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FUN FACTS TO KNOW AND TELL

September 2008

August provided some positive news on the economic front. At the risk of sounding like a frenzied cable TV station reporter, I'll summarize the economic reports as follows:

U.S. economic growth was better than expected with second quarter Gross Domestic Product growing at a 3.3% annual rate, up from an estimated 1.9%. Consumer spending rose 1.7% but that was influenced by tax rebate checks. Consumer Disposable Income, which excludes the impact of tax rebates, rose 0.5% in July following a 0.3% increase in June.

New orders for durable goods (big-ticket manufactured items intended to last at least 3 years) rose in July for the third month in a row, up 1.3%. Orders for non-defense capital goods excluding aircraft (this is an indicator of business spending and future manufacturing activity) rose 2.6% in July.

Most importantly, the Consumer Confidence Index improved again in August to 56.9 from 51.9 in July after reaching a 16-yr low in June of 51.0. The Consumer Confidence Index has several components and the "expectations index" rose most dramatically from 42.7 in July to 52.8 in August. I'm glad we are all feeling better and I hope you are too. Thanks to The Vanguard Group which provides this nice economic summary.

These are mostly modest numbers, but they are positive and indicate that all may not be as doom and gloom as some would like you to believe.

Major universities, such as Harvard and Yale, receive a lot of publicity for how they manage their endowment plans because they have had tremendous success. The Wall Street Journal recently reported that Harvard's \$38 Billion endowment plan is invested in 11 asset classes. Does that diversification sound familiar? Real assets such as real estate and commodities have a 33% allocation. Total foreign stocks are 22% including 10% in emerging markets. US stocks are only 12% of the portfolio and bonds are only 9%. We can replicate much of this strategy in your portfolio, although our allocations are more traditional. Two categories we cannot replicate as easily outside of a \$38 Billion portfolio are the 11% in Private Equities and 18% in Hedge Funds for a total of 29%. With \$38 billion Harvard can do things that "smaller" investors cannot. But the principles of diversification are the same and it is nice to know that we do a lot of what the big boys do.

A monthly publication for our firm's clients, prospective clients and friends.

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