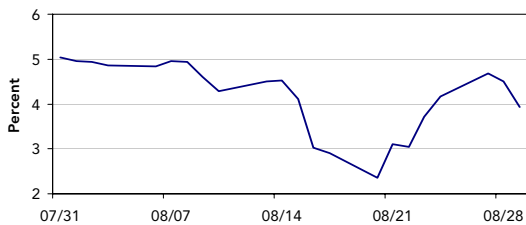


Economic Review

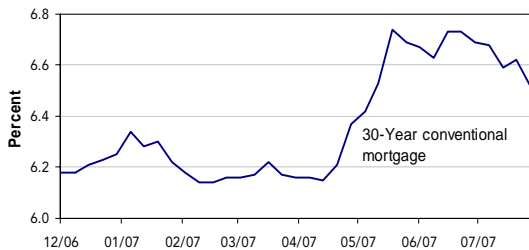
August was a month marked by melancholic events and political tensions. Early in the month, an interstate highway bridge collapsed in Minnesota, taking nine lives, and renewing calls for additional spending on infrastructure maintenance, in addition to new construction. A coal mine collapse in Utah took the lives of six miners and three rescuers. The tragic event raised calls for increased federal regulation at a time when energy needs worldwide demand expanded mining operations. Russia resumed a Cold War ploy when it claimed Arctic Sea lands extending to the North Pole. Canada and Nordic countries responded with a protest citing a violation of the Law of the Seas Treaty, which defines territorial claim and use limits over ocean waters. The lands are suspected to contain vast riches of oil, gas, and minerals. French President Sarkozy gave his first foreign policy speech, pleading the importance of deterring Iran, through negotiations or ultimately force, from building or acquiring nuclear weapons. The policy speech represented a turnabout from previous policies whose ambivalence belied the tragic possibilities of such an outcome.

U.S. 4-Week T-Bills Yield



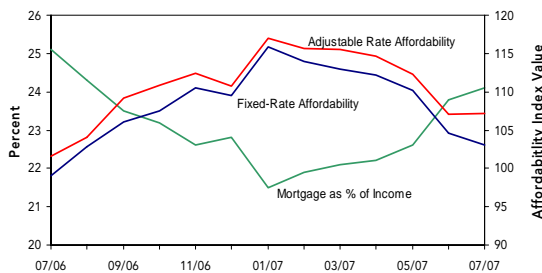
Source: Federal Reserve

Mortgage Rates Off From Peak



Source: Federal Home Loan Mortgage Corporation

Mortgage Affordability Falls



Source: National Association of Realtors

Financial markets worldwide were roiled as the subprime lending fallout spread to other segments of the credit markets. The trigger in August was a suspension of redemptions from a French hedge fund run by BNP Paribas. The \$2 billion fund was comprised of collateralized debt obligations (CDOs). Prices of current holdings were based upon the recent transactions of similar securities - a pricing method known as mark-to-market. Problems arose when the market for the underlying securities contracted to a near trickle. Stemming from a lack of trading activity and “reasonable” current prices, the hedge fund declared that it could not value the securities in the portfolio, and thus could not sell any to raise cash for redemptions.

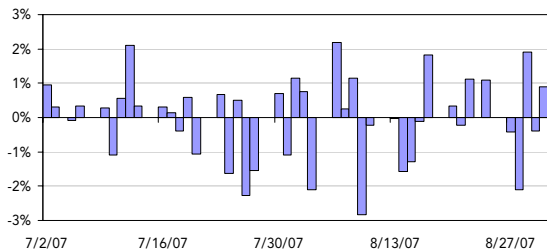
Sentinel Management Group, a manager of money market funds for institutions and hedge funds, collapsed as withdrawal requests could not be fulfilled. The manager’s money market funds had invested in CDOs in an attempt to bolster returns. The strategy ultimately led to its downfall as it too was unable to sell securities. The ensuing tumult drove billions of dollars into the safety of short-term U.S. Treasury bills. The overwhelming demand drove down the yield on 1-month bills from 4.77% to a low of 2.35% over a two-day period. Yields on bonds fall as the prices rise.

Mortgage industry leader Countrywide Financial tapped its full credit line of \$11 billion after it was unable to sell current loans to investors to free up reserves and other borrowing avenues became unavailable. Bank of America provided a separate \$2 billion in return for an equity stake. A lack of funds would have prompted a curtailment of loans, limiting new issues to the value of payments received on existing loans. In addition to Countrywide, several lenders, including Lehman Brothers, shuttered their subprime lending operations. Layoffs and planned layoffs have affected tens of thousands of employees connected to the mortgage industry.

Following the BNP Paribas issue, the European Central Bank announced it would lend money to banks at below market rates as an initial step to improve the liquidity situation. Immediately following with similar actions were the Bank of Japan and the Federal Reserve. Throughout the month, over \$300 billion was made available worldwide in efforts to provide liquidity to markets. These actions were the first policy implementations of their type since the 9/11 aftermath in 2001.

Economic Review

Dow Jones Industrial Average Daily Changes

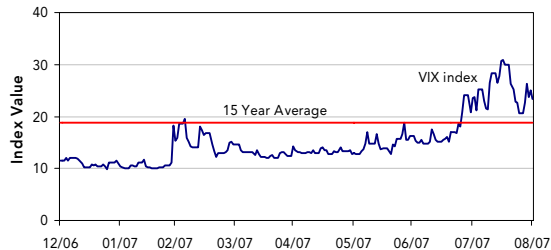


Source: Bloomberg

On August 17, the Federal Reserve lowered the discount rate, the rate it charges to banks for overnight loans, from 6.25% to 5.75%. Furthermore, it actively encouraged banks to borrow from the discount window and took steps to allow some mortgage-backed securities as collateral, in an attempt to stabilize the fixed-income markets and reestablish activity for the securities.

The Federal Reserve is widely expected to cut the Federal Funds rate when it meets on September 18. The cut will provide relief for businesses and consumers whose borrowing rates are tied to the Prime Rate, which moves in a complementary fashion. The European Central Bank meets in early September. Market expectations are split between a rate increase and no change in interest rates.

Equity Market Volatility Accelerates

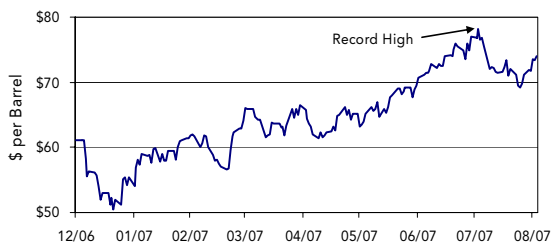


Chicago Board Options Exchange S&P 500 Volatility Index

Equity markets reacted strongly to ongoing events in the credit and housing markets. From peaks in early to mid July, major equity indexes suffered 10% or greater losses, crossing the threshold that many investors consider a correction. Volatility reflected large swings in the equity markets as hopes of interest rate cuts and troubles in the housing sector ebbed and flowed. Twelve days in August saw changes in the Dow Jones Industrial Average of greater than 1%.

Housing markets performed poorly as year-to-year median values continued to fall. August was the twelfth consecutive month of flat or negative growth for existing home-sale prices. Housing supply continued to grow, finishing July at 9.6 months supply, compared to a low of 3.6 months in January 2005. Supply rose as mortgage rates rose from early 2007, buyers held out of the market, and sellers added homes to the market in anticipation of further price contraction. Condominium and home builders saw a surge in order cancellations, further exacerbating the oversupply.

Oil Prices Remain Elevated



Source: Bloomberg

Oil prices vaulted to record highs on August 1, as prices reached \$78.77 per barrel. Gasoline prices fell as more refineries came online and refinery utilization rose to over 90% from a low of 85% in February. Gasoline inventories fell to a record low level of 20 days supply.

Torrential and continuous rains from Iowa to Ohio left many homes inundated with flood water. Several states declared disaster areas which opened up avenues for federal monetary assistance. Hurricane Dean, which struck the Mexican coast, was the first category five storm to make landfall since Hurricane Andrew devastated southern Florida in 1992. Oil and gas producing rigs were marginally disrupted.

Consumers were confronted with large toy recalls by Mattel. The first recall was prompted by the use of lead paint on Chinese-manufactured children's toys. Permanent brain dysfunctions are caused by ingestion of lead during early childhood. The second recall centered around a design flaw in toys containing small magnets. The flaw allowed the magnets to break loose, which resulted in several instances of ingestion by young children.

As of August 31, 2007

	August	3 Months	YTD
S&P 500	1.5%	-3.3%	5.2%
Russell 1000 Value	1.1%	-5.8%	2.5%
Russell 1000 Growth	1.6%	-1.5%	8.2%
Russell 2000	2.3%	-6.1%	1.4%
MSCI EAFE	-1.6%	-2.9%	7.4%
LB Agg	1.2%	1.8%	3.1%
3-Month T-Bills	0.3%	1.1%	3.2%