

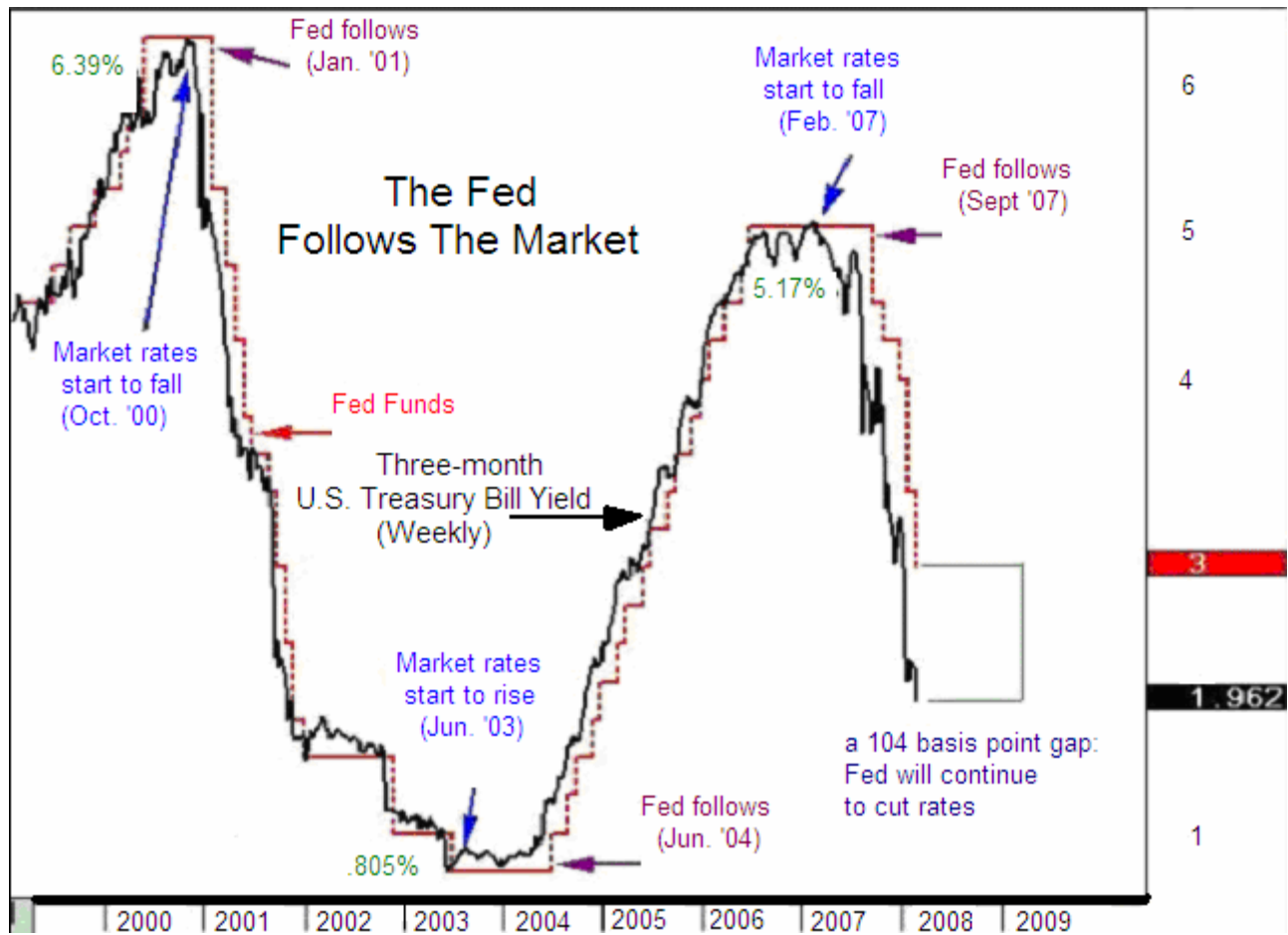


Market Commentary

February 29, 2008

Fed Funds and the US Treasury Bond Market

Perhaps the best representation that the Federal Reserve now follows, as opposed to leads, monetary policy is the below graph. It is a plot of Fed Funds Target Rates versus the Three-month US Treasury Bill Yield. The important take away from this graph currently is that the US Treasury market is forecasting another 100 basis point (i.e. 1%) cut in Fed Fund Rates very soon. The next Fed meeting is March 18; expect another Fed Funds Target rate cut.



I believe one of the next big stories may be the fact that retirees have not had to face inflation for a very long time, but now they might have to. When you think about it, inflation is probably the biggest worry for the retiree, as they are normally on a fixed income. Sure, avoiding large portfolio losses is very important, but the retiree can always stop portfolio losses by selling their investments and moving to a conservative portfolio – like Hanlon Investment Management does for them. But retirees cannot stop inflation. How ironic that just as the retirement of the baby



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boomers begins, that inflation begins to rear its ugly head. Inflation, the bane of all retirement plans – if one is not prepared.

What to do about this potential inflation and the need to generate returns during inflationary environments? Keep in mind the Hanlon Investment Management *Managed Income* and *Balanced* portfolio allocations for the retiree portfolio. Both of these allocations have had good returns and are ideal for the distribution phase of the investor's lifetime, as they have had very limited "drawdown" (portfolio drops).

How is the Fed going to deal with the inflation? Yes, the US Treasury Bond market is telegraphing further interest rate cuts, and that is being corroborated by the falling dollar – it hit new lows yesterday – but what to do about inflation?

We remain in all cash in all asset classes for the time being. A steady money market rate of return is very comforting during these times. There will be very good opportunities somewhere soon down the road. Need to be very careful in the meantime.

Thank you,

Sean Hanlon, CFP®
CEO and CIO

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