FREE

A PUBLICATION OF
AMERICAN PORTFOLIOS FINANCIAL SERVICES, INC.

ISSUE 2.3

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from the editor-in-chief

The warm season is here, yet in just a few short weeks it will be behind us. I don't ever recall experiencing a more fleeting summer. No doubt, it's the result of watching that atomic clock on the front of the APFS broker/website – a perpetual motion machine and constant reminder of time, but in reality, a countdown gadget to promote the 2008 National Conference. Ironically, by the time you read this, the conference will have come and gone.

Time is an inescapable consideration. Thought must always be given to time in almost everything we do. It's both a challenge and an opportunity. The challenge is that while we look for ways to extend time, conversely, we look to make things happen more quickly. For example while science and research have succeeded in extending life spans for both men and (statistically more) women, as you will read in an article from Metlife about the challenges of women and investing (pg. 6), the means that enables us to live and sustain ourselves during that lifetime must begin to show results much sooner, as revealed in an all too powerful reminder and article about the rule of 72 from Oppenheimer Funds (pg.22).

But the opportunities that exist when considering time are far greater than the challenges. Reflection is a powerful and important aspect of time. It validates how far you've come, as told by Managing Director Bob Bartolotta in this edition's featured rep piece (pg. 16), and all of the work and sacrifice that went into getting there, as expressed by COO Dean Bruno in his article, "Reflections" (pg. 15). To look at what was then and what is now is also an important exercise in adjusting and reevaluating, as you will read in Genworth's article debunking the 60/40 theory and questioning its representation as a balanced portfolio (pg. 24).

Planning for the future is an invaluable consideration of time. Lon has quoted hockey player Wayne Gretzky more times than I can count: "I want to be where the puck is going." That's why in Lon's state of the firm commentary, he talks of a clear and consistent plan to preserve our independent business model and not to be distracted by offers of acquisition from entities who don't understand our culture (pg. 32). You'll also hear some real nuts and bolts planning in a Q&A closeup with AP Chief Technology Officer Rob Dolber on our technology platform (pg. 26). APA's Manager of Advisory Business Development Joe Borriello also conveys the necessity of planning in Part II of his series on transitioning to transactional which covers the inevitable financial planning landscape of the future (pg. 14).

In closing, consideration for the present and experiencing it to its fullest is by far, in my opinion, the most essential and rewarding opportunity of time. Whether it's taking the time to review a customer's file as you're putting something away, as suggested by APFS Branch Inspector Steve Butler in his article titled, "It's Going to be a Bad Day" (pg. 4), or making that phone call to your local congressional representatives to advocate for you in the way you run your practice, as recommended by APFS Corporate President Frank Tauches in his article titled, "Litigation, Legislation and Regulation - How They Shape Our Industry" (pg. 21), seizing that opportunity to act in the present will pay sizeable future dividends to come. You'll also hear incredible stories from APFS staff members and affiliated colleagues in the field about their involvement in community... service and socially responsible activities (pg. 8). And as APFS affiliated colleague Shabri Moore lives her life following the motto of Mahatma Gandhi, "Live as if you were to die tomorrow. Learn as if you were to live forever," you'll be completely inspired after reading FREE's interview about an extraordinary mother, a successful business woman, and a truly centered and grounded individual (pg. 10).

I welcome your comments. Enjoy FREE!

Thank-you

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employee of the quarter:
dee gibbons

As we move forward in the year, we keep with our customary tradition and announce the company's newest Employee of the Quarter, Dee Gibbons. Celebrating over nine years of RIA investment management compliance experience, Dee Gibbons' responsibilities at American Portfolios reinforce the compliance and regulatory side of the Corporate RIA. Conducting surveillance for all incoming investment advisory business by identifying areas of risk, she interacts with all advisors to resolve issues concerning compliance, and keeps current with all SEC and FINRA regulatory requirements for the RIA. As an Advisory Compliance Associate, Dee trains advisors and staff on compliance policies and procedures, as well as creates documentation of such practices. She is responsible for the annual compliance review, updating of the compliance manual, fee sampling for all custodial accounts, and third party management due diligence. Additionally, she reviews and approves any marketing requests, seminars, client notifications, and correspondence.

Dee has taken on the challenges of her very demanding role. Her manager, Tom LoManto commented, "Dee contributes every day no matter what is asked of her. There doesn't seem to be boundaries. When asked to jump in, she does, even if it is uncharted territory. She finds a way to get it done correctly and efficiently."

As a diligent employee with a lighthearted, kind demeanor, Dee's credentials include holding series 7, 6, and 63 securities licenses, as well as life and health insurance licenses. Prior to working with American Portfolios, Dee was an Equity Operations and Compliance Specialist with Park Avenue Securities where she conducted trade and e-mail surveillance and identified areas of risk for the firm. Dee also worked with A.G. Edwards & Sons as a Registered Financial Associate where she trained and managed operations personnel. She assisted high-end producers with daily activities, and maintained RIA and wrap account compliance files while managing daily customer contacts and trades.

Congratulations, Dee.

on-demand featured videos line-up

The STARS Business Processing Module Tutorial

The STARS business processing module tutorial is the first in a series of on-demand productions detailing how to use homegrown, APFS technology. This step-by-step directive demonstrates all the features of the BPM, including how to submit and approve business. Just click into Studio 454 located in the grey toolbar on the APFS website and enter "Business Processing Module" in the search field to access the tutorial. Stay tuned as more STARS tutorials are released via Studio 454.

An Introduction to Disability Specialists with Scott Fletcher

As one of our newest business partners, Disability Specialists creates unique combinations of Group LTD and Individual Employer Paid Disability Insurance for highly compensated employees and professional groups. Introduced to APFS back in February 2008, the Company's CEO Scott Fletcher came in to speak with New Accounts Supervisor Jared McGill about the different program benefits and options the company can offer to APFS affiliated representatives. Be sure to take a look by entering keywords "disability specialists" in Studio 454's search field.

Protecting Your Clients in the Subprime Mortgage Situation with Curtis Wohlers of Metlife Investors Distribution Company

As part of our continued effort to provide you with relevant, timely interviews, President Frank Tauches brought in Senior Vice President Curtis Wohlers to discuss the current credit crisis and subprime mortgage situation. This in-depth interview covers a variety of issues, including risk management, hedging programs and strategies, and how financial advisors can protect their clients and avoid insurance companies that may get into financial trouble. Use search words "curtis wohlers" to access the interview.

Life Settlements with Ted Procas and Mike Malinowski

Studio 454 hit home with this interview, bringing in affiliated colleague Ted Procas and Crump's Mike Malinowski to talk about a life settlements case that they personally worked on. In their interview with COO Dean Bruno, Ted and Mike highlighted the many opportunities that exist with life settlements and then went over what is involved in seeing them to completion. Click into Studio 454, using keywords "life settlements" to watch this highly informational interview.

An Economic Update with Brian Levitt of Oppenheimer

Studio 454 regular Brian Levitt of Oppenheimer talked with CEO Lon Dolber about our ever-changing economy. In June, Brian provided valuable insights on the market and inflation and what they mean for investors in this quick-paced but content-packed piece. A search for keywords "U.S. economy" will take you right there.

Premium Financing with Steve Patrizio

Want more information on insurance premium financing? Studio 454 has just the interview for you. Learn the ins and outs of premium financing in COO Dean Bruno's interview with Steven Patrizio from John Hancock. Simply enter keywords "premium financing" in the Studio 454 environment.

Client Reviews with Vanessa Touma

Relationship Manager Vanessa Touma from Oppenheimer stopped by the Studio for an interview with Registered Representative Bill Donahue to talk about the benefits of client reviews and why they are such a popular program right now. If you are curious to know how client reviews can translate into new assets and help build your business, enter keywords "client reviews" into the search tool to enjoy this brief but useful discussion.

An Introduction to RPG Consultants with Alvin Rapp

Alvin Rapp, founder of RPG Consultants, recently sat down with COO Dean Bruno and spoke about customized retirement planning strategies. RPG provides advanced consulting to clients and specializes in plan design of all types of company-sponsored retirement and benefit plans. If this is an area of interest to you, it's worth checking out. Just enter "RPG consultants" in the search field in the Studio 454 environment.

An Introduction to Legend Advisory and AANN with Sashi Mehrotra

Likewise, APA President Tom LoManto interviewed Legend Advisory Corporation Chief Investment Officer Sashi Mehtora to learn more about AANN, the company's tool for artificial investing. In this interview, he explains what investors do to help ensure their portfolios are positioned properly to cope with market ups and downs, how Legend Advisory can assist investors in developing and adhering to an appropriate investment strategy, and the current themes in the world economy and market. Enter keyword "legend" to watch the interview.

GOING GREEN *Reduce, Reuse, and Recycle*

On July 10th, American Portfolios launched its Going Green initiative at the home office in Holbrook. Spearheaded by the Going Green committee and comprised of APFS personnel, the initiative's primary focus is to create a workplace that makes smart choices when it comes to our planet. The group's president, Director of Human Resources Lisa DiBella, states, "There are endless ways to create a greener workplace, from using recycled products to simply shutting off lights. The best way to start is by taking small steps - start small for big results!" The Going Green initiative is part of APFS's commitment to social responsibility. To date, the group has introduced recycle bins for paper and cans, replaced paper cups with APFS branded mugs, enforced double siding printing, and put plants in the office to create a natural defense against contaminates. Also planned is a "Ride Your Bike to Work Day" to help launch this green initiative.

it's going to be a bad day

By Steve Butler, Branch Office Inspector for APFS

I am often asked what's involved in a regulatory examination of a branch office, either by FINRA or a state securities regulator. The following will outline the procedure in a lighthearted way. I will hit some of the high points and a few of the low points, too. Think of this as a regulatory examination survival guide. These are things that you can do to make your regulatory examination go more smoothly. It will also give you some insight into what the examiners are looking for. Remember this: even though you are doing what is right for your client, a regulator might not like the way you do it. You may feel they are being nit-picky, and they might be in some cases, but rest assured they, like you, are looking out for the best interests of your client. Also remember, regulators see the disasters some in our business have created, and just like a police officer, become jaded. But what I hear from most offices after the examination is over is, "that wasn't so bad."

9:00 It's Monday morning, and you have just arrived at the office.

9:01 You listen to your voicemails that came in over the weekend. No big deal, someone is changing their residence address and some one else needs some money. Futures are pointing to a higher open. Finally the market is going your way.

9:05 You look at the snail-mail that came in on Saturday. No problem, it's all junk and you toss it in the circular file. The coffee is ready now, and you grab a cup. 150 emails are in your incoming folder, and you start hitting "delete" in rapid-fire style. It all looks like junk. You find one titled "Audit Notification," and you mumble, "Oh crap."

9:08 You hear your secretary greet you as she apologizes for being late. You review the appointments you have for the day and the list of people you need to call. You pay the phone bill.

9:12 You look out your open office door and see a woman approach your secretary. You don't know her.

9:13 Your phone rings. It's your secretary. She says that a "Ms. Lotta Grief" from FINRA is in the lobby to see you.

It's going to be a bad day.

Ms. Grief has paid you a visit to conduct either a "random" office examination or a "for cause" examination. Random examinations are truly random. On average, an office of an independent broker/dealer can expect a random examination every five years, but they might be as frequent as every three years, or as much as ten years apart.

A "for cause" examination is conducted because of a customer complaint, a derogatory remark on a U-5, or because of investment products the office is selling. Lucky you, it's a random examination. Ms. Grief explains that you can go about your business. She can work with your secretary, and will try not to bother you. Don't do it! Clear your schedule, apologize to the people whose appointments you are canceling, and plan on spending as much time with Ms. Grief as possible.

Explain to Ms. Grief that it is your goal to provide her with all the information she asks for and any files she would like to review. Once you have done this you are no longer in control of the examination. Ms. Grief has an agenda, and she will follow her agenda until she is done. Her laptop contains a 25-page outline which she will follow. She will gather information from answers to questions she asks you and files. Ms. Grief will then enter the information on her computer template.

Here are some hints that will help set the tone for a successful examination:

1. Find a comfortable place for Ms. Grief to work. Don't put her in the coat closet with a bare light hanging from the ceiling. If you have to, give up your desk.
2. Show Ms. Grief around the office, pointing out where files are kept and where the coffee and restrooms are.
3. Don't offer to take her to lunch, FINRA prohibits this. But she would appreciate knowing if there are some good lunch spots close to the office.
4. Give her a brief overview of the kind of clients you have, the kind of products you sell, how your files are kept, who is on your staff, and what their jobs are.

While Ms. Grief is settling in, take a moment to give the Compliance Department a call. During the course of an examination they can prove invaluable to you. If you are missing a document, they can fax it to you. If you have a question, they can answer it for you.

You will be surprised that Ms. Grief knows a great deal about American Portfolios policies, procedures, and who the principals of the firm are. That's because before coming to your office she reviewed AP's policies and procedures, as well as the Supervisory Procedures Manual. She will have reviewed your CRD file and she will know about any customer complaints as well as your employment history. It's her way of doing her due diligence. You might be surprised to find that she doesn't know much about investing and formulating investment recommendations. This isn't her job. She specializes detecting sales practice violations.

A few tips on what your "mindset" should be:

1. Don't try and "sell" her on what a great broker you are. She doesn't care. Her job is to find situations where firm or FINRA policies were not followed, not to make a determination if you are a market maven. She doesn't care if your clients have become millionaires or paupers since coming to you.
2. Don't read into the questions she asks you. They either come from her outline or she asks them because she is curious.
3. Understand that this is just business for her. She isn't there to make friends - she has friends.

Trust me, Ms. Grief will find something wrong.

Trust me, Ms. Grief will find something wrong. I can tell you from 32 years of personal experience there is always something that is not perfect, and an examiner is trained to find it. The good news is that examiners know we don't live in a perfect world and mistakes happen. That's why examiners don't get excited when they find one piece of correspondence in a client file that is not in the correspondence file. On the other hand, if several pieces of correspondence are found that were not sent for supervisory approval, this is a pattern. One is a mistake, several is a pattern.

Things an examiner likes to hear:

1. When an examiner points out something you have done wrong, and she is right, be contrite. Don't try and defend it or explain it away. It is what it is. I've always found it difficult to be angry with someone who admits they were wrong, and easy to be angry with someone who tries to defend something that is defenseless.
2. Don't be afraid to say "I don't know." Never feel you have to have an answer for every question you are asked. The worst thing you can do is "make it up." Remember, the reason the examiner asked the question is because she didn't know either. Say, "I don't know the answer, but I'll find out."

Here are some things that your office can do to lessen the chance of deficiencies being found in a regulatory examination. Remember, our business is all about "disclosure." There are things you have to disclose to your customer and things you must disclose to AP. It's these "failure to disclose" issues that are the most common deficiencies found in examinations:

1. **Always submit your correspondence for supervisory approval.** Everyone at AP has a supervisor whose job it is to supervise sales activities. By submitting your correspondence you have now shifted some of the responsibility from yourself to someone else. By not submitting your correspondence, you have denied someone else the opportunity to supervise you and have therefore taken full responsibility. Always submit your correspondence. FINRA takes the view that registered reps who do not submit correspondence regularly are doing so to prevent the firm from supervising them.
2. **Advertising is the same as number one above.** Always submit advertising for supervisory approval. All advertising must be approved before your office may use it. Seminars and cold calling are both considered advertising.
3. **Blank documents signed by a client and missing critical information at the time of signature are considered fraudulent.** The term "documents" here normally refers to disclosure documents or documents that give instructions to the firm. Regulators consider signed, blank documents to be fraudulent and act upon them more swiftly and severely than any other activity.
4. **Investment Objective and Risk Tolerance are arguably the most important sections on an NAF.** When the client signs the NAF he or she is in essence approving your assessment of these items. Many times a NAF is signed without these items marked. Always mark them before a client signs the form.
5. **More and more VA companies are delivering the contract directly to the client.** There are many who still send them to the RR for delivery. Never put a VA contract in a client file. It almost ensures that you will forget to deliver it. A client's "free look" or right to rescind the contract begins when the client receives it, not when he or she signs the application.If you keep the client's copy of the VA contract, you have extended the client's right (and your potential loss) indefinitely. Also, because this is a disclosure document, FINRA can assert that you did not make proper disclosures to the client.

In closing, I will give you one more helpful hint. If followed on a regular basis it will help eliminate 90% of all potential deficiencies a regulator could find: During the course of a year, you grab a client file several times to do a trade, change an address, schedule an annual review, change a beneficiary - any number of reasons. From now on, take a minute to review the file before putting it away. Is the NAF in the file? Is it signed? Is it complete? Has the original been sent to the home office? Is the MF or VA application in the file, completed and signed? Has it been scanned and emailed into STARS' Business Processing Module? Was the correspondence reviewed by the principal via the Correspondence Blotter? Is there a BA contract in the file? Any signed blank documents? Has the client's investment objectives changed since the account was opened? It's all time well spent. And not to mention, if you ever have any questions, the APFS compliance department is here as your ally. Please contact them with any issues or concerns.

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MetLife®

investment basics
that women need to know

A lot has changed for women over the past few decades. In the past, it was not uncommon for the average woman to stay at home and raise a family. Yet, that same woman could rely on a few simple things to ensure a comfortable retirement: Social Security, private health insurance, a pension, and a deed to the family home.

Today, women are more likely to hold degrees, work outside of the home, and still take time off to care for their families…all with the added responsibility of funding their own retirement.

In fact, today's women are redefining retirement. Some plan to continue their careers into the latter years of life and many actively pursue interests such as travel, volunteerism, and higher education. Funding such an active retirement is becoming increasingly challenging due to Social Security concerns and today's lack of employee pension plans. But there is good news. Today, there are many flexible financial tools and resources that are available to help overcome this challenge. Here are a few things all women should know regarding retire -ment savings.

4 things all women should know

1 The importance of starting early

From an early age, women must focus on saving and investing for retirement. The new climate of pension benefits has created a platform for most women to be responsible for building their own benefit. So when's the best time to build that benefit? As soon as possible. The earlier one begins saving for retirement, the more time available for that money to grow.

2 How much money is really needed?

Knowing how much money is needed for retirement is not an exact science. It involves many factors, such as inflation, taxes, how long retirement will last, investment performance, and planned uses for retirement assets. It may be helpful for women to categorize their spending needs for both basic living expenses and special interests.

The length of time spent in retirement should not be under-estimated. Consider that a 65-year-old woman today will, on average, live another 20 years.[1] In fact, current trends suggest that 13 percent of women who reach age 65 will live to be 95.[2]

A good financial goal for retirement is to replace 100 percent of pre-retirement income for each year in retirement.

3 The risks and returns of investing

The investment time horizon (the amount of time between now and retirement) is a major factor in which investments are most appropriate for a specific type of investor. Typically, the longer the time horizon, the greater the tolerance for risk.

One of the best ways to manage investment risk is to diversify assets across investments. A range of asset allocation models (conservative to aggressive) can help investors diversify their investments in a way that meets their personal retirement goals and risk tolerance preferences.

4 How not to run out of money

We know from research that life expectancy continues to grow, but what does that mean for retirement? Simply put, it means retirement will cost more. Longevity risk is the risk of outliving retirement assets and running out of money in retirement. Preparing for this risk is especially important for women, since on average, they live longer than men do. Fortunately, there are ways to insure against running out of money. One option is an annuity product that guarantees income for life, regardless what the market does or how long your clients live. Please note that all guarantees are based on the claims-paying ability and financial strength of the issuing insurance company.

Annuities can help to ensure a comfortable retirement for today's women by offering income for life, no matter how long that is. The terms and conditions of the annuity must be met.

Redefining Retirement

Today's women are redefining retirement not only by staying active and living longer than ever before, but also by being forced to fund a major portion of their retirement. But there is a sense of acceptance to that significant responsibility. And when that recognition is turned into action, today's women will be well on their way to a comfortable retirement.

Perhaps years ago, retirement was considered the end of something. But not anymore. For today's women, retirement is in many ways a new beginning.

[1]Women's Institute for a Secure Retirement. Don't Run With Your Retirement Money! 2007.
[2]Actuarial Foundation, Getting Ready to Retire: What You Need to Know About Annuities, 2007.

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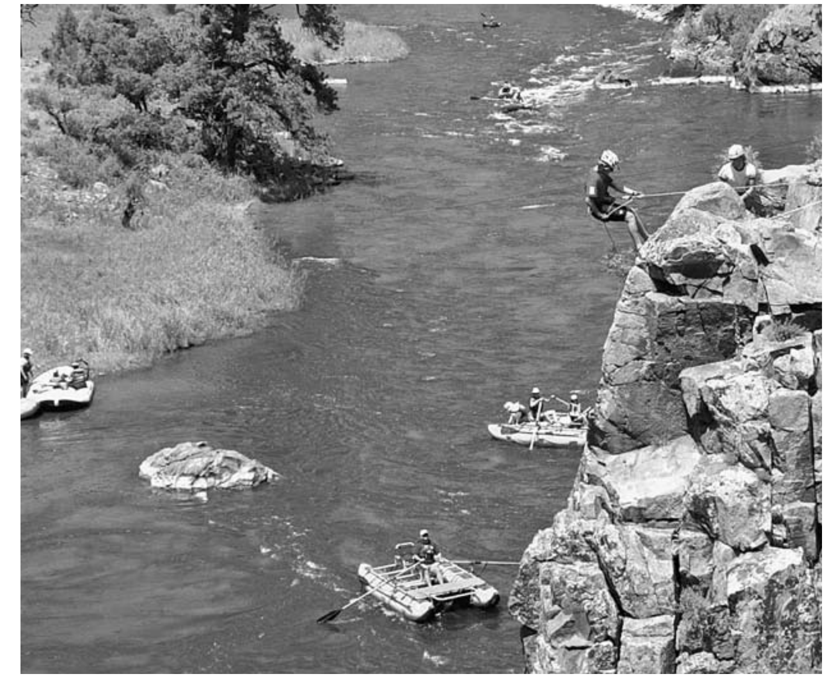
charitable giving

JUST AS IN 2007 2Q, THE SECOND QUARTER of 2008 was marked by an outpouring of charitable giving from colleagues, employees, friends, and family of American Portfolios.

In May, Team American Portfolios competed for the second consecutive year in the Face of America Bike Ride from Washington, D.C. to Bethesda, Md. The 110-mile ride included injured veterans, most of whom were competing with disabilities or were amputees. CEO Lon Dolber, with the help of his teammates, raised $10,000 to benefit World Team Sports (WTS), an organization that uses the universal power of sports to create "soul-stirring" experiences by teaming disabled athletes with able-bodied athletes, forming a true TEAM.



Then in June, APFS colleague Andy Kaiser hosted the 5th Annual Ryan's Run 5K. The organization, created in memory of his son Ryan Andrew Kaiser, is committed to assisting local families with critically ill children who may not otherwise be able to afford proper healthcare. They also assist in raising and donating grants to doctors and hospital groups specializing in the care and cure of pediatric heart patients. Andy said that this event was the most successful to date.

Likewise, fellow APFS colleague John Kosinski hosted the Minds Over Matter 5K Run, a 3.1 mile road race set in Sag Harbor, N.Y., a famous whaling village in the heart of the Hamptons. The race benefited the Gwen L. Kosinski Foundation, an organization dedicated to raising money for brain tumor research and improving the quality of care for brain tumor patients and their families. The GLK Foundation was established in May of 2002 by John Kosinski's family after Gwen, his wife and mother of his children, lost her two-and-a-half-year battle with brain cancer at the age of 48. The organization has raised more than $300,000 since its inception five years ago.

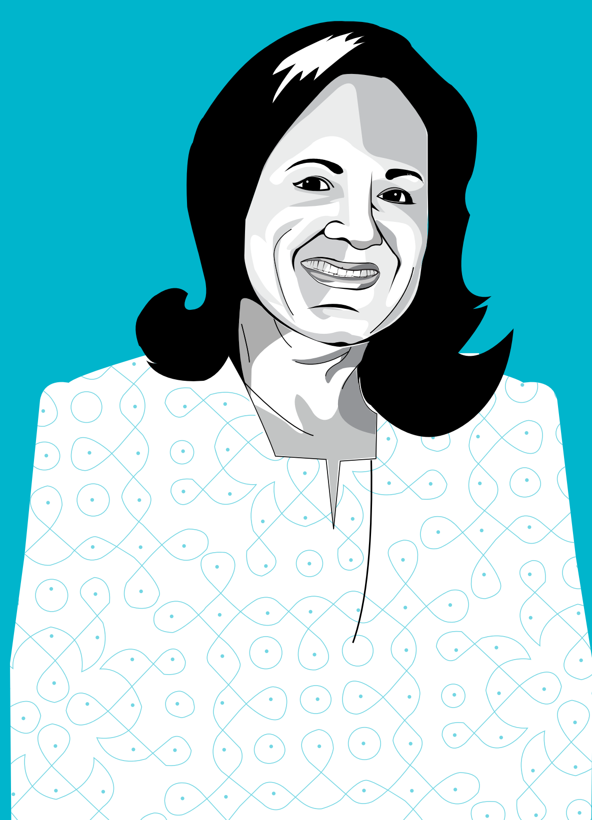
Also in June, Activities Committee Member, Sha-Shawn Montgomery, in conjunction with her fellow committee member participants, organized a team of APFS employees, including Mary Ann Rosolino, Robbie Crothers, Lisa DiBella, Kristin Lee, and Frank Tauches, to participate in the National Kidney Foundation's Inaugural Long Island Kidney Walk at Hofstra University. Both Sha-Shawn and Mary Ann have personal interests in the cause.

Also at the home office, Registered Representative Rick Cross organized a collection for our U.S. Marines stationed in Iraq. With the generous support of everyone in Holbrook, he managed to collect books, playing cards, soap, cigars, shampoo, phone cards, and tasty snacks for our troops overseas.

And finally, at the end of the month, CEO Lon Dolber, APFS Managing Director Bob Bartolotta, and Colleague Kris Tower competed in the "Real Deal" Inclusive Corporate Challenge, a multi-day, multi-sport team-building wilderness adventure challenge. Competitors worked together to meet the challenges of the terrain and test their skills, strength, endurance, and teamwork. The Real Deal Challenge highlighted the abilities of all participants, promoted a sense of camaraderie, and illustrated how all participants are integral members of society. Of his work with World TEAM, Dolber says, "We all face challenges. These events remind us that we can help one another, regardless of our abilities."

Q & A

Mother.
Financial Planner.
Traveler.
Problem Solver.
Multitasker.



INTRODUCING SHABRI MOORE.

Interview by Rebecca E. Dolber

FREE: **Where are you from?**
SHABRI MOORE: Well, I was born in Bombay, India, but have lived in a lot of different places. When I was growing up, my dad was an International Marketing Manager for Union Carbide so not only did we travel a lot, but we moved about every three years. Home has always been wherever I'm living at the time. I've moved quite a bit as an adult as well, but have called Frederick, Md., home for the past 16 years. Wow, that's a long time to live anywhere!

FREE: **Where did you go to school?**
SM: I did my undergrad at Marshall University and majored in biology. I went to graduate school at North Carolina State and concentrated on molecular biology. I never really thought about financial services as a career option until I was older. After all, I'm a good Indian girl and we are all supposed to be doctors, engineers, or scientists!

FREE: **When you decided to get into this business, what were your options at the time?**
SM: Pretty much any route I wanted to take. I interviewed with the major wirehouses and everyone offered me a position. Imagine my astonishment that someone with no experience at all in this industry could so easily be offered a job! Little did I know, if you could walk and chew gum at the same time, they'd offer you a job.

FREE: **Where did you end up going?**
SM: After talking to all the wirehouses, I ended up working with an independent firm that was, in reality, pretty heavily insurance-based. I found out about it through a friend's husband, who had been in the industry for 15 years and always worked independently. It was great because everything was referral based – no smiling and dialing like in the wirehouse environments. I just couldn't do that. Here, everything was very relationship oriented and I could build my business in a very smart way.

FREE: **Tell us about your practice now. Who is in your group and how did you come to work with them?**
SM: Right now I have an assistant, Cori Fedyna. She handles the general office duties as well as our marketing efforts. She's amazing and I don't think I could run my practice without her! I hope to be bringing on another associate in the next month who will be licensed and able to assist me with client-related activities.

FREE: **How did you hear about APFS?**
SM: I heard about the company through fellow APFS colleagues Doug Meyer and Wendy Quattrochi while taking a class for my series 7 and 24 licenses. Both are incredible and a wonderful resource for me. They are able to strike a nice balance between supervising and giving me room to run my own business. It's a great consultative relationship; we all bring something to table and are willing to listen to each other.

FREE: **And how has your work changed since joining APFS?**
SM: Well, I definitely have an increased work load. I write a lot more financial plans and do more fee business. AP has helped my business in the sense that they provide the reps with a good technology platform and caring individuals who genuinely try to be helpful.

FREE: **What kind of person should be independent in your opinion?**
SM: Someone who is confident in their abilities. Someone who is very organized yet flexible enough to change as needed. Someone who is willing to stay educated on current trends—I think more people aren't turning to independence for fear of failure. But failures are a given. It is what you learn from them and how you modify your behavior that allows you to succeed.

FREE: **What changes need to be made when it comes to independent professionals?**
SM: We need to support each other better instead of being lone rangers. We should be working with teams of professionals such as CPAs and attorneys. Currently, I belong to a professional group comprised of business owners within various industries. It is not a leads group, but rather almost like my own personal board of directors. We meet and present problems or business situations and together work on solving those problems. It's nice to have a different perspective for any given situation. Ultimately this allows me to offer a more holistic approach for my clients.

FREE: **What about changes when it comes to the B/D?**
SM: APFS provides lots of ways to obtain information, and to get it whenever we want. We have *The Independent*, Studio 454, *FREE*, webinars, vendor presentations and while all of those are great, they're done on an individual basis in our own individual offices. We need more personal contact. We should be setting up study groups within APFS. I know that some of my colleagues in New York do this, but for those of us who aren't in proximity to anyone else, we should have some process where we can either pick up the phone and bounce ideas off of other colleagues, or schedule regional small group conferences that take place four or five times a year. I think that would be beneficial.

FREE: **What hurtles do you think are presented to women in financial service if any?**
SM: Well it is still very much a male-dominated industry. But from a business perspective, I don't see true hurtles, but rather real advantages. The only real hurtle I've ever faced is that I may be the only woman playing in a vendor sponsored golf event. That must change! Most women are by nature better listeners, better networkers, and better nurturers than men. Sorry guys, but think about your mom, your wife, or significant other and you'll admit it's true. We, as women, need to utilize those strengths. Clients really want someone who will listen to them, their needs, their goals, their fears and address those issues. Clients need someone they can go to if they need the services of other professionals, not the phone book. They need someone who will understand them well enough to make the appropriate recommendations.

FREE: **So, how do you keep abreast of what's going on in the industry?**
SM: Seminars, journals, books, etc. We have a wealth of "gurus" both in our industry and outside of it who are able to provide not only industry specific information, but practice-building and business-building ideas.

FREE: **What do you think of TV like Bloomberg, CNN, etc.?**
SM: I wish we didn't have it. Do we really need to know what's going on 24/7? It makes people panic and causes gut reactions that are generally not a good idea.

FREE: **How do you think the business is going to look 15 years down the road?**
SM: I think it's going to be much more consultative with teams of professionals working together, instead of just saying they will work together, and almost exclusively on fee platforms.

FREE: **What is life like in Maryland/Washington D.C. area?**
SM: Wonderful! We have access to the mountains, the beach, and great parks if you want to be outdoors. We have incredible cultural venues for live performances and our museums are beyond compare. We have a population that is well educated, informed and active in their communities. Best of all, the people who live here are just incredible.

"What are you waiting for?" That was my husband's response whenever I wasn't sure if I should be doing something or going somewhere.

FREE: **Tell me about your family.**
SM: I have two sons, Sean and Erik, who are the light of my life and bring me more happiness than I deserve. Sean will be a junior at University of Maryland next year and is majoring in finance and economics with a minor in biomedical engineering. Erik will be a senior in high school next year and he is currently in the process of applying to colleges. He'd like to major in chemistry or physics and ultimately go to medical school to be an orthopedic surgeon—good Indian kid, remember! We share our home with a very naughty Irish Wolfhound named Molly. I also need to tell you about my husband, who passed away almost two years ago. He was my best friend and an amazing father. I have my business only because of him. Thirteen years ago when I wanted to change careers, he didn't hesitate and told me to figure out what I wanted to be "when I grew up." He was my biggest supporter, offering wonderful business advice, a sympathetic ear when things were not progressing as well as I wanted and unconditional love. I truly would not be in business today if it were not for him.

FREE: **What are you passionate about, Shabri?**
SM: Living life to the fullest, loving my family and friends and making sure that they know it… being a positive force for change and improvement in my community.

FREE: **What is the best advice anyone ever gave you – about the business or otherwise?**
SM: "What are you waiting for?" That was my husband's response whenever I wasn't sure if I should be doing something or going somewhere.

FREE: **What do you do in your spare time?**
SM: Anything outdoors. We are avid snow skiers and try to get to the mountains as often as possible. Travel both in the U.S. and internationally. Our last big vacation was in the Galapagos and Peru. You have to do it, it's the trip of a lifetime! We also spent three weeks in New Zealand a few years ago swimming with dolphins, whale watching, and kayaking amongst different types of creatures.

FREE: **What does the future hold for you, personally and professionally?**
SM: Personally, I want to be a really great mom for my sons supporting them in whatever their goals may be and wherever their lives may lead them. I want to be a strong, contributing member of my community, staying involved and providing leadership in its growth and development. Professionally, I want to continue to grow my business, adding advisors and support staff over the next several years.

FREE: **What is your motto or favorite quote?**
SM: There are three. The first is by Eleanor Roosevelt, who said, "The future belongs to those who believe in the beauty of their dreams." The other two are by Mahatma Gandhi. "Be the change that you want to see in the world" and, "Live as if you were to die tomorrow. Learn as if you were to live forever."

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transition from transactional:

finding answers

Last quarter's piece, "Trust & Confidence," garnered some great feedback from our reps in the field! Questions about the next step have been posed. In this piece, "Finding Answers," we will do just that. Before you can be operationally and financially prepared for this move, you must be mentally prepared. It's a lengthy process, and the first step starts with you. Here are a few questions you should be able to answer that will help set the stage for your inevitable transition.

Question: How do I justify my fee to a client in down markets?

Answer: The value you bring to the relationship with your clients justifies your fee. The time and effort you put into your clients' accounts, their needs, and your relationship with them, plain and simple, are your justifications. If you were a W2 employee, you would expect to be paid regardless of the markets. The same goes for managed money. The work you do does not stop, nor should your compensation. Moreover, if you, as an advisor, do your job, the client will understand the value that is brought to the relationship. The fee question no longer is a question but rather a statement: "My fee for these types of services is X."

Question: Why would I take on a fiduciary role when I don't have to?

Answer: Taking on such a role brings added responsibility. However, with this responsibility comes the additional remuneration and higher monetization of your business. Becoming an advisor requires you to look out for the clients' best interest. Now, you're probably thinking, "I already do all of that for my clients now." To that I say, "If it is what you do now, why not get compensated for it?"

Question: Does being an advisor preclude me from selling commission products to an advisory client?

Answer: No. Not all advisory products are all things to all people. If it is in the best interest of the client to recommend a commission annuity, or if another type of investment makes the best fit, then it should be implemented and sold to the client.

Question: How do I change my business model? What should it look like?

Answer: Part of becoming comfortable with the process of selling your services as an advisor is understanding what your business model will look like when you get there. After all, how can you sell something if you don't know what it is, what it looks like, or what it does? During the planning stages, use broad strokes to determine how your advisory practice should appear. Ask yourself the following questions and write down your answers:

- If you walked into the perfect advisor's office, how would it look?
- What would the atmosphere of the office be?
- How would you be greeted?
- Is there staff?
- Would you meet them inside or outside the office?
- What services would you want from them?
- Would they be looking for gaps in your existing plan or starting from a fresh plan?
- Would there be a team of experts the advisor could call upon or does the advisor have expertise in a certain specialty and is the advisor then seen as the go-to person in the community and region?
- What would you want to walk away with at the end of a meeting?
- Ask yourself, as the advisor what would be your responsibilities?
- How much time would you spend in the office? How much time out of the office?
- What technology resources would you have? Automation, paperless system, financial applications?
- How many clients would you have and what is the average asset size per client?

Chew on this for the quarter: If you could revamp, change, and improve your current practice without regard to any outside influences or responsibilities, what would you do? The few preceding questions will help get you started on your answer.

Finally, as was stated in our article in the last edition of *FREE*, there is no one correct way to promote how an investment advisory business model should look. This is not a franchise. Not everyone functions under a one-rule paradigm or criterion. You're only as good as your clients perceive you, and managing clients' perceptions is an art. It is a learned skill set. So educate yourself and learn your script for selling the advisory services you can offer.

Please continue to submit your thoughts, ideas, and questions so that we may share them with others. Your name will not be used unless you say otherwise! We encourage you to begin brainstorming.

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reflections

By Dean Bruno, COO APFS

It was an eye-opening experience that upon graduation from the State University of New York at Stony Brook in 1993, I began working in a small office for a local insurance agency that was tied to an OSJ branch of an independent broker/dealer headquartered in Bryan, Ohio. The OSJ was managed by CEO Lon Dolber and I had the privilege of working with him and learning as much as I could about the insurance and securities industries. I subsequently left the agency in search of a corporate atmosphere and culture and landed a customer service position with Phoenix Home Life Insurance Company. Then, a few years later, I joined Merrill Lynch as an insurance specialist.

When the opportunity presented itself in the late summer of 2001 to work with a start-up broker/dealer that Lon had founded, I jumped at the chance. Although I would be making a leap of faith in working for a small organization with a short track record and annualized revenue of less than $10 million, I still yearned for the opportunity to bring my acquired work experience to the table and build upon it in an attempt to make a difference. I was certain I could have an impact at such a small firm if I worked hard and put time into my continued quest for knowledge.

That opportunity came in January of 2002 when I was hired by Lon to work in all aspects of operations. It was an interesting time for the b/d then, each employee working closely in a quarter of the space that we currently occupy, half of which was carved out for the 10 -12 reps and assistants in the Holbrook OSJ. Pitching in to support one another, we were 16 employees servicing roughly 250 financial services professionals.

On average, annually we transition more than 100 new colleagues and their practices into the firm.

Some of my initial responsibilities at the time included learning the Bear Stearns Platform, opening new accounts, and assisting in all phases of the transitions process for new registered reps affiliating with the firm. Shortly thereafter, I began posting content to the APFS broker website and establishing vendor relationships by learning and working through the due diligence process to obtain new selling agreements. I was intent on learning everything I could about b/d operations and the supporting technology.

Over the years, APFS has grown by leaps and bounds. On average, annually we transition more than 100 new colleagues and their practices into the firm. Questions from the field, problem resolutions, rep training requirements, upgrades to our systems, and human resources have all increased dramatically since our first day in operation on September 10, 2001, as have my responsibilities as COO. As I've grown from a jack of all trades to a Relationship Manager to a Senior Vice President and, finally, to my current role as COO, my day-to-day activities have evolved, and they will continue to do so. In more recent years, I've begun mentoring our up-and-coming staff members, delegating tasks and giving them the opportunity to take on more responsibilities. But beyond assigning additional tasks and projects, I've been helping them to develop their management skills to become future leaders of our company. In this mentoring process, I treat them as I would expect to be treated. I hold each person accountable, meeting with departmental supervisors and managers on a weekly and sometimes daily basis. We discuss items of concern using our enterprise information portal system to delegate tasks and post comments on the status of these tasks.

With the recent promotions of Jared McGill as Rep Services Manager overseeing New Accounts, Transitions and the Relationship Management departments, and then David Molter assuming Jared's former role as New Accounts Supervisor, this will free me up so that I can work more closely with Lon in future planning of the b/d. It will also afford me the time to find answers to some fundamental questions such as: What are we missing? What can be done better? What are we not thinking about? What can we do to make it easier for our affiliated colleagues to conduct business?

The next few years will be important ones for APFS. Just as I felt six years ago when I came to work for Lon, I look forward to the challenges ahead. The difference is that now I have no doubt that the firm will continue to grow and prosper.

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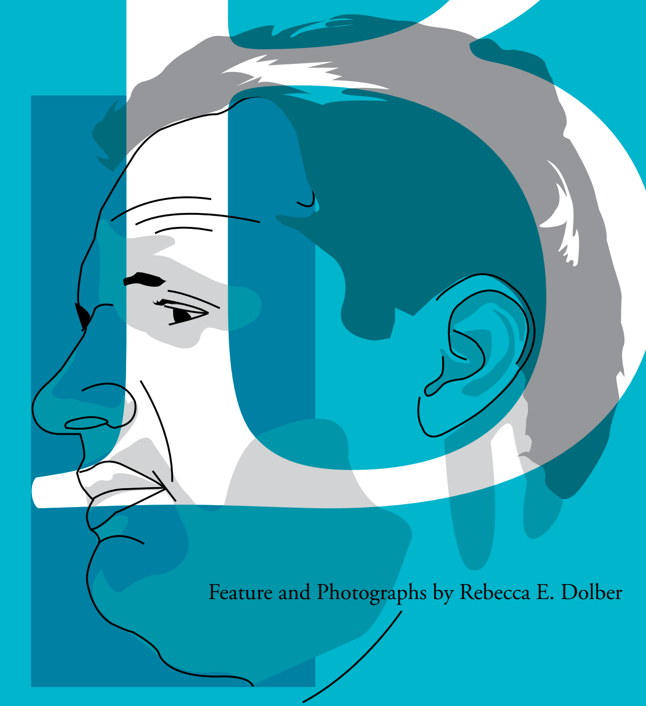
another side of Bob



Perceptiveness, having keenness of insight, can account for a lot when dealing with people. Listening is truly an art, and often not saying much can lead to learning a great deal. So when I was told that I would be interviewing Robert Bartolotta, Senior Managing Director at American Portfolios, I thought, "No better tactic to tackle this situation."

Feature and Photographs by Rebecca E. Dolber

YOU SEE, I KNOW BOB AS A SARCASTIC, NO-NONSENSE SMART ALECK. Conversation could be likened to willing a blood-soaked carcass away from a wild Bengal tiger. But having participated in two World Team Sports events this past quarter, he fit perfectly into our theme of "social responsibility," thereby becoming the all too obvious choice for this edition's feature. Not to mention, he's Chairman of the APFS Advisory board, a fact that put the proverbial nail in the interview coffin. So I journeyed upstate with one goal: to listen, get the interview, and get back home unscathed as possible.

I stood at the curb of Rochester International Airport, waiting for Bob to pull into passenger pickup. It was humid in Rochester, a typical summer swelter made worse by the confines of business attire. I looked to the ripples of heat looming over the landing strips as he rounded the corner in a navy BMW. He pulled to the curb with precision, with exactitude. I peered in through the open window…

"Hello Bob."

"Hello Becca… So how'd you get roped into this?"

And thus, our interview began.

As we sped around the 490, I watched the many faces of Rochester reveal themselves to me. Like most cities in upstate New York, the struggle to progress economically, while maintain historical integrity, is a tough one—and in Rochester, the confluence of old meeting new is evident. Look to one side of the street to find brand new office buildings. Look to the other and find a bodega looming in the shadows of an old paper factory, its windows shattered, its doors boarded and covered with graffiti.

Exiting towards University Avenue, the houses were painted in bright hues, standing gaily in the shade of enormous birch trees. Coffee shops and eateries lined the streets as hipsters in vintage threads rode their bikes down alleyways. Out the window were great expanses of perfectly manicured landscapes housing historic buildings, including the estate of George Eastman, famed founder of the Eastman Kodak Company and a revolutionary in photography. A renowned philanthropist, Eastman's mark on Rochester is apparent, his legacy painted across the city from the Eastman School of Music he endowed, to the skeletons of the old Kodak factories that, one by one, are being torn down as the digital age renders traditional photography obsolete.

"George Eastman contributed significantly to this city," Bob told me. "You'll see his name everywhere. He was a businessman, but he understood that you have to give back to the community because the community rewards you—and for the community to continue to reward you, it needs to be prosperous."

He seemed genuine, and appropriately, I seemed genuinely surprised.

"As a businessman, do you hold yourself to those same ideals?" I asked.

"Actually, I'm a greedy capitalist pig."

I knew it.

"I do give to the arts though: The Moore Art Gallery, The Rochester Museum and Science Center, The Hawk's Eye Music School… I support these organizations because they're part of my community. My wife Valerie is an art teacher, so we're into the culture. It directly benefits us."

"Do you only do things that directly benefit you?"

"I think that everybody does everything in self-interest. There's no true altruistic act. If I help someone across the street, it's because it makes me feel good. If I didn't receive personal gratification, I wouldn't do it."

It was only 10:00 a.m. How did I get roped into this?

"Well, the problem is that most people do only what benefits them," I offered.

"Look, we are all part of this collectively and it all has to be healthy. Giving back is about keeping a good environment, especially to the arts. Otherwise, it gets very flat and boring…"

"…And very dangerous."

"Do you only do things that directly benefit you?"

"Creativity spurs innovation. Pure creative; it's in the arts. Whether it's music, painting, etc., without innovation, we can't survive. If you look back on our country's history, each time we looked bleak, innovation's brought us out of it. In the 70s, fuel was high, we had stagflation, Japan and Taiwan were going to take over; it was the end of the U.S. dynasty. But then we came along and really led the technology age."

"So what do you think it's going to be this time?"

"Well, by definition, innovation is something unexpected. That's an Alan Greenspan quote. I think a natural thought is that someone's got to lead the world in the green way. I guess it will be some unexpected offshoot of our current struggle with energy... What do you think it's going to be?"

"I'd like to see a compassion revolution," I said. "I think Americans have become detached from their humanity. Just look at all the people in the world who are severely impoverished, in pain, so in need of help… I think we need to address that."

"Yeah, I'd have to disagree," he retorted.

Of course you do.

"I think we should do more for ourselves. We do too much out there, and we should focus inwards first. We have so many issues in our own country that we don't address. Our priority should be becoming financially strong as a country, as a people, so that we can then help others."

I had to agree, but wanted to avoid any "trickledown" Reaganomics discourse.

"Well, I agree with you in the sense that it starts with us," he continued. "The personal is the global and what's happening on a larger scale is indicative of what's going on in our own backyards. Effecting change starts here…"

I tried to get back on track.

"So, do you recycle?"

"Yes, but only for the money. I want the five cents."

And like clockwork, he cut the wheel left and pulled into a parking spot labeled "American Portfolios." A maroon awning hung overhead with the AP logo, marking the entrance to the office. Megan Wasnock, Bob's assistant, greeted us at the entrance. After a quick tour of the place, we sat down in his office to chat.

Bob moved into the building in 1994 after leaving the insurance company he'd been with for five years. He teamed up with Sam Lipari, who had an existing book of business. The idea: To have Sam open the opportunity and Bob swoop in and capture it. At the time, he had $500 in savings, a wife, and two young girls.

"I went from making a very good income to making zero. A normal person wouldn't have quit with no income, no money in the bank and a family. I guess I never had that good sense of fear. I just figured if I worked hard, it would work out. Effort overcomes any obstacle. If you fail it's because you didn't persist. You didn't work hard enough at it."

Bob started working on Sam's accounts, all the while pursuing a relationship with Paris Kirwan Associates, the property and casualty agency that leased him the office space. To his advantage, they had thousands of clients and no one working on 401(k)s, investments, or benefits. So he started doing some work with them, and simultaneously, bought a $30,000 book to further launch him into the group and 401(k) business. With that, he was able to start a personal book and begin working on referrals.

"See, I've never really been good at cold calling. I've always built by trying to put myself in a position to get joint work with people who don't specialize in what I do."

That same year, Bob replied to an ad Parsippany, N.J. Managing Director Russell Clark placed in an investment magazine and was soon introduced to Lon Dolber. Although he only had $15,000 in gross commissions, Russell and Lon believed in the vision Bob had for his company.

"I sat down with them and went through the whole story, painted the picture. I guess they bought into the fact that I had some potential. Dean [Dean Bruno, APFS COO] would have rejected my confidential now."

To date, Bob supervises 25 reps through his OSJ, including Kris Tower in Littleton, Colo.

"My role with people like Kris, in addition to trying to make them aware of regulations and overseeing transactions, is knowing how to help them when they need help—be it with their clients, the home office, whatever the situation, I'm the liaison."

In the Rochester office, Bob has a total of 17 colleagues who work for the benefits company or directly along side him with the broker/dealer. Specializing in health insurance and long term disability, the benefits company is on pace to do $1.4 million this year, up from $300 thousand in commissions in 2005.

"If you do the right thing and work hard, the money just works out. And you know, I don't really worry about the money. That's not what it's about. It's about building something you are proud of."

Which leads to a big agenda item for 2008; the implementation of the financial planning practice model he's created. Conceived from conversations with Business Coach Glen Madson, and also from ideas passed around during APFS Advisory Board meetings, the model includes a sales division, a licensed compliance person, and a customer services manager to work with the reps and help service accounts. It's essentially his own little financial planning organization where people will be working on a book owned by the practice.

"Like the vision of the home office, we want breadth and depth in our organization instead of being so individual-centric. We want to be more of a machine, but at the same time not be impersonal. Part of that is hiring good people, which can be hard. It's hard to find people you can interface and interact with and I'm careful about who is brought into the family. You have to think about your culture."

Which is why he is also Chairman of the APFS Advisory Board — to help create a communicative culture that's beneficial to the entire APFS organization.

"That Board came out of a conversation I had with Lon about giving the reps a voice. Lon liked the idea and created it."

Formed in 2006, the American Portfolios Advisory Board acts as a liaison for the representative and manager population to the American Portfolios Board of Directors. It's a representation of AP's cultural commitment to treat representatives as their best customers and respond to their needs.

Here's how they operate.

Once the board receives representative feedback, the group meets and selects the most important issues to address. They then form committees and present recommendations to the American Portfolios Board of Directors. Once any progress is made, updates are posted to *The Independent*. To date, the advisory board has tackled a variety of issues including lowering ticket fees, kicking off succession planning initiatives (resulting in the affiliation with FP Transitions), ongoing reviews of capital units structure, and implementation of the representative survey to gather rep feedback. Currently, the board is working on reviewing alternative investment agreements, looking at the flow and usage of the trading department, dealing with general compliance concerns, and analyzing the technology at AP.

"People can contact us with suggestions or comments by email, at advisoryboard@americanportfolios.com. It's an anonymous forum for the reps to be honest, and hopefully, give us more valuable feedback."

So, what else is on Bob's plate?

"I don't know. I get bored very easily so I'll probably try something else. I literally can't just do nothing. I can't stay right where I am and be fine. I just can't. I get bored. I just want to do better. I'm never satisfied and I don't know where that comes from but I'm like always thinking I can improve — and that constantly makes you change and change and change. It's plain exhausting. I realize it makes me difficult to be around sometimes. I have to focus on making sure I give good, constructive, complimentary things, because even if I think you are doing a good job, I always see areas where you can be better. If you're with that everyday, it's tough. If you ask me when it is ever going to be good enough, the answer is never. I have to step back and say, you know, not everyone functions that way and thank god because that would be a really awful world, wouldn't it?"

Yes, I thought. Indeed it would.

"So, tell me about World Team Sports."

"I was inspired by last year's bike ride to Washington D.C. and wanted to do it again this year — and I did. But the big event for '08 was the Real Deal Challenge, where Lon, Kris Tower, and myself were teamed with Bob Vogel, who is paralyzed from the waist down, and Erik Wambugh, who is blind, to compete in this two-day adventure race. What was cool about it was that we were racing against people who were literally our competitors in real life, like First Allied. It made for a great dynamic."

The Real Deal Challenge is a World Team Sports, multi-day, multi-sport team-building wilderness adventure challenge comprised of biking, rafting, climbing, repelling, and other outdoor events. All teams are made up of handicapped and able-bodied athletes who have to work together to meet the challenges at hand, and do so faster than their opponents.

"The first part of the bike race was completely downhill. Bob Vogel was in a one-off which is a bike that you lay down in and pedal with your hands. So he was literally going down face-first on this machine at 40 m.p.h., sliding through turns in complete control. And here I am, riding the breaks on a regular bike behind him, totally unable to keep up. It's remarkable. You know, I can give you a sound bite about how it's so great to give back, but the truth is that I do these things for the inspiration it gives me. When you look at other people who are challenged and see how they overcome that—the persistence and the tenacity they have—you take that back into your personal life and it allows you to see what you can really do and how lucky we really are."

His sarcasm lifted and next to me was another side of Bob Bartolotta.

On the way back to the airport, Bob took me into the heart of Rochester, past the cultural centers and hubs of businesses that pump life into the city, keeping it alive, making it thrive. But before we got back on the 135, we turned off toward a group of co-ops on the outskirts of town. We continued further to the dilapidated section of subsidized housing, its inhabitants hanging out on their stoops, eyeing us as we passed.

"Every so often, I drive through these areas to remind myself how lucky I am. It's easy to forget what you have. You have to be thankful for the opportunities afforded to you, grateful for the privilege to capitalize on them."

His sarcasm lifted and next to me was another side of Bob Bartolotta.

"There was one rainy day, back in the beginning… I got out of my car and was walking towards the office. The soles of my shoes had holes in them and I was too broke to buy new ones. My feet were soaking wet, and as I approached the door, I just thought to myself, one day I'm going to look back on this and laugh."

And pulling away, the ghosts of old buildings amidst the bustle of an ever-evolving city retreating to the rearview, he did.

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Legislation, Litigation, and Regulation

How they shape our industry

By Frank A. Tauches, Jr.

WHILE THE TERMS "LITIGATION, LEGISLATION, AND REGULATION" NEVER conjure up positive thoughts among financial advisors, they nevertheless affect every aspect of our profession and must be effectively dealt with. APFS is a member of a number of professional organizations that keep us informed when any pending judicial decision, proposed legislation, or proposed regulation will affect us as an independent broker/dealer. While the SEC and FINRA are open to proposed changes in regulations and legislation, both setting comment periods and inviting input from the industry and the public, the Financial Services Institute ("FSI") is a reliable source for information and action on advocacy issues. FSI acts affirmatively as an advocate for independent broker/dealers and comments on proposals for legislation and regulatory reform. They will also support an issue of concern in litigation with an amicus curiae brief (as a "friend of the court").

One major initiative of FSI that has grown into a significant annual event is FSI's Public Policy Day Advocacy Summit in Washington, D.C. I participated this past May as a team leader in our meetings at the offices of four Members of Congress from New York. Joining me were two financial advisors from Long Island, New York, who, like many of you, are individual practitioners who have built up their practices over many years. The purpose of our visit was to introduce FSI, explain how an independent broker/dealer serves the investing public, and share our views on the potential impact of proposed legislation and regulations. The industry issue we focused on was the upcoming reform of Rule 12(b)1 even though the SEC and FINRA have not yet completed their review or formulated their proposals. This has been a relatively lax period for securities reform legislation but the proposals are out there and it's important to educate our members of Congress early and establish our position.

The day of our visit was a particularly busy one on Capitol Hill, with many bills being voted on. Three of the Congressmen with whom we were scheduled to meet had their congressional staffers meet with us. These individuals were all young but extremely well-informed on the issues. They were attentive and asked relevant questions. I started each conversation with an introduction, a description of FSI, and an explanation of my position as President of an independent broker/dealer. From there I went directly to the issue at hand: Rule 12(b)1 reform. I then had my colleagues describe the nature of their practices, the length of time it took to build their relationships with their clients, and the important role that 12(b)1 fees play in supporting and continuing those relationships. They each did a very effective job. Our next meeting was with Congresswoman Carolyn McCarthy, whom I have known for over a decade. When I was originally advised a week earlier that she would not be present but that we would be meeting with a staff member, I called her local office in my community and spoke to her office manager. I told him of the scheduled visit at her office in Washington the following week and that I would be one of the participants. I conveyed my understanding of her busy schedule and asked that if it was at all possible that she could be present even if we had to meet in the Capitol itself for a few minutes. I felt that our meeting with her would be most valuable since she was a member of the House Committee on Financial Services. The day after my call, I received confirmation that she would meet with us personally.

The meeting with Congresswoman McCarthy lasted for 30 minutes and she listened intently to what my colleagues had to say and asked very discerning questions. Her staff member was very well-acquainted with FSI and the issues we discussed. In all, I felt that it was a very successful afternoon, but it also reaffirmed something that I believe in strongly: Issues may be framed on Capitol Hill, but they are won back in the home district.

My value to that last meeting as a member of FSI or as the President of APFS was eclipsed by my being a constituent of this Congresswoman and residing in the district she represents. This is important for APFS as a firm and each of you individually because, with our territorial expansion over the last two years, we have, through each of you, established constituencies in many congressional districts that could be important in the near future as different proposals on regulations and legislation crystallize. Your contacts with congressional leaders, state officials, and local mayors and trustees can actually play an important part in shaping our industry.

Three new commissioners have just been appointed to the Securities and Exchange Commission. In November we will elect a new President and in January a new administration will take office. In addition to 12(b)1 fees, other issues that will be decided include reform of Regulation S-P regarding privacy and confidentiality of client information, a summary prospectus for mutual funds, and regulation of investment advisors and all the collateral issues affecting our industry as a result of some of the crises of the last 12 months such as sub-prime lending, failure of the auction rate markets, and the precipitous financials of some well-established banks and securities firms.

With the challenges that lay before us, we will all need to work together to shape our industry through the current barrage of issues. I'm interested in your thoughts and ideas. I'll be calling on you all in the future. As always, feel free to contact me.

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OppenheimerFunds
The Right Way to Invest

THE BIG PICTURE

The Rule *of* 72

Situation: *In spite of your best efforts, your clients are parking most of their investable assets in a money market account or CD.*

Solution: *Appeal to their logic centers. Show them the numbers!*

Discussion:

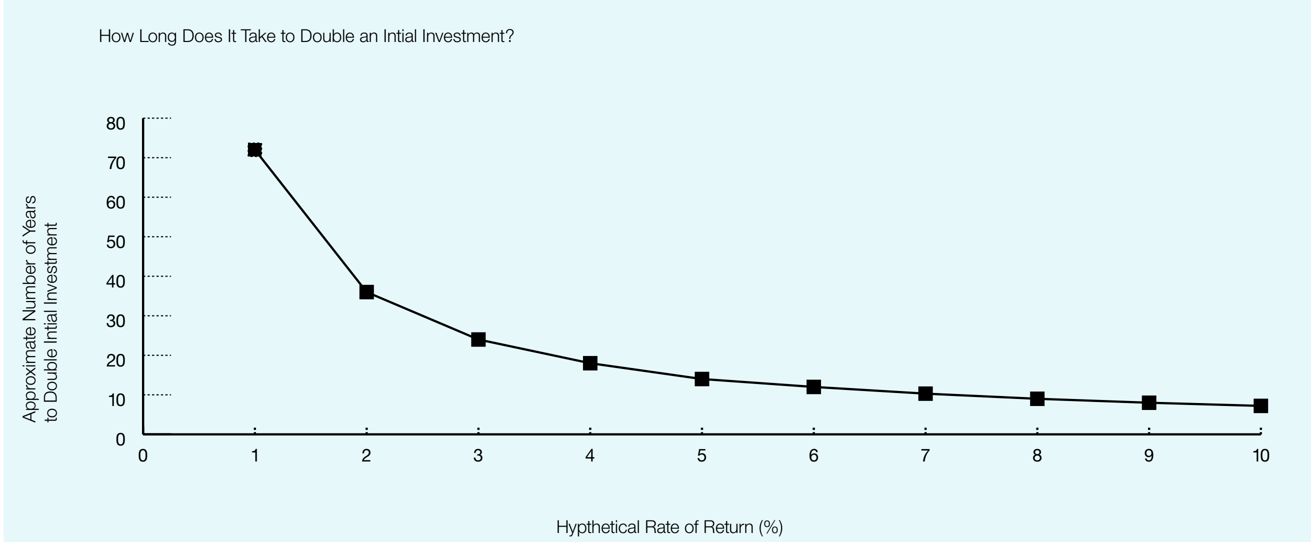
- The Rule of 72 can demonstrate the power of compounding
- If kept in a low-rate money market account or CD, it could take decades to double an investment
- Investors may be risking the possibility of NOT reaching their savings goals

Some investors may be weary about current market volatility, waiting on the sidelines saying that maybe “tomorrow” or “later” they’ll invest. For now, they are content to let their money sit in a CD or money market account. How long would it take to double an investment based on the May five-year CD rate of 3.5% per year,[1] assuming reinvestment of earnings? The Rule of 72 states that you divide the number 72 by the rate of return: 72/3.5 = nearly 21 years.

However, if money is invested in a mix of stocks and bonds, with a hypothetical return of 8%,[2] then the number of years it would take to double an initial investment would be less—only about 9 years. (Again, it’s just 72/8 = 9).

This chart demonstrates the relationship between hypothetical rates of return and number of years it takes to double an initial investment. On the one hand, CD rates may be fixed and CDs may be insured by the FDIC, but they have historically offered relatively low returns. On the other hand, stocks and bonds have historically provided higher rates of return, but come with higher risks of loss. Similarly, fund yields and returns may fluctuate and fund shares are not insured. Fixed income investing entails credit risks and interest rate risks. When interest rates rise, bond prices generally fall, and the fund’s share prices can fall. Investors may be risking the possibility of NOT reaching goals if they stick with low yielding investments such as CDs.

Note: *Chart illustrates hypothetical investments’ earning returns from 1% to 10% annually. This example does not predict or depict the performance of any Oppenheimer fund and is shown for illustrative purposes only. This performance information does not show the effects of income taxes on an individual’s investment. Taxes may reduce actual investment returns or gains realized if investment is sold.*



[1] Source of Data: Bankrate.com, May 2008.
[2] Stocks, as measured by the S&P 500 Index, had an average annual total return of 10.9% for the 25 year period ended 12/31/07. Bonds, as measured by the Lehman Brothers Aggregate Bond Index, had an average annual total return of 8.7% for the same period. Past performance does not guarantee future results.

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does a stable stock/bond mix provide stable risk?

Bob Bannon, CFA, SVP, Investments
Genworth Financial Asset Management, Inc.

The practice of adding fixed income securities to a portfolio has become a mainstay of investment management, so much so that most managers characterize portfolio risk for clients as "aggressive," "balanced," or "conservative" based on the percentage of bonds included in the portfolio. The 60/40 mix (60% stocks and 40% bonds) in particular has become the standard definition of a "balanced" portfolio.

There is much to recommend the 60/40 portfolio. It is relatively stable over time and certainly has lower long-term volatility than 100% exposure to the equity market. But does it really provide a stable risk exposure?

That is by no means clear. History shows that the risk behavior of stocks and bonds as asset classes can vary substantially over time and that, as a result, the 60/40 allocation does not offer the stable risk exposure many investors assume. It is our intention here to demonstrate that instability and offer an alternative approach for investors seeking more stable risk, particularly more stability in their risk of downside loss.

What MPT Tells Us About Lowering Risk

Modern Portfolio Theory (MPT) tells us that you can lower the overall risk of a portfolio in two ways. The first is by increasing the allocation to lower risk assets classes.

For example, assume that a portfolio has an expected return of 12% and an expected volatility of 18%. Next, assume that we are adding a new asset class with an expected return of 8% and an expected volatility of 10%. The new portfolio will be 90% of the original allocation and 10% of the new asset class.

The weighted average of the expected volatility for the original portfolio and the new asset class suggests a value of 17.2%. (More on the actual value in a moment.) However, the expected return has also been lowered (again based on the weighted average) to 11.6%.

In fact, according to MPT the actual volatility may be as low as 15.2%. The reason is the correlation between the asset classes. If the new asset class responds to market forces in exactly the same way as the original portfolio (in other words, has 100% correlation), the expected volatility would be 17.2%.

But if the new asset class has a perfectly inverse relationship (or -100% correlation) to the original portfolio, the overall volatility would drop to 15.2%. Table 1 shows the expected portfolio risk at varying degrees of correlation.

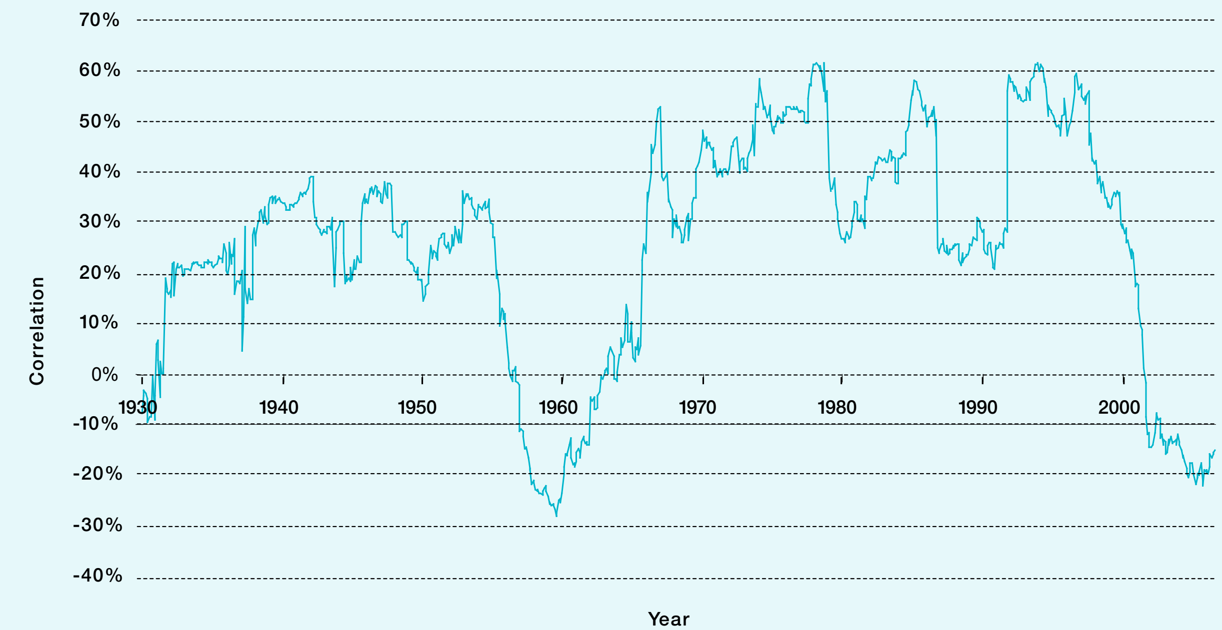
Table 1:
Impact of Correlation in a 90/10 Portfolio

Correlation	100%	75%	50%	25%	0%	-25%	-50%	-100%
Portfolio Risk	17.2%	17.0%	16.7%	16.5%	16.2%	16.0%	15.7%	15.2%

This leads us to the second method of lowering volatility, which is to add asset classes that are not correlated with the rest of the portfolio. While adding a lower risk asset class will lower expected volatility, it does so at the expense of expected returns. But if we add an asset with similar expected returns and a lower correlation, we reduce risk without reducing returns.

The 60/40 portfolio does both. Bonds have lower risk than equities (and lower return potential) and they have a low correlation with stocks. If MPT is correct, the portfolio's risk should be stable at this lower level. The question for retail investors is, does it hold true?

Chart 1: US Stock and Bond Markets
(rolling 5 year correlations)



The Reality – Asset Classes Have Varying Risk and Correlation

MPT has at its core a set of assumptions. Challenge the assumptions and you may challenge the conclusions.

One crucial assumption is something mathematicians call "stationarity," a sophisticated concept that presumes (for our purposes) that the volatility of the asset class is a fixed, unchanging number over your investment horizon, as is the correlation amongst the asset classes in the portfolio.

Let's look at volatility first. The table below shows the volatility levels experienced during selected time periods for the U.S. stock and bond markets. As can be seen, there have been noticeably different levels of volatility:

Table 2
5 Year Historical Market Volatilities

U.S. Stock Market		U.S. Bond Market	
Period Ending	Volatility	Period Ending	Volatility
December 1996	8.7%	August 1945	1.2%
November 1959	12.0%	October 1968	5.0%
July 2002	18.0%	February 2004	8.0%
August 1942	28.0%	January 1975	9.0%
August 1934	47.4%	July 1984	15.9%

Source: S&P 500, Ibbotson Long-Term Corporate Bond Index

Historically, the causes of volatility are often clear. During World War II, the government mandated low fixed bond yields, leading to almost no volatility in the bond market. In 1929 to 1934, the stock market was in a full-scale crash, leading to very high levels of volatility.

Understanding the reasons in retrospect in no way contradicts the obvious: these asset classes are non-stationary. There are periods of time, unknowable in advance, when these asset classes will have substantially higher or lower periods of volatility.

History shows that real-world market correlations are non-stationary as well. As the chart above indicates, the correlation between the U.S. stock and bond markets has varied widely over time:

Table 3
Risk Analysis of a 60%/40% Stock/Bond Portfolio (Rolling 5 Year Periods)

Portfolio Risk		U.S. Bond Market	
5yr. Period Ending	Worst One Month Return	5yr. Period Ending	1 Mth. Return
November 1959	6.8%	August 1957	-3.0%
March 1970	8.7%	April 2003	-6.8%
July 2002	10.5%	June 1992	-10.4%
August 1942	17.1%	April 1945	-14.9%
August 1934	28.7%	August 1934	-19.0%

Source: S&P 500, Ibbotson Long-Term Corporate Bond Index

At times, such as the 1990s, stocks and bonds had a relatively high correlation (nearly 60%), suggesting that the benefits of adding bonds to a stock portfolio during that period were limited. In the late 50s and early 60s, bonds had a solid negative correlation to stocks and would have offered significant diversification benefits to any stock portfolio.

Clearly bonds can lower the risk of an equity portfolio by virtue of the fact that they almost always have less than 100% correlation to stocks. But the point is this: if the correlation betweens stocks and bonds changes, the level of portfolio volatility will not stay constant.

Let's look at what this means in the real world over time.

The Real Word: 60/40 Stock/Bond Portfolio

We examined rolling five-year returns for a 60/40 portfolio over the modern era.

Two different definitions of risk are calculated, the five year volatility of monthly returns, and the worst one-month return over each five-year period. Regardless of which measure of risk is examined, Table 3 makes a strong case that the risk of a 60/40 portfolio is not stable.

In the 1950s correlation was very low, resulting in an extremely low risk for the 60/40 portfolio. Very high correlation during the 1990s and the 1940s, on the other hand, caused far higher levels of risk for a 60/40 portfolio. During the Great Depression (see 1934) both the bond and stock markets collapsed, exposing "balanced" investors to aggressive levels of risk.

A Preferred Alternative To Achieve a Stable Risk Profile

Strict adherence to a 60/40 stock/bond mix in portfolio manage-ment does not lead to a stable risk profile. This is because neither the volatility levels of the stock and bond markets, nor the correlation between the markets, are stationary over time. When the component markets are not stable, it is logical to assume that a static mixed portfolio of unstable components creates an unstable whole. The same is true of other stock/bond ratios when they are held in a long-term stable mix.

So what can be done to deliver a more stable risk profile for investors? There are several approaches, including:

First, diversify the instability. Virtually all asset classes exhibit non-stationarity in risk and correlation. A broadly diversified portfolio including asset classes such as emerging markets, commodities, asset-backed securities, non-dollar investments, micro-cap stocks and others may exhibit more risk stability, as the instability in these unrelated asset classes tends to dampen the instability in the others.

Also, use derivatives. An in-the-money put option has a far stronger negative correlation to its associated asset class than other asset class and the negative correlation is far more stable. There are expenses associated with derivatives, but they are an excellent choice when risk reduction is a high priority.

Finally, use active asset allocation. Actively tilting away from the static targets offers the opportunity to dampen swings in the risk profile.

Adding a fixed income component to a portfolio will reduce risk, but it is not a panacea. While the positive response in the bond market following the market crash in October 1987 was welcome news, a few years later, in the spring and summer on 1994, the stock market fell by 7% - and the bond market fell even more sharply.

Anyone relying on a static 60/40 portfolio mix in 1994 was likely to be very disappointed.

economic and market commentary

it's bad... but how bad?

By Patricia A. Powell, CFP

STOCK MARKET

At the time of this writing, the second quarter has closed and the domestic stock market, by almost any measure, lost money. How many ways can you say that?

Just look at June 2008. The DJIA dropped 11.35%. It's a fact. But you could say this in a more descriptive and interesting way like, "The DJIA reported June 2008 to have the worst one-month drop since September 2002." Or even more impressive, "June 2008 was the worst June reported by the DJIA since the Great Depression of 1930s."

In case anyone cares, September 2002 was followed by a gain of 10.6% that October. In July 1930 the DJIA was up 3.4%, and August was up 2.7%. Even during the Great Depression, markets did not drop every month.

OIL & GASOLINE

Oil hit all time highs this quarter, over $145/barrel. One report says that the Saudis will raise oil production. Another report says the Saudis have no immediate plans to boost production. Some analysts think that as the European Central Bank raises interest rates, it will add to oil price momentum. Add to this the risk of what would happen to oil prices if there are attacks on Iran, the world's fourth largest oil producer. About 40% of the world's tanker traffic passes through the Strait of Hormuz, which could be a choke point if there were any Iranian conflict. Vice Admiral Kevin J. Cosgriff, commander of the 5th Fleet stations in Bahrain has stated that "We will not allow Iran to close it."

There is an old saying in economics, "The cure for high prices is high prices." There is some indication that record gasoline prices are pushing down demand. Recently gasoline supplies grew more than expected which has been attributed to a slide in demand. A recent CNN/Opinion Research poll found 31% of Americans cancelled or shortened 4th of July vacation plans. As of the writing of this article, we are seeing no abatement of the price at the pump.

CREDIT CRUNCH

Limits are being lowered on credit cards and home equity loans. The unintended consequence of this is that FICO and other credit scores, which are at least partially based on credit utilization rations, can go down. That can cause the interest rate to go up … convoluted but true.

THE HOUSING TAILSPIN

The most recent numbers put sales of existing houses on an annual pace of about $4.89 million. But the average price of existing homes dropped 6.3% in May to $208,600. In other words, it has been more than possible to sell a home, but not at last year's price.

Dennis Lockhart, President of the Federal Reserve Bank of Atlanta, stated that housing might finally be healing. "There are early and tentative signs that a bottom may be forming in some housing markets."

RISING UNEMPLOYMENT

For six straight months, employers cut jobs. The unemployment rate currently holds at 5.5%. Employers continue to be cautious when hiring, clearly reflecting concern about the overall economy and how long the housing and credit problems will persist. At the time of this writing, the economy is reported to have lost almost 440,000 jobs, averaging a loss of over 70,000 each month this year.

The Fed stated, "Labor markets have softened further." Many economists expect that the situation will continue to deteriorate with unemployment numbers hitting as high as 6% before this is over.

RISING INFLATION

The most recently published CPI numbers showed an increase of 0.8% in May before seasonal adjustment. The May 2008 level was 4.2% higher than May of 2007. Energy, transportation, and food had the highest year-over-year increases coming in at 17.4%, 8.1%, and 5.1% respectively.

A DECLINING DOLLAR

The euro is close to its high against the dollar. Currently, it will cost $1.5755 U.S. to purchase a euro. A Canadian loony cost $0.9825 U.S.…and so on and so on. The fact is the greenback has been in decline since 2002. The expectation is that currency weakness will translate into inflation. Americans already feel the impact a weak dollar has on the price of oil.

The silver lining to the declining dollar black cloud is that American exports are cheaper overseas. Paradoxically, if you look at the details of the GDP numbers, you would find that it is the strong export numbers that have kept the U.S. from sinking into a recession. It's been something of a shock absorber for the overall economy.

THE EROSION OF CONSUMER CONFIDENCE

May's Consumer Confidence Index not only declined but it showed the fifth lowest reading in its history. According to the conference board, consumers' outlook is so bleak that the Expectations Index has reached a new all-time low.

CONCLUSION

With so much bad news out there, it must be time to throw in the towel.

No economy or market has ever been this bad. Unemployment has never been this high. Inflation has never been this high. We have never seen a credit crunch before. The dollar has never fallen before. Housing has never declined before. We've never before experienced an oil price shock. NOT!

We are turning into a nation of cry babies. Our stock market hit an all time high in October of 2007 at the end of five consecutive years of stock market profits. So, it has been struggling for eight months. Is that really so unusual?

IN CLOSING, THINK ABOUT THIS:

- Does anyone remember unemployment at 6% or 7% or 8%? During the Great Depression 1 in 4 workers was unemployed!
- Anyone who bought a house in 1987 knows that it took about 10 years for their house to be worth what they paid for it.
- On a personal note, my husband and I bought our first house together in 1980 with a 13.25% mortgage, and we felt lucky to get such a low rate.

I subscribe to the Peter Drucker School of Management. He viewed every problem as an opportunity. The challenge is ferreting out just where that opportunity exists.

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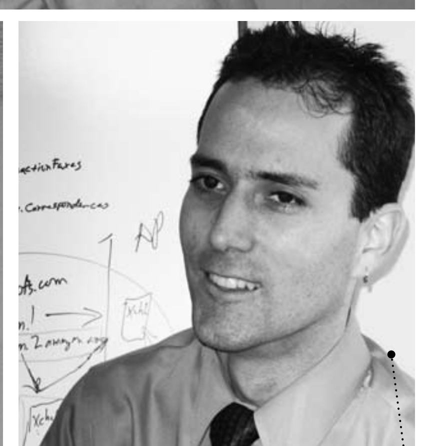
american outsources: up close

with robert dolber

chief technology officer, APH

Robert Dolber

Andrew Dorfman



John Rodriguez

FREE: **Hello Rob, thanks for sitting down with us. Why don't you give us a little back-ground about your prior work experience, when you started at AP and in what capacity?**
ROBERT DOLBER: After a successful 15-year career in defense electronics engineering and computer networking, I joined American Portfolios in July 2001 as Chief Technology Officer. With the wind-down of defense projects in the early 90s, I transferred my technical background toward the emerging information technology industry, landing a position as Systems Manager for Hearst Corporation's Business Media Unit. I was then promoted to Network Manager in 1997 and two years later to Director of Business Technology. In this role I oversaw and expanded the firm's technology platforms in support of the company's transition from traditional to new media publishing, fueled by the Internet. It was at Hearst that I gained the necessary experience in corporate IT management.

FREE: **As Chief Technology Officer, tell us what you and AO are responsible for at American Portfolios?**
RD: As CTO I am responsible for implementing the firm's technology platform, a blend of in-house developed and outsourced systems. From a strategic perspective, my role is to ensure a seamless view of the enterprise for AP's corporate stakeholders and business partners.

FREE: **Tell us about AO, your team and the support they provide.**
RD: AO was conceived as the primary technology platform provider for the B/D. AO's multidisciplinary service provider model borrows from the project management matrix strategy of large-scale defense projects whereby core disciplines are coordinated by a central project management authority. Presently five core disciplines have been established within the AO matrix:

- *Application Development:* The creation of back-office and internet-facing software applications such as STARS, the broker site, and BDMS.
- *Data Warehousing:* Data processes such as cleansing of client data and creation of business alerts for integration with the firm's applications.
- *Business Process Management:* Efficiently creating and aligning business processes with the needs and roles of the organization.
- *Configuration Management:* Detailed documenting of information that describes the enterprise's computer networks and applications.
- *Network Services:* Implementation and maintenance of a highly available and secure infrastructure to support the firm's technology platform.

Director of Software Engineering & Data Architecture, Andrew Dorfman deals with application development and data ware-housing, while Systems Analyst and Administrator, John Rodrigues does business process and configuration management and handles network services, both of which I direct and support him in.

FREE: **Talk about STARS, its development and what you see it becoming in future years.**
RD: With the highly anticipated deployment of the next generation STARS platform, AP will have firmly established its industry standard model for the establishment and surveillance of client transactional activity. With the STARS modular architecture, it is anticipated that a broad range of opportunities to integrate STARS modules within the financial services industry will emerge. Some other major projects presently underway and slated for delivery in 2008 are:

- Electronic account-opening process in STARS via web-services integration with DST.
- Transactional alerts, generated by a commercially licensed risk analytics engine, displayed in the STARS blotter.
- Migration to the next generation Stars platform with streamlined back-office processes built on top of a powerful incremental NAF archive.
- Virtualization of contingency servers to ensure high availability of the firm's business technology platform

Major projects being discussed for 2009 are:

- Straight-thru account-opening in STARS via web-services integration with clearing firms.
- Firm-level supervision in the STARS business processing module.
- Suppression of share-class conversion and roll-up of VA trades in the STARS transaction blotter.
- Expansion of the firm's disaster preparedness capability via infrastructure collocated at an offsite facility.

ANDREW DORFMAN
(SW Development & Data Warehousing)
Prior to joining American Portfolios in 2007 as Director of Software Engineering and Data Architecture, Andrew was a Senior VP of Data Warehousing and Information Management at Citigroup responsible for implementing a large-scale data warehouse. Prior to Citibank, Andrew worked for eight years at Hearst Business Media starting out as Manager of Software Development and in his last three years at Hearst as a Chief Architect where his responsibilities included developing processes and technology to enrich data for strategic business initiatives. Supporting Andrew's efforts at AO are two offsite teams of independent software and data developers which Andrew directs in accomplishing AO projects.

JOHN RODRIGUEZ:
(Business Process and Configuration Management)
Prior to joining American Portfolios in 2006 as Systems Analyst, John worked as Database Content Specialist for Delta Environmental Consultants in Jericho, N.Y., and prior to that as a Senior Customer Service Representative for Road Rescue Merrimac. John brings a wealth of technical experience in network administration, database design and programming. Apart from the basic network services support functions and management of an outside systems integration partner, John's role at AO is to work with B/D stakeholders to facilitate efficient technology-driven processes while documenting underlying system configurations.

In addition, talks are underway with a variety of potential clients interested in leveraging AO intellectual capital and proprietary busi-ness processes.

FREE: **What are some of the state-of-the art technologies that are being integrated into our systems to be used for future development?**
RD: As a progressive technology provider, AO was on the leading edge five years ago in jumping on .Net, Microsoft's vision for implementing services-oriented application architecture. While many companies were evaluating the feasibility of .Net, AO forged ahead in AP's STARS application and in the process, benefited from seamless integration with another significant .Net platform created by another company to provide integrated document services within STARS. Now with .Net 1.0 superseded by a more mature .Net 2.0, the significance of migrating STARS to .Net 2.0 in elevating STARS to the next level cannot be over-stated given that virtually all advanced .Net components are being implemented in the later versions of .Net.

FREE: **What measures does AO take to maintain and manage our growing technological infrastructure?**
RD: In addition to continuing AP's Services Oriented Architecture, the next major technology advance will be to consolidate AP's infrastructure by using server virtualization technology. With close to 30 production servers powering the firm's technology platform, up from the five original servers deployed back in July 2001, server virtualization will be a necessary component in ensuring the highest availability and manageability of the firm's infrastructure in the coming years.

FREE: **What are some common miscon-ceptions about AO?**
RD: Perhaps the biggest misconception is that AO is part of the B/D's IT department. While a traditional corporate IT structure has an internal "heavy-lifting" capability in the form of an internal Network Services Dept, the focus of AP's internal IT department is on client services supporting the independent brokers, whereas AO's focus is on supporting the B/D.

FREE: **How do you see AO growing in the next few years?**
RD: AO's growth will be determined by several factors. Clearly AO is presently joined at the hip with the B/D, therefore, as AP technology platform requirements continue, so will AO's involvement in delivering those requirements. As AP's platform matures, as is occurring with the firm's migration to the next generation version of STARS planned for Q4 of this year, opportunities are expected to emerge for AO to deliver AP intellectual capital and business processes to other financial services firms.

FREE: **Who in the field, if anyone, should be contacting your team?**
RD: As Technology provider for the B/D, carefully defined lines of communication have been established between AO and AP corporate stakeholders. Therefore, all technology inquiries from the field should be directed to the B/D's Technology department. headed up by Colin Ramroop. They can call Business Support Associate Amber Kane at ext. 197.

FREE: **Thanks for your time, Rob.**
RD: Thank you.

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state of the firm commentary from ceo lon t. dolber

I present you with the second quarter 2008 performance results for APFS. 2008 first quarter gross revenues and fees of $17,326,050 had a respectable increase of 10% from second quarter gross revenues and fees received in 2007 of $15,826,072. Despite the continued decline in business (as in the previous quarter) due to market downturns, this, in large part, was offset by increases from business received through new reps who affiliated with us earlier in the year. A historical analysis of the quarterly performance results shows that 2008 second quarter revenue figures were $7 million more than the total gross revenues received in the firm's first full year in business ($10.3 million in 2002), and approximately $853 thousand more in gross revenues received for all of 2003 ($16.4 million).

With the rise of market and economic concerns, I sense equally growing fears from the field regarding APFS plans to be acquired. I'd like to talk about this.

We continue to read stories in the trades about consolidations in the financial services industry, the most recent one being the Ladenburg Thalmann Acquisition of Triad Advisors. Triad has about 380 affiliated reps with approximately $9 billion in client assets. Independent broker/dealers are a very fragmented segment of the financial services industry and I expect we will continue to see more merger and acquisition activity in the future.

In any given month I receive two to three calls from investment bankers, brokers, and consulting firms that want to acquire American Portfolios. The last call I received went like this:

"Hello Mr. Dolber. We want to buy your firm. Your firm is the perfect fit for us. We want to act quickly. When can we meet to discuss this tremendous opportunity further?"

I ask the caller, "What do you really know about American Portfolios? Are you familiar with our culture and our systems? Can you tell me about our firm's mission statement?"

After a period of awkward silence I ask, "Can you tell me a little bit about your firm? For example, do you have a mission statement?"

More silence.

"Hello Mr. Dolber. We want to buy your firm. Your firm is the perfect fit for us."

I imagine I will be receiving more calls from potential acquirers who want to purchase our firm who, like the previous callers, will know very little about our systems, employees, customers or our culture. I wonder how interested they would be in American Portfolios if they understood our mission statement — the fact that we put shareholder value behind community service, service to our affiliated colleagues, and the welfare of our employees.

Whatever happened to building great firms that were made to last? What about responsibility to the communities we work in? And should we forget about building companies designed to serve our customers in an environment of optimum service excellence? I have always maintained my commitment to build a great firm and sharing that value with not only our shareholders but also the employees and the financial service professionals we serve. I am confident we can achieve all of our objectives and maintain our culture as long as we are diligent, careful, and patient.

For now we will continue to focus on developing our technology, systems, and communications in an effort to provide the best possible independent broker/dealer platform and culture in our industry. We will pursue a caourse to expand the staff, carefully maintaining a prudent staff to rep ratio. We will continue to emphasize to the staff the importance of service and striving for excellence in all they do.

While our business is complicated, accountability is not. There are no shades of grey when it comes to customer service and corporate ethics. As long as we stick to our knitting and pursue our mission statement diligently, shareholder value is a given. To sell or not to sell? To serve or not to serve; that is really the question.

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THE AMERICAN PORTFOLIOS MISSION STATEMENT

American Portfolios' first responsibility is to its valued employees, the men and women working for us, who provide the highest level of service to our customers, the financial service professionals. APFS is committed to providing a clean, safe, and orderly workplace where employees are treated with respect and dignity and are recognized for the unique and special qualities they bring to their job. American Portfolios encourages equal opportunities in employment, development, and advancement. Employees should feel secure in their positions knowing they will be compensated fairly and adequately and be free to offer suggestions or bring forth concerns.

American Portfolios must provide the highest level of service and support to the Financial Service Professionals, their staff, clients, and all others who use our services. We must strive to reduce expenses and provide services that exceed the expectations of our customers. We will meet these needs with the highest level of quality, as we are dedicated to setting the standard of service excellence that our industry will aspire to.

American Portfolios must foster positive social and environmental change in the communities in which we live and work as well as to the global communities at large. We must be good citizens, supporting good works and honest charities. We must encourage civic improvements, better health, and education. We must maintain in good order the property we are privileged to use by protecting the environment and its natural resources. This is paramount for future generations to come.

Shareholder value, our commitment to stockholders, is our final responsibility. Business must make a sound profit. Therefore, we must strive to achieve a balance between the fiscal, social, and environmental responsibilities of our firm. We must experiment with new ideas and develop new technologies in an effort to stay ahead of the competition and to create reserves in anticipation of adverse times. It is our belief that when we operate according to these principles, shareholders will realize a fair return.

2008 Quarterly Review
April 1st – June 30, 2008

Presented on pages 34 through 39 is the second quarter 2008 review for American Portfolios. This review has also been posted to the APFS broker website in Rep Services.

Corporate Overview

American Portfolios has 56 full time employees supporting 509 registered representatives, which includes 41 registered assistants and 21 registered employees as of 06/30/2008.

Financial Overview:

Second quarter gross commissions and fees of $17.3 million were significantly higher then the second quarter of 2007, a 10% increase of $1.5 million from $15.8 million. Gross revenues for the firm have increased more than tenfold since the fourth quarter of 2001 ($1.6 million in 4Q 2001 to $17.3 million in 2Q 2008). In an across-the-board analysis of products and services offered through American Portfolios, life insurance and managed accounts received the highest percent increase in gross commission of 73% and 37% respectively, (Table 1). By the end of the second quarter of 2008, assets under management grew 11%, $9.2 billion from $8.3 billion in the second quarter of 2007 (Table 2).

Fig. 1 **gross commission and fee revenue**

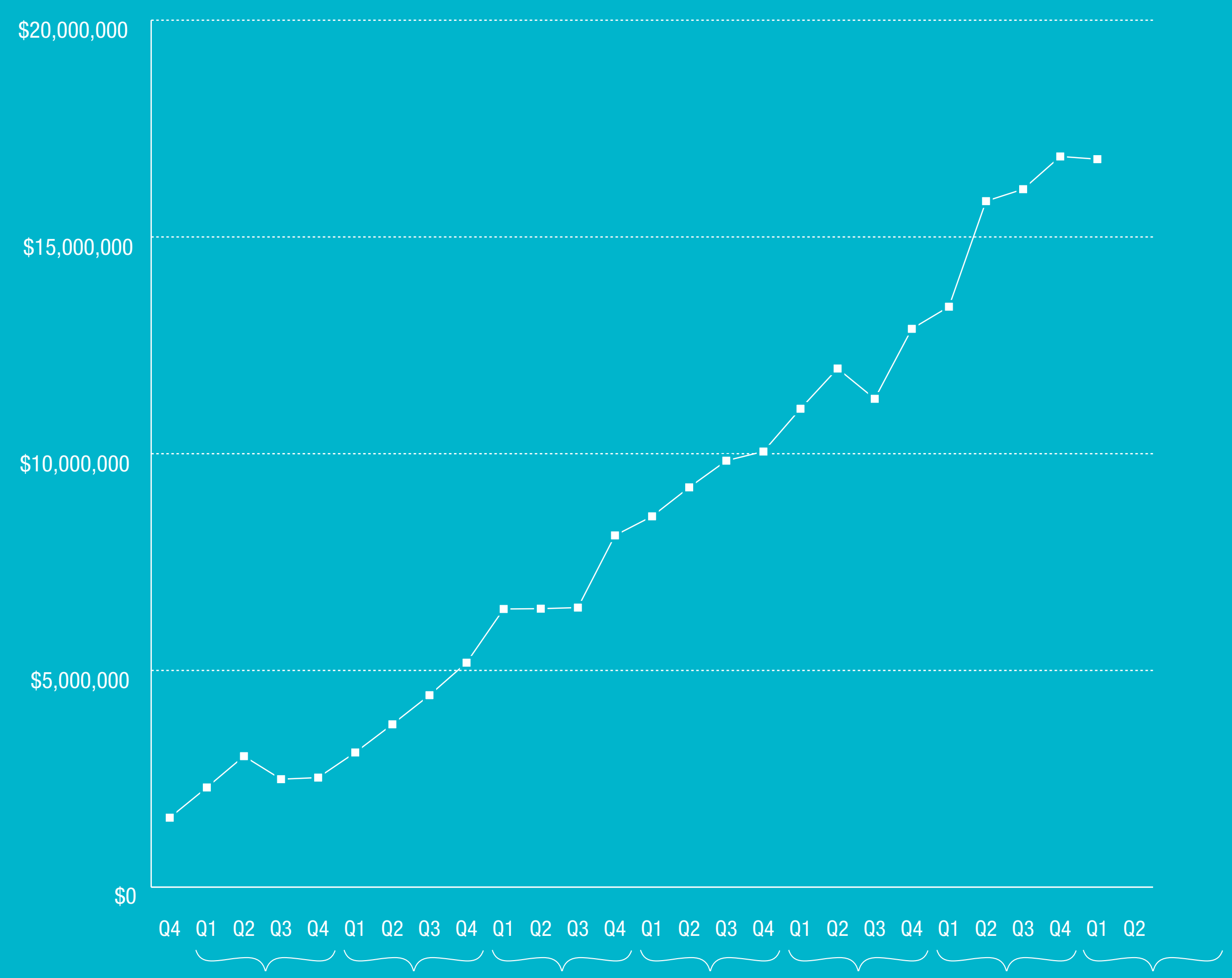


Table 1

gross commission and fee overview

Quarter	Mutual Funds	12B-1 Fees	Variable Annuities	Fixed Annuities	Life Insurance	Managed Accounts	General Securities	Alternative Investments
2001 4Q	$377,677	$337,396	$327,855	$483	$16,140	$ 0	$463,096	N/A
2002 1Q	$550,413	$389,682	$697,756	$28,245	$24,979	$32,406	$502,945	N/A
2002 2Q	**$697,511**	**$500,594**	**$894,388**	**$14,003**	**$16,144**	**$89,201**	**$681,635**	**N/A**
2002 3Q	$446,671	$480,835	$608,129	$90,130	$54,978	$66,546	$602,265	$10,500
2002 4Q	$504,510	$473,900	$514,489	$78,876	$41,808	$66,739	$667,726	$10,500
2003 1Q	$738,065	$465,601	$944,138	$111,164	$51,006	$90,852	$414,066	$42,740
2003 2Q	**$890,264**	**$590,360**	**$902,892**	**$48,075**	**$186,158**	**$99,223**	**$747,131**	**$48,788**
2003 3Q	$932,171	$745,759	$1,171,706	$107,766	$88,621	$126,321	857,482	$44,554
2003 4Q	$1,052,379	$891,779	$1,469,274	$185,860	$88,509	$250,466	$850,436	$73,784
2004 1Q	$1,392,634	$1,114,582	$1,961,656	$65,424	$75,229	$269,938	$1,090,539	$28,549
2004 2Q	**$1,219,564**	**$1,207,981**	**$2,021,864**	**$38,002**	**$157,260**	**$433,380**	**$905,050**	**$118,893**
2004 3Q	$1,219,144	$1,296,661	$1,833,477	$36,692	$163,314	$521,670	$823,100	$147,785
2004 4Q	$1,481,154	$1,486,261	$2,414,798	$29,594	$215,654	$583,219	$1,474,892	$43,848
2005 1Q	$1,824,456	$1,576,125	$2,453,958	$81,319	$144,146	$704,188	$1,298,549	$39,431
2005 2Q	**$1,764,832**	**$1,649,075**	**$2,763,990**	**$90,674**	**$243,589**	**$790,887**	**$1,310,025**	**$87,983**
2005 3Q	$1,594,608	$1,862,325	$2,791,314	$35,528	$235,170	$910,537	$1,658,235	$56,358
2005 4Q	$1,822,784	$2,025,972	$2,719,060	$102,760	$201,046	$1,125,763	$1,401,672	$25,772
2006 1Q	$2,168,221	$2,264,472	$2,946,526	$ 89,373	$162,797	$1,233,534	$1,743,557	$12,403
2006 2Q	**$2,235,356**	**$2,547,285**	**$3,277,267**	**$84,973**	**$348,799**	**$1,463,952**	**$1,592,118**	**$91,368**
2006 3Q	$1,586,985	$2,688,432	$2,902,267	$47,216	$291,917	$1,585,138	$1,392,330	$107,219
2006 4Q	$1,805,784	$2,762,047	$3,687,567	$64,962	$440,852	$1,764,368	$1,566,537	$265,725
2007 1Q	$2,228,559	$2,924,400	$3,713,477	$21,970	$322,265	$1,862,473	$1,647,707	$183,430
2007 2Q	**$2,548,211**	**$3,110,878**	**$4,225,425**	**$153,306**	**$394,174**	**$2,263,331**	**$1,775,617**	**$520,311**
2007 3Q	$2,237,248	$3,479,640	$4,517,128	$120,463	$412,929	$2,560,301	$1,932,932	280,375
2007 4Q	$2,241,822	$3,458,638	$4,999,588	$170,699	$373,518	$2,826,110	$1,744,203	$437,141
2008 1Q	$2,315,571	$3,471,954	$4,360,367	$145,745	$736,771	$3,040,161	$1,814,538	$272,025
2008 2Q	**$2,241,371**	**$3,457,992**	**$4,981,427**	**$169,016**	**$681,404**	**$3,103,679**	**$1,511,312**	**$445,075**
Change from Q2 2007	-12%	+11%	+18%	+16%	+73%	+37%	-17%	-15%

TOP 5

Fund Families by Commissions For The First Quarter of 2008:

1 American Funds
$ 1,728,545

2 Oppenheimer Funds
$ 1,406,219

3 Franklin-Templeton Funds
$ 513,743

4 Eaton Vance Funds
$ 211,795

5 Fidelity Funds
$ 201,061

Variable Annuity Vendors by Commissions For The First Quarter of 2008:

1 American Skandia
$ 831,495

2 Jackson National
$ 673,049

3 Nationwide
$ 616,103

4 John Hancock
$ 495,329

5 ING
$ 407,565

Top Five Vendors by Assets Under Management as of March 31, 2008:

1 American Funds
$1,397,010,702

2 OppenheimerFunds
$1,035,495,210

3 Franklin Templeton Funds
$ 477,175,913

4 Nationwide VA
$ 304,972,330

5 American Skandia VA
$ 245,590,596

Table 2

assets with american portfolios

Quarter Ending	Clearing Firm Assets	Assets Held Directly	Total Assets	Increase Over Last Quarter
09/11/2001	**$407,939,561**	**$824,718,413**	**$1,232,657,974**	
2003 2Q	**$922,936,847**	**$1,212,135,975**	**$2,135,035,662**	
2003 3Q	$1,039,499,742	$1,377,732,480	$2,417,232,222	
2003 4Q	$1,464,631,538	$1,701,665,682	$3,166,297,221	
2004 1Q	$1,379,050,247	$1,915,885,560	$3,294,935,807	
2004 2Q	**$1,529,313,892**	**$2,005,769,082**	**$3,535,082,974**	
2004 3Q	$1,621,558,602	$2,266,246,669	$3,887,805,271	
2004 4Q	$1,793,608,828	$2,525,624,801	$4,319,233,629	
2005 1Q	$2,072,980,621	$2,59 9,152,578	$4,672,133,199	
2005 2Q	**$2,087,549,824**	**$2,714,366,636**	**$4,801,916,500**	
2005 3Q	$2,283,338,949	$3,001,917,860	$5,285,256,809	
2005 4Q	$2,423,074,182	$3,201,420,077	$5,624,494,259	
2006 1Q	$2,707,615,433	$3,484,538,873	$6,192,154,306	
2006 2Q	**$3,119,371,820**	**$3,471,519,408**	**$6,590,891,228**	
2006 3Q	$3,274,773,125	$3,627,859,456	$6,902,632,452	
2006 4Q	$3,477,988,173	$3,809,967,199	$7,287,955,372	
2007 1Q	$3,686,918,635	$4,128,268,176	$7,815,186,811	
2007 2Q	**$3,873,325,137**	**$4,475,309,135**	**$8,348,634,272**	
2007 3Q	$4,200,417,192	$4,836,172,531	$9,036,589,723	
2007 4Q	$4,428,919,887	$5,080,882,861	$9,509,802,748	
2008 1Q	$4,450,873,800	$4,673,183,354	$9,124,057,154	
2008 2Q	**$4,506,944,841**	**$4,753,584,991**	**$9,260,529,832**	
+/- over 2007 2Q	**+16%**	**+6%**	**+11%**	

recruiting and marketing overview

The firm continues to attract new colleagues. Calls from prospective candidates are a regular occurrence for the new business development area. As of 06/30/2008 the broker/dealer had 509 registered representatives, which included 41 registered assistants and 21 registered employees working from 74 Offices of Supervisory Jurisdiction as well as 252 Branch Office locations. 21 new associates affiliated with the firm in the second quarter of 2008. As of 06/30/2007, there were 447 producing registered representatives at the firm.

Table 3

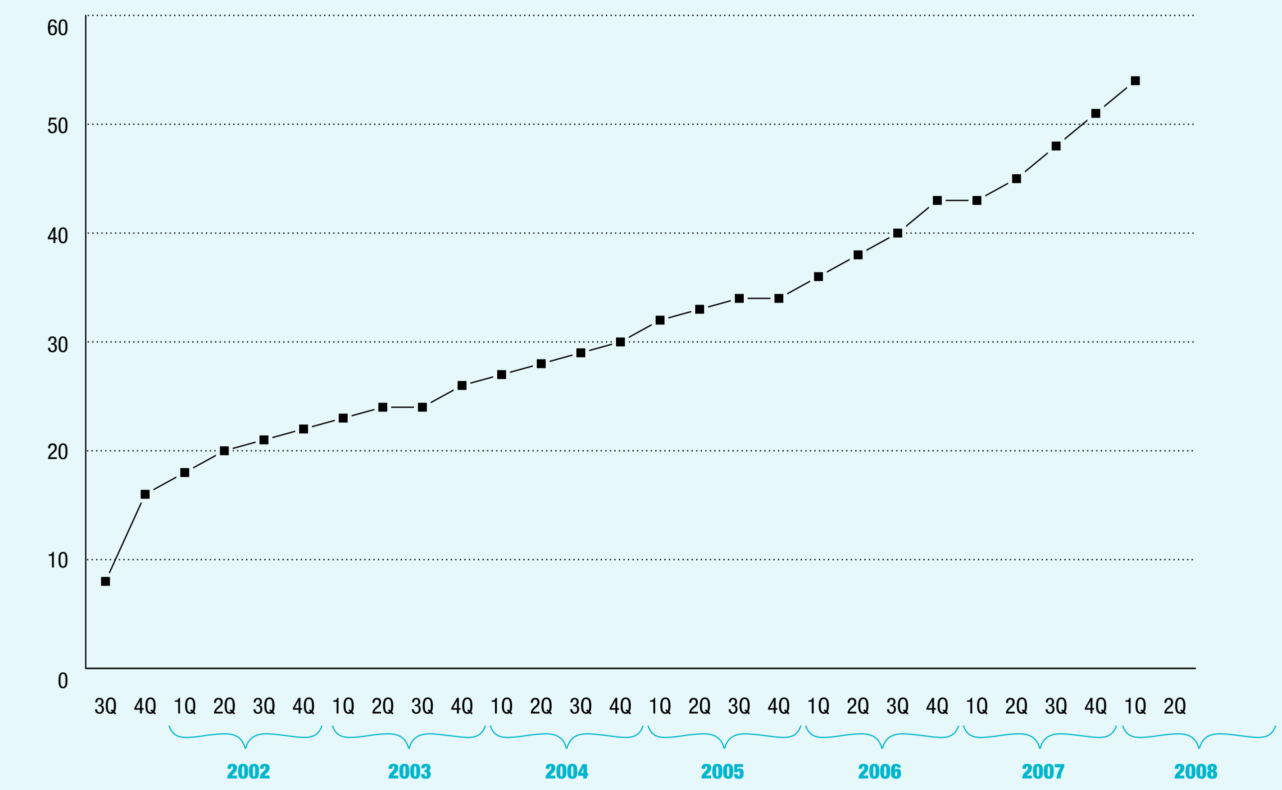
representative overview 9/10/2001 – 06/30/2008

A total of 597 new representatives have joined the firm and 322 representatives have been encouraged to leave the firm between 9/10/2001 – 06/30/2008. During the same period of time, quarterly revenues have increased by $15,722,961 (Q1 2002 $1,603,089 – Q2 2008 $17,326,050).

First Name	Last Name	City	State	Supervising Principal	Start Date	Status
Kirk	Henderson	Palm Beach Gardens	FL	Richard Gerepka	4/11/2008	Rep
Stephen	Roehrig	Rochester	NY	Robert Bartolotta	4/15/2008	Rep
Carl	Kirchner	Holbrook	NY	Lon Dolber	4/18/2008	Rep
Tyge	Tuccillo	Venice	FL	Richard Gerepka	4/22/2008	Rep
Dennis	Makarewicz	Venice	FL	Richard Gerepka	4/29/2008	Rep
Ira	Kerker	Palm City	FL	Kenneth Hauck	5/1/2008	Rep
Robert	Vanderpool	Tarpon Springs	FL	Richard Gerepka	5/2/2008	Rep
Gary	DeFillippo	Brick	NJ	Russell Clark	5/12/2008	Rep
Shelly	Christian	Fort Wayne	IN	Frank Tauches	5/19/2008	Rep
Dennis	Miller	Fort Wayne	IN	Shelly Christian	5/20/2008	Rep
Alan	Kirschenbaum	Delray Beach	FL	Robert Toth	5/22/2008	Rep
Robert	Toth	Delray Beach	FL	Richard Gerepka	5/23/2008	Rep
Anthony	Sabatello	Port Jefferson	NY	Brian Farkas	5/23/2008	Rep
Casey	Pease	Covina	CA	Russell Clark	5/29/2008	Rep
Timothy	Tremmel	Cleveland	OH	Michael Lytle	6/12/2008	Assistant
Gerald	Sanford	Franklin	TN	Kenneth Hauck	6/12/2008	Rep
Stuart	Simchowitz	White Plains	NY	Edward Levine	6/16/2008	Rep
Wendy	Haworth-Smith	Novi	MI	Michael Lytle	6/17/2008	Assistant
Kevin	Olvaney	Indianapolis	IN	Thomas Perry	6/18/2008	Rep
Gerard	Samoleski	Delray Beach	FL	Robert Toth	6/23/2008	Rep
Connor	Morganti	Wyomissing	PA	Jeff Kelly	06/22008	Rep

Fig. 2

employee growth



American Portfolios would like to extend a special thanks to its focus partners for their service and support throughout the year.

AssetMark | AXA EQUITABLE | Allianz Global Investors | American Funds

Brinker Capital | Franklin Templeton Investments (Franklin • Templeton • Mutual Series) | Genworth Financial | Jackson National Life Insurance Company

John Hancock (the future is yours) | Legend Advisory Corporation | Nationwide On Your Side (Investments Retirement Insurance) | Integrity Life Insurance Company

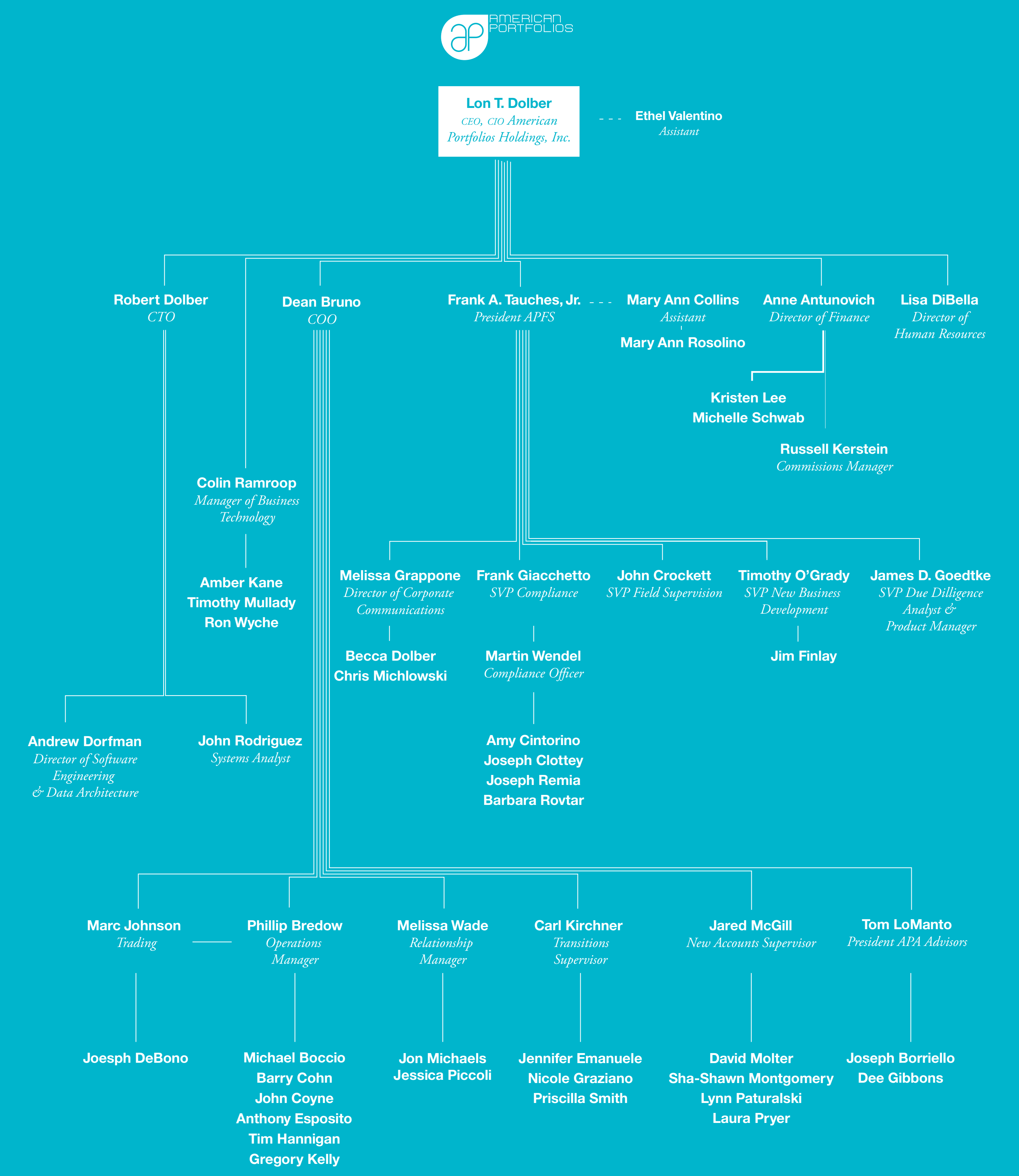
OppenheimerFunds (The Right Way to Invest) | OFI Private Investments (The Right Way to Invest) | ValueWorks: redefining wealth management | MetLife

Invesco Aim | TD Ameritrade | Prudential | Penn Mutual (A better way of life)

Putnam Investments | Wells Real Estate Funds (Your future … Our passion) | Behringer Harvard | DBSI Securities

Pacific Life | Crump Life Insurance Services | Cornerstone Real Estate Funds | U.S. Energy Development Corporation (Est. 1980)

Pershing (An affiliate of The Bank of New York) | ATEL Capital Group | IMH Secured Loan Fund, LLC | Bear, Stearns Securities, Corp.

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