FREE

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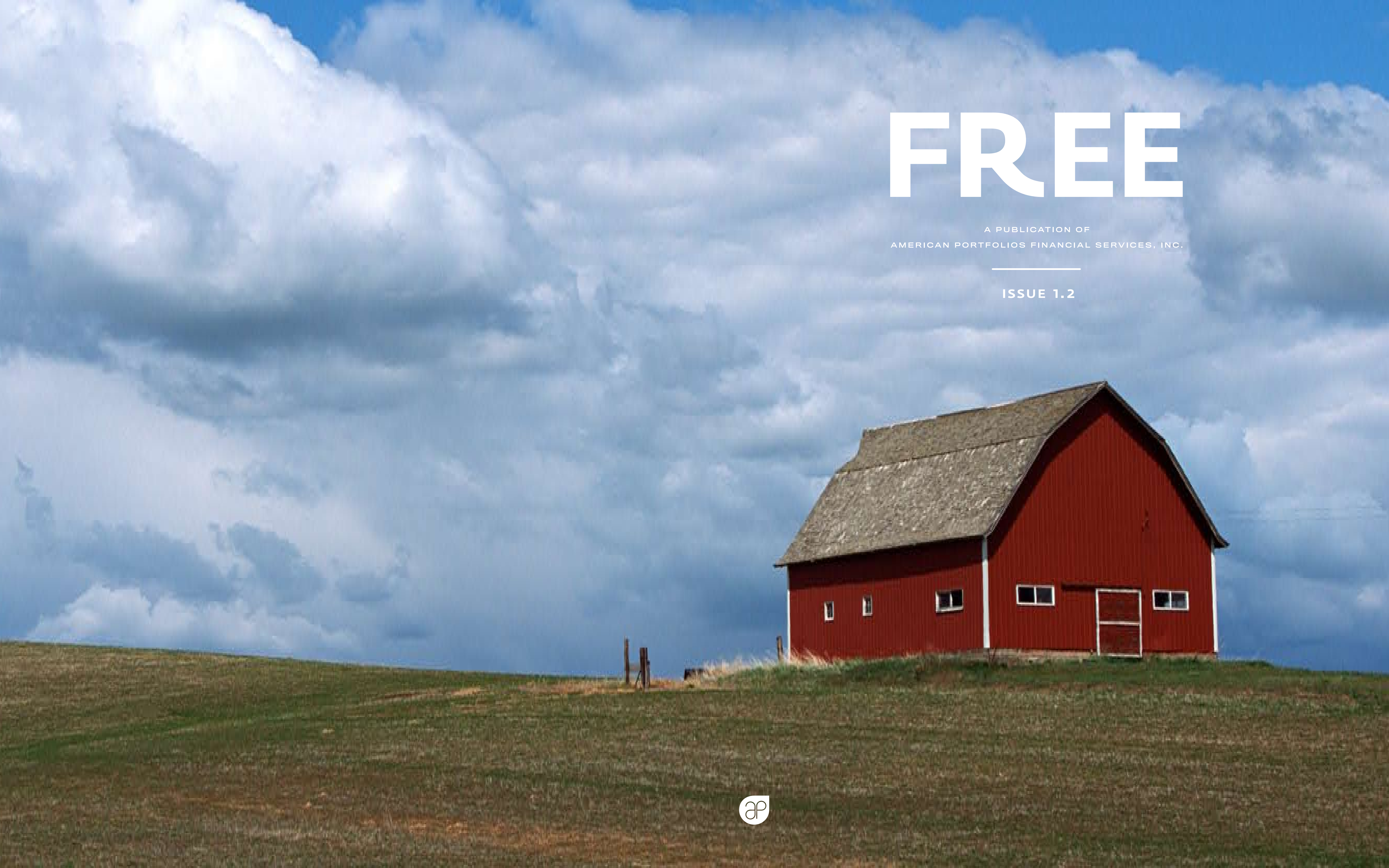


contents

from the editor-in-chief

Dear Affiliated Professionals:

I trust by now your *FREE* binder with the first edition of the magazine is prominently displayed on your bookshelf or coffee table awaiting the arrival of a second insertion of more engaging stories about you, your practices and how to make both better. Your contributions of time and content are so very much appreciated and are the heart of this publication. We will be reaching out to more of you and welcome your unsolicited suggestions for stories on important subject matters relating to our business.

One such subject matter has affiliated APFS rep and AP advisor Beth Eldridge of Houston, TX, sharing her experiences and insights on custodian, TD Ameritrade, as her solution for running a more efficient advisory practice (Pg. 4). As you know, the advisory business has become the fastest growing component of AP's business, and *Investment Advisor Magazine* confirmed this on an industry-wide scale in a survey they conducted earlier in the year, as APFS was ranked as the #1 fastest growing fee partner in the country (Pg. 16).

The enormous growth achieved by AP Advisors is a perpetuation of the successes American Portfolios has experienced in years past. American Portfolios has a great story to tell, and who better to tell it than someone who witnessed its birth and had a hand in shaping it right from day one. Longest running APFS rep and colleague Gary Grappone (and yes, husband of 22 years) sat down with *FREE* to talk about APFS in pre, present and post B/D terms (Pg. 6).

On the opposite side of the spectrum while not the most recently affiliated colleague to join APFS but certainly considered one of our newcomers, Managing Editor Becca Dolber and I had the rare pleasure to visit affiliated colleague and wealth manager, Andy Kaiser at his office located in Atlantic Highlands, NJ. The grounds - a sprawling, twelve acre charming country farm - are also home to the Mountain Hill School, a private pre-school and kindergarten which both he and his wife own and run. A commuting, top producing broker for one of the major wire houses on Wall Street prior to joining APFS, Andy – this issue's featured rep - sets the perfect example of how independence can increase the quality of one's life both professionally and personally (Pg. 10).

This second edition of *FREE*, which reports on events during the late spring and early summer months, features both Managing Director Stephen Molyneaux in his economic and marketing commentary (Pg 19) and CEO Lon T. Dolber in his state-of-the-firm commentary (Pg. 24) reflecting on the year's progress with cautious optimism. This time of year, however, did not stop the athletic exploits of several APFS colleagues from putting their muscles to work to benefit a number of charitable causes. (See photo essay on Pg. 14-15.)

Finally, with your invitations in hand accompanied by a complimentary CD recording of The Beatles' "Come Together" performed by the jazz ensemble featured in the 2006 AP Holdings Annual Review, we have set the tone and theme for the fast approaching APFS National Conference less than two months away. COO Dean Bruno touches upon highlights of the conference scheduled for October 10th through the 12th, as well as our change of venue from Long Island's Hyatt Regency Wind Watch to the Marriott Seaview Resort and Spa on the southern coast of New Jersey, right outside Atlantic City (Pg. 17). I look forward to seeing all of you there, and if you have not done so yet, encourage you to register right away at:
www.americanportfolios.com/events
passcode: dialogue.

Enjoy both the remainder of your summer and the Labor Day holiday.

Sincerely,

Melissa Grappone
Editor-In-Chief & APFS Corporate Communications Director
Holbrook, NY
t: 800.889.3914 ext. 108
mgrappone@americanportfolios.com

employee of the quarter: melissa wade

CONGRATULATIONS TO RELATIONSHIP MANAGER Melissa Wade for receiving the Employee of the Quarter award for the second quarter of 2007. With her promotion earlier this month, this marks Melissa's second acknowledgement from APFS management since joining the firm early last year.

A 2006 graduate of St. John's University, Melissa came to American Portfolios right out of college with a degree in Business Administration. Directly reporting to COO Dean Bruno, Melissa serves as a key point person to field many of the incoming calls from vendors, focus partners and the rep/manager force. Melissa also maintains the selling agreement files for all products offered through the broker/dealer. She is the coordinator for any in-house training sessions, teleconferences and webex demonstrations for affiliating and prospective new reps. Melissa also assists with the collection of content for the weekly electronic newsletter, *The Independent*.

When asked about the past year, Melissa says it's been a whirlwind. "When I came to APFS, I was ready to start mentally, but really knowing this job is another story. I had a lot of learning to do." But as evidenced by this recent honor, Melissa has learned more than her share. "When Janell Sullivan left, I had the opportunity to step up. The employee of the quarter award has always been something I wanted, but I needed to be patient and work for it. I needed to earn it."

And, according to CEO Lon Dolber, that's exactly what Melissa did. "Melissa didn't just come to American Portfolios to work 9-5; she came here with a plan. She's always been thinking to the future and setting goals for herself. That's just the kind of person she is."

Her manager, Dean Bruno, agrees and had these encouraging words. "In the last eleven months since Melissa started working here, she has done a tremendous job in supporting all aspects of the B/D and has become a real asset to our organization. She is diligent in her work and grasps any task presented to her. Melissa is truly deserving of this award."

So what's the future hold for Melissa Wade? "I want to grow with the company. Really, I want Lon's job!" With the speed at which Melissa is accelerating at the firm, perhaps that goal is not so out of reach. Lon, keep your head up. Congratulations to Melissa Wade, Employee of the Quarter.

Melissa Wade, Holbrook, NY
t: 800.889.3914 ext. 117
mwade@americanportfolios.com

events: softball

WHILE THE SECOND QUARTER MARKED EXCITING GROWTH FOR THE company, it also inaugurated the tradition of APFS company softball. Employees, reps and friends of the firm gather every few weeks, split into teams and run through an intense seven innings. While a fair amount of heckling and name calling takes place from home plate to the outfield, the competition is always friendly and fun and concludes with food and drinks at the restaurant down the street. If you're ever in the area and want to participate in the festivities, you have an open invitation to play.

ef•fi•cien•cy

Beth Eldridge
Houston, TX.
t: 713-686-1400
beldridge@americanportfolios.com

view from the field:

By Affiliated Colleague, Beth Eldridge

ef·fi·cien·cy -[i-fish-uh n-see] –noun, plural -cies.
1. the state or quality of being efficient; competency in performance.
2. accomplishment of or ability to accomplish a job with a minimum expenditure of time and effort: The assembly line increased the industry's efficiency.
3. the ratio of the work done or energy developed by a machine, engine, etc., to the energy supplied to it, usually expressed as a percentage.

BE MORE EFFICIENT.

It's a mantra in our business, isn't it? How do we squeeze as much time out of the day and save time for ourselves while researching our ideas and insuring we are doing what's in the best interest of our clients?

The dictionary says efficiency is the "accomplishment of or ability to accomplish a job with a minimum expenditure of time and effort." I would like to tell you a little bit about my business and how a move to a different platform has helped my efficiency.

I like to say I am producing a play and my client is the star character. It's entitled, "This is Your Life," and I help direct it. The script originates from the financial plan, and the play is the implementation of the ideas generated from that plan.

The client and I work with Money Guide Pro. To present the results, I meet with my clients in the conference room where I can project the plan on the wall. First, I go through the plan using the facts they have given me. Then, in front of them, I change assumptions and massage the numbers. I make sure that one of the scenarios "breaks" the plan. I change the inflation assumption, the returns, or increase or decrease their contributions to retirement plans at work. But I try to change just one and show how the plan can fail. My client understands that the plan can be fragile and any number of unexpected events can change what seems to be a perfectly constructed plan.

Once the client agrees to allow me to work with them, I manage the portfolio for them. I like to say I manage money for people that don't have the time or desire to do it for themselves. Ninety percent of my business is handled as fee-based business using stocks, bonds and mutual funds. I personally com-pile the quarterly reports using Portfolio Center (formerly Centerpiece).

Although each portfolio is similar, they are not identical. But, when I buy or sell a position, I do so in most portfolios. This creates many transactions and many ticket charges.

For nine years, I have been managing my clients' portfolios through Bear Stearns, which has represented roughly 20% of my business expenses because of ticket charges. When TD Ameritrade was approved as a platform for Investment Advisor Representatives affiliated with American Portfolios Advisors, Inc., that I took a long hard look at it and came to the conclusion that I needed to move my fee-based business to the TD platform. These are factors that led to this decision:

TD's ticket charge is $9.95 regardless of size.
Whether you are trading $500,000 worth of a security or $500, the ticket charge is constant. The advisor can also decide whether the ticket charge is to be borne by the client or the advisor. That decision is made at the time the account is opened and designated by the account number range.

While mutual fund ticket charges are higher ($24) TD offers many funds that have no transaction fee attached.
Personally I try to buy funds without the transaction fee, but first and foremost I select the best fund for the client based on the circumstances surrounding them. As an example, most American Funds are offered with no transaction fee, along with Oppenheimer, Davis Funds and Federated. A list is easily accessible on the website.

TD has the feel of a small company.
When calling your sales team regarding a problem with an account, for example, you will be given a reference number for follow-up. The reference number means the issue is in their computer, so any other sales rep can help you when you call back. I find my requests don't all of a sudden disappear using this method. I was very pleased with a sales person who called me back to tell me the issue was resolved. One of my clients made an overpayment into a retirement account and wanted to move part of the contribution to the next year. You would think trouble, right? TD took the instructions on the phone, and I was done with it!

TD's block order entry is very effective.
Since I place so many orders, I am able to buy or sell a security quite quickly with just a few clicks of the mouse. Otherwise, I would be writing a ticket for each transaction for each account. This method saves me hours of time. One great feature is that I can buy/sell a percentage of a position for all accounts, or buy a percentage of the total account value or a percentage of the money market. If I want to buy a 5% position of Google in all accounts, the program will figure the number of shares to buy for me. If after I buy the 5% position I want to trim it later because the price has skyrocketed, I can sell a third of the position just as easily. As much as I try to have the same percentage of a position in each account, it doesn't seem to ever happen. So, you are given an opportunity to change the allocation before submitting it.

TD has a great portfolio rebalancing feature.
The advisor is able to pick an account and overlay it against a model or an asset allocation. The models are created by you! The program will figure how much to buy or sell of a position to match the model. This program is a little cumbersome to use but can be very effective with patience. Improvements are coming. Rebalancing is available for an individual account or a household.

TD offers other free services.
There is limited Goldman Sachs and Argus Research. There is also limited mutual fund research through Morningstar. TD has just announced an agreement with TheStreet.com, but as of this writing it has not become available.

Transferring accounts to the TD platform is not difficult.
Should you decide to move accounts to TD Ameritrade you will have questions about paperwork and timing. TD does not require much duplicate paperwork. Their applications are two pages with very little information required. If you have completed an APFS NAF, then you have more than enough information to complete the new account form with TD. They also have a nifty form that, if the client signs, they will not receive proxies. My clients are always complaining about the amount of mail they receive. Not receiving the heavy and complicated proxies will help. Still, the mailboxes will not be empty.

No platform is perfect.
TD does not show cost basis on the monthly statements or for the advisor behind the scenes. If there is no cost basis, there is no performance reporting. However, Albridge will bring in TD's information as it does with Bear Stearns and Pershing. In addition, you can subscribe to Advent Software with a TD discount to overcome this hurdle. But TD management promises cost basis will be available within the year. In the meantime, you will have to keep track of your own cost basis, and my guess is that once that feature is available, it will require a lot of manual entry in the beginning.

Recently, the June 18th edition of *Investment News* had a front page story about TD Ameritrade and the problems with hold times for sales staff and technical assistance. These inconveniences are a recent development and have taken place as a result of the formal combination of TD Waterhouse and Ameritrade just weeks ago. The old TD employees would fix problems while you were on the phone, but now there are less experienced sales personnel that cannot. I suspect this issue will be resolved.

In summary, I watched Bear Stearns move from an institutional house to a combination institutional/retail firm. Their online systems provide search capabilities, cost basis at a glance, tax information and a slew of other important day-to-day helpful reports. Bottom line, I could not find a way to decrease my ticket charges. While I do still have some fee-based business with Bear Stearns as well as all my commission based business, ticket charges were the key factor prompting me to move most of my fee-based business to TD Ameritrade.

TD Ameritrade has been a wonderful move for me, but no platform works for everyone, so do your homework.

GG

Gary Grappone

Photographs by Andrea L. Parker

His fellow colleagues affectionately refer him to him as the "Utility Man." Beyond that, investment professional Gary Grappone is a company legend as the longest running rep at APFS.

Q & A

FREE: **Is it true that you are the first and the longest running rep at APFS?**
GARY GRAPPONE: Aside from Lon, I guess I am. It was Lon, Ethel Valentino and I who started the office at Orville Drive back in 1991.

FREE: **How did you meet Lon?**
GG: I met him in 1982 when Steve Ziniti brought me to First Investors. He was one of the reps in the office, and I just naturally gravitated towards him. We hit it off.

FREE: **What was it like back then?**
GG: We'd kid around and have a lot of fun. Lon would turn off the lights while I was on the phone with a stranger, a potential client, and I'd be in the dark trying to write information down. We all worked hard, though, and Lon was one of the big producers in the office, probably the top producer. I learned a lot from him about the business. All those guys, Steve Ziniti, Denis Murphy, Ron Bergmann - they were very supportive. With the exception of Ron, all their fathers were in the business. But all of them had this base of knowledge I didn't have. They had a wealth of information, leads and networking and they were all willing to share. That's how I got started with my personal connections.

FREE: **Why did you inevitably leave First Investors?**
GG: We just outgrew them. We were more independent minded. They wanted us to push their products, but we wanted to expand and use products that benefited our clients. We didn't want to be associated with a company that had their own funds. We wanted to be totally free.

FREE: **So that's when you decided to transition?**
GG: Yes. It's weird because the firm we went to, MFI Investments, was a small, Ohio based company. But at the time, we felt it made sense to go there because of their clearing relationship with well-known Wall Street firm, Bear Stearns, and their independent B/D business model. We stayed there for about four years before affiliating with Nathan and Lewis. They were a top independent B/D firm at that time, and they agreed to add Bear Stearns as a clearing firm in order to get us to affiliate. By that time, Lon, who partnered up with OSJ Manager, Russell Clark at MFI had grown their combined complexes to over 200 reps when we moved over to Nathan and Lewis. They offered us better back-office services, they were in NYC and it was more of a hands-on feeling – much more professional. Not to mention, a lot of our friends from First Investors went to Nathan and Lewis originally, so we were back with old colleagues again.

FREE: **What did you think when Lon told you he was going to start his own B/D?**
GG: Well, in the mid 90s it became more apparent than ever that in order to have more control, we had to have our own broker/dealer. Lon's a visionary. He probably had this idea since the MFI days but wanted to gain experience and learn more before he told anyone. I think he was just waiting for the right time. The plan was hatched while we were with Nathan and Lewis and by 2001 was ready to be implemented. APFS literally opened its doors on September 10, 2001 – a legendary date. Opening a broker/dealer on 9/11 was incredible. The whole thought of going into business on that day is an amazing coincidence and, for obvious reasons, a little scary. The financial markets plummeted. It was a horrible week, a terrible event.

FREE: **So what were your concerns at the time?**
GG: It's scary opening a business. The markets were already doing poorly - going through their cycle - and we were heading into a recession. We were in a patch of financial insecurity. The timing wasn't great, but we knew sooner or later things would turn around. APFS has been very supportive. And a big part of this is about Lon. People want to be where Lon is going. He's the type of man that inspires a certain confidence.

FREE: **Is it true you are responsible for the name American Portfolios? How did that come about?**
GG: I remember when we were starting to think about becoming our own broker/dealer. We were throwing around names, and we wanted something that would be patriotic without being overly saccharine – something solid sounding. American Portfolios just had a nice ring to it. The day after I thought of it, Lon copyrighted it. I should have beat him to the punch, but he still gives me credit.

FREE: **How have your relationships with people like Ron Bergmann, Barry Cohn and George Elkin, also long timers, changed from this adventure?**
GG: These are great guys that go back with me to the 80 Orville Drive days. And let's not forget Scott Horning, David Rey, Curt Mazer, current AP Advisors President Tom LoManto and the late Rich Chiavola, who was five months short of seeing American Portfolios become the broker/dealer. The thing about this company that is unique is there's a level of trust and understanding with all the people I work with – the newcomers too - like colleagues Brian Farkas, Mike Vela, Jim Kaufmann, Bob Engelhardt and the Donahue brothers. No one is going after someone's clients. I've heard horror stories about trying to get a sale by taking a colleague's client. At APFS, there is a high sense of professionalism. It's a pleasure to work with these people. These are people that you can trust with your life. You can talk to them about anything. Everyone helps and is supportive. We are a pretty bonded group of people.

FREE: **So, let's talk about your business. What is your style? How do you approach new clients and how do you deal with existing ones?**
GG: I'm probably known as a utility man. I can try to fit myself into a lot of different situations and am probably not an expert in any one field, like some people who specialize in retirement or college planning. I'm pretty much a generalist. I try to do a little of a lot of different types of business without focusing on one. It's just the way it played out for me. I just know I can always bring in a fellow colleague who has a particular expertise in something if it's beyond my scope. My approach to clients is a personal one. There are a lot of reps who don't care what a client thinks about you personally, but I seem to get involved in the lives of the clients and visa versa. I think it's more about bonding emotionally with people. As opposed to a business or intellectual approach, I go more personal. That's really my strong point. I'm not some financial wizard, but my clients know I'm smart and informed. I reach people on a more holistic level. When a client feels they know and can trust you, then you've hit the most impor-tant aspect of a client-rep relationship.

FREE: **Why did you get into the business to begin with?**
GG: I was simply looking for a job, and a friend approached me and asked if I was interested in joining First Investors. I had no idea about financial services. But when I looked into it more closely, I had an epiphany. While I admit this profession was not something I ever thought I would be involved in, something struck me – I just had a sense that I could be successful at it. I mean, I majored in anthropology in college. I was also a struggling musician who had dreams of becoming a successful session player or even producing records. That's where my interests were at the time. When I came to the realization that was not going to happen for me, this opportunity came along. As I became involved in the business, I actually found that I liked finance and economics and talking to people about it. That's how it played out.

FREE: **In what ways have you witnessed the business change?**
GG: I think about this a lot. Compliance is a necessary evil. It has become much harder to do business because of compliance, the Patriot Act and 9/11, but I do think it is a good thing. The public has to be protected. You have to provide them with the safest kind of investment, gear it towards their needs, and compliance forces us to be aware of that. The business is changing in that regard. We are more consciously regulated. While good for the public, it makes for a lot of work for licensed investment professionals.

FREE: **I understand you were one of the first investment professionals to offer Franklin Funds to your clients. Tell us about that.**
GG: There are a few legendary things that many will attest, including Lon, to my being involved in. As far as I know, Franklin had the first US government fund in the 80s. They were also the first to offer a New York tax-free fund when, at the time, many of us in the business were doing a lot of municipal bonds or unit trust investments – closed end type funds. I really believe I was the first to sell that to a client. Others then jumped on the band wagon. In the mid-80s, those funds really opened up. When I was at First Investors, I was always looking for outside funds, looking for alternatives from house funds. That's how I discovered Franklin. They were unique.

"I was in a band before The Beatles were on Ed Sullivan."

FREE: **Why do you enjoy being independent?**
GG: Some people are born to be independent. They don't want to work a 9-5 job. They don't want to sell products that some manager tells them to sell. At APFS, you have the freedom to go your own way – make your own decisions. Of course, the price of that is the insecurity of not receiving a regular paid salary. You are working strictly on commissions, which is frightening when you start. It's not for everyone, but if you are lucky enough to be established and have a good clientele, it all works out.

FREE: **Many may not know that you play in a band with Lon. How did that come to fruition and where is it going?**
GG: Back in October, Lon asked me to help him re-learn the bass. We've been playing together since then, and he's made very good progress as a musician. He's dedicated to the instrument.

FREE: **Are there any parallels in the way you and Lon play music and conduct business?**
GG: Everything that Lon and I do together is definitely goal related, like the mountain climbing. Lon and I have climbed 10 mountains together, and he's helped me each time. With this, we reversed rolls a bit. I feel that because he asked me to help out on the music, I'm repaying him for his helping me on the mountaineering experiences.

FREE: **You are an avid music fan. Who has influenced you musically and/or otherwise?**
GG: Bob Dylan, The Beatles, The Band, Van Morrison, The Rolling Stones; there's a ton more, but those are my main people. They are geniuses, brilliant. The stuff written in the 60s sounds as fresh as if it was written yesterday.

FREE: **How did you get to be part of the 50s group Randy and the Rainbows?**
GG: I started playing professionally in 1963, which dates me of course. I was in a band before the Beatles were on Ed Sullivan. I was playing in Greenwich Village at Café Wha, Café Au Go Go, The Bitter End. I knew the guitar player from Randy and the Rainbows, and he asked me to join. I was with them for two years while they were on the road and in the recording studio. I was a professional musician. It's actually very similar to being a rep. You make your living based on how many gigs you play. You're living on your wits. We had a lot of fun, though.

FREE: **Any desire to record again?**
GG: Who knows? I don't think there will be many recording opportunities for a dinosaur. I record in my house, and my studio is adequate for my needs. I have a 16 track recording console – it's semi-professional. Today, home studios are state-of-the-art with more digital technology. The quality there is incredible. You don't need to go to a professional studio anymore.

FREE: **You, like Lon, have been known to be an expert trivial pursuit player. Who is better?**
GG: Me.

FREE: **What does your future at APFS look like? What are some of your long term business goals?**
GG: I'd like to get more of a handle on fee-based business and convert more accounts. I'd really like to just keep going until I drop-to be behind the wheel in Staten Island somewhere on one of my long appointments that I still go on. In terms of the business, not that many guys go out in the field as much as I do. Since I established my client base on leads, a lot of them are ones that other people didn't want because they were upstate in Westchester or New Jersey. As a result, I'm always on the road. I go see them because I can't ask them to come to the office. I'm spread out.

FREE: **If you could give one piece of advice to new people in this business, what would it be?**
GG: I would say that persistence pays off. There's a lot of competition out there, and what gets the business is persistence and hard work – there's no substitute for that.

FREE: **If you could sum up your professional life in lyrics, what would they be?**
GG: "Like a rolling stone," by Bob Dylan. •

Gary Grappone
Holbrook, NY
t: 800.889.3914 ext. 105
ggrappone@americanportfolios.com

rep feature:

andy

In an age where anything is possible, possibilities are endless. The emergence of new technology has catapulted us into an untold world where we are the authors of an unwritten future. APFS affiliated colleague Andy Kaiser, founder of Mountain Hill Investment Partners (MHIP), knows this.

kaiser

As a former top advisor for UBS Financial Services and a 20-year Wall Street veteran, Andy left the wire house environment in 2006 to start his own business on his sprawling 12-acre farm located in the prestigious landscape of Atlantic Highlands, NJ. ¶ His independent OSJ is packed with modern equipment. Phone lines sing in tune with the ding of new emails that pop into outlook, while the colors of the Bloomberg news scroll further illuminate the background. The cacophony of fax lines buzzing and printers printing, combined with the occasional squawk of a farm animal, is a convergence of worlds, an atmosphere unique unto MHIP. Their clients include a small group of wealthy individuals, about 20 different families from all over the country and around the globe. They are CEOs, CFOs and entrepreneurs. ¶ His office shares the grounds with The Mountain Hill School, a private pre-school and Kindergarten that Andy and his wife purchased a few years ago. While MHIP inhabits an old farm house at the front of the property, plans to build a new facility are in the works. Andy's new space will sit atop a six stall barn, equipped with all the modern technology of a Wall Street office. "The plan is to be able to watch the kids play out one window and the horses graze from the other." Sounds like a plan – but at only 43 years old, how was it that Andy so quickly catered his work style to his lifestyle? ¶ Having emerged from a training program and an eight-year stay with Shearson Lehman Brothers, he landed a job with Paine Webber in the early 1990s. Discouraged by the environment, Andy knew quickly it wasn't the place for him. "I was really bored. It wasn't a productive place for outside-of-the-box thinkers to work." At the time, people were leaving and getting paid to go to different firms. Andy decided to join Dillon Read, a boutique investment banking firm much like Goldman Sachs with lots of intellectual capital. Andy started traveling the globe, covering a large amount of hedge funds and doing equity execution – buying and selling of stocks. He became the go-to-guy, covering venture capital companies around the world, carrying large positions in very hard to trade equities. However, Dillon Read was bought by UBS, and then UBS bought PaineWebber in 2001. Andy found himself back to square one, working in the same environment he sought to leave. "They started training people to be asset gatherers instead of money managers. They'd get people to bring money in and give it to other people to manage. That just wasn't my thing." ¶ Frustrated with the seemingly impersonal business style he once again found himself in, more hardship came when Andy's 6-year old son Ryan died unexpectedly from a heart condition he'd had since birth, one he and his wife were optimistic about having under control. Andy took his family to Florida for the months following Ryan's death. While he had thoughts of leaving PaineWebber before, now everything Andy knew was in question. Wanting to be closer to his family, he relocated to a closer office in Red Bank, NJ, but the stay was short lived. Moving from an institutional trading-floor environment to a retail brokerage house was not going to work. Andy's career in Red Bank was still doing well, but business was constricted; not to mention, he still didn't have ownership in anything that he was doing. The clients were not his own. ¶ "I would always joke with my bosses, and ask, "If I got hit by a truck tomorrow, what would you send my wife?" And, the answer was flowers."

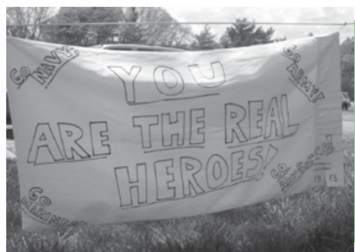
As an independent minded professional who was constricted to the confines of a brokerage house mentality, it became clear that Andy needed an environment that gave him ownership of the business he was conducting. Having a good clearing and trading partner with a real name was important. Andy called Bear Stearns and asked who their B/D relationships were with. Bear Stearns suggested American Portfolios. ¶ "After meeting with Lon Dolber, I knew two things about APFS; the technology was good, and the people were great," Andy said. "Lon was very upfront with me and talked a lot about the economics of the business, how it works and where the B/D makes money. It was a really good conversation. Lon's a great guy who runs a great business. I knew I could have as much connectivity to AP as I did or did not want. They would leave me alone to let me run my practice and do what I felt was right for my clients." ¶ Andy admits that the transition to independence can be an intimidating one, especially for people coming from a wire house environment. "I think there's a lot of fear in losing a business that you work really hard to create, one that's given you a certain type of lifestyle. Going independent isn't for everyone. I think that the person who goes independent needs to have great client relations. You have to be a really good people person so that your clients understand what your new business model is and what you are trying to accomplish personally by making this change." ¶ Mountain Hill Investment Partners looks to manage money for a fee on a discretionary basis for wealthy individuals, to be good fiduciaries to their assets and to build their money slowly over time. "We are money mangers," Andy said. "We aren't going to do a financial plan for you, and we aren't going to sell you life insurance, but if you are an educated consumer with more than half a million bucks and are disenchanted with your current relationship or the process by which you are having your assets managed, we'll talk to you."

MHIP is also handling equity execution business for hedge funds and institutions. Andy describes this business model as "off-wall-street execution with anonymity." "I think that being able to take institutional type orders from Wall Street and executing them through Bear or directing them wherever I'd like them to go on the street with anonymity is value-added."¶ The future of MHIP is still waiting to be written and, admittedly, Andy has a lot to learn about this new venture. "There's so much about being independent that I know nothing about yet, but I'm learning. I'm 43 with no intentions of retiring anytime soon. I am in a position to grow with my clients. Since we charge a fee to grow assets, all we really need to do, then, is grow them!! I can create a business to hand off to people and spend my time visiting clients, traveling and raising awareness for www.rakmf.org." (the foundation named after his son Ryan). ¶ "Part of being independent is being able to run my life out of my office. When you work for a large firm, you can't do personal things on their time. I've got so much leverage in my life from being independent. Everything for me really fell into place after coming to APFS. It's good – and the best part is that I get to see my kids every day."

Andy Kaiser
Atlantic Highlands, NJ
t: 732.291.3188
akaiser@americanportfolios.com

GIVE











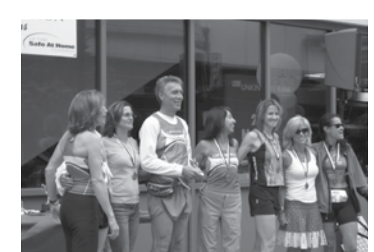










THE SECOND QUARTER OF 2007 PROVED PRODUCTIVE, NOT ONLY FROM A business standpoint, but also from a personal one. CEO Lon T. Dolber, along with colleagues David Rey, Robert Bartolotta, Mike Vela, Bob Crothers, Xavier Felipe, Tom Wirtshafter, Becca Dolber and Carol Marks, participated in the *Face of America Bike Ride* from Bethesda, MD to Washington, DC to benefit injured service men returning from the war in Iraq. APFS colleges Andy Kaiser and Judy Rubin also felt the charitable spirit. Andy organized the 2nd annual *Ryan's Run*, named for his son Ryan, who died tragically of a heart condition. *Ryan's Run* benefited the Ryan Andrew Kaiser Memorial Foundation, an organization that raises money for families of ill children who cannot afford proper health care. Likewise, Judy competed in the *Need For Speed Relay Against Domestic Violence*. Her team, Flash Posse, a group of nine dedicated master women runners, were among 117 teams who ran the 50-mile, point-to-point relay race to benefit the Joe Torre Safe At Home Foundation, an organization that works to end the cycle of abuse. ●

"Goodness is the only investment that never fails."
- Henry David Thoreau

american portfolios recognized as the #1 fastest growing fee partner

By Melissa Grappone, Corporate Communications Director

HOW DO YOU GET TO BE RECOGNIZED AS THE #1 FASTEST GROWING FEE partner? Well for starters, you need to stay on top of the e-mails that will be sent your way by the trade publications requesting you complete their surveys. Yes, the industry trades have assumed responsibility for collecting data on standings for every conceivable measurable mark of growth – and why not? They create content that will increase their readership and, in turn, survey participants that will potentially benefit from some unpaid press exposure. It's a win/win situation for all.

Admittedly, the reporting of this ranking by *Investment Advisor Magazine* took us quite by surprise. The honor was first announced to us when a promotional salesman called to congratulate us on the recognition and how nice it would be to immortalize this honor on a beautiful crystal marquee with precision laser etching or, if we preferred, a fine crafted beveled wood wall plaque.

The fact is American Portfolios Advisors (APA) did start in 2001 with only 14 advisors doing fee-based business and, by 2006 year-end, had grown to 169 advisors - a staggering 1,100% increase – the magic number that put us in the #1 fee partner slot. So how did we achieve that? It started with a commitment to grow the advisory arm and the foresight to know that fee structured portfolio management and variable fee arrangements were the future direction of our business.

When asked about this award, AP Advisors President Tom LoManto stated, "It is through the efforts of our affiliated advisors and the platform created for them by APA that we have achieved this honor."

Tom, along with staff members Joe Borriello and Kaitlyn Denninger, run the advisory firm which is well provisioned with all the necessary fee structured options and programs to accommodate the vast range of financial planning and wealth management professionals. Existing and prospective professionals have access to 30 third party relationships offering mutual fund wrap-fee programs, no-load variable annuities, separately managed accounts, ETF programs and hedge funds. Those advisors managing money can choose from four custodians: Bear Stearns, Pershing, TD Ameritrade and Schwab Institutional. Flat fee, hourly rate, retainer, financial planning fees and 401(k) open architecture agreements are also available to those professionals affiliated with APA.

So well equipped is APA that since January of 2007, 34 new investment advisors have affiliated with American Portfolios' RIA, bringing the net total of investment advisor representatives to 203. To add, they are pulling in about 185 new accounts a month. All totaled, since January of 2007, the advisory firm has brought in over 840 accounts. And there is no end in sight. The advisory firm is attracting new affiliates through not only it's recruiting efforts from Tim O'Grady but also through existing APFS registered representatives who stopped hitting the snooze button on their consciences, awakening finally to make the move from transactional to fee-based.

If your curiosity is piqued, start by checking out Studio 454's June 8th interview by CEO Lon T. Dolber who talks with Joe Borriello and Kaitlyn Denninger about AP Advisors. The advisory team will also be holding two separate and distinct overview meetings on the first day of the APFS National Conference on Wednesday, October 10th. Then, in January 2008, APA will host their own day-and-a-half conference at the Waldorf Astoria in New York City, where economists, money managers and educational speakers will raise the bar of advisory content to more sophisticated heights.

The AP Advisory team is there to assist and support all levels of an advisory practice - from beginners to advanced planners. It's all yours for the taking. Carpe Diem!

Tom LoManto, APA President
Holbrook, NY
t: 800.889.3914 ext. 127
tlomanto@americanportfolios.com

Joe Borriello, APA
Holbrook, NY
t: 800.889.3914 ext. 159
jborriello@americanportfolios.com

Kaitlyn Denninger, APA
Holbrook, NY
t: 800.889.3914 ext. 195
kdenninger@americanportfolios.com

change of venue for national conference

Dean Bruno
COO
Holbrook, NY
t: 800.889.3914 ext. 138
dbruno@americanportfolios.com

By Dean Bruno, COO

PREPARATIONS ARE NOW IN HIGH GEAR FOR AMERICAN Portfolios' Sixth Annual National Conference, October 10th -12th, less than two months away. While Long Island's Wind Watch Hotel has served us extremely well in past years as the setting for all APFS conferences since 2002, the firm has been long overdue for a change of venue. Each year when the planning of our conference begins, usually a week after the conclusion of the previous year's conference when the experience of events is still fresh in our minds, we analyze the feedback received from affiliated colleagues, partners and, more recently, our advisory board members and start building from there. While comments on improved scheduling, the duration of meetings, less product pitching and more practice management content are unevenly received across respondents, one resounding suggestion that has been consistently expressed by many of you is that we take the conference to a new place. By changing the structure of conference allowances and finding a location that is feasibly drivable for more of our affiliated colleagues, a change of venue for the conference has become possible.

This year, APFS takes its annual caucus down the eastern corridor, along the southern coast of New Jersey, where championship golf courses, gaming activities, top of the line entertainment and high-end outlet shopping abound. Our three-day gathering will unfold its full schedule of events within the stately surroundings of the Marriott Seaview Resort and Spa in Galloway, New Jersey – just 15 minutes outside of Atlantic City, one hour from Philadelphia, two hours from New York City and three hours from Washington, DC.

Five years of constructing APFS' conference agendas has evolved into engineering a blueprint on time management, no doubt a skill that is serving me well in my other job functions. I present you with a preliminary agenda – the same schedule you received in your invitation to the conference in early August. We have an outstanding program planned this year packed with three pre-conference CE sessions, an assortment of featured speakers, the CEO and President's state-of-the-firm address, roundtable sharing of idea sessions, educational meetings from the focus partners and in-house system and service overviews. Additionally, while the schedule has also incorporated two informative advisory services meetings beginning early on the first day of the conference, AP Advisors will also host a separate day-and-a-half event in January of 2008 dedicated to the enrichment of established investment advisors.

If you have not done so by now, registering for the APFS National Conference should be your first order of business. You can register at: www.americanportfolios.com/events passcode: dialogue. Please contact Melissa Wade at ext. 117 or Ethel Valentino at ext. 107 with any questions.

I look forward to seeing you in October.

Wednesday, October 10th

Pre-conference events . . . . 8:00 am – 12 noon
· CE classes
· Talking Less and Saying More / Thomas J. LoManto, President APA

Partners exhibitor room opens . . . . 12 noon

Registration & lunch . . . . 12 noon – 1:00 pm

Collaborative sessions . . . . 1:10 pm – 5:30 pm
· Inventing a New Language / Thomas J. LoManto, President APA
· Dialogue sessions with product vendors and clearing firms

Evening
Cocktail reception/buffet dinner . . . . 6:30 pm

Thursday, October 11th
Just breakfast and/or breakfast with albridge solutions . . . . 7:00 am

Supporting You Without Getting in Your Way . . . . 8:15 am – 9:30 am
State of the Firm Address: Lon T. Dolber, CEO APH
and Frank A. Tauches, Jr., President APFS

Climbing or Camping, Which One Are You? . . . . 9:45 am – 11:05 am
Featured Speaker: Glenn Mattson, TEM Associates

Bringing Together People Who Speak Different Languages . . 11:20 am – 12:35 pm
Sharing of Ideas Session: Frank A. Tauches, Jr., President APFS

Break for lunch . . . . 12:35 pm – 1:50 pm
And/or Managers Lunch with Tom Wirtshafter, APH Board Member

Partners exhibitor room closes . . . . 2:00 pm

Mandatory Compliance Meeting. . . . . 1:50 pm – 2:30 pm
Frank Giacchetto, SVP APFS

Connecting and Understanding . . . . 2:30 pm – 2:50 pm
Corporate Communications and New Business Development
Melissa Grappone, Director and Timothy O'Grady, SVP APFS

How to Generate a Consistent Flow of Quality Referrals . . . . 2:50 pm – 4:05 pm
Featured Speaker: Michael Brizz, Center for Professional Achievement, Inc.

Nerves of Steel. . . . . 4:15 pm – 5:30 pm
Featured Speaker: Dr. Kevin Elko, Ph.D

Evening
Cocktail reception/banquet dinner . . . . 6:45 pm
**Live Concert Featuring Michael Raitzyk, Jeff Reed, and Eric Kennedy performing "Come Together" and much more!

Friday, October 12th
Breakfast . . . . 7:30 am – 8:30 am

Stars Overview . . . . 8:30 am – 9:15 am
Jared McGill, New Accounts Supervisor

Building the Right Team the Good Way . . . . 9:15 am – 10:30 am
Featured Speaker: Bill Good, Bill Good Marketing, Inc.

Cooperating with Compliance or Vice Versa . . . . 10:45 am – 11:30 am
Featured Speaker: NASD Representative

Conference conclusion remarks . . . . 11:30 am
Frank A. Tauches, Jr., President APFS

Tee-offs begin . . . . 12:30 pm

for a limited time only:

qualified charitable rollovers

The Pension Protection Act of 2006 made permanent many of the sunset provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001. However, it also created a temporary benefit for investors in their sunset years: the ability to make charitable IRA rollovers.

For those investors who are age 70½ or older, the new law provides the opportunity to make a tax-free distribution from either a traditional or Roth IRA of up to $100,000, which must be directed to a qualified charitable organization. The amount that is rolled over can even apply towards the investor's required minimum distribution for the year.

Here's how it works: The investor requests a distribution from their traditional or Roth IRA. He makes sure that his request includes instructions to make the check payable to the charity of his choice. In most cases, it will be easiest to have the check mailed directly to the investor, who will in turn forward it to the charity, along with a request for a gift receipt.

The limit per investor is $100,000. That means that a married couple could donate up to $200,000 as long as each spouse owns an IRA with a balance of at least $100,000.

To ensure proper tax treatment, it's imperative that your clients obtain a gift receipt from the charity. This gift receipt may be required by the IRS to substantiate the donation when the investor files his or her taxes.

This opportunity is a boon for investors at both ends of the financial spectrum: those who do not itemize their deductions on their tax returns and those who have maxed out their charitable deductions. For non-itemizers, the qualified charitable distribution from their IRA will eliminate the need to claim an income tax deduction for the donation. For investors who may have met the maximum 50% of AGI limitation for charitable deductions, the qualified charitable distribution can reduce taxable income without impacting their planned giving.

Unfortunately, this opportunity is only available for 2006 and 2007. That means the charity will need to receive the donation by the end of this year in order to qualify for tax-free treatment.

Want to learn more? Our retirement expert, Kathryn Capage, discusses this and other important rollover strategies in her first 2007 Rollover webcast, now available on AIMinvestments.com. It can be viewed, listened to or downloaded via podcast. For more information, contact your internal wholesaler.

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economic and market commentary:

cautious optimism for remainder of 2007

By Managing Director, Stephen F. Molyneaux

major stock markets around the world have hit new all-time highs

americans have never been wealthier

global economy eclipses

historic growth milestone

Stock markets in the U.S. and overseas are hitting new all-time highs. The gains are justified. Economies around the world are in a synchronized expansion, equity valuations are reasonable and liquidity is plentiful. There are some imbalances in the global economy, but they seem, for now at least, to be contained.

The International Monetary Fund (IMF) is predicting 4.9% global growth this year. The prediction may be a bit too optimistic given some first quarter weakness, but it is likely that global growth will exceed 4% this year. If the projected figure proves true, it would make six consecutive years that global growth has exceeded four percent. This is the first time such a lengthy, sustained period of growth has been recorded since the IMF began collecting data 37 years ago. Clearly, economies around the world are doing well. The U.S. economy experienced surprisingly weak growth, up just 0.6% in the first quarter. The IMF predicts the U.S. economy will expand 2.2% for the year as economic activity accelerates in the second half of the year. That is down sharply from the 3.3% expansion in 2006, but the economy does show signs of having rebounded in the second quarter. An inventory correction in the first quarter and the drag from the declining housing market appear to be shaving about one percentage point from U.S. economic growth.

Household financial net worth in the U.S. (the calculation excludes the value of one's home but includes the mortgage balance) grew $2.2 trillion in 2006. Unemployment is low, and real incomes are going up. Americans have never been wealthier. Consumption was strong in 2006 despite a dramatic reduction in mortgage equity withdrawals. The consumer is in good shape and should remain so as long as the employment picture remains positive.

Core inflation appears to be moderating, but it is still at the high end of the Federal Reserve's target. The Fed has said it sees inflation as a greater threat than economic deceleration. Nevertheless, recent data gives them room to leave interest rates unchanged for a quarter or two. Interest on loans and mortgages is still relatively low and will support continued economic expansion.

After February's sharp decline, stock markets around the world quickly rebounded and have climbed to new all-time highs. There was justification for the rebound. First quarter corporate earnings exceeded expectations by a good margin. Many companies are increasing their dividends. Valuations, as measured by the price to earnings ratio, are at about the historic average. In other words, moderately priced companies are producing surprisingly good earnings and many are paying nice dividends. Corporations and investment groups, flush with cash, are pouring money into stock buybacks, buyouts and mergers. Companies are using their record cash holdings to buy back shares in their own companies.

bear stearns high-yield spread through march 2007

Around the world, liquidity is driving asset prices higher and creating imbalances in the financial system. The money supply is expanding rapidly in many areas of the world, and "real" after inflation interest rates remain low. Imbalances in the system will, from time-to-time, cause minor disruptions in financial markets. Left unchecked, imbalances sometimes may even cause a major correction. Imbalances can remain contained for lengthy periods of time but ultimately must be corrected. However, imbalances are not a market timing indicator. There are many imbalances in the financial system, and two, China and housing, have already impacted financial markets.

The extent of disruptions to financial markets is centered in the pricing of risk. The greater the degree of speculation in financial markets, the greater the disruption related to the unwinding of that risk.

The current environment recalls Jim Grant's observation, "The problem with prosperity is prosperity." In so many words, the economy has been so very good for so very long, investors are not paying a great deal of attention to risk. This may cause them to assume a degree of risk for which they are not being amply rewarded. The trade-off between risk and reward may not be balanced.

Estimates of long-term annual equity returns are calculated by adding dividend yield to the likely future growth rate of expected earnings and dividends. Following this formula, today's stocks are priced to produce about 7.5% future returns, assuming a normalized long-term growth rate of 5.5% and the current 2% dividend yield. This 7.5% return falls far lower than the historical average (1926-2006) of 10.5% annual return. With Treasury bond yields running near 4.75%, and stock returns at 7.5%, the prospective equity risk premium (amount which stock returns are likely to exceed bond returns) is an anemic 2.75%. The historic equity risk premium (1926-2006) is 5%. Today's investor is not being paid the historic norm for the risk of holding stocks. What these measures indicate is that investors appear to be very relaxed about risk and brimming with optimism about world economic stability. Not only are equity risk premiums low, but so are bond risk premiums.

a few dark clouds loom on the horizon

The objective is to reduce the number of shares outstanding in order to increase the earnings per share and drive the stock price higher. Private equity groups are buying public companies, often paying a large premium in order to take the companies private. This shrinks the supply of stock while putting cash back into the market. Hedge funds are using leverage to establish large positions in public companies. Hedge fund management then coerces the company's management to implement policies which enhance shareholder value. All of this activity feeds on itself as the supply of stock shrinks, earnings per share increase, stock prices move higher and it attracts more money into the market. It should continue as long as interest rates don't rise too quickly and the economy continues to expand.

housing bubble causes minor disruptions in financial markets

residential construction as a % of gdp

single-family housing starts

Housing, one of the largest imbalances in the economy, is in the process of correcting itself. Low interest rates, tax changes and lax lending criteria have helped create a bubble in housing. According to Robert Schiller, economics professor at Yale University, "Adjusted for quality and inflation, home prices are still 50% above the average price for most of the 20th century." The U.S. Census Bureau reports the median price of new homes increased from $140,000 in 1996 to $246,000 in 2006. The over investment in residential properties created a bubble that could only be corrected by a drop in housing starts and home prices.

This correction in the housing market subtracted about 1% from GDP growth in 2006 and will continue to be an economic drag through 2007. Financial markets continue to be concerned declining home prices will negatively impact consumer sentiment. Many investors worry that depreciating home values may lead to a corresponding drop-off in consumer spending. Fortunately, residential construction is an increasingly small part of the overall economy.

Fear that consumers have relied on re-financing and mortgage equity withdrawals to sustain consumer spending is unfounded. Consumer spending increased in 2006 despite a 20% decline in mortgage equity withdrawals. According to David Malpass, chief economist at Bear Stearns, "The transition away from above trend home building will be relatively smooth because of growth elsewhere in the economy."

the inherent strength and resiliency of u.s. economy will overcome uncertainties

chinese stock market turmoil may impact developed economies

A bubble is developing in the Chinese stock market. The money supply in Asia is expanding rapidly, especially in China. The Shanghai Composite Index has quadrupled in less than two years. Individual investors are driving the market, and speculation is rampant. Nearly 3 million new brokerage accounts were opened in 2006. The money supply is growing faster than demand. Lending practices are lax and often corrupt. The government has moved slowly in introducing monetary tightening measures. The unwinding of the Chinese stock market bubble could lead to social unrest and economic dislocation in China, which could impact global economic growth.

The two greatest imbalances which may impact global markets are China and the housing bubble. The recent run-up in the stock market is justified: corporate earnings, synchronized expansion and equity valuations are all reasonable, and liquidity is plentiful. Imbalances may cause some economic dislocation and foil financial markets but will not derail long-term economic growth and appreciation in stock markets.

Stephen F. Molyneaux
Atlanta, Ga.
t: 770.392.3998
smolyneaux@americanportfolios.com

The views in this commentary do not necessarily represent those of the firm and are not intended as specific investment advice.

behavioral risk in the retirement red zone®

Prudential

America's 76 million baby boomers are fast approaching retirement. More and more, they are making decisions concerning their retirement incomes, healthcare options and future lifestyles – decisions with great financial implications and risks.

Many are already in The Retirement Red Zone®, a time period Prudential Financial has defined as the five years before and five years after retirement. This is a particularly important stage of investors' lives because they may lack sufficient time to recover from mistakes or investment losses. This is also a time for them to strengthen their retirement savings and protect against what we consider the three key risks to their retirement financial security:

1 → 2 → 3

1 Longevity Risk

Your clients are living longer in retirement – 20-30 years, or more – and they need to ensure they have the means to generate a lifetime of income. Conventional wisdom suggests that as investors grow older, they need to be more conservative with their investments. But longer life spans could mean outliving their money. Today's retirees may require a strategy with the growth potential offered by equities.

2 Sequence Risk

Negative market performance in The Retirement Red Zone can greatly reduce the level of assets your clients are counting on for a retirement income stream. The level of annual return on their retirement investments is only part of the story. The sequence of returns may be far more critical because market downturns in The Retirement Red Zone could mean a dramatic loss of retirement savings and running out of money sooner than expected.

3 Behavioral Risk

Your clients' emotions rather than rationale judgment can influence their investment decisions. And emotionally driven investment decisions may adversely affect your clients' secure future.

Behavioral risk is an often overlooked challenge to retirement investors. All investors are influenced by a combination of emotions. Everyone experiences uneasy feelings about investing at one point or another. The science of behavioral finance is an entire field dedicated to examining the link between emotions and financial decision making. Researchers believe that by understanding the emotions influencing investor behavior, they can ultimately help mitigate some of the effects of behavioral risk.

Prudential and behavioral finance researchers at the University of Connecticut conducted a research study to better understand how emotions influence the investment decisions of Americans in The Retirement Red Zone. Using advanced statistical and modeling techniques, researchers developed a way to measure how emotions affect investor decisions. They call it the Retirement Emotion Quotient (EQ)sm, and the higher the EQ score, the more an investor could potentially be affected by emotions when it comes to investing. The findings of the Behavioral Risk in The Retirement Red Zone study (March 2007) shows behavioral risk affects nearly all investors to some degree. In fact, the study found that three out of four individuals (76%) rate moderate or high on their EQ score. No single group is free from the influence of behavioral risk — seventy-two percent of men and eighty percent of women have moderate or high EQ scores. Yet, only a third of Retirement Red Zone Americans (35%) feel emotions have an impact on their investment decisions.

The study identified dominant emotions and tendencies that may affect Retirement Red Zone investors. Although everyone experiences different emotions when it comes to investing, there were five dominant emotions or tendencies found in the study: fear, regret, aggressiveness, inertia and susceptibility. Of the most prominent emotions, 80% and 71% of investors register high or moderate degrees of regret and fear, respectively, that can influence financial decisions. Over half display high or moderate degrees of inertia (57%) or susceptibility (58%), and one-third (37%) have high scores for aggressiveness. Even at low levels, these five emotions have the potential to influence investors to make less than optimal investment decisions.

How can the five dominant emotions influence investors to react in ways that may not be in their best interests? Investors influenced by fear are less likely to take managed risks or to plan steps to secure their future. On the other hand, those influenced by aggressiveness may display overly ambitious investing behaviors without adequate risk management. Investors experiencing regret are unlikely to take positive future steps toward a secure retirement for fear of regretting their actions.
Behavioral researchers believe that armed with an understanding of how their emotions can influence investment decisions, Retirement Red Zone investors, working with their financial professionals, can identify and help mitigate the potentially harmful effects of behavioral risk.

A clear finding of the study is that investors want to learn more about products that offer guarantees and would seriously consider products that offer a measure of protection against downside losses, participation in potential market gains and guaranteed lifetime income.

Please call 1-800-513-0805 to obtain a copy of Prudential's Behavioral Risk in The Retirement Red Zone study and materials that can help you determine your clients' Retirement Emotion Quotients.

The Retirement Red Zone is a registered service mark and The Retirement Emotion Quotient is a service mark of The Prudential Insurance Company of America and its affiliates.

Investors should consider the contract and the underlying portfolio's investment objectives, risks, charges and expenses carefully before investing. This and other important information is contained in the prospectus. Your clients should read it carefully before investing.

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state of the firm commentary from ceo lon t. dolber

I am very pleased to report to you the second quarter 2007 APFS performance results in our recently rolled out, in-house printed publication, *FREE*. 2007 second quarter gross revenues of $15.8 million increased an astounding 32% from $12 million in the previous year's second quarter. Further historical analysis of these quarterly performance results show that our 2007 second quarter figures were almost $5 million more than the total gross revenues received in the firm's first full year in business ($11 million in 2002), and only $1 million short of gross revenues received in the firm's second full year in business ($17 million in 2003). Further analysis also shows estimates of $18 million of gross revenues for the third quarter of 2007.

While we should be encouraged by this performance, we must not lose sight of the inherent risks that exist in our business. The recent events in June of a mid-size independent-contractor broker/dealer, Brookstreet Securities, falling to its knees in just one week because of a risky type of mortgage-backed security being sold by many of its brokers, demonstrates the futility of not having proper risk management and product due diligence protocols in place. At American Portfolios, senior management meets on a regular basis to discuss the firm's exposure to margin, evaluating both the concentration and percentage of equity in all accounts. The risk committee, which meets every month and more frequently when needed, is comprised of President Frank A. Tauches Jr., COO Dean Bruno and Operations Manager Phil Bredow. All results and evaluations are documented and presented to me and then presented quarterly to our Board of Directors.

We have been very careful when it comes to adding structured products, limited partnerships and derivative investments to the list of products offered to investing clients through the firm's affiliated professionals. This due diligence will continue and, in fact, be stepped up throughout 2007 and beyond.

It serves absolutely no purpose for any of us to allow everything we have worked so hard for to evaporate in the course of one daily market cycle. We will continue to evaluate all positions of "risk" at the firm and follow a road of conservative evaluation of all new positions and products sold through the 471 professionals affiliated with American Portfolios.

On a more positive note and in closing, we have our annual National Conference to look forward to from October 10th through the 12th at the Marriott Seaview Resort and Spa in Galloway, NJ. It will be an impressive gathering of old and new affiliated colleagues; product, clearing firm and outsource partners; featured speakers; APFS staff members; and friends of the firm. I look forward to seeing all of you there.

Sincerely,

Lon T. Dolber
CEO
Holbrook, NY
t: 800.889.3914 ext. 106
ldolber@americanportfolios.com

2007 Quarterly Review

April 1, 2007 – June 30, 2007

Presented on pages 25 through 30 is the second quarter 2007 review for American Portfolios. This review has also been placed in our online weekly newsletter, *The Independent*, as well as being posted to the APFS website under Rep Services.

Corporate Overview:

American Portfolios has 45 full time employees supporting 471 registered representatives, which includes 43 registered assistants and 18 registered employees as of June 30, 2007.

Financial Overview:

Second quarter gross commissions and fees of close to $16 million increased an astounding 32% from $12 million in the second quarter of 2006 (Fig 1). In an across-the-board analysis of products and services offered through American Portfolios, fixed annuities and managed accounts received the highest percent increase in gross commissions and/or fees of 80% and 55% respectively (Table 1). By the end of the second quarter of 2007, assets under management grew 27% to over $8.3 billion from $6.6 billion in the second quarter of 2007 (Table 2).

Fig. 1

gross commission and fee revenue

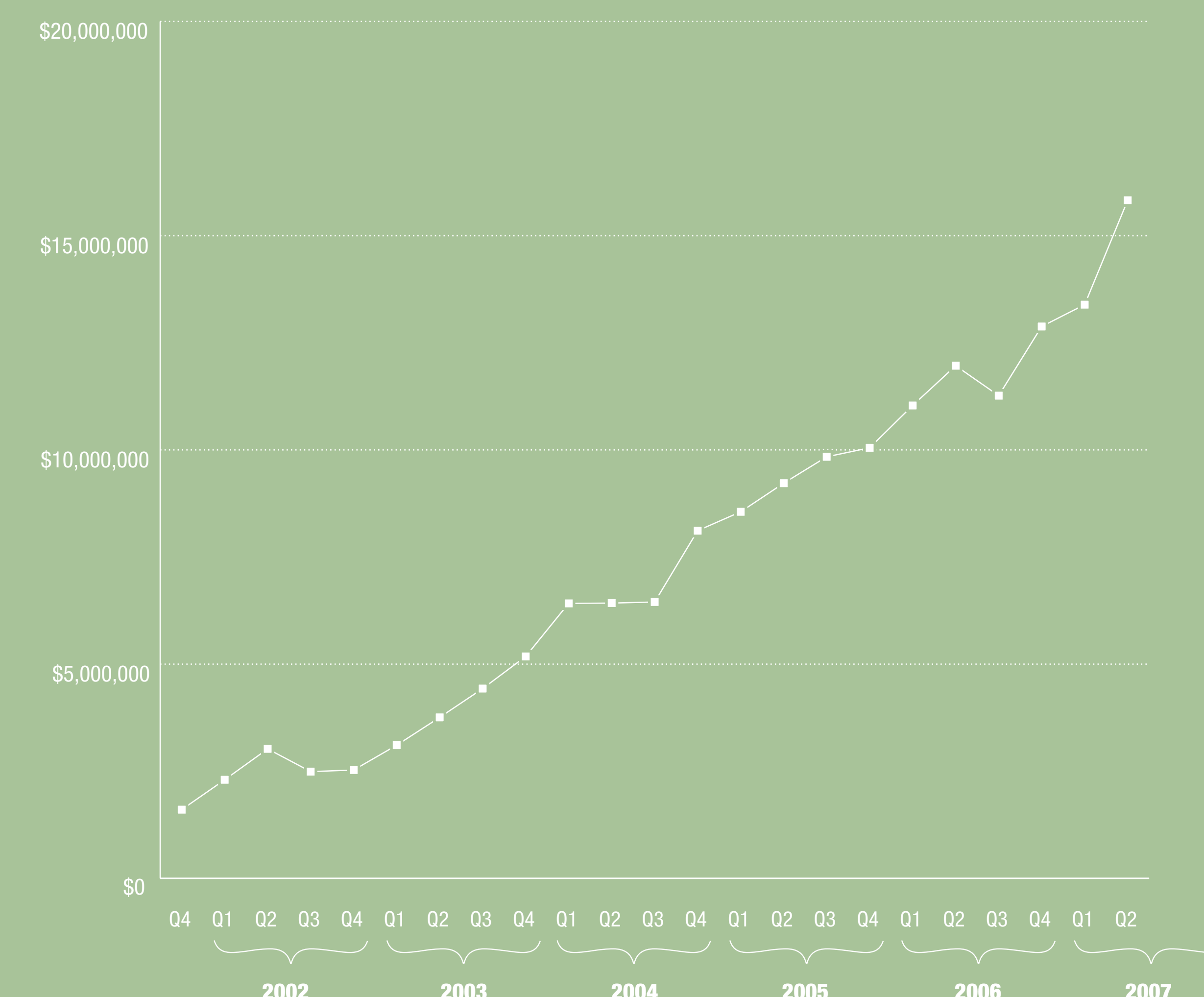


Table 1

gross commission and fee overview

Quarter	Mutual Funds	12B-1 Fees	Variable Annuities	Fixed Annuities	Life Insurance	Managed Accounts	General Securities
2001 4Q	$377,677	$337,396	$327,855	$483	$16,140	$ 0	$463,096
2002 1Q	$550,413	$389,682	$697,756	$28,245	$24,979	$32,406	$502,945
2002 2Q	**$697,511**	**$500,594**	**$894,388**	**$14,003**	**$16,144**	**$89,201**	**$681,635**
2002 3Q	$446,671	$480,835	$608,129	$90,130	$54,978	$66,546	$602,265
2002 4Q	$504,510	$473,900	$514,489	$78,876	$41,808	$66,739	$667,726
2003 1Q	$738,065	$465,601	$944,138	$111,164	$51,006	$90,852	$414,066
2003 2Q	**$890,264**	**$590,360**	**$902,892**	**$48,075**	**$186,158**	**$99,223**	**$747,131**
2003 3Q	$932,171	$745,759	$1,171,706	$107,766	$88,621	$126,321	857,482
2003 4Q	$1,052,379	$891,779	$1,469,274	$185,860	$88,509	$250,466	$850,436
2004 1Q	$1,392,634	$1,114,582	$1,961,656	$65,424	$75,229	$269,938	$1,090,539
2004 2Q	**$1,219,564**	**$1,207,981**	**$2,021,864**	**$38,002**	**$157,260**	**$433,380**	**$905,050**
2004 3Q	$1,219,144	$1,296,661	$1,833,477	$36,692	$163,314	$521,670	$823,100
2004 4Q	$1,481,154	$1,486,261	$2,414,798	$29,594	$215,654	$583,219	$1,474,892
2005 1Q	$1,824,456	$1,576,125	$2,453,958	$81,319	$144,146	$704,188	$1,298,549
2005 2Q	**$1,764,832**	**$1,649,075**	**$2,763,990**	**$90,674**	**$243,589**	**$790,887**	**$1,310,025**
2005 3Q	$1,594,608	$1,862,325	$2,791,314	$35,528	$235,170	$910,537	$1,658,235
2005 4Q	$1,822,784	$2,025,972	$2,719,060	$102,760	$201,046	$1,125,763	$1,401,672
2006 1Q	$2,168,221	$2,264,472	$2,946,526	$ 89,373	$162,797	$1,233,534	$1,743,557
2006 2Q	**$2,235,356**	**$2,547,285**	**$3,277,267**	**$84,973**	**$348,799**	**$1,463,952**	**$1,592,118**
2006 3Q	$1,586,985	$2,688,432	$2,902,267	$47,216	$291,917	$1,585,138	$1,392,330
2006 4Q	$1,805,784	$2,762,047	$3,687,567	$64,962	$440,852	$1,764,368	$1,566,537
2007 1Q	$2,228,559	$2,924,400	$3,713,477	$21,970	$322,265	$1,862,473	$1,647,707
2007 2Q	**$2,548,211**	**$3,110,878**	**$4,225,425**	**$153,306**	**$394,174**	**$2,263,331**	**$1,775,617**
Change from 2006 Q2	+14%	+22%	+29%	+80%	+13%	+55%	+12%

TOP 5

Fund Families by Commissions For The Second Quarter of 2007:

1. American Funds
   $ 1,553,717
2. Oppenheimer Funds
   $ 1,441,888
3. Franklin-Templeton Funds
   $ 508,940
4. Fidelity Funds
   $ 245,998
5. Eaton Vance Funds
   $ 226,525

Variable Annuity Vendors by Commissions For The Second Quarter of 2007:

1. American Skandia
   $ 831,419
2. Nationwide
   $ 635,768
3. John Hancock
   $ 391,932
5. ING
   $ 305,582
4. Jackson National
   $ 253,676

Top Five Vendors by Assets Under Management as of June 30, 2007:

1. American Funds
   $ 1,204,479,748
2. OppenheimerFunds
   $ 1,084,926,881
3. Franklin Templeton Funds
   $ 434,271,014
4. Nationwide VA
   $ 352,696,638
5. American Skandia VA
   $ 224,198,556

Table 2

assets with american portfolios

Quarter Ending	Clearing Firm Assets	Assets Held Directly	Total Assets	Increase Over Last Quarter
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	$2,599,152,578	$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	$533,447,461
+/- over 2006 2Q	**24%**	**29%**	**27%**	**7%**

recruiting and marketing overview

The firm continues to attract new colleagues and calls from prospective candidates continue to increase. As of June 30, 2007, the broker/dealer had 471 registered representatives that included 43 registered assistants and 18 registered employees working from 65 Offices of Supervisory Jurisdiction, along with 219 Branch Office locations. Thirty-two new associates affiliated with the firm in the second quarter of 2007. As of June 30th, 2007, there were 410 producing registered representatives at the firm.

Table 3

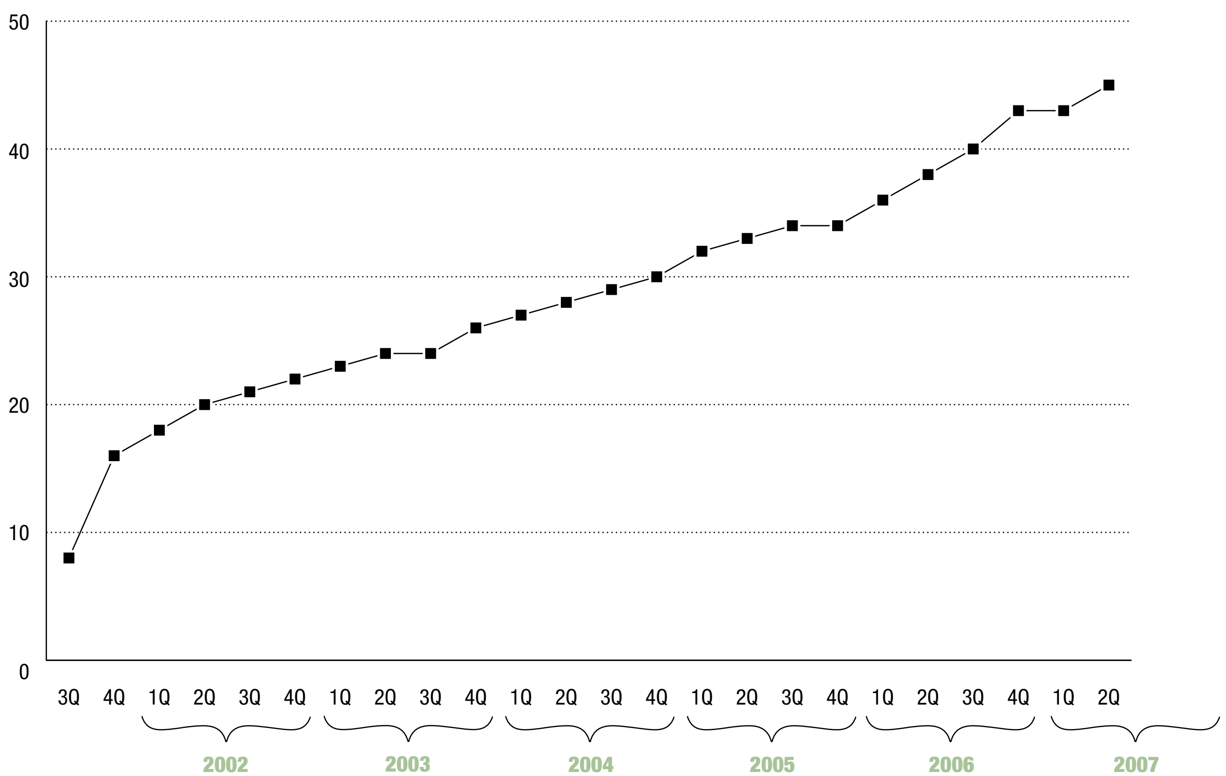
representative overview 9/10/2001 – 6/30/2007

A total of 532 new representatives have joined the firm, while 285 representatives have been encouraged to leave the firm between September 10, 2001 and June 30, 2007. During the same period of time, quarterly revenues have increased by $14,222,983 (Q4 2001 $1,603,089 – Q2 2007 $15,826,072).

First Name	Last Name	City	State	Supervising Principal	Start Date	Status
Beth	Howell	Gahanna	OH	Thomas Perry	4/2/07	REP
Timothy	O'Grady	Holbrook	NY	Lon Dolber	4/2/07	Empl
David	Webster	Galesburg	IL	Thomas Perry	4/4/07	REP
James	Schulthise	Huntingburg	IN	Thomas Perry	4/12/07	REP
Vincent	Esparza IV	Phoenix	AZ	John Crockett	4/13/07	REP
Michael	Bluestein	Boynton Beach	FL	Richard Gerepka	4/17/07	REP
Roger	Williamson	Hopkinsville	KY	Thomas Perry	4/25/07	REP
Stephen	Paris	Rockville Centre	NY	Robert Bartolotta	4/30/07	REP
Arthur	Brown	Lebanon	NJ	Russell Clark	5/3/07	REP
Donita	Layman	North Vernon	IN	Thomas Perry	5/8/07	REP
Katie	Pepin	Sarasota	FL	Jason Mieras	5/9/07	REP
Donald	Hann	Rochester	MN	Timothy O'Grady	5/15/07	REP
Joseph	Clottey	Holbrook	NY	Lon Dolber	5/16/07	Empl
Wallace	Davis	Bloomfield	IN	Thomas Perry	5/17/07	REP
James	Goedtke	Slayton	MN	Douglas Meyer	5/23/07	REP
Teresa	Powell	Muncie	IN	Thomas Perry	5/24/07	REP
Jeffrey	Chahine	Boardman	OH	Michael Lytle	5/25/07	REP
Michael	Lytle	Canfield	OH	John Crockett	5/25/07	REP
Thomas	Perry	Indianapolis	IN	Joseph Borriello	5/25/07	REP
Steven	Bailey	Salem	OH	Michael Lytle	5/25/07	REP
Gary	Gruss	Tiffen	OH	Michael Lytle	5/25/07	REP
George	Bellish	Warren	OH	Michael Lytle	5/25/07	REP
John	Morvay	Canfield	OH	Michael Lytle	5/29/07	REP
E Alan	Thompson	Columbiana	OH	Michael Lytle	5/29/07	REP
Lowell	Dansker	New York	NY	John Crockett	6/7/07	REP
Daniel	Orman	Indianapolis	IN	Thomas Perry	6/18/07	REP
Scot	Zee	Phoenix	AZ	Vincent Esparza III	6/25/07	ASST
Dennis	McMillin	Rochester	MN	Timothy O'Grady	6/25/07	REP
Kelly	Jones	Fort Wayne	IN	Thomas Perry	6/29/07	REP
Todd	Clark	Fort Wayne	IN	Thomas Perry	6/29/07	REP
Ross	Mongiardo	Garden City	NY	Timothy O'Grady	6/29/07	REP
James	Wolfe	Wabash	IN	Thomas Perry	6/29/07	REP

Fig. 2

employee growth



Name:
Andrew Dorfman
Position:
Director of Software Engineering & Data Architecture
Department:
American Outsources, LLC
Contact Information:
Phone: 800.889.3914 ext. 174
Fax: 631.297.9123
E-Mail:
adorfman@americanportfolios.com

Joined AO in April 2007

responsibilities:

As the Director of Software Engineering and Data Architecture for American Outsources, LLC, Andrew is responsible for the development and maintenance of all software and data systems. His responsibilities include: providing direction to onshore and offshore development teams; establishing Software Development Lifecycle (SDLC) practices including Quality Assurance (QA), Application Lifecycle Management (ALM) and Software Configuration Management (SCM); and advancing the firm's portfolio of operational and revenue producing technology assets.

biography:

Prior to joining American Portfolios, Andrew was a Senior Vice President of Data Warehousing and Information Management at Citigroup responsible for the design, development and implementation of a multi-terabyte data warehouse for the firm's retail banking business. Prior to that, Andrew worked for eight years at Hearst Business Media starting out as a Development Manager in their subscription-based, electronic information services area and shortly thereafter as a Senior Technologist. In his last three years at Hearst, Andrew was the Chief Architect at Structured Content, a unit of Hearst, Business Media. His responsibilities included the development of processes and technologies that utilized Hearst's 40-year-old core competencies in aggregating product and technical data to provide data engineering services to businesses that needed to organize and enrich their data for a variety of purposes, from enterprise system implementation (e.g., ERP, PDM, CRM, etc.) to data-driven strategic initiatives in the B2B and B2C domains. Andrew received his BS in Computer Science from Polytechnic University in Brooklyn, NY. He currently resides in Bayport, NY with his wife and children.

Joined APFS in April 2007
Name:
David Molter
Position:
New Accounts Associate
Department:
New Accounts
Contact Information:
Phone: 800.889.3914 ext. 200
Fax: 631.439.4698
E-Mail:
dmolter@americanportfolios.com

responsibilities:

As part of the New Accounts Department team headed by Jared McGill, David works with Laura Pryer in the processing, review and interactive completion of new account forms and new account information for both hardcopy forms and through STARS.

biography:

Prior to joining APFS, David worked for North Fork Bank as a Client Services Representative opening new accounts and promoting additional banking products and services. David also completed a summer internship working at Sony Wonder in New York City as an assistant to the Product Manager and Director of Marketing. David received his BS in Business Administration from the State University of NY at Geneseo. He is a resident of East Moriches, NY.

Joined APFS in April 2007
Name:
Jennifer Emanuele
Position:
Transitions & Insurance Licensing Associate
Department:
Transitions
Contact Information:
Phone: 800.889.3914 ext. 143
Fax: 631.439.4659
E-Mail:
jemanuele@americanportfolios.com

responsibilities:

As a Transitions & Insurance Licensing Associate, Jennifer assists in the coordination and implementation of rep candidates transferring to APFS. This requires the processing and preparation of account transfer information, mailings, account transfer follow-up work and insurance company reappointments to APFS.

biography:

Jennifer brings a host of skill sets to her position at APFS having worked in an administrative and customer service capacity in the financial services field for Roslyn Savings Bank and Washington Mutual Bank. She received her BA in Psychology at Dowling College in Oakdale, NY.

Joined APFS in June 2007
Name:
Mary Ann Rosolino
Position:
Corporate Receptionist
Department:
Administration
Contact Information:
Phone: 800.889.3914 ext. 0
Fax: 631.439.4659
E-Mail:
mrosolino@americanportfolios.com

responsibilities:

As the Corporate Receptionist, Mary Ann acts as our front-end representative for the firm by taking all incoming calls directed to the operator and greeting visitors who come to APFS headquarters via the 4th floor east wing reception area. Mary Ann maintains all schedules for the conference rooms located at APFS and provides support to all departments within APFS when special projects arise.

biography:

Mary Ann has been working in a customer service and administrative capacity for over fifteen years. She has worked as a frontline representative for various firms on Long Island, bringing her professional demeanor, accommodating rapport and ability to manage high volume activity to the position.

Joined APFS in May 2007

responsibilities:

Joseph is an integral team member of compliance, supporting Senior Vice President of Compliance, Frank Giacchetto and Compliance Officer, Martin Wendel with the many day-to-day responsibilities of the department. More specifically, Joseph is the key generator of the compliance exception and surveillance reports and reconciles the results by contacting affiliated managers and reps in the field.

biography:

Joseph brings to American Portfolios eleven years of financial services related experience working in compliance, operations, recruiting and personal financial planning for such firms as Citigroup, TD Waterhouse and I.A.R. Securities. Prior to joining American Portfolios Joseph worked as a Senior Registered Branch Operations Officer for Citigroup Investment Services performing due diligence and operational activities and providing necessary training of procedures for licensed field brokers. Joseph received a degree in Accounting from the Institute of Management Studies in Ghana, W. Africa. He also received his associate degree in Paralegal Studies from Nassau Community College. He is currently pursuing his four year business degree through the University of Phoenix which he will complete in 2008. Joseph resides in Holbrook, NY.

Name:
Joseph K. Clottey
Position:
Compliance Associate
Department:
Compliance
Contact Information:
Phone: 800.889.3914 ext. 209
Fax: 631.439.4659
E-Mail:
jclottey@americanportfolios.com

Joined APFS in June 2007

responsibilities:

As a Relationship Manager Associate for American Portfolios, Jon assists Relationship Manager, Melissa Wade and COO, Dean Bruno with all day-to-day functions of the department. More specifically, Jon fields many of the incoming calls from our vendors, focus partners and rep/manager force, as well as maintains the selling agreement files for all products offered through the broker/dealer. Jon works with Melissa in coordinating in-house training sessions, and teleconferences and assists with the collection of content for our weekly electronic newsletter, *The Independent*.

biography:

Jon graduated from Penn State University in May of 2007, majoring in Business Economics with a minor in International Business. In the spring semester of 2006, Jon studied International Business abroad at the University of Westminster in London, England. In the summer of 2005, Jon interned for American Portfolios supporting all staff members in the compliance department. Jon was a team member of the Penn State Men's Club Volley Ball team. He is a resident of East Moriches, NY.

Name:
Jon Michaels
Position:
Relationship Manager Associate
Department:
Relationship Management
Contact Information:
Phone: 800,889.3914 ext. 254
Fax: 631.439.4698
E-Mail:
jrmichaels@americanportfolios.com

American Portfolios Financial Services, Inc.
4250 Veterans Memorial Hwy., Ste 420E
Holbrook, NY 11741

For further information, please contact:

Melissa Grappone
Director of Corporate Communications
800.889.3914 ext. 108
mgrappone@americanportfolios.com

www.americanportfolios.com
Member: NASD/SIPC