



**PORTFOLIO UPDATE**

The RCM portfolio had a spectacular year in 2007. Despite the flabby performance of the general stock market, the RCM portfolio soared, rising 14.7%. The S&P 500 Index barely eked out a 5.5% gain. Over the past five years, the annualized performance of our portfolio tallies to +13.3% (net of all deducted fees), which leads to invested funds doubling about every 5 years.

As for risk, the portfolio risk profile remains on target: at or below the risk level of the general stock market. Currently, our diversified selection of stocks and exchange-traded funds have a risk index of 95 (relative to the general market which is defined as 100).

**COMMENTARY**

As I have mentioned before, one of my primary investment goals is to achieve above-market investment returns with below-market risk. In 2007, we achieved this goal in spades. A 14.7% return is a solid performance for any investment year, but it is a particularly satisfying result given we were able to hold down portfolio risk during the volatile and uncertain investment environment last year.

The 2008 investment year looks to be even more volatile and uncertain. Market seers are increasingly seeing an economic recession in the stars. This has led to a very rocky start for the stock market so far this year. The Federal Reserve, in an attempt to patch things up, is all but promising a 1/2% interest rate cut in the next few weeks and possibly another 1/2% by this summer.

My crystal ball is a little foggy. I don't know if a recession really is eminent. I do know two things however. Once a particular economic/market prediction becomes the consensus view, often that is the very thing that *doesn't* happen. While an economic slow down is clearly unfolding, the rising chorus of economic doom and gloom raises the question whether a full recession really will occur. In any case, the prospect of a recession is quickly being priced into the stock market. This creates a possible contrarian investment opportunity for cooler heads. The second thing I know is, recession or not, don't fight the Fed. Once the Federal Reserve starts dropping interest rates, the economy eventually responds and the stock market recovers.

Through this battlefield, I plan to continue our current investment strategy, staying diversified with an emphasis on large cap domestic defensive stocks, foreign stocks and some commodity exposure. Year 2008 may be a tough investment year. I will strive to keep risk low and still beat the market.

Finally, a couple of housekeeping notes: Enclosed with your quarter report is a capital gain summary for the year. For those with taxable accounts, you can use this summary to prepare your tax return. In fact, you can include a copy of the summary as a "statement" in your return. Also, it is that time of year again to make IRA contributions. As I noted in my previous newsletter, *A Day Late and a Dollar Short*, it pays to make your IRA investment sooner, rather than later, each year. Don't let the recent stock market decline bother you. An IRA is a long-term investment and now may be a good time to buy low.

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Dr. Rollins has earned both the Chartered Financial Analyst® designation and Certified Financial Planner™ credential. He was awarded the CFA® designation in 2004. The CFA charter is the only credential for investment analysis and management recognized worldwide. Recipients of the CFA charter have successfully completed a graduate-level educational curriculum, and have passed a series of three sequential annual examinations. Pass rates average about 50 percent at each examination level. In 2005, he also successfully completed financial planning coursework and passed the qualifying examination for the CFP® credential.

## Company Profile

ROLLINS CAPITAL MANAGEMENT is a fee-only financial advisory firm serving individuals. Using a consistent, patient investment strategy, our focus is long-term, high-quality, personalized investments. Clients have their own individualized accounts. ROLLINS CAPITAL MANAGEMENT handles all the daily investment decisions.

## Presentation Disclosures

1. Portfolio composite returns are actual total annual returns, including stock price appreciation, dividends, corporate spin-offs and divestitures, and other occasional cash and non-cash distributions.
2. All returns are actual annual returns for each full year displayed, or are year-to-date results for the most recently displayed year.
3. Portfolio composite returns represent an asset-weighted combination of the equity components of fee-paying client accounts under management in the period specified, reported net of all withheld fees.
4. Annual portfolio composite returns and benchmark annual returns use a time-weighted calculation over the period specified.
5. Annualized portfolio composite returns and benchmark returns are calculated as the geometric mean of annual returns.
6. Portfolio and benchmark risk measures calculated using methodology provided by RiskGrades®.
7. Detailed disclosures available on request.

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