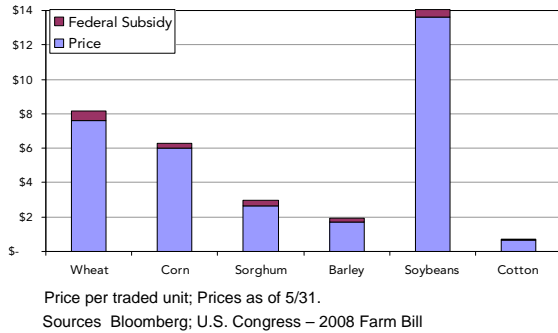


Economic Review

Natural disasters in China and Myanmar grabbed the world's attention in May. The Chinese government appealed for outside assistance after a devastating earthquake, while the Myanmar regime denied entry of relief supplies into the country, dramatically adding to the loss of lives, beyond those directly killed by the cyclone. Microsoft retreated from its complete takeover bid of Yahoo, and attempted to form a joint partnership to compete with Google. Citibank planned to trim \$500B in assets as it focuses on core business units. Bank of America appointed a new leader for its Countrywide unit, replacing the CEO who oversaw the dramatic growth and collapse of the mortgage giant.

The True Cost of Commodities



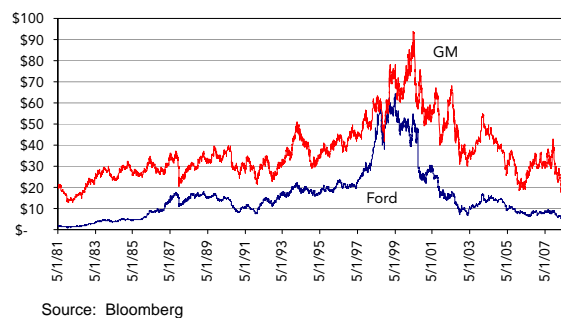
First quarter GDP was revised upward to a 0.9% gain. The outlook for second quarter remained equally dismal, while third quarter growth was expected to gain from the tax rebate checks, which were dispersed beginning in early May. The payouts amounted to nearly 1% of annual GDP, and will likely be used for food and transportation needs more than the intended use of discretionary spending.

Dry Commodities Shipping Costs



Congress overrode a Presidential veto of the \$300B farm bill. A strong majority of Congress supports the legislation, which continues to increase subsidies and payments to farmers at a time of record high crop prices. Direct government payments on already profitable commodities amount to additional charges on consumers, who already have seen their grocery bills rise. The bill provides large sums of monies for biofuel production and refinement, and loan guarantees of up to 90%. The subsidy for current methods of ethanol production will drop from \$0.51/gallon to \$0.45/gallon, while cellulosic ethanol receives a credit of \$1.01/gallon. Congress also maintains a high tariff on imported ethanol, which is produced more cost-effectively in Brazil, as a protectionist measure for Midwest farmers. Other provisions include \$500M for fruit and vegetable research, \$355M for rural energy efficiency, money to study desserts, an increase in food stamps, and money to build a Chinese garden at the National Arboretum.

GM and Ford Stocks at 1980s Levels



GM and Ford stocks sank to levels not seen in over twenty years. With gasoline prices soaring, the inability of the companies to bring more fuel-efficient and desirable cars to showrooms highlighted flawed strategies that focused on high-profit SUVs for the past decade. A strike at an axle manufacturer slowed auto production, forcing GM to offer the company financial incentives to resume production. Consumers have cut automobile purchases by over 10% from their peak; a casualty of the shaky economy and increased food and energy prices.

As of May 31, 2008

	May	3 Months	YTD
S&P 500	1.3%	5.8%	-3.8%
Russell 1000 Value	-0.2%	3.9%	-4.4%
Russell 1000 Growth	3.7%	8.4%	-2.0%
Russell 2000	4.6%	9.4%	-1.8%
MSCI EAFE	1.0%	5.3%	-3.0%
LB Agg	-0.7%	-0.6%	1.2%
3-Month T-Bills	0.0%	0.4%	1.0%

As crude oil rose to \$135/barrel, Congress held hearings and threatened to sue OPEC. Oil company executives reiterated that their duties are to produce profits for shareholders, and not to worry about the societal and economic effects of high prices. With a high inelasticity of demand, oil producers have no real incentive to markedly increase supply, since the resultant lower prices would not create enough additional demand to maintain current profit levels. Following the hearings, Congress took no steps to allow increased production from energy rich areas in the Rockies, off the Atlantic and Pacific coasts, and in Alaska. Although Chinese demand for oil has grown dramatically, they have over 30 nuclear power plants under construction, which will cut their oil consumption growth over the next decade.