OPTIVEST

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Quarterly Newsletter

Second Quarter 2008

Investment Summary- Despite a weak economy and stock market, Optivest investors experienced a surprisingly good second quarter. All of our hedge fund investments were up, our Sector Logic stock portfolios were up 8% and our real estate investments performed as expected. The only disappointment has been our Schwab Bond investments which remain at discounted levels; however, they continue to pay uninterrupted cash flow. We are well positioned to benefit from a strengthening economy in the year ahead, yet diversified broadly in case it takes longer than expected.

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US Economy- Double dip! After the banking panic, sparked by the sub prime mortgage problems, weakened the economy in the first quarter, the economy started to rebound at the start of the second quarter. Unfortunately, commodities and oil in particular, renewed their rapid advance and the U.S. economy has dipped back into weakness. There are 4 major economic problems currently facing our country: high oil prices, dropping home prices, solvency issues with major banks and financial institutions, and our weak dollar (inflationary). Despite these obstacles the U.S. economy grew at 0.9% in the first quarter and 1.9% in the second quarter, not into the negative territory normally associated with recessions. These four problems are all linked together and when the first of these turn positive, which we believe will be a continued drop in oil prices, the rest will benefit.

Stock Market- After reaching a “multi-month” bottom in March, the stock market dropped to what may be a “multi-year” bottom in July when the S&P 500 reached 1200. This represents a full 62% retracement of the advance from the October 2002 bottom to the October 2007 high. We are still officially in a bear market, with the market presently down 19% (8/4/08) from its high after being down 22% in July.

Charles Rother, the Chief Investment Strategist at Sector Logic (I am a board member and co-owner of the firm), manages most of Optivest's un-hedged stock portfolios. His track record this year has been outstanding, beating the S&P 500 total returns by 8-13% so far. His insightful newsletter is available on our new website, www.optivestinc.com.

Fixed Income- We believe that while there will certainly be some future surprises, as a whole, the worst of the banking and financial problems are behind us. This is evident by the rise in the 10 year Treasury bond's yield above 4%, indicating that investors are less interested in hiding in the safest bonds and are now more comfortable moving back into corporate and municipal bonds. Nevertheless, yields remain attractive and prices have a long way to go to get back to last summer's levels.

Real Estate- The government bail out of Fannie Mae and Freddie Mac, with its $300 billion to refinance mortgages, along with the depth of the housing decline so far, should start the basing process for home prices. Overall U.S. home prices should bottom by early next year, with California following 6-12 months later. However, we do not expect much, if any, appreciation for several more years afterwards.

Commercial real estate is performing in a split fashion. Office and industrial properties are experiencing increasing vacancies (and lower values) with our weak economy. Retail stores are holding steady, while apartments and self storage are advancing (both benefit from the housing decline and "downsizing"). We expect these trends to continue for another year.

The Future- As described in our last quarter's newsletter, inflationary pressures have more influence on financial investments than any other factor. As we predicted, oil and other commodities reached a near term peak in June. We expect further declines, easing inflation pressure for the next few quarters. This will allow the Federal Reserve to concentrate on boosting the economy, without over-heating inflation. Should this trend continue, the economy will be much healthier come the spring.

We also believe, in anticipation of the economy recovering, that the stock market's bottom in early July will hold and represents attractive values. Charles Rother's forecasting model, historically quite accurate, estimates that the S&P 500 will advance about 24% over the next 12 months from this bottom. While it is psychologically hard to invest into the stock market with investor sentiment so low and the news so bleak, this is when significant returns occur.

New Website- Our new website (still www.Optivestinc.com) is expected to be launched in early August. It includes our latest thoughts on the financial markets and a client login to get current financial updates on your portfolio and the latest third party manager reports on your investments. Under "Our People" you will find pictures and biographies of our staff, including our two newest members: Richard Oswald, Investment Counselor and Ica Iacob our CFO. We hope this new site will increase your understanding of your portfolio and become an interactive vehicle to better communicate information to you in the future.