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Free Markets Work!

Our investment strategy relies on the belief in the capital market system. With capitalism we believe in the positive expected return on capital. There is much to be concerned about in the markets today. The biggest issues facing our economy and us as individuals in my opinion is the crises in the mortgage market .

Let's use the mortgage and housing market to see how free markets operate. At the most basic level the problem can be traced to the willingness of lenders to loan money to customers that were bad credit risks. This easy money translated into rising

housing prices and allowed homeowners to move from smaller houses to larger ones using the appreciation in their smaller houses to buy the larger one. This cycle was fed by the fact that Wall Street had devised a way to bundle these loans together and sell them to investors. This easy source of funding was the fuel the propelled housing prices.

Housing prices rose and more people began to put their houses on the market to cash in on the trend. This began to create an over supply in the market, the pricking of the housing bubble began. The prices of

housing began to decline and no longer were buyers moving up to larger houses. Not only were they not moving up but their houses began to become worth less then what they owed on the property. Foreclosures began to increase at rapid rates.

The market is working and is going through a period of self correction. Housing prices are coming back to more historic norms. The equity and bond markets work in similar ways. Our belief in the markets remain steadfast, stay invested for the long haul. The market will compensate you for taking risks.

2007 Market Recap

2007 was a tough year for investors. The SPY was up a little over a half a percent. We had a lot of bad news over the past year especially in the last quarter. The mortgage crises, high oil prices,

historic lows for the Dollar, and slower consumer spending. We remain forever optimistic. Let the markets work and capitalism will continue to grow. Typically presidential election years bring a

quiet 1st three quarters to the year. We usually see a rally in the equity markets in the last quarter. I would expect better returns for 2008 Happy New Year to all!!!

Tip of the Quarter

Protect yourself regarding charitable giving over the telephone

1. Use caller ID, the law states that all telemarketers must identify themselves. Remember charitable and political organizations are allowed to bypass the do not call registry.
2. Use the answering machine to weed out telemarketers.
3. Do not pay for pledges over the phone. Get reading material on the charity so you can do your homework.
4. You can turn to GuideStar.com or the Better Business Bureau for a background check.
5. Remember most pledges are non-binding. You can always attempt to get your money back if you feel you've been taken.

2007 Yearly Performance of Various Asset Classes

SPY (S&P500)	+0.54%
QQQQ (Nas100)	+10.3%
DJIA	+3.24%
Russell 2000	-1.57%
Hang Seng	+39.0%
10yr. Treasury Interest Rate	-9.80%
Oil Futures	+8.85%