



Investor Bulletin **Market Comments & Investment Ideas** *August 1, 2008*

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Economic Overview and Outlook

Perhaps the current economic state of our country can be compared to market conditions surrounding the Tax Reform Act of 1986. Two results of the 1986 Act were increased tax revenues, and a downturn in the real estate market. Twenty-one years ago, on Monday, October 19, 1987, the stock market crashed 22.6%. This was the largest one-day percentage drop in U.S. stock market history. Many reasons over the years have been given for the crash, including program trading, overvaluation, and illiquidity in the markets – sound familiar? Perhaps higher taxes from the 1986 Act resulted in more liquidity problems for the investment markets.

1988 saw a new President, Bush #1, and a promise: “Read my lips: no new taxes”. Then in 1992, Bush #1 did raise taxes, and the markets saw some declines.

So what does this have to do with the current economic and market situation?

Our country is facing problems eerily similar to twenty years ago, including a burgeoning federal deficit that is now the largest in history. We cannot seem to limit our government spending. The bill must be paid, and our history indicates that it is time to raise taxes. The markets are concerned by the prospect of increased taxes. This would drain liquidity that is already scarce due to the meltdown in mortgage related securities. We believe this apprehension is contributing to the current market decline.

The USA is known to be a country with relatively low taxes. We have been able to spend more than our tax revenues bring in by issuing prodigious amounts of government debt (on the local, state, and federal levels). Our children cannot be expected to pay all of the debt accumulated by our generation’s financial recklessness (i.e.– reducing taxes while fighting a war).

We cannot know today whether the markets have bottomed. But we feel strongly that opportunities are abundant. Strong companies with poor short-term performance results (because of the economic slow-down) have low PEs and stock prices. Manufacturing is seeing a comeback as the low dollar, high transportation costs, and higher wages overseas make outsourcing and moving production overseas less of an economic benefit. It is our job to take advantage of the opportunities while minimizing downside risk. As we manage through these difficult times, please do not hesitate to give us a call on any investment questions or concerns you might have. Enclosed is a summary of our investment management results as of 12/31/07. We appreciate your business and your referrals.

Introducing our newest staff member

Ronald W. Brackbill, CPA

Kornfield Investment Management is pleased to announce the hiring of our newest employee, Ron Brackbill, as an Investment Advisor Representative. Ron comes to us with over 25 years of experience in manufacturing and financial management. Ron is a CPA with extensive accounting and investment experience. Although Ron will not prepare tax forms, he will enhance our firm’s ability to help our clients with their financial questions and investment analysis and decision-making.

Ron’s special interests include foreign investments, specifically individual companies, and investment planning strategies for income and growth.

Ron is a local boy, born and raised in Lancaster County. He is married with three children.

If you are passing nearby our office during the day, stop by and meet the newest addition to our investment team.



*Enjoy the rest of
your summer!*

Investment Notes and Ideas

2008 has been a period of a global correction in the equity markets. And, in the USA, 2008 has been a period of benign neglect by regulators because financial institutions are not being forced to disclose troubled investments in their capital structures. This explains why bank stocks in general are declining and you can understand why we have been avoiding bank stocks.

Recently we purchased shares of THE PHOENIX CO'S (PNX). We have recommended PNX shares in the past. Phoenix is primarily a life insurance company. We feel that low rates of saving and potentially higher taxes in the future will encourage buying life insurance to protect survivor assets and income. We feel PNX is cheap, and a takeover candidate, because it trades at about half of book value. Current price \$9.96. Our 18 month target price is 15.00. Annual dividend \$0.16 per share.

This year we are adding mutual funds containing convertible securities into our client accounts. Convertible securities are bonds or preferred stock that is exchangeable at some future specified date(s) for common stock of the issuing corporation. Today it is harder to raise capital so businesses are giving investors better deals with income producing preferred stocks and bonds that can be converted into the selling company's common stock. We are always trying to generate growth and income for our clients.

An update on a stock held in many of our client accounts, SIRIUS (SIRI). The Federal Communications Commission finally approved the merger with XM Satellite Radio 17 months after the deal was initially announced. The new company plans to use the name Sirius XM Radio Inc. Its stock will continue to be traded on the Nasdaq under the ticker symbol SIRI.

What happened to the original 12 companies in the Dow Jones Industrial Average (DJIA)?

COMPANY	WHAT HAPPENED...
AMERICAN COTTON OIL	'ancestor' of Bestfoods
AMERICAN SUGAR	Evolved into Amstar Holdings
AMERICAN TO-BACCO	Broken up in 1911 antitrust action.
CHICAGO GAS	Acquired by Peoples Gas, 1897.
DISTILLING & CATTLE FEEDING	Evolved into Millenium Chemical.
GENERAL ELECTRIC	Still in the DJIA.
LACLEDE GAS	The company, still active, was removed from DJIA in 1899.
NATIONAL LEAD	NL Industries; removed from DJIA in 1916.
NORTH AMERICAN	Utility broken up in the 1940s.
TENNESSEE COAL & IRON	Acquired by U.S. Steel in 1907.
U.S. LEATHER	Dissolved in 1952.
U.S RUBBER	Became Uniroyal; now part of Michelin.

COMPOSITE BOND RATES—YIELD TO MATURITY*

As of July 31, 2008

Maturity	U.S. Treasury Yields	Certificates of Deposit	Municipal Bond Yields
6 months	1.810	3.10	
1 year	2.166	3.65	
2 year	2.524	4.25	2.43
5 year	3.254	5.00	3.35
10 year	4.584		4.14

Buy when everyone else is selling and hold until everyone else is buying. That's not just a catchy slogan. It's the very essence of successful investing.

-Jean Paul Getty

**Rates shown are composite samplings and may not be reflective of actual bonds available. The preceding list is based on information derived from sources deemed to be reliable but is not guaranteed as to accuracy and does not purport to be a complete analysis of the security, company, or industry involved. Mutual funds, annuities, and other investment securities, including stocks, are not FDIC insured, and are subject to investment risks, including possible loss of principal amount invested. Under no circumstances shall this information constitute an offer to sell or a solicitation of an offer to buy any security. Nor shall there be any sale of the securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification of such securities and brokerage staff under the securities laws of such jurisdiction. We are not accountants or attorneys; see them for specific legal and tax advice. Bond information is subject to change and availability. Some bonds are sold by prospectus only; therefore, contact us for a prospectus and more information. Additional information avail-*

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