WINFIELD
ASSOCIATES

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Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

Just days after the end of the second quarter, the Dow Jones Industrial Average (DJIA), the S&P 500 and the NASDAQ Composite each dipped below the widely accepted definition of a bear market of a 20% drop from the high. Shares of financial institutions led the slide with continued write-downs of sub-prime debt, now totaling an estimated $400 billion worldwide. The destruction of wealth was broad and severe. General Motors ended the quarter below $10 per share, a level not seen in over half a century. At the end of the second quarter, most sectors of the S&P 500 showed year-to-date declines including financials (–30.9%), information technology (-13.4%), consumer discretionary (-13.9%), and healthcare (-13.8%). Only energy (+8.1%) and materials (+.19%) finished the quarter up for the year.

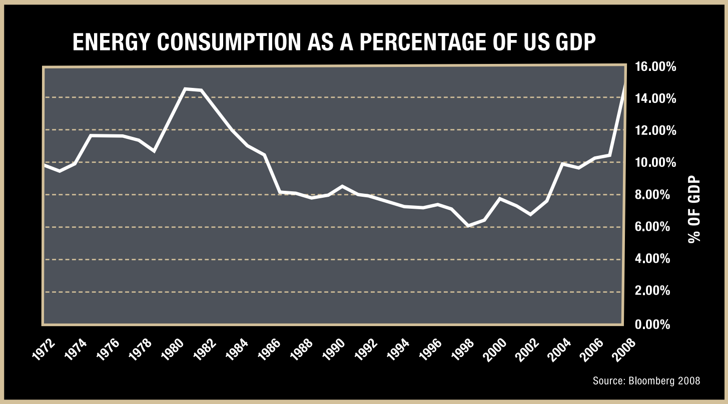
Despite the bear market, the US economy has eluded recession to-date. GDP slowed sharply from 4.9% growth in the third quarter of 2007 to 1.0% (final) in the first quarter of 2008. Consumer spending and strong US exports contributed to economic growth. Consumer resilience, not withstanding the tax rebate, is remarkable considering the severity of the credit crisis and the dramatic rise of the price of crude oil and gasoline. Whether the US economy officially slips into a recession seems definitional as the headwinds of oil, credit and inflation will continue to inhibit growth throughout 2008.

Oil prices represent a significant hurdle to restoring more normal economic stability. Since the end of 1999, oil prices have jumped nearly 13 fold from $11.21 to $141.89 on June 30, 2008 (see chart below).

$US PER BARREL OF CRUDE OIL

12/31/1972	$3.56	**12/31/2006**	$61.64
12/31/1980	$37.00	**12/31/2007**	$96.30
12/31/1991	$18.64	**6/30/2008**	$141.89
12/31/1999	$11.21		

Importantly, energy is now an estimated 15% expense of US GDP, an all-time high (see graph in next column). The US has only come close to this figure one time, during 1980 to 1981. Prior to the oil embargo of 1973, total energy expenditures were 8% of GDP. From 1973 to 1980, total energy expenditures rose steadily throughout the mid-1970s and then



spiked to 14.6% of GDP following the 1979 Iranian Revolution and Iran's restriction of oil exports. The 1980-1982 recession slowed energy consumption, gradually lowering prices and reducing expenditures. With the consumption/GDP ratio currently at 15%, the US economy appears likely headed into a recession absent a significant decline in energy prices.

Many factors contribute to the rapid rise of oil and other energy costs. Global oil production is around 85 million barrels per day while demand is now 86 million barrels per day. Demand is obviously outpacing supply. The US and Europe account for 24% and 22% of global oil demand respectively. While developed nations' oil consumption is down in recent months due to rising prices, emerging economies increasingly demand more, thereby pushing energy prices higher. Compounding the dilemma, many emerging countries subsidize energy costs to promote growth. Moreover, oil is a commodity, priced and traded in US dollars. With the US dollar now near record lows versus several currencies including the euro and the Canadian dollar, oil prices continue to climb higher. A combination of lower demand, a reduction in fuel subsidies and a stronger dollar are necessary to end the strain placed on the global economy.

High energy costs present both challenges and opportunities. In 2007, the US imported 70% of the oil it consumed, up from 30% in 1985. With oil prices over $140/barrel, the US is transferring nearly $1 trillion of wealth per year to oil exporting countries. The global infrastructure build-out continues to benefit fertilizer, steel, and engineering and construction companies serving these markets. Energy exploration and production and alternative energy policies are now at the forefront of political debate. In the long run, companies that innovate and successfully manage through the global energy crisis will provide investors with remarkable returns.

MACROECONOMIC OUTLOOK

	April 2008	July 2008
US GDP	Neutral	Neutral
Inflation	Neutral	**Negative**
Employment	Neutral	Neutral
Productivity	Positive	Positive
Corporate Profits	Neutral	Neutral
Consumer Debt	Negative	Negative
International Growth	Positive	Positive

We are changing our outlook on inflation to Negative due to the rapid rise of energy prices. June's core consumer price index (CPI) was up 2.4% versus June 2007, above the Federal Reserve's target of 1.5% to 2.0%. We believe energy prices will have a greater effect in the second half of 2008. We are also carefully monitoring the unemployment rate which climbed from 5.0% to 5.5% during the quarter. While one data point does not convincingly predict a recession, a string of poor unemployment numbers would indicate a significant slowdown.

HISTORY OF BEAR MARKETS

According to Bespoke Investment Group, the typical post-1940 bear market produced a decline of -30.4% from a high and lasted 386 days. The bad news is that after a difficult -20% drop, equity markets could be in for another -10% decline on average. The good news is that once investors declare a bear market, nearly 74% of the downturn is already discounted in equity prices. In recent years, bear markets provided long-term opportunities to invest at depressed prices. Following the last bear market in 2001-2002, the Dow Jones Industrial Average jumped 98% from 7,181 in October 2002 to 14,225 in October 2007.

CHARLES SCHWAB ACCOUNT STATEMENTS ENHANCEMENT

In April, Charles Schwab & Co. added Unrealized Gain or (Loss) and Realized Gain or (Loss) sections ("Gain/Loss Section(s)") to monthly statements. Winfield will continue to provide Realized Gains and Losses reports at the end of each quarter. The new service should make year-end tax reconciliation easier.

GSEs AND MORTGAGE RATES

Despite historic cuts in the federal funds rate (now 2.0%), the average 30-year fixed mortgage rate rose from 5.67% at the end of March to 6.32% in early July. Rumors that government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac were near insolvency roiled US equity and debt markets in the quarter, sending mortgage rates higher. Both institutions own or guarantee 45% of all US mortgages worth nearly $5 trillion. Put in perspective, total US debt is close to $10 trillion and annual US GDP is close to $14 trillion. Despite news headlines, we believe only a small portion of these mortgages are at risk as most of the mortgages GSEs bundle are high credit. In any event, the longer term implication is more government oversight and in all likelihood, more expensive debt to finance home purchases.

MARKET PERFORMANCE

	1Q 2008	2008 YTD
Dow Jones	-6.92%	-13.37%
S&P 500	-9.47%	-11.95%
Nasdaq	-14.07%	-13.55%
Russell 2000	-10.19%	-9.97%
MSCI EAFE	-8.75%	-10.50%
Lehman Agg	2.17%	1.13%

WHEN TO WORK WITH WINFIELD

PRIVATE INDIVIDUAL INVESTORS

- Manage accumulated wealth, inheritances and settlements to meet investment objectives

ENDOWMENTS AND FOUNDATIONS

- Manage assets with a long-term growth strategy while meeting investment policy requirements

BUSINESS OWNERS

- Customize investment portfolios to meet investment objectives and lessen risk of concentrated assets
- Defer taxable earnings in profit sharing plans
- Manage and advise 401(k) plans

BUSINESS PROFESSIONALS

- Customize investment portfolios, manage stock options and consolidate 401(k)/IRA plans to meet investment objectives and lessen risk of concentrated assets

RETIREES

- Customize investment portfolios to meet investment objectives with the option of drawing income
- Management of IRAs, trusts and taxable accounts

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