

Capital Market Review • Fourth Quarter 2007

The fourth quarter of 2007 was challenging for all the major equity averages. The third quarter saw volatility return to the market in a big way. The fourth quarter was equally as volatile as well. October posted solid gains only to give them up and then some in November and December. Bonds were the standout in the quarter, posting solid gains across all areas of the market. The Lehman Brothers Aggregate Bond Index, an index of the bond market, returned 3.0% making it the only major index to finish the quarter in positive territory. The Index posted a solid 7.0% gain for the year. The S&P 500, Russell 2000, MSCI EAFE, and DJ Wilshire REIT all suffered losses during the fourth quarter. The S&P 500 Index, an index of large company stocks, closed the last quarter of 2007 with a 3.3% loss and posted a gain of 5.5% for the year. The Russell 2000 Index, an index of small company stocks, dropped 4.6% in the fourth quarter pushing its return for 2007 into negative territory with a 1.6% loss. The MSCI EAFE Index, an index of international stocks, shed 1.8% during the quarter, but still posted an impressive gain of 11.2% for the year. DJ Wilshire REIT Index, an index of real estate companies, suffered a 13.5% loss in the fourth quarter and ended with a 17.6% decline for the year.

Concern about the credit markets continued this quarter forcing the Federal Reserve to step in and lower the Fed Fund's rate to 4.25%, down from 5.25% at the start of the year. Consumer spending was also a concern during the quarter as it became apparent the holiday season was going to come in weaker than expected. Investors worried this could potentially push the United States into a recession since the consumer makes up 70% of the GDP. Oil prices rose during the quarter and hit \$100/barrel for the first time ever before falling back to \$95.98 at the end of the year. Recession worries came to the forefront in November and December as investors began to fear that our economic problems could spread overseas. The overseas markets sold off as well in the quarter. The housing market was a top headline again this quarter as has been the case all year. Financial institutions exposure to subprime and other complex investment vehicles was a worry to investors again this quarter. Billions of dollars in losses from some of the big banks had investors concerned about how much exposure was still out there and what companies it would affect next. The financial sector was one of the worst areas of the market to invest in 2007 with real estate being the worst sector. After seven straight years of impressive and unprecedented gains,

real estate mutual funds suffered double digit losses. The weakening of the U.S. Dollar versus other currencies was a major headline most of the year. The Euro, Australian Dollar, and Canadian Dollar gained considerably against the U.S. Dollar, strengthening more than 10% each.

If the second half of 2007 is any indication, 2008 should be a year filled with volatility in both the bond and stock market. There are many things that will weigh on the minds of investors in the coming year. The housing market will continue to be a big story, along with talk of a recession, the presidential election, the credit markets, financial institutions' subprime exposure, Federal Reserve meetings, overseas markets, consumer spending, oil prices, and many others.

STOCK MARKET

The fourth quarter was mainly negative for the major averages. The Lehman Brothers Aggregate Bond Index, an index representing the bond market, built on gains from the third quarter to finish with a return of 3.0%. The Lehman Brothers Aggregate Bond Index finished 2007 with an impressive 7.0% return. The S&P 500 Index, an index of large company stocks, couldn't keep the momentum it built in September and fell 3.3%. The S&P 500 ended the year up 5.5%. The Russell 2000 Index, an index of small company stocks, lost 4.6% in the quarter pushing its return for the year to -1.6%. The MSCI EAFE Index, an index representing international stocks, gave up 1.8% during the quarter finishing 2007 with a gain of 11.2% making it the best performing major stock market index. The Dow Jones Wilshire REIT Index, an index representing real estate companies, suffered the worst dropping 13.5% in the fourth quarter. The index finished the year with a dismal 17.6% loss.

Market Returns

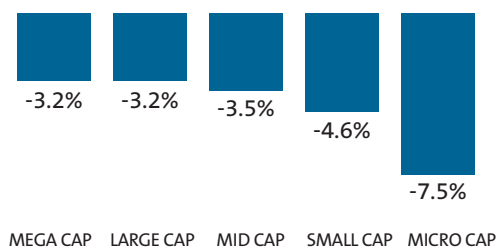
	3 months ended 12/31/07	YTD ended 12/31/07
T-Bills	0.9%	4.8%
Lehman Bros. Aggregate Bond Index	3.0%	7.0%
S&P 500	-3.3%	5.5%
Russell 2000	-4.6%	-1.6%
EAFE	-1.8%	11.2%
Wilshire REIT	-13.5%	-17.6%

Returns by Equity Styles

	3 months ended 12/31/07	YTD ended 12/31/07
Large Value	-5.1%	1.3%
Large Growth	-0.7%	13.2%
Small Value	-6.8%	-6.2%
Small Growth	-3.6%	7.3%
International	-1.8%	13.0%
Real Estate	-12.1%	-14.7%

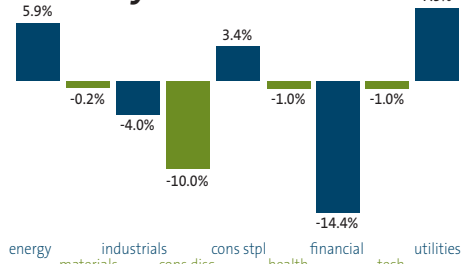
All equity manager styles lost money during the volatile fourth quarter, but posted mixed results for the year. Real Estate was the biggest loser during the quarter with a 12.1% loss. The real estate category ended 2007 with a return of -14.7%. Small Value had a tough fourth quarter dropping 6.8% and pushing its return this year to a loss of 6.2%. Large Value fell during the quarter 5.1%, but finished the year barely in positive territory with a 1.3% gain. The growth style was decisively better than value for the quarter and the year. Small Growth finished the quarter with a loss of 3.6%, but rose 7.3% for the year. Large Growth was the best performing style during the quarter, but couldn't get into positive territory losing 0.7%. Its return for 2007 of 13.2% makes it the best equity manager style of the year barely beating out international equities. International Equities lost 1.8% for the fourth quarter and gained an impressive 13.0% for the year.

Return by Market Cap



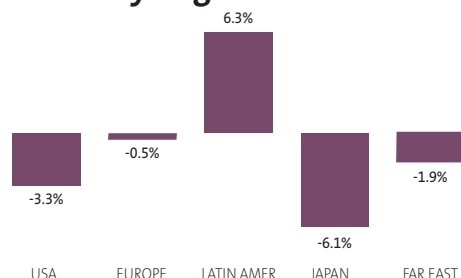
Returns across all market caps were negative for the last three months of the year. The results were mixed, however, for the year. Micro Caps fared the worst during the fourth quarter falling 7.5% and ending the year down 8.0%. Small Caps shed 4.6% for the quarter bringing its 2007 return to -1.6%. Mid Caps, Large Caps, and Mega Caps lost 3.5%, 3.2%, and 3.2% respectively in the fourth quarter. Mid Caps finished the year with a 5.6% gain, Large Caps ended with a gain of 5.8%, and Mega Caps added 4.9%. After years of outperformance by Small Caps, the rotation to Large Caps is well under way.

Stocks by Sector



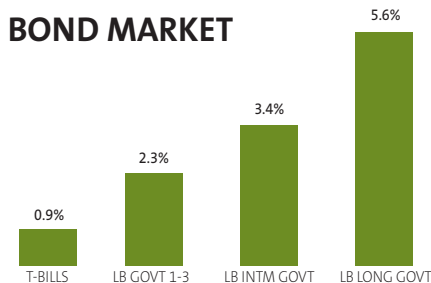
The fourth quarter returns were mixed for the sectors of the stock market. Utilities and Energy led the way with gains of 7.5% and 5.9% respectively. Utilities finished the year with an impressive gain of 19.1%, but wasn't able to keep up with the 36.4% surge of the Energy sector. Consumer Staples was the only other sector that produced a positive return in the fourth quarter gaining 3.4% bringing its return to 12.5% in 2007. Materials and Healthcare finished the quarter close to unchanged at -0.2% and -0.1% respectively. Materials ended the year up 22.0% trailing only Energy as the best performing sector. Healthcare finished 2007 adding 6.9%. Technology lost 1.0% during the fourth quarter, but finished the year with an impressive 15.2% gain. Industrials dropped 4.0% during the quarter, but they were still able to finish the year with a 13.2% return. The two worst sectors for the last quarter of the year were also the worst sectors for the year. Most of Financials losses came during the fourth quarter when it lost 14.4% pushing its 2007 return further into negative territory down 18.8%. Consumer Discretionary gave back 10.0% during the quarter due to the sentiment of consumer spending slowing. The sector lost 13.4% for the year.

Stocks by Region



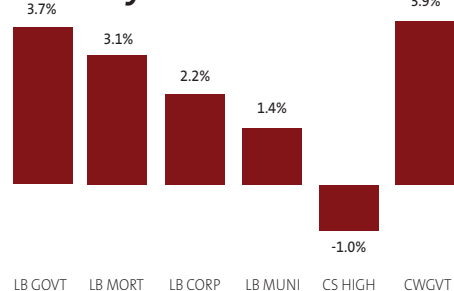
The major regions of the world posted losses during the fourth quarter with Latin America being the lone exception. Latin America returned 6.3% for the last quarter of the year bringing its 2007 total return to an impressive 46.9%. Europe lost only 0.5% during the quarter, but finished the year with 13.9% gain trailing Latin America and the Far East by a wide margin. The Far East dropped 1.9% during the fourth quarter, but it surged 33.4% for the year. The United States lost 3.3% for the quarter, but still managed to gain 5.5% year to date. Japan remained the weakest performing region losing another 6.1% for the fourth quarter and ending the year down 4.2%.

BOND MARKET



The bond market showed strength in the quarter as investors looked for safety from the volatile stock market. The Lehman Brothers Aggregate Bond Index, a broad fixed income benchmark, gained an impressive 3.0%. The index finished the year with 7.0% return beating the S&P 500 by 1.5%. Yields on the longer and shorter end of the curve fell in anticipation of more rate cuts by the Federal Reserve. Indeed, the Fed lowered rates twice during the quarter by 25 basis points each time sending the Fed fund's rate to 4.25%. Government bonds did better than Corporate bonds during the quarter due to the added safety they provide. Longer maturity bonds outpaced shorter maturity bonds during the quarter. The Lehman Brothers Long Government Index surged 5.6% in the fourth quarter finishing the year up 9.7%. The Lehman Brothers Intermediate Government Index gained 3.4% in the quarter and ended 2007 with an 8.5% return. The Lehman Brothers 1-3 Year Index added 2.3% in the fourth quarter and ended the year up 7.1%. All maturities outpaced T-Bills for the quarter and the year. T-Bills gained 0.9% for the fourth quarter and finished 2007 with a return of 4.8%.

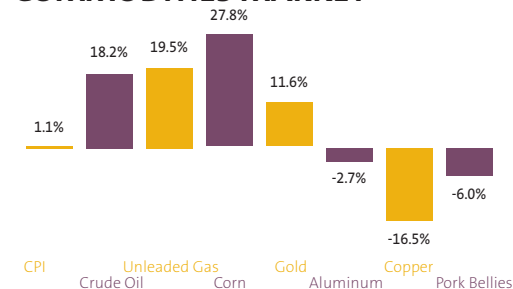
Bonds by Sector



It was generally a very good quarter for all sectors of the bond market. The high yield sector was the only one to post a loss. World Government bonds lead the way gaining an impressive 3.9% this quarter adding to its gain of 8.1% last quarter. World Government finished the year up 11.5%. Government bonds gained another 3.7% this quarter to end the year up 8.7%. Mortgages were strong in the fourth quarter and added 3.1% bringing its total return for 2007 to 6.9%. Corporates were weaker than Government and Mortgages, but still had a respectable showing returning 2.2% this quarter and ending the year with a 5.1% return. After a dismal first half of the year, Municipals built on gains from the third quarter and were up another 1.4% this quarter to

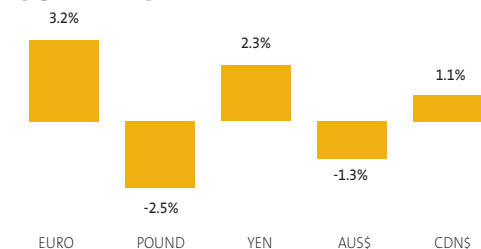
finish the year up 3.4%. High Yield bonds were unable to get into positive territory and lost 1.0% as investors looked for safer options in the bond market. They did manage to finish the year with a 2.7% gain, however.

COMMODITIES MARKET



The Dow Jones AIG Commodity Index continued its upward move during the quarter gaining 4.7% and finishing 2007 with another impressive showing. The index gained 16.2% for the year. Corn was a big winner during the quarter in the commodities market surging 27.8% and pushing it into positive territory for the year up 16.6%. Crude Oil and Unleaded gas rose 18.2% and 19.5%, respectively. Crude Oil finished the year with a 51.3% gain while Unleaded gas surged 38.8%. Gold gained 11.6% in the quarter, hitting a record high, and closing at \$834.90 at the end of the year. Gold finished the year with a 31.2% gain. Aluminum lost 2.7% during the quarter bringing its return for 2007 to a disappointing -14.4%. Copper fell 16.5% in the fourth quarter, but still managed to stay positive with return of 6.2%. Pork Bellies dropped 6.0% for the last quarter of the year and finished 2007 with a 1.3% return.

CURRENCY MARKET



The U.S. dollar was mixed against the other major currencies in the fourth quarter. However, for the year, the U.S. Dollar weakened against all major currencies. The Euro strengthened 3.2% against the Dollar in the quarter and ended the year up 11.6%. The Yen gained 2.3% for the fourth quarter and finished the year with a 6.0% gain. The Canadian Dollar rose slightly for the last three months of the year up 1.1% and strengthened 18.8% from the beginning of 2007. Even though the Australian Dollar weakened against the U.S. Dollar by 1.3% in the quarter, it didn't detract too much from the 11.1% gain for the year. The British Pound lost 2.5% in the fourth quarter to the Dollar, but finished the year 2.0% stronger.