

Capital Market Review • First Quarter 2007

The first quarter of 2007 started out building on the impressive gains of last year, but stalled in the middle of the quarter when the market was hit with some unexpected news. The sell-off in the Asian markets in February, especially China falling 8% in one day, sent the U.S. markets reeling. Inflation concerns continued to be in the forefront of investors' minds as economic data gave no real indication of what the Fed's next move would be. The increasing concern from investors, that it is possible the economy could slip into a recession, came into play in the second half of the quarter. Fear of the sub-prime mortgage market, and in particular defaults and losses for companies that have extended the loans to individuals, sent shock waves throughout the market. The extent of how these particular mortgages would affect the economy was uncertain. The feeling by the end of the quarter was that the vast amount of defaults and losses to companies would be seen in a few regions, but not enough to affect the economy as a whole. The tensions in Iran were another factor that weighed on the market during the quarter.

The Federal Reserve continued to hold short-term interest rates steady leaving the Fed fund's rate at 5.25%. The Fed is watching inflation closely and it will be the main indicator as to what their next move will be.

Oil prices had another wild ride during the quarter, beginning the year at \$61.05 and falling to \$50 in January due to continued signs that it was a milder-than-expected winter. The price of oil rallied from its January low to close the quarter at \$65.87 because of signs of an increase in demand and a cut in production by OPEC.

The first quarter of 2007 provided investors with gains across most of the major equity indices. The international investment arena was the best place for investors with the MSCI EAFE gaining 4.1% so far this year. Real estate, represented by the Dow Jones Wilshire REIT Index, started the year with an 8.9% return in January before giving over half of it back to finish the quarter up 3.6%.

Small caps, represented by the Russell 2000, gained 2.0% for the first three months of 2007 with large caps lagging behind once again. The S&P 500 was barely in positive territory, up 0.6%, and the Dow Jones Industrial Average slipped 0.3%.

The fixed income market, both domestically and internationally, saw gains for the first quarter. The Lehman Brothers Aggregate Bond Index, index of the broad fixed income market, finished with a 1.5% gain. The municipal bond market, represented by the Lehman Brothers Municipal Bond Index, returned 0.8%. The world bond market, represented by the Citigroup Non\$ World Government Bond index, also moved into positive territory with a gain of 1.1%. The high yield market, represented by the Credit Suisse High Yield Index, was the best performing area of the fixed income market surging 3.0% for the first quarter.

Commodities continued to show strength with a 4.6% return this quarter after a gain in 2006 of 2%.

STOCK MARKET

All of the major benchmarks were able to start 2007 off with gains in the first three months. The Dow Jones AIG Commodity Index led the way for the first quarter with a 4.6% gain. The index returned 9.4% for investors for the last twelve months. The MSCI EAFE continued to show strength with a 4.1% return and a gain of 20.2% for the year. The Dow Jones Wilshire REIT index finished closely behind the MSCI EAFE for the quarter, posting a return of 3.6% and a very impressive 21.9% for the twelve month period. The Russell 2000, index of small company stocks, returned a modest 2.0% for the quarter but it was good enough to beat out the S&P 500's, index of large company stocks, return of 0.6%. The Russell 2000 and S&P 500 both gained 5.9% and 11.8% respectively for the year.

Market Returns

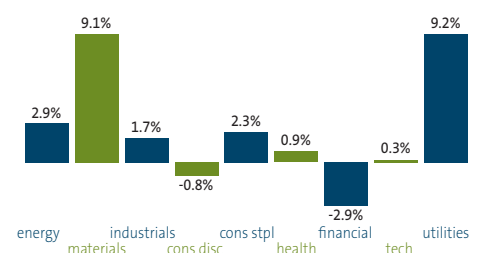
	3 months ended 03/31	1 year ended 03/31
T-Bills	1.3%	5.2%
Lehman Bros. Aggregate Bond Index	1.5%	6.6%
S&P 500	0.6%	11.8%
Russell 2000	2.0%	5.9%
EAFE	4.1%	20.2%
Wilshire REIT	3.6%	21.9%

Returns by Equity Manager Style

	3 months ended 03/31	1 year ended 03/31
Large Value	1.1%	14.0%
Large Growth	1.3%	4.5%
Small Value	2.5%	7.6%
Small Growth	3.0%	1.1%
International	3.6%	18.1%
Real Estate	3.6%	22.3%

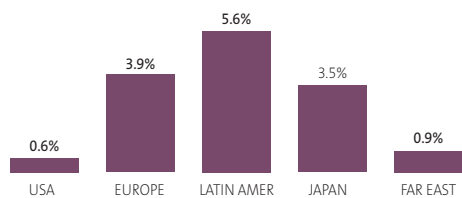
After high single digits and low double digit returns during the fourth quarter of 2006, the first three months of 2007 built on those gains. International Equities and Real Estate battled it out for the top spot before finishing 3.6% each for the quarter. Real Estate was the winner for the twelve month period returning 22.3% to International Equities second place 18.1%. Reversing a trend from the previous couple of years, growth beat out value this quarter. Large Cap Growth gained 1.3% to Large Value's 1.1%. Small Cap Growth added 3.0% to push past Small Cap Value's 2.5%. Both Value styles have trounced their counterparts for the twelve month period, however. Small Value surpassed Small Growth 7.6% to 1.1%. Large Value beat Large Growth 14.0% to 4.5%.

Stocks by Sector for the 3 months ended 03-31-07



Most sectors of the stock market had positive returns for the quarter, and every sector gained for the twelve month period. Materials and Utilities led the way for the first three months of 2007 returning 9.1% and 9.2% respectively. They also were the best sectors over a twelve month period with Materials adding 20.1% and Utilities gaining 33.4%. Energy, Industrials, and Consumer Staples were in the middle of the pack with gains of 2.9%, 1.7%, and 2.3% respectively. For the year, Energy added 12.3%, Industrials rose 7.1%, and Consumer Staples surged 15.0%. The Healthcare and Technology sectors finished close to unchanged with slight gains during the quarter of 0.9% and 0.3% respectively. Healthcare and Technology continued to lag though with 6.3% and 6.9% gains for the twelve months putting those sectors in the bottom two. Consumer Discretionary and Financials lost money for investors for the first quarter with a loss of 0.8% and a loss of 2.9% respectively. Financials were mainly hit by concerns in the sub-prime mortgage market. Consumer Discretionary returned 14.1% for the twelve month period with Financials adding 11.9%.

Stocks by Region for the 3 months ended 03-31-07



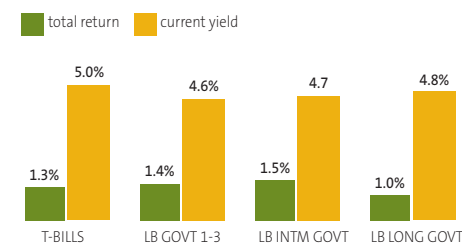
The five major regions of the world experienced a positive quarter and a positive year. Latin America built on a 21.1% gain in the fourth quarter to return 5.6% this quarter. It is now the top region of the world for the twelve month period returning 28.1%. Europe and Japan returned 3.9% and 3.5% for the first three months, continuing to build on the big gains in the fourth quarter of last year. Europe gained 25.4% for the last twelve months. Even with Japan's 3.5% this quarter, the region was only able to return 3.0% making it the worst performing major region in the world for the last twelve month period. After a strong finish last year, the United States remained essentially unchanged with a 0.6% return for the first

quarter. The region was able to gain 11.8% over the last twelve months, however. The Far East joined the United States as the worst performers so far in 2007 with a 0.9% return. The Far East remained solidly in positive territory with a 20.5% for the twelve month period.

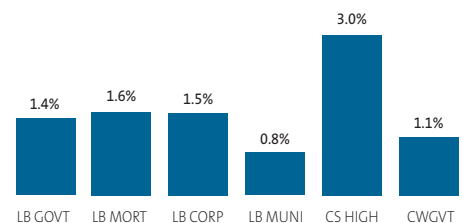
BOND MARKET

The Federal Reserve continued to keep the Fed fund's rate at 5.25% for the third consecutive quarter and the sixth consecutive meeting. Investors were unable to draw any conclusions from the economic data as to whether the Fed would lower rates or raise rates in the near future. Economists are split on what the next move will be. The bond market did see gains across the board in the first quarter. The Lehman Brothers Aggregate Bond Index, a broad fixed income benchmark, returned 1.5% for the quarter, beating T-bills 1.3% gain. It also beat T-bills for the twelve month period adding 6.6% to T-bills 5.2%. All areas of the government bond market added to gains in the fourth quarter of last year with Intermediate Government Bonds leading the way with a 1.5% return. Short Government Bonds and Long Government Bonds were up 1.4% and 1.0% respectively. Intermediate, Short, and Long Government Bonds increased 5.1%, 5.8%, and 6.9% respectively for the last twelve months ending in March.

Bonds by Maturity for the 3 months ended 03-31-07



Bonds by Sector for the 3 months ended 03-31-07



All bond sectors gave investors positive returns for the first quarter of 2007. High Yield bonds, represented by the Credit Suisse High Yield Index, led the way again with a 3.0% return. The sector also remains the top performing bond sector for the twelve month period with a gain of 11.8%. Governments, Mortgages, and Corporates rose more than one percent to end the quarter at 1.4%, 1.6%, and 1.5% respectively. All three sectors were good places for investors to be during the last twelve months with returns of 5.9%, 6.9%, and 7.1% respectively. Gaining just over one percent was World Government bonds coming in at 1.1% for the first three months and adding 8.3% for the year, trailing only High Yield Bonds during that time period. Municipals was the worst part of the bond market to be during the last quarter and last twelve months, but still managed to finish up for both time periods with gains of 0.8% and 5.4% respectively.

COMMODITIES MARKET

The Dow Jones AIG Commodity Index built on impressive gains in the last quarter of 2006 to return 4.6% making the best performing asset class for the first quarter. The index finished the twelve month period with a strong return of 9.4%. The price of oil was extremely volatile in the first quarter falling 22% to \$50 a barrel before rallying almost 32% to finish the quarter up at \$65.87 a barrel. Gold rose 4.4% to finish the quarter at \$663 an ounce. Nickel continued to hit record highs and contributed positively to the index.

CURRENCY MARKET

The U.S. Dollar continued to weaken against the Euro in the first quarter. The Euro gained 1% against the U.S. Dollar for the three month period, building on a gain of more than 11% in 2006. The Dollar rose 1% against the Yen during the quarter after a 1% gain in 2006. Where the U.S. Dollar goes from here is anyone's guess. One thing that you can be sure of is that the volatility in the currency market will remain. ■