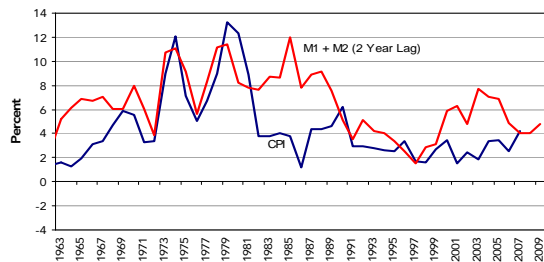


Economic Review

Political events resulted in change and turmoil during December. Presidential hopefuls in the U.S. campaigned on differing platforms for policy and economic changes before the upcoming Iowa caucus and early primaries. Former Pakistani Prime Minister Benazir Bhutto was assassinated days before national elections, prompting unrest and a postponement of the election until late February. Venezuelan leader Hugo Chavez was defeated in his attempts to alter the country's constitution to take wider control of economic and social institutions and allow an unlimited reign in office.

Money Supply Influences Inflation



Sources: Federal Reserve, Economy.com

The Federal Reserve cut interest rates for the fourth time in 2007, bringing the Federal Funds Rate and Discount Rate down to 4.25% and 4.75%, respectively. Market reaction was strongly negative, following anticipation of quicker and larger rate cuts. Inflation remained a concern, as wholesale prices jumped 3.2% in November, the largest gain since 1973. The overall growth in money supply has remained low, as monies provided to markets have been short-term loans.

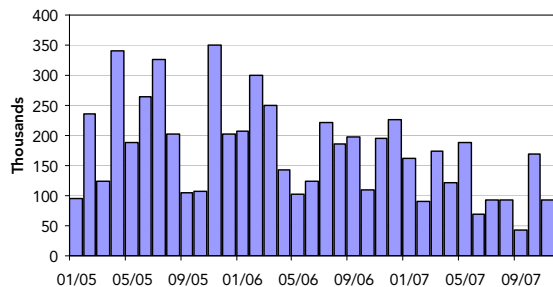
Wholesale Gas Prices Rise Again



Source: Bloomberg

The European Central Bank offered \$500 billion in short-term bank loans to provide for year-end liquidity, given severely restricted credit lending. The Federal Reserve conducted two \$20 billion loan auctions outside of the discount window. Terms of the loans included expanded collateral options and a pool of borrowers beyond solely large banking institutions. With over \$100 billion in requests, demand for short-term borrowing remained elevated.

Monthly Payroll Growth



Source: Bloomberg

A plan supported by the Treasury Department and several large banks to create a fund to purchase troubled mortgage bonds withered following moves by Citibank and others to move the assets onto their balance sheets. Several firms, including Morgan Stanley and Citibank, raised billions in capital to shore up balance sheets depleted by losses on collateralized debt holdings. The moves prompted favorable reactions, with investors viewing them as necessary steps to alleviate ongoing problems in the credit markets.

President Bush proposed a plan to alter terms for subprime mortgage loans taken out between 2005 and 2007. Details included freezing rates to pre-adjustment levels and limiting foreclosures for borrowers who have kept up-to-date with their current payment schedules. Implementation would be dependent upon the approval of securities holders and loan servicing agencies. Lawyers quickly raised objections to the implied altering of contracts inherent in the proposal.

As of December 31, 2007

	December	3 Months	YTD
S&P 500	-0.7%	-3.3%	5.5%
Russell 1000 Value	-1.0%	-5.8%	-0.2%
Russell 1000 Growth	-0.4%	-0.8%	11.8%
Russell 2000	-0.1%	-4.6%	-1.6%
MSCI EAFE	-2.3%	-1.8%	11.2%
LB Agg	0.3%	3.0%	7.0%
3-Month T-Bills	0.3%	1.1%	5.0%

Congress and President Bush passed a sweeping energy reform bill. Highlights included the first major revision of fuel economy standards since the late 1970s, pushing average fleet fuel economy standards from 25 mpg to 35 mpg by 2020, and more than quadrupling the mandate for ethanol usage. The law provided for development of ethanol from sources other than corn, which may ease pressure on food prices during the next decade.

The holiday shopping season resulted in sales gains over 2006 levels, alleviating fears of a consumer-spending led recession for the time being. Positive job growth continued to forestall growing concerns brought about by falling housing values and constricted lending.