

INVESTMENT UPDATE

QCI ASSET MANAGEMENT, INC.

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Economic Outlook



The U. S. economic slowdown has intensified in the first half of 2008. The implosion of the housing/sub prime mortgage sector has spread to the credit markets, and is now affecting the broader economy. Consumer finances are clearly strained by the housing crisis, higher energy and food prices, and a

weakening labor market. The slowdown has spread to the global economy – recession risk has increased.

Tight credit availability will be an ongoing problem, but aggressive policy moves by the Federal Reserve have led to reduced strains in the credit markets. An extended

Eye on Inflation

While overall inflation has risen, price gains excluding food and energy have been relatively stable, and Fed Chairman Ben Bernanke indicated he doesn't see evidence that rising inflation expectations would require an imminent rate increase. Change from a year earlier in consumer-price indexes:



period of de-leveraging and balance sheet repair is now underway. A renewed willingness to borrow and to lend will eventually occur, leading to resumed trend line growth. In the near term, sluggish growth, low interest rates, and benign inflation (ex-food and energy) are likely to persist.

Parsing the Pace

The Bernanke Fed has cut rates more steeply than the Greenspan Fed did in 2001.



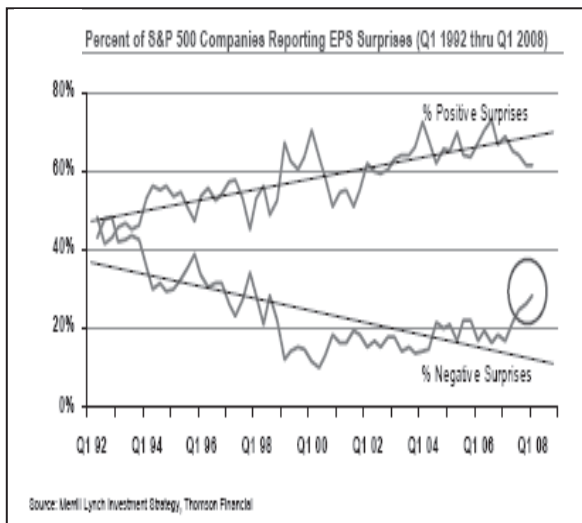
Bond Market



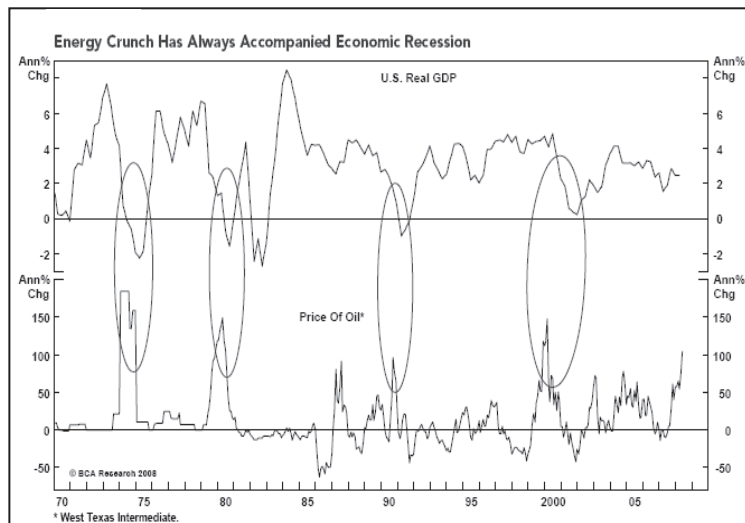
The early 2008 “flight to quality” rally in Treasury bonds has ended – yields have backed up dramatically in recent months, in response to elevating inflation readings and easing credit market pressures. Widening spreads to Treasury yields have created attractive opportunities in those areas of the corporate bond market that are not directly exposed to financial sector problems. We are maintaining a shorter maturity structure to protect against the continuing rise in rates.

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Stock Market Outlook – Many Crosscurrents

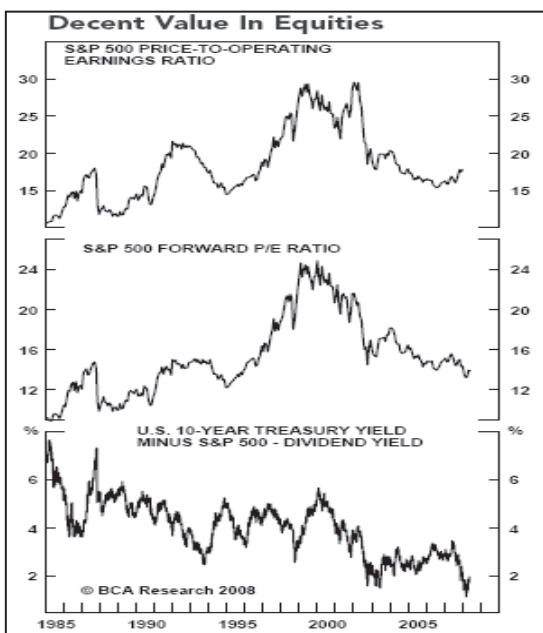


Slowing corporate profit growth, in response to a slowing economy, will lead to more earnings disappointments in 2008...

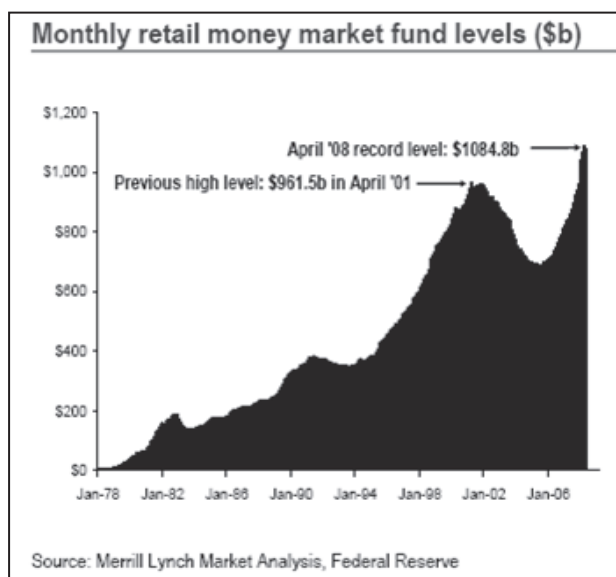


Price of oil has doubled in last 12 months; this is a major economic/stock market threat...

- Stock market weakness over the last 9 months reflects the recent deterioration and uncertainty.
- We expect volatility to continue to affect 2008 trading, as fears of deeper and broader economic weakness persist near term.
- Despite the current uncertainty, the discounting of prevailing economic strains appears well along. Fed easing and financial sector balance sheet repair are now well underway. Near term risks remain high, but our stock market outlook is positive for late 2008 and beyond.



Equity valuations remain at reasonable levels, particularly relative to bond yields...



A mountain of cash is now sitting on the sidelines—for how long?

72(t) Elections for Early Retirees – Pitfalls and Opportunities

Early retirees (pre-age 59 ½) considering withdrawals from their IRA's or qualified plans for supplemental income should be very cautious before doing so. In addition to incurring the income tax liability for the withdrawals, which is taxed as ordinary income, an additional 10% early-withdrawal penalty is imposed by the IRS. Furthermore, the tax-deferred compounding of investment returns within the IRA/qualified plan is lost for these withdrawals. Other sources for cash/supplemental income, such as after-tax accounts and home equity lines of credit, should be utilized by early retirees prior to accessing qualified retirement accounts.

Section 72(t) of the Internal Revenue Code provides an exception for the 10% penalty tax on pre-59 ½ distributions, that allows early retirees to tap into their IRA's for retirement income. The rules governing these early withdrawals are strict and unforgiving – great care and planning should precede the 72(t) election. Key requirements include:

- Penalties do not apply to distributions that are part of a “Series Of Substantially Equal Periodic Payments (SOSEPP)”, made at least annually.
- The “SOSEPP” must continue for 5 consecutive years or until the IRA owner attains age 59 1/2, whichever comes later.
- The “SOSEPP” must be calculated by one of three IRS-approved methods: life expectancy, annuitization, or amortization.

The 72(t) option is one that can work for early retirees, but should not be used without significant planning and preparation.

Pretax Rollovers – Roth IRA's: New in 2008

Beginning in 2008, plan participants may roll over from any eligible retirement plan account directly to a Roth IRA, thanks to the Pension Protection Act of 2006. Prior to these new rules taking effect in 2008, participants taking a distribution other than from a Roth 401(k) or 403(b) plan had to first roll over the distribution to a traditional IRA, and then convert the traditional to a Roth IRA. The new post-2007 rules eliminate this two-step process. The tax consequences of the Roth conversion are unchanged, and the Adjusted Gross Income (AGI) limitation on Roth IRA conversions - \$100,000 for joint or single filers – remain in effect for 2008 and 2009, prior to permanent repeal of the AGI limitation in 2010.

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Maximum Benefit and Contribution Limits for 2008

Estate Tax - Unified Credit

2008: \$2,000,000
2009: \$3,500,000
2010: Estate tax "repeal"
2011: Estate tax "returns":
\$1,000,000;
inflation-adjusted in
future years

Annual Gift Tax Exclusion

2008: \$12,000 per donee,
per year

Phase-out AGI Levels

Roth IRA Eligibility:
\$101,000— \$116,000 (single)
\$159,000— \$169,000 (joint)

IRA Deductibility:
(with company pension)
\$53,000—\$63,000 (single)
\$83,000—\$103,000 (joint)

Social Security/FICA:

Taxable wage base: \$102,000
Payroll tax rate: 6.20%
(max. \$6,324)
Medicare tax rate: 1.45%
(with no limits)

401(k)/403(b) Plans

Maximum Deferral:	\$15,500
Over Age 50 catch up:	\$5,000
Maximum Annual Contribution:	\$46,000, or 100% of compensation
IRA limit:	\$5,000
IRA catch-up:	\$1,000
SIMPLE limit:	\$10,500
SIMPLE catch-up:	\$2,500
Defined Benefit - Maximum Annual Benefit:	\$185,000

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