

# ***Capital Management Associates, Inc.***

Investment Management.....Financial Planning.....Estate Planning.....Tax Strategy

Charles J. Dushek, President

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801 Warrenville Road, Suite 195, Lisle IL 60532 Internet: [www.cmaadvisors.com](http://www.cmaadvisors.com)

Phone: (630) 963-4235

Fax: (630) 963-4236

Email: [chuckdushek@cmaadvisors.com](mailto:chuckdushek@cmaadvisors.com)

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Special Note: You are being sent this Client Letter via snail mail since we do not have a current email address for you. If you have an active email address, please email: [dpalatine@cmaadvisors.com](mailto:dpalatine@cmaadvisors.com), and we will send you these reports via email, and "Save Trees", Thank You.

## **CMA Investment Strategy Update...Stock Market Turbulent on Lingering Sub-Prime Mortgage Debt Issues**

For the past several weeks, the stock market has seen higher day-to-day share price volatility driven by uncertainty over the sub-prime mortgage delinquencies, defaults, and asset value write downs. This has caused declines in share values of all banks under the expectation that bank earnings will be weak in 2007. Further, bank accounting capital is being hit with write downs, which "may" limit their future growth rates in financial services. The slowdown in the housing industry is causing concern that the US growth rate may fall to recessionary levels.

What is not being fully factored into the market's despondent sentiment is that the foreign currencies of our trading partners: Europe, Canada, Japan, Asia, China, Australia have appreciated significantly over the past year to stimulate a US export boom, growth on inbound foreign tourism to US, decline in US non-oil imports, a low US inflation rate & 3-4% annualized productivity growth....these factors position the US economy for above-trend growth going forward. The only apparent economic headwind to the US is weak housing starts and stagnant housing resale turnover...it is harder to get jumbo mortgages (over \$417,000). Also, US gasoline consumption is at a 1% lower volume rate this year, as compared to last year.....China and Asia are the apparent energy hogs.

External positives for the US economy are that we are no longer the "engine of growth" to the global economy, whereby in the past the US has stimulated growth in emerging and other developed economies. It is the opposite now, as growth in emerging markets, Europe, Canada, Japan and other zones...now is a stimulus for growth in US exports of products and services....the "weak dollar" is a further catalyst for this.

Before year end 2007, we believe that substantial resolution to the sub-prime mortgage securities mess will have occurred via rational one-time write downs by banks, and via federal assistance from the FED and government agencies to invigorate residential mortgage market lending and securities liquidity.

CMA's portfolio investment selections are being actively managed for both quality and opportunities in share price upside. Many major stocks of banks, consumer, durable goods, materials, insurance, technology and in commercial real estate have been heavily sold down since later October. We keep repositioning holdings to improve investment quality and potential stock market upside into the close of the year 2007.

CMA has approx 58 individual common equity holdings across all client portfolios. Of this total, 42 are S&P 500 stocks. The balance of 16 holdings are publicly traded Real Estate Investment Trusts (REITs) with high dividend yields, and smaller cap growth stocks which are not typically eligible for S&P 500 listing. The average performance rating by S&P on these 58 stocks is 3.34 indicating investment quality of halfway between Hold and Buy by S&P. These companies are listed below.

<b><u>3M Company</u></b>	Capital Goods
<b><u>Advanced Micro Devices</u></b>	Semiconductors & Semiconductor Equipment
<b><u>Alcoa Inc</u></b>	Materials
<b><u>Allstate Corp.</u></b>	Insurance
<b><u>Alaska Air</u></b>	Airline
<b><u>Amgen</u></b>	Pharmaceuticals, Biotechnology & Life Sciences
<b><u>Ashford Hospitality</u></b>	Real Estate
<b><u>Avon Products</u></b>	Household & Personal Products
<b><u>Bank of America Corp.</u></b>	Banks
<b><u>Barclays Bank</u></b>	Banks
<b><u>Boarders Group</u></b>	Retailing
<b><u>Broadcom Corporation</u></b>	Semiconductors & Semiconductor Equipment
<b><u>Cisco Systems</u></b>	Technology Hardware & Equipment
<b><u>Citigroup Inc.</u></b>	Diversified Financials
<b><u>Citizens Communications</u></b>	Telecommunication Services
<b><u>Coach, Inc.</u></b>	Consumer Durables & Apparel
<b><u>Cooper Tire and Rubber</u></b>	Automobiles & Components
<b><u>Duke Realty</u></b>	Real Estate
<b><u>Corning Inc.</u></b>	Technology Hardware & Equipment
<b><u>Estee Lauder Cos.</u></b>	Household & Personal Products
<b><u>General Electric</u></b>	Capital Goods
<b><u>Harley-Davidson</u></b>	Automobiles & Components
<b><u>Healthcare Realty</u></b>	Real Estate
<b><u>Hospitality Properties</u></b>	Real Estate
<b><u>HRPT Properties</u></b>	Real Estate
<b><u>International Game Technology</u></b>	Consumer Services
<b><u>JPMorgan Chase &amp; Co.</u></b>	Diversified Financials
<b><u>Kohl's Corp.</u></b>	Retailing
<b><u>Lexmark Int'l Inc</u></b>	Technology Hardware & Equipment
<b><u>Liz Claiborne, Inc.</u></b>	Consumer Durables & Apparel
<b><u>LaSalle Hotels</u></b>	Real Estate
<b><u>Lowe's Cos.</u></b>	Retailing
<b><u>Marriott Int'l.</u></b>	Consumer Services
<b><u>Medtronic Inc.</u></b>	Health Care Equipment & Services
<b><u>Motorola Inc.</u></b>	Technology Hardware & Equipment
<b><u>New York Community Bank</u></b>	Banks
<b><u>National City Corp.</u></b>	Banks
<b><u>NiSource Inc.</u></b>	Utilities
<b><u>Nordstrom</u></b>	Retailing
<b><u>Penney (J.C.)</u></b>	Retailing
<b><u>Panera Bread Co.</u></b>	Food & Staples Retailing
<b><u>Starbucks Corp.</u></b>	Consumer Services
<b><u>Sunstone Hotel Inv.</u></b>	Real Estate

<b><u>Strategic Hotels</u></b>	Real Estate
<b><u>St. Joe Co</u></b>	Real Estate
<b><u>Starwood Hotels &amp; Resorts</u></b>	Consumer Services
<b><u>Texas Instruments</u></b>	Semiconductors & Semiconductor Equipment
<b><u>Tiffany &amp; Co.</u></b>	Retailing
<b><u>UDR Inc</u></b>	Real Estate
<b><u>U.S. Bancorp</u></b>	Banks
<b><u>US Gypsum Corp</u></b>	Capital Goods
<b><u>Wachovia Corp. (New)</u></b>	Banks
<b><u>Walgreen Co.</u></b>	Food & Staples Retailing
<b><u>Walt Disney Co.</u></b>	Media
<b><u>Washington Mutual</u></b>	Banks
<b><u>Wells Fargo</u></b>	Banks
<b><u>Whole Foods Market</u></b>	Food & Staples Retailing
<b><u>Yahoo Inc.</u></b>	Software & Services
<b><u>eBay Inc.</u></b>	Software & Services

Please call Chuck Dushek or Greg Nickum of CMA (630-963-4235) for any questions or clarifications on CMA's investment strategy as it applies to your account.

Sincerely,

Chuck Dushek  
President