CLIENT UPDATE Q4 2007

Martorello Money Management, Inc.

REGISTERED INVESTMENT ADVISOR

Year End Report

INSIDE THIS ISSUE:

HAPPY NEW YEAR!

Get in shape in 2008 and commit to being in great financial health.

WHERE DOES ALL MY MONEY GO?
SPENDING PLAN
Creating and tracking a budget helps you know how much you should spend and where. Feel free to contact us if you would like help.

WHAT TO DO WITH THIS BONUS, TAX REFUND AND RAISE?
PAY YOURSELF FIRST
Go ahead and pay off that debt, take that well deserved vacation or buy something for which you've been saving. However, don't forget to add to your savings and investments. There's no better way to build your wealth than to continue to add to your auto savings program.

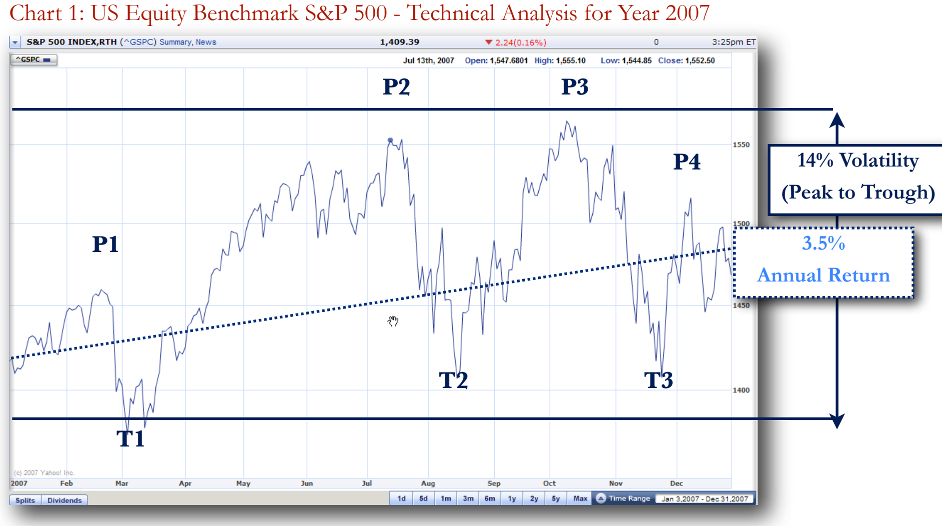
Please contact us to get setup on a Spending Plan or to increase your auto savings.

www.MMMWealth.com

Market and Portfolio Review (2007)

Investment markets fluctuated between a wide price range, while making little actual headway during 2007. Strength in global equity markets, foreign currencies, and commodities countered weakness in US-based housing markets, financials, and the US dollar. While the year ended with a modest 3.5% annual return for our equity benchmark, and a 3.6% annual return for our bond benchmark, it was a bumpy ride from start to finish. As illustrated in Chart 1 below, there were 4 major peaks (represented by "P1" through "P4"), 3 major troughs (represented by "T1" through "T3"), and volatility that was 4 times as large as the benchmark annual return.

Chart 1: US Equity Benchmark S&P 500 - Technical Analysis for Year 2007



The bull years of 2004 through 2006 saw consistent gains coupled with light volatility. In layman's terms, it was a lot easier to make money as an investor in 2004 – 2006 by sticking to the consistent and trending bull market. In contrast, 2007 saw drastically smaller returns and significantly higher risk. Despite a modest 3.5 – 3.6% annual return for the benchmarks, many professional and individual investors sold on dips (fear), bought back on peaks (greed), and ended up losing a great deal of money over the course of this volatile year. In recent newsletters, we discussed the emotional issues of fear and greed in more detail, citing "real-life" historical returns for investors that significantly trailed the benchmarks when accounting for poorly timed trades, overconfidence, etc. As an example, two reputable Bear Stearns hedge funds lost close to 40% in a one-month period and were forced to close shop in Q3/07. Conversely, a very select group of savvy investors / traders made a large amount of money during 2007 by investing abroad and by exploiting the anxiety in markets. In some cases, they took short positions (e.g. betting the investment will decline) to benefit from the pain in the US housing and financial markets.

Year End Review (continued)

In contrast, we were conservative with our investment approach during 2007, focusing on the preservation of capital rather than the pursuit of outsized gains. In our year-end letter last year, we stated about the coming 2007, "Even though long-term growth prospects are encouraging, we are cautious about the current high levels of investor exuberance and asset valuations / prices. We are waiting for a market pullback before redeploying the cash. While our heavy cash position may result in short-term underperformance, our reward-to-risk models point to this as the appropriate course of action for the current situation." While we were accurate in predicting the need to be conservative, the market delivered even more volatility than we had expected initially. Consequently, it resulted in us having an active year, making multiple moves to protect the portfolio at three major points (T1, T2, T3 in Chart 1 above), while yielding little in terms of investment returns for the year.

A major loss in an investment portfolio takes an incredibly long time to recover (e.g. a 50% decline requires a 100% gain to recover back to the starting point), so missing out on a few percentage points of return in a volatile and unpredictable market has been, and continues to be, the prudent strategy. Quoting the legendary investor, Warren Buffet, the 3 most important rules of investing are:

1. Preservation of Capital
2. Preservation of Capital
3. Preservation of Capital

Not withstanding the above, most portfolios continued to grow due to the fantastic savings patterns by our clients. In some years, growth comes from client savings, while in others (such as the previous 3 years) it will come predominantly from investment returns. Keep up the great work!

2008 Outlook

While we are not in the business of predicting market movements in the near-term, our clients often ask us for our opinion on the outlook in front of us. We reply that our strategy is focused on the long-term and that it is difficult, if not impossible, to predict the near-term future. In the long-term, equity markets have historically delivered handsome gains, and we have faith that they will continue to do so. With that said, we are happy to discuss the factors that could influence the markets in the near-term, the potential outcomes that could arise, and the resulting investment strategies that we would employ. As always, we rely on our time-tested strategies to flexibly adapt to changing market conditions. Thus, we minimize draw downs during recessionary periods, and capture gains during expansions. Here are our thoughts for 2008:

✦ The confidence crisis will abate if financial institutions provide greater transparency to their sub-prime and other depressed asset holdings, and if central banks around the world continue to ease monetary policy. Conversely, if financial institutions continue to hide the true extent of their asset holdings while the central bank favors the fight against inflation over liquidity, then we could see the crisis continue and spread through the rest of the US and global economies.

✦ Valuations will also be important with projected 2008 corporate earnings taking the hot seat. If the globalization trend continues with strong worldwide economic growth, then corporate profits may survive the pressures they will inevitably feel due to the current weakness in the US. Under this scenario, the market will most likely begin to shelf the credit crisis and refocus on the resuming bull market. However, if profits slow significantly, the crisis may outweigh global growth, and we could see a flat to down market.

✦ Other important investment factors include the following:

- The US Presidential election and how policy changes will impact the market
- The rate of productivity growth and its improvement of corporate profitability
- Price fluctuations due to raw materials, energy, and human resource costs
- Currency fluctuations that effect imports / exports and investment asset prices

As in any other year, a large variety of factors will have an impact on what happens and how we should respond with our investment strategies. For early 2008, we are overweighting large-cap equities outside of the real estate and financial sector. These investments should participate in the global growth story while remaining less prone to the credit crisis. We also remain well diversified with alternative assets such as commodities and foreign currency trading funds.

Finally, we have a sizable level of US and foreign bonds in our portfolios to protect from the downside while generating healthy yields through their monthly dividends. As always, we will adjust our strategy if we see a confirmed change in the market's direction one way or the other. We are focused on the long-term and aim to grow and protect our client's wealth through all the various market cycles. We encourage you to continue your savings contributions while we work together to achieve your financial and life goals through appropriate investment strategies.

Continuous Improvement

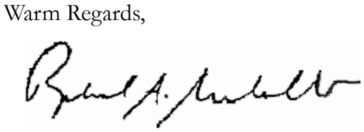
In 2007, we helped a growing number of clients to develop financial goal-trackers and to review their insurance and contingency plans if the bread-winner(s) in their households die or become permanently disabled. These exercises have helped clients to visualize their long-term financial goals (education, retirement, vacation homes, philanthropy, etc.), to align their short-term spending / savings habits with these goals, and to track their progress on an annual basis. Most importantly, clients have gained peace-of-mind, knowing that their families would be better prepared in the event of an unfortunate circumstance. We encourage those of you who have not yet taken advantage of these complimentary services to contact us at your convenience.

Another key development of 2007 was the successful launch of our sister company LotusGroup Advisors, LLC. LGA has grown rapidly over the course of the year, servicing MMM's overflow referrals and generating new clientele on its own. Under the LGA model, clients benefit from the same investment management as MMM, while getting the hands-on client hospitality services of our exceptional private client advisors. LGA added 3 new advisors during 2007 and has received warm and positive feedback from our initial clientele. If you have friends, relatives, or associates that would benefit from the services that you enjoy with MMM, please feel free to contact us and we will do our best to ensure that they are happy with your recommendation to LGA.

Finally, we instituted a charitable giving program during 2007, and will provide further reports regarding our progress on this program in future newsletters.

As always, we encourage you to pursue life's dreams as we manage, protect, and grow your wealth.

Warm Regards,



Raphael & Megan Martorello
MMM - Martorello Money Management, Inc.

QUESTIONS?

As always, we are available to discuss any questions you may have regarding our progress towards your financial and investment objectives.

We appreciate your referrals as they are the lifeline to our business. Please let your family, friends and colleagues know about our wealth management services.

Contact Us
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