a toll on the global economy which could negatively impact demand. Recent fundamentals indicate that a price decline may be in store as it is unlikely that this unprecedented growth will be sustainable in a slowing global economy.

Managed Futures - We are adding a managed futures mutual fund to all models. It is a conservative approach to futures that is designed to act as a non-correlated hedge to traditional stocks and bonds. The Fund, Rydex Managed Futures Strategy (RYMFX), is designed to track the S&P Diversified Trends Indicator, which strives to capitalize on momentum (in either direction, long/short – excluding energy, which can cannot be held short). The long/short aspect enables the index to capture the economic benefit derived from both rising and declining trends in the futures markets with very low volatility. The S&P DTI TR Index (since 1985) provides equity-like returns with bond-like volatility in all markets. The index is made up of 50% commodity and 50% currency futures grouped into 14 sectors [Softs (Cocoa, Coffee, Cotton, Sugar), Grains (Corn, Soybeans, Wheat), Livestock (Lean Hogs, Live Cattle), Precious metals (Gold Silver), Industrial metals (copper), Energy (Heating Oil, Light Crude, Natural Gas, ROB Gasoline), Australian dollar, British pound, Canadian dollar, Euro, Japanese Yen, Swiss Frank, U.S. Treasury Bonds, U.S. Treasury Notes]. This fund is designed to perform well in all markets, regardless of inflation and global growth.

Real Estate
The Fed's actions over the last year (including a series of interest rate cuts, the bail out of Bear Sterns, and an ease in lending policies to the major banking institutions) attempted to ease the effects of the credit problems and US sub-prime mortgage crisis that led to falling property prices and a slowdown in the US economy. Furthermore there are signs that the credit problems have not yet been fully identified and that mortgage-default related losses are not fully realized. We continue to hold a small allocation in domestic REITs due to their attractive yields and low correlation to stock and bond markets. However, we are eliminating the international real estate position from all models due to its underperformance this year. Although the position has diversification benefits, we are removing the allocation because we believe the downside risks outweigh its upside potential over the next few months in the wake of a global economic slowdown.