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Asset Management Services
Retirement & Investment Planning
Employee Benefits

A Matter of Fact

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College Planning

There are many ways to save for college: Education IRA (a.k.a. Coverdell education), Custodial Account (e.g. UTMA/UGMA), Crummy Trust, regular savings and other means, but perhaps the most meaningful and intelligent option is a Qualified Tuition Plan (a.k.a. 529 Plan).

Tax law changes which have made withdrawals tax free are really spurring growth in 529 plan balances. At the end of 2001, about \$7 billion was invested in 529 plans. Cerulli Associates, a Boston-based research group, projected in 2002 that 529 plan balances would grow to \$51 billion by 2006. As it turned out, the number was closer to \$91 billion in 2006 and just shy of \$112 billion in 2007! Despite market volatility and uncertainty, the amount of new money going into 529 plans will likely grow.

The main reasons for the success of these plans are

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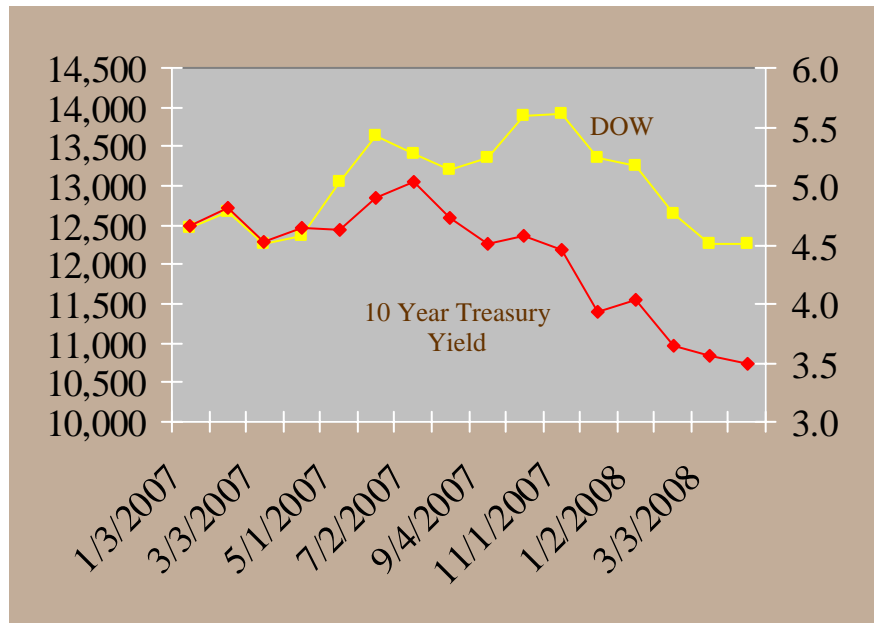
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First Quarter 2008

The first quarter of 2008 has ended and market results have been less than stellar—especially disappointing for those expecting earnings surprise to the upside or a rebound of the U.S. dollar. The Dow Jones Industrial Average finished the first quarter 1,002 points lower than at the start of the year, a 7.55% loss. The S&P 500 index took a bigger hit and fell 9.92%, while the Nasdaq performed the worst of the three indices and dropped 14.07%. Compared to their recent highs reached last October, they are down 13.43%, 15.49% and 20.29%, respectively.

Bond yields and prices have an inverse relationship (i.e. as prices rise, yields fall) and watching the bond market as it



continues to signal more uncertainty in stocks, may help explain the dismal results in the stock market. Lower bond yields suggest that investors are reluctant to take stock market risk, thus seeking safety of U.S. government debt. The ten year bond yield was down to 3.43% at the end of March—far below its high of 5.2% in June 2007. Surprisingly, though, the bond market seems to be discounting inflationary times ahead.

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First Quarter (continued)

Commodity prices are on the rise, oil has set new highs and still trades at lofty prices, the U.S. dollar continues to weaken and the credit crunch has plagued some of our largest and finest financial institutions. Despite these inflationary forces, investors holding on to U.S. treasury bonds seem to believe that interest rates and inflation will remain within reasonable levels, and that the U.S. dollar will retain its current value.

The March 26th edition of The Wall Street Journal had a lead story entitled “Stocks Tarnished By Lost Decade”. To paraphrase, the article demonstrates how an investor in the S&P 500 since 1999—when adjusted for inflation—would have returned only 1.3% a year over the last 9 years, significantly underperforming the stock markets long term returns of 8% to 11%. In fact, only twice before (1929 to 1942 and 1966 to 1982) has the S&P 500 stocks remained flat for more than 10 years.

Interesting sector movements in the first quarter include a strong downward movement by banks and financial stocks which posted a loss of 14.67% in addition to ending 2007 with a loss of nearly 21%. The move in bank stocks reflects a Wall Street sentiment that tough times will likely continue through the rest of 2008. As their asset quality continues to deteriorate so, too, do their stock prices.

A surprising move by the information technology, telecommunication services and utilities sectors, however, is more cause for concern about the state of the U.S. economy. Information technology, for instance, posted a strong 15% return in 2007, only to be wiped clean in the first quarter of 2008. Similarly, while telecom services posted respectable returns of 8.45% in 2007, they have since retreated to levels not seen since 2006. Even safe haven sectors took a hit this year, with utilities posting a 10.68% loss, erasing most of the 15.81% gain it saw in 2007.

Despite the dreary results investors have witnessed lately, there is hope. The U.S. dollar’s swoon over the past five years has helped fuel outsized appreciation of foreign currencies, especially in the Euro. At the end of the latest quarter, the U.S. dollar sunk to \$1.58 per Euro. While this imbalance reduces the American consumer’s purchasing power of foreign goods, it also makes U.S. goods less expensive to the rest of the world, which should substantially improve our export economy.

“..their economy is far more fragile..”

Simultaneously, energy prices are trading near all time highs. Much of the rise in prices, though, is attributable to emerging market’s (such as China and India) insatiable appetite for raw materials. Their newly created middle class are benefiting from globalization on a greater scale, and at a faster pace than we are. While here at home we are experiencing recessionary type slowdowns, so too will the emerging markets. Though many emerging market countries have prospered tremendously over the past decade, their economy is far more fragile due to their dependence on foreign investment and will likely not hold up well during a global recession.

For us here at home, the massive write downs and asset deterioration will likely end sometime in the third or fourth quarter of this year, giving way for solid earnings, especially for companies such as Citi Group, Intel, Caterpillar and McDonalds who draw over 65% of their earnings from overseas operation. Their global presence allows them to do business and collect revenue in local currency (currently stronger than the U.S. dollar) and convert it to U.S. dollars and boost their bottom line. Even if global markets do feel the effects of the credit crunch as many anticipate, the slow down will likely help give strength to the U.S. dollar which will help U.S. companies once again benefit.

During uncertain times many world class franchises will be humbled and their stock prices will suffer. For the well informed investor, however, the inherent opportunities during uncertainty allows us to buy ownership in companies without the normal “premium” built in to their stock prices. **XFG**

529 Plans (continued)

- ◆ Tax free growth
- ◆ Tax free withdrawal
- ◆ Contributor (Donor) control
- ◆ Transferability

The first two are reason enough to use a 529 plan for college bound children. The last two add equally important benefits that should not be overlooked.

Maintaining “control” over the account ensures that the money is never directly transferred to the child at matriculation. This feature is also well suited for gifting and estate planning for some. Contribution to 529 plans effectively reduces your estate by the amount contributed. Furthermore, if the donor has the means to do so, they may use the five year annual gift exclusion to fund the college plan.

While “transferability” means you can establish an account for one person and, should circumstances shift, change the beneficiary to another family member. For instance, if two siblings each have 529 plans, and the elder sibling receives a scholarship or financial aid for college, then the balance in the elder siblings account may be transferred down to the younger sibling. Another choice would allow the older sibling to defer withdrawal, and apply it to an advanced degree. In either case, the money in the 529 plans does not need to be completely disbursed until age 35.

Assuming the current tax advantages remain unchanged, 529 plans will continue their

“..not everyone saves effectively for college expenses..”

popularity for the foreseeable future, and here is why. In the case of Fairfax County alone, there are approximately 246,000 children. If we apply the national average of high school graduates attending college of 75%*, they will need a minimum of \$53,000 each for four years of tuition, room and board. That number swells to \$130,000 for private school. Do the math and this adds up to \$9.7 billion for public and almost \$24 billion for private college! Obviously not everyone saves effectively for college expenses, but college 529 accounts are so compelling that anyone who saves seriously for college will use them.

Virginia now offers 4 types of 529 plans:

- ◆ VPEP—Virginia Pre-paid Education Plan
- ◆ VEST—Virginia Education Savings Trust
- ◆ CollegeAmerica Plan—American Funds
- ◆ CollegeWealth—Available through participating banks

Come see us and we will help you maneuver through the key 529 considerations based on your individual facts and circumstances. **XFG**

*SOURCE: The College Board



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OUR STAFF

Mr. Khash Montazami is President and founder of XFG. A graduate of George Mason University, Khash holds a Bachelor of Arts degree in Economics and has been a financial consultant since 1992. He lives in Springfield, VA with his wife and two sons.

Ms. Mandana Montazami also lives in Springfield, VA and has been the firms office manager since 2000. “Donna” is also responsible for rendering bookkeeping services to XFG clients.

Mr. Eino Huhtala joined XFG in September 2006 and is responsible for the firms Marketing & Communication initiatives. A seasoned traveler and successful business professional, Eino is also the firms resident expert on foreign service and expatriate issues. He has been a resident of Reston, VA since 1981 where he lives with his wife.

Ms. Karen Shariati joined Xerxes Financial in April 2007 and provides financial and accounting services for the firms clients. Karen attended the University of Delaware for her undergraduate work where she double majored in Business Administration and Economics, successfully receiving her Bachelor of Science degrees in 1992. She went on to attend the American University and received her MBA in Accounting in 1999. Karen lives in Potomac, MD with her husband and two children.

Mr. Ismail Laher joined XFG in March 2008 and is the firms Compliance Officer. “Ish” is also tasked with developing and directing the firms growth initiatives. He received his MBA from Harvard University in 1989, and his Jurist Doctorate from Georgetown University School of Law in 1991. Ish is a long time resident of Burke, VA, where he lives with his wife and three children.

We welcome the opportunity to meet you. **XFG**

Vital Signs

<u>Year</u>	<u>Dow Jones Industrial</u>	<u>S&P 500</u>	<u>10 Year Bond Yield</u>	<u>1 Year Treasury Yield</u>	<u>30 Year Mortgage</u>	<u>Fed Funds Rate</u>
2008						
March	12,262	1,322	3.50	1.55	5.97	2.80
February	12,266	1,330	3.74	2.05	5.92	2.98
January	12,650	1,378	3.74	2.71	5.76	3.94
2007	13,264	1,468	4.63	4.53	6.34	5.02
2006	12,463	1,418	4.80	4.94	6.41	4.97
2005	10,717	1,248	4.29	3.62	5.87	3.22
2004	10,783	1,211	4.27	1.89	5.84	1.35
2003	10,453	1,111	4.01	1.24	5.83	1.13
2002	8,341	879	4.61	2.00	6.54	1.67
2001	10,022	1,148	5.02	3.49	6.97	3.88
2000	10,788	1,320	6.03	6.11	8.05	6.24
1999	11,497	1,469	5.65	5.08	7.44	4.97
1995	5,117	616	6.57	5.94	7.93	5.83

Source: Dow Jones, S&P, Freddie Mac, Federal Reserve, and Wall Street Journal



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