



Kintyre Investment Letter

First Quarter 2008

SUMMARY:

Quarterly Market Commentary

The problems facing the financial sector and potentially the overall economy are more complex and more severe than anything seen in more than two decades.

There are some positives, including strong exports among domestic companies, and the Fed's commitment to formulating a strong policy response that addresses the underlying issues plaguing the financial system.

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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Both domestic and foreign stocks were down sharply in the first quarter, with losses on broad indexes in the 9% to 10% range. High-quality bonds gained more than 2%, as investors fled to quality. Commodity futures and emerging-markets local-currency bonds both did very well in the first three months of 2008, gaining 9.6% and 4.7%, respectively, based on their indexes.

The overall environment is one that we suspect will continue to be one of the most challenging investment environments we've ever faced. It is probable that we are already in a recession or on the verge of entering one. It's clear that the severely troubled housing and credit markets are beginning to have an impact on the health of the overall economy. The worst phase of the credit market problems could last for several more months, and the housing problems could continue into 2009. High energy costs don't help, but are not the primary concern. The problems facing the economy are clear: The housing market is in the worst downturn since the 1930s, impacting wealth and spending, unemployment, and contributing to the dysfunctional credit market; the credit markets are not functioning properly at present, impacting the ability to support consumer spending and conduct business; lastly, we are now seeing the impacts of the first two factors on employment and consumer spending. Unfortunately, these factors interact in a way that creates a self-reinforcing cycle. Meanwhile, declining consumer spending will impact corporate profits.

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Kintyre News

It has been an exciting quarter at Kintyre!! Annie was named one of America's Top Financial Planners by the Consumer Research Council of America. While many lists rank firms by the size of assets under management, the CRCA looks at additional criteria such as education and professional associations. While Kintyre is a small firm, Annie's close association with NAPFA, contributions to professional publications, and educational background contributed to the rankings.

Annie has recently been quoted in Kiplinger's Personal Finance, and Investor News.



Quarterly Market Commentary (continued)

It is also worth noting that while most of the rest of the world is doing better than the U.S., Japan's economy is also struggling and Europe's is slowing. It seems likely that most of the developed world will continue to weaken. The emerging markets are in better shape, but we don't expect them to be fully immune from economic weakness in the developed world.

As always, there are positives as well. The biggest positive for the economy in the near term is the aggressive, and in some respects, unprecedented action of the Federal Reserve. Though the Fed's moves have not been as effective as they would like, they have made it clear that they will do what it takes to stop a major downturn and they still have weapons in their arsenal, such as directly buying mortgage securities in the public market. The dollar's weakness has also significantly improved the competitiveness of U.S. businesses versus foreign competitors. Export strength is already happening with exports contributing a significant one percentage point to economic growth over the last six quarters (annual rate). This almost offsets the economic impact thus far of the housing downturn. This benefit could diminish if the global economy weakens significantly, however.

Finally, outside of the financial sector, companies are generally flush with cash, especially relative to debt-service needs. Balance-sheet strength is surprisingly healthy for this late in an economic cycle—the result of strong profit growth and below-average capital investment in recent years. Weighing the evidence, the odds seem to favor a worse-than-average recession, though that outcome is far from inevitable. Stocks are reasonably valued now, and further declines (depending on the magnitude) could represent an attractive buying opportunity for long-term investors.

We can't know what the near-term is going to bring, but at times like this when economic uncertainty is high, our discipline and research process keep us grounded and give us confidence in our ability to make sound long-term decisions.

Please feel free to contact me if you have any questions. Thank you for your continued trust and confidence.

Annual Form ADV Notice

You are entitled to ask for, and receive, a copy of Kintyre's regulatory disclosure form, known as Form ADV. If you would like a copy mailed to you, please let me know. More information is available at www.adviserinfo.sec.gov.

Kintyre Financial Advisors, LLC is a fee-only financial planning and investment management firm. Kintyre is completely independent and accepts no commissions. We adhere to a fiduciary standard, and work entirely on your behalf.

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