



Kintyre Investment Letter

First Quarter 2007

SUMMARY:

A sharp decline in the Chinese stock market, along with worries about the domestic subprime lending market, rattled investors a bit in the first quarter. Stocks rebounded in March to post modest gains in the first quarter. Since last August, stock market returns have been quite good.

The Kintyre Investment Letter is mailed quarterly to our clients and friends. The intent of this publication is to share our investment thinking and provide general advice to the public. Please contact us for advice specific to your situation.

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Quarterly Market Commentary

Following a rough period in February, equities rebounded in March, putting returns back on positive ground year to date. The large company S&P 500 index was up 0.6% in the first quarter, while the small company Russell 2000 index gained 1.9%. Foreign equities continued their momentum, posting a first-quarter return of almost 4%. On the fixed-income side, the Lehman Aggregate Bond Index gained 1.5% for the quarter. All of our target portfolios exceeded their benchmarks for this quarter.

What spooked investors, albeit temporarily, in the first quarter? After enjoying a seven-month run of mostly climbing stock prices, U.S. stocks fell sharply in the wake of an even bigger drop in the Chinese stock market in late February. Investors are concerned that a slowing Chinese economy could foreshadow a slowdown in global growth. Another concern for investors is the housing market and associated problems in the subprime lending market. The worry there is that the rising defaults could spread further weakness throughout the rest of the housing market, which in turn could hurt consumer spending, an important driver of the economy.

The Boston area is particularly vulnerable to a decline in the housing market, having experienced gains that exceeded the national average for many years.

Kintyre News

The big news for 2007 is a major upgrade to our software and systems. We have replaced our portfolio management system with Portfolio Center, a truly state-of-the-art platform for tracking and monitoring your investments. Junxure, a contact and document management system, will allow us to more easily track our activities and continue our efforts to create a paperless office. A powerful centralized database server and network will allow multiple employees to work on these tools simultaneously.

Starting in June, Annie will have a regular column on practice management appearing in the "NAPFA Advisor" magazine. This publication, with a circulation of 8500, serves the professional community of NAPFA members and other fee-only advisors.



Teaching Your College-Age Child about Money

When your child first started school, you doled out the change for milk and a snack on a daily basis. But now that your kindergartner has grown up, it's time for you to make sure that your child has enough financial knowledge to manage money at college.

Lesson 1: Budgeting 101

Perhaps your child already understands the basics of budgeting from having to handle an allowance or wages from a part-time job during high school. But now that your child is in college, he or she may need to draft a "real world" budget, especially if he or she lives off-campus and is responsible for paying for rent and utilities. Here are some ways you can help your child plan and stick to a realistic budget:

- Help your child figure out what income there will be (money from home, financial aid, a part-time job) and when it will be coming in (at the beginning of each semester, once a month, or every week).
- Make sure your child understands the difference between needs and wants. For instance, when considering expenses, point out that buying groceries is a need and eating out is a want. Your child should understand how important it is to cover the needs first.
- Determine together how you and your child will split responsibility for expenses. For instance, you may decide that you'll pay for your child's trips home, but that your child will need to pay for art supplies or other miscellaneous expenses.
- Warn your child not to spend too much too soon, particularly when money that has to last all semester arrives at the beginning of a term.
- Acknowledge that college isn't all about studying, but explain that splurging this week will mean scrimping next week. While you should include entertainment expenses in the budget, encourage your

child to stick closely to the limit you agree upon.

- Show your child how to track expenses by saving receipts and keeping an expense log. Knowing where the money is going will help your child stay on track. Help your child understand that spending more in one area means spending less in another.
- Encourage your child to plan ahead for big expenses (the annual auto insurance bill or the trip over spring break) by instead setting aside money towards those expenses on a regular basis.
- Caution your child to monitor spending patterns to avoid excessive spending, and ask him or her to come to you for advice at the first sign of financial trouble.

You should also help your child understand that a budget should remain flexible; as financial goals change, a budget must change to accommodate them. Still, your child's ultimate goal is to make sure that what goes out is always less than what comes in.

Lesson 2: Opening a bank account

For the sake of convenience, your child may want to open a checking account near the college; doing so may also reduce transaction fees (e.g. automated teller machine (ATM) fees). Ideally, a checking account should require no minimum balance and allow unlimited free checking; short of that, look for an account with these features:

- A simple fee structure
- ATM or debit card access to the account
- Online or telephone access to account information
- Overdraft protection

To avoid bouncing checks, it's essential to keep accurate records, especially of ATM or debit card usage. Show your child how to balance a checkbook on a regular (monthly) basis. Most checking account statements provide instructions on how to do this.



Encourage your child to open a savings account too, especially if he or she has a part-time job during the school year or summer. Your child should save any income that doesn't have to be put towards college expenses. After all, there is life after college, and while it may seem inconceivable to a college freshman, he or she may one day want to buy a new car or a home.

Lesson 3: Getting credit

As soon as he or she arrives on campus, your child will be deluged with credit card offers. A credit card can provide security in a financial emergency and, if used properly, can help your child build a good credit history. But the temptation to use a credit card can be seductive, and it's not uncommon for students to find themselves over their heads in debt before they've declared their majors. Unfortunately, a poor credit history can make it difficult for your child to rent an apartment, get a car loan, or even find a job for years after earning a degree.

Here are some tips to help your child avoid getting into trouble with credit card debt:

- Advise your child to get a credit card with a low credit limit to keep credit card balances down.
- Explain to your child that a credit card isn't an income supplement; what gets charged is what's owed (and then some, given the high interest rates). If your child continually has trouble meeting expenses, he or she should review and revise the budget instead of pulling out the plastic.
- Teach your child to review each credit card bill and make the payment by the due date. Otherwise, late fees will be charged, the interest rate may go up, and your child's credit history may be damaged.
- If your child can't pay the bill in full each month, encourage him or her to pay as much as possible. An undergraduate student making only the minimum payments due each month on a credit card could finish a post-doctorate program before paying off the balance.

- Make sure your child notifies the card issuer of any address changes so that he or she will continue to receive statements.
- Tell your child that when it comes to creditors, students don't get summers off! Your child will need to continue to make payments every month, and if there's a credit card balance carried over from the school year, your child may want to use summer earnings to pay it off in order to start the next school year with a clean slate.

Finally, remind your child that life after college often involves student loan payments and maybe even car or mortgage payments. The less debt your child graduates with, the better off he or she will be. When it comes to the plastic variety, extra credit is the last thing a college student wants to accumulate!

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