



PORTFOLIO REPORT
2ND QUARTER 2008
JULY 15, 2008

PORTFOLIO UPDATE

During the second quarter, the stock market continued its dramatic decline. The S&P 500 Index declined 2.7% during the second quarter, on top of the 9.5% drop in the first. In total, during the first six months of 2008, the S&P 500 Index has fallen 11.9%. The RCM portfolio is feeling the weight of the declining market, but is holding up pretty well. During the first half of 2008, the portfolio was down only 7.6% (net of all fees), putting us well ahead of the market so far this year.

The current bear market began last October. Since then, the S&P 500 Index has been working its way lower, having declined over 18% in nine months (through June 30th). During the same span, the RCM portfolio has declined 7.7%. This puts us a full 10% ahead of the market. On a longer-term basis, since 2003, the annualized performance is +10.4% (net of all deducted fees).

As for risk, the portfolio risk profile remains below market (which is good). Our diversified selection of stocks and exchange-traded funds has a risk index of 80 (relative to the general market which is defined as 100).

COMMENTARY

The stock market is clearly in a bear market. Popular commentators like to refer to a 20% decline as some how defining a bear market. I don't need a formal definition to know a bear market when I see one. The big question is: How low will it go? Personally, it feels like near-term selling has reached an unsustainable frenzy. We could be in for a bit of a bounce. After that, history tells us that there will likely be more red ink before it is over, although we are probably through the worst of it.

That's the near-term view of the market. What is the longer-term view? In April's quarterly report, I argued that I believe the investing environment of the next few years may look a lot like the 1970s: A range-bound stock market that chugs up and down, but can't muster the strength to reach new highs. In the 1970s, it took the market 16 years to attain to new ground. The current era probably won't be so lifeless, but I still believe that we could be trapped in a trading range for a while. Consequently, the next few years will require a different investing mindset than simply buying and holding an index fund. Income-producing strategies play a bigger role. Also, risk management becomes paramount in a lower return environment.

Accordingly, in May, I repositioned client portfolios. Portfolios now hold fewer domestic stocks, and those are concentrated in high-quality, dividend-paying companies. Foreign securities, commodities, equity options and enhanced dividend strategies are all more prominently represented as well. The net result is a portfolio that is roughly one-half capital gain oriented (i.e. stocks) and one-half income oriented. In particular, the income-producing investments provide an important return component in an era when stock prices are flat (or declining). The portfolio now pays a nearly 5% yield of dividends and interest.

Edward S. Rollins MD CFP CFA

P.O. Box 569
Johnson City, TN 37605
voice: 423-676-9030
fax: 815-301-9056

ed.rollins@rollinscapital.com
www.rollinscapital.com

Edward S. Rollins
MD CFP CFA

Edward S. Rollins, MD CFP CFA

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.

Disclaimer

This report does not purport to be a statement of all material facts relating to any securities mentioned, and is provided for general informational purposes only. The information contained, while not guaranteed as to accuracy or completeness, has been obtained from sources believed to be reliable. Neither the information nor any opinion expressed constitutes a solicitation for the purchase or sale of any security, nor is it intended to constitute investment advice, or imply that particular securities are appropriate for all investors. Opinions expressed herein are subject to change without notice. Past performance is not necessarily indicative of future performance.