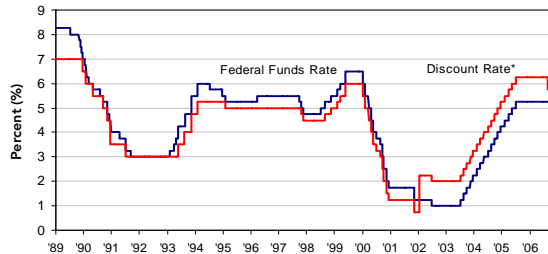


Economic Review

Early in September, Mexican oil pipelines were attacked by guerrilla fighters in an ongoing political struggle. The action left oil prices largely unaffected as fears of terrorist culpability were dismissed. Japanese Prime Minister Abe stepped down after his party was soundly defeated in July elections. He served one year and was succeeded in office by Yasuo Fukuda. Vladimir Putin dissolved the cabinet of the Russian Prime Minister ahead of upcoming elections, and appointed longtime loyalist Zubkov as the new Prime Minister. The move is not expected to fundamentally change Russian political directives from their current courses.

Federal Reserve Target Interest Rates

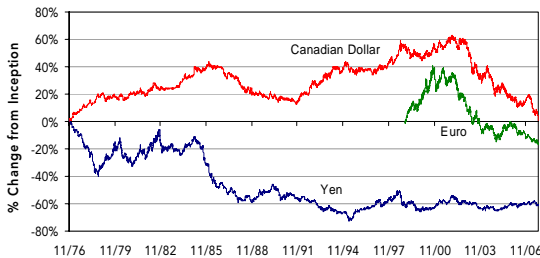


*Discount Window Primary Credit replaced Discount Rate on Jan. 9, 2003

Following the slowdown in credit markets resultant from subprime lending problems, the Federal Reserve lowered the Federal Funds rate and discount rate 50bps each. The action brought the Federal Funds rate to 4.75% and the discount rate to 5.25%. The move was predicated on averting a potential spillover into areas of the economy beyond housing and credit lending.

The U.S. dollar fell sharply against most world currencies following the interest rate cut. The Canadian dollar reached parity for the first time since November 1976, while the Euro rose to an all time high against the U.S. dollar. Gold prices ascended to levels not seen since 1980. The bond markets responded with a rise on longer-term yields, concluding that future rate hikes will be needed to avert an implied rise in inflation. Equity markets rallied 3% in the hours following the Federal Reserve action and crude oil prices rose to a record high of \$83.80 per barrel, with many dollar-denominated commodities also trading higher.

U.S. Dollar Weakness Accelerates

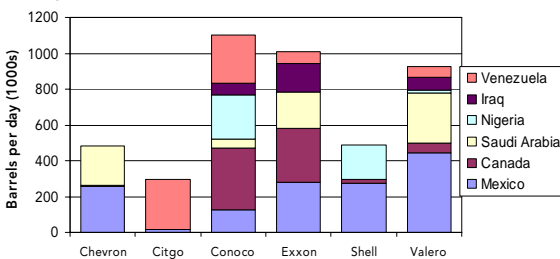


Inception of November 25, 1976

Source: Bloomberg

Housing markets continued to experience downward pressure as homebuyers avoided purchases at current prices, foreshadowing continued price contraction before the current plight eases. Existing home sales fell to their slowest pace since August 2002. Homebuilder Hovnanian discounted prices by as much as 30% on new homes and saw volume jump tenfold, highlighting the need for further price declines before markets reach a stable equilibrium.

Oil Imports from Selected Countries



Source: Bloomberg / American Petroleum Institute

Taxpayers may shoulder the burden of mortgage defaults as Federal Housing Administration (FHA) rules are being amended to allow reassignment of outstanding loans to its coverage. The proposed rules allow default guarantees on loans with less than 3% down payments and with home equity values less than the outstanding mortgages. The change may expose U.S. taxpayers to the liability of billions of dollars of mortgages expected to default in 2008.

	As of September 30, 2007		
	September	3 Months	YTD
S&P 500	3.7%	2.0%	9.1%
Russell 1000 Value	3.4%	-0.2%	6.0%
Russell 1000 Growth	4.2%	4.2%	12.7%
Russell 2000	1.7%	-3.1%	3.2%
MSCI EAFE	5.4%	2.2%	13.2%
LB Agg	0.8%	2.8%	3.8%
3-Month T-Bills	0.3%	1.1%	3.5%

General Motors and the United Auto Workers negotiated a landmark deal aimed at solving the looming healthcare liability crisis facing U.S. automakers. The agreement focused on establishing an independent healthcare trust, which would initially be funded by the automakers and would relieve the companies of nearly \$100 billion in future healthcare liabilities. The trust is expected to save automakers nearly \$5 billion annually. Additional terms of the agreement included domestic production guarantees and wage cuts.

Congress debated an energy bill that would outlaw incandescent light bulbs by the next decade. China Construction Bank became the largest bank by market-cap, exceeding the current leader Citibank.