

Perspectives

June 30, 2007



Perspective on the 2nd Quarter

Overall, the second quarter of 2007 saw strong global economic growth, surprising corporate earnings, and large private equity deals that pushed the market higher. Returns were mitigated by sub-prime mortgage anxiety, the weakening housing market, and inflation fears from rising food and energy prices.

US Stocks earned positive returns across the board and all asset categories have shown double-digit gains over the past twelve months. Large caps and growth stocks performed the best during the second quarter. A falling dollar vs. foreign currencies provided US multinationals with a boost in performance, but the perceived future rate of US economic growth may have driven investors to higher quality large cap names. Energy stocks were up 14.8% year to date as retail gasoline prices rose 27% and hit an all-time high of \$3.22/gallon in May. Unrest in the Middle East, Venezuela, and Nigeria as well as capacity limits at US refiners helped push oil and gas prices to their highest levels since August 2006. Even so, consumer inflation rates in the US were lower in May than the year before. Bullish economic data reported in the quarter showed an acceleration in industrial and corporate spending and a strong employment market supported additional consumer spending. The unemployment rate remained at 4.5%, well below the 5.5% average during the past 20 years.

In the fixed income market, long term yields rose, the yield curve steepened, and bond prices dropped. The 10 year government bond yield rose to the highest level since 2002 and most investment grade bond categories posted negative returns in the second quarter, with the Lehman Brothers Aggregate bond index falling .5%. The bond yield curve has been mostly inverted for quite some time, meaning cash and short term bond yields were higher than those for longer term bonds. During the second quarter, the yield curve steepened and disinverted. Foreign investment has held yields low for quite some time. Foreign investors have purchased hundreds of billions of dollars of US investment grade bonds in recent years, helping drive down yields across various bond categories. The foreign ownership of US Treasury bonds is now larger than the holdings of US private investors, with 20% of all US Treasuries held by Japan and China alone. On March 31, foreign ownership of Treasuries hit an all-time high of more than \$2.2 trillion, with its ownership share rising to a record 46% of all outstanding Treasuries.

Our Outlook for the remainder of 2007

The market seems to no longer anticipate an interest rate cut, in spite of the ongoing national housing slowdown and the moderating economic environment. The primary reason for this appears to be the fear of an increase in the rate of inflation. The US dollar continues to weaken against other major currencies, putting upward pressure on import prices and commodities. The Fed remains vigilant in its desire to stem inflationary pressures, which we believe will cause them to hold interest rates steady, if not raise them, should the data in the coming months remain problematic. With that said, solid corporate earnings, historically low interest rates, and strong employment numbers bode well for an ebullient stock market.

As mentioned in previous Perspectives, the comparison of the earnings yield of the S&P 500 stocks versus the risk free rate as measured by the 10 year Treasury bond continues to indicate that the markets remain undervalued. Typically, this portends good things for the domestic equity market. This is one of the main reasons we remain optimistic about the outlook for US equities. Of course, in spite of our optimism, we are conscious of the tenuous nature of the geopolitical environment, which can adversely impact the global financial system. Furthermore, with oil approaching \$80 per barrel, we are entering uncharted waters as to the impact this will have on our economy and we are watching closely. As always, we thank you for your ongoing trust and confidence in our management of your assets.

We welcome the opportunity to discuss any of these issues should you have any questions.

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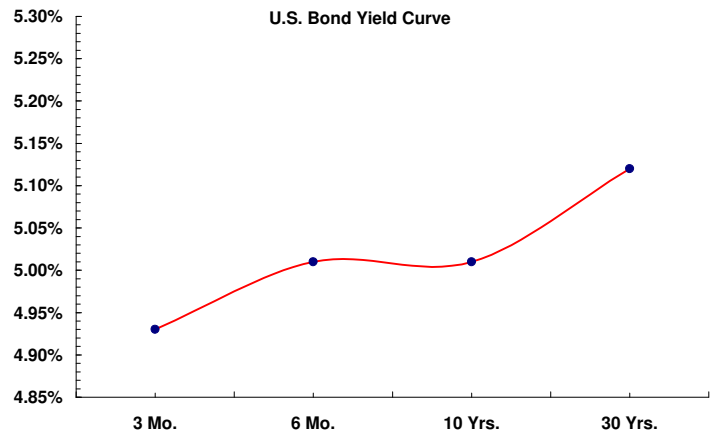
Richard Archer, CFA

Index Returns

	YTD	2006
S&P 500 Index	6.96%	15.79%
Dow Jones Industrial Avg.	8.76%	16.29%
Russell 2000 Index	6.45%	18.45%
Lehman Bros. Agg. Bond	0.98%	4.33%
MSCI EAFE Int'l Index	10.74%	26.34%

Economic Data

	6/30/2007	4th Quarter 2006
Fed Funds Rate	5.25%	5.25%
6 Month Treasury Bill	5.01%	5.08%
10 Year Treasury Note	5.01%	4.68%



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