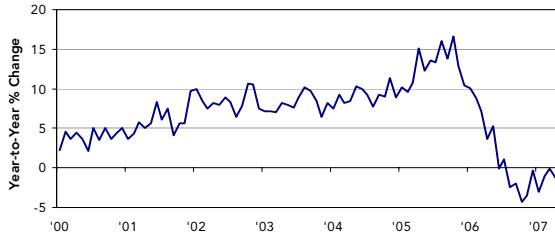


Economic Review

During June, national and world events continued to search for direction. The U.S. floated plans for installing a missile shield in Europe, which was met with strong objections from Russian leader Vladimir Putin. The Palestinian government split into two separate factions after a bloody encounter in which Western-backed Fatah remained in control of the West Bank and Iran-backed Hamas seized control of the Gaza Strip. Britain's new Prime Minister, Gordon Brown, was tested during his first week in office, following thwarted attempts to detonate car bombs in London and an attack in Scotland.

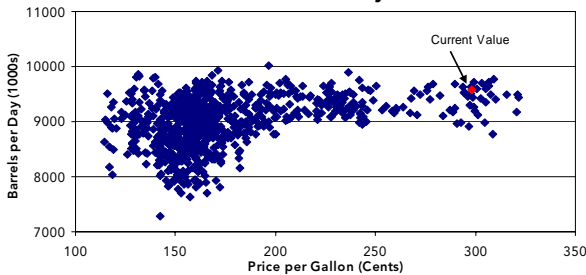
Median Existing Home Prices



Source: National Association of Realtors

The domestic housing market continued to struggle, as prices vacillated around near-term lows. Year-over-year existing home prices fell for the tenth consecutive month, although values have risen for four straight months, according to the National Association of Realtors. Home builders continued to unload land parcels bought during the housing boom, further signaling an ongoing slowdown in new-home construction.

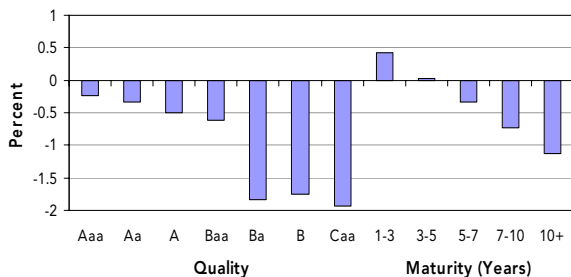
Gasoline Demand Little Affected by Price



1991-2007; Prices adjusted for inflation; Demand adjusted for population growth
Source: Energy Information Administration; US Census Bureau

Oil prices rose from \$64/barrel in May to close June at \$70, the first time that price level has been breached since August 2006. Perceived future market demand drove prices higher. Congress tested the idea of imposing a multi-billion dollar tax on domestic oil production, as part of a limited energy reform, which also included higher fuel mileage standards. Gasoline prices eased inappreciably, with many refineries remaining offline. Data shows that gasoline consumption has been unaffected by higher prices, as per-capita usage has increased steadily since 1991.

June Bond Returns by Quality and Maturity



Source: Lehman Brothers

Inflation concerns continued to discourage interest rate cuts by the Federal Reserve. Core inflation, which excludes food and energy, remained slightly above 2%. On the other hand, consumers have witnessed food prices rise much faster over the past year. The two main culprits are the Congressional ethanol usage mandate and severe weather conditions. Increased usage of corn for ethanol production has caused markedly higher prices for corn syrup and livestock feed, which are passed through at the supermarket. Drought conditions in California and the Southeast have hurt fruit production, while continued torrential rain in the lower-central U.S. has decimated wheat crops.

Fixed income markets were taken aback as two Bear Stearns hedge funds plunged in value. The funds invested in high-risk mortgage bonds, which were pooled together into collateralized debt obligations (CDOs). As the upsurge in foreclosures negatively affected the securities in the funds, the manager tried to hedge the risk, but ended up in worse condition. Creditors, who had lent nearly 90% of the funds' value, seized the collateral, prompting a multi-billion dollar loan from Bear Stearns to save one of the two funds.

The yield curve temporarily moved to a position of full-upslope, following an extended period of inversion. The prospect of improving growth and the diminished probability of interest rate cuts prompted the move. Yields across all maturities remained below the Fed Funds rate, suggesting a view of ongoing below-trend growth and elevated risk.

As of June 30, 2007

	June	3 Months	YTD
S&P 500	-1.7%	6.3%	7.0%
Russell 1000 Value	-2.3%	4.9%	6.2%
Russell 1000 Growth	-1.5%	6.9%	8.1%
Russell 2000	-1.5%	4.4%	6.5%
MSCI EAFE	0.1%	6.4%	10.7%
LB Agg	-0.3%	-0.5%	1.0%
3-Month T-Bills	0.4%	1.2%	2.5%