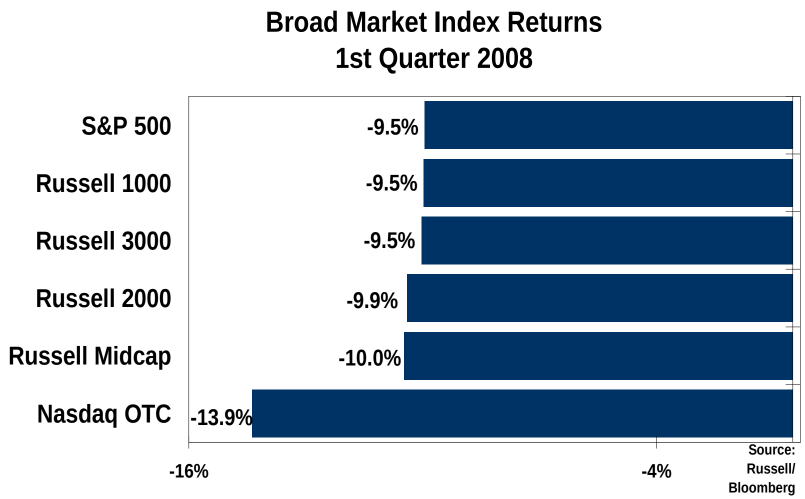
First Quarter 2008 Market Summary



Economy

Economic activity in the first quarter continued to slow, with the effects of ongoing deleveraging being felt throughout the economy. The credit crisis which emerged in the second half of 2007 continued shackling the economy and financial markets in the first quarter of this year. However, it is our view that the worst of the subprime crisis is now behind us, and that policy reflation should allow the economy to stabilize and support financial markets.

In regards to Federal Reserve Board action, Fed Chairman Ben Bernanke had been criticized early on in the crisis for not moving swiftly or aggressively enough to avert an economic slowdown. However, the actions the Fed took in the first quarter once the full scope of the threat to the financial system became apparent were breathtaking in their sweep and magnitude.

The Federal Open Market Committee (FOMC) lowered the target fed funds rate (the interbank lending rate) by 200 basis points in the first quarter, from 4.25% in January to 2.25% at the end of the quarter. The fed funds rate has been reduced by a total of 300 basis points since this easing cycle began in September of last year. The Fed has become more aggressive this year in regards to monetary policy: in January the FOMC lowered the fed funds rate by 75 basis points at an emergency meeting, and then followed that move with another 50 basis point reduction a week later at its regularly scheduled meeting. According to Moody's economy.com, the futures markets are currently assigning a 100% probability of a further 25 basis point reduction (and a 75% chance of a 50 basis point reduction) at the next FOMC meeting at the end of April.

In addition, the Fed has tried to use the discount rate (the rate at which financial institutions can borrow directly from the Fed) as a tool to unlock liquidity. From the onset of the crisis in the third quarter of last year, the Fed has been encouraging financial institutions to borrow from its discount window, an action that usually carries a negative stigma because it has historically meant that the borrowing firm effectively could not borrow in the market. By reducing the spread between the fed funds and discount rates, and proactively encouraging large institutions to make use of the window, the Fed is attempting to de-stigmatize discount window borrowing and provide ready liquidity.

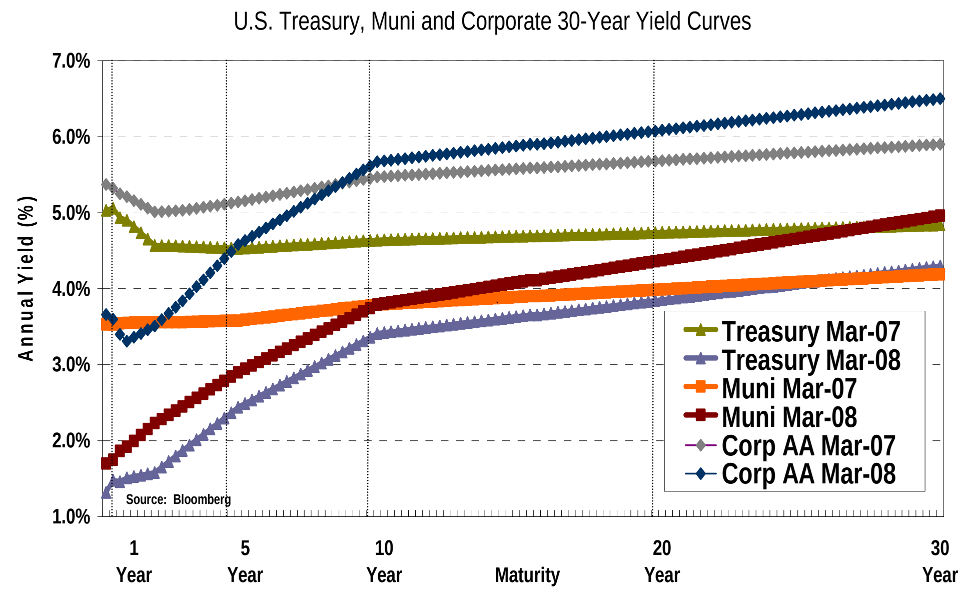
But monetary policy is a blunt tool that in and of itself is not likely to be a catalyst for lifting the pall over the credit markets. Even with significant rate reductions it has been apparent that credit is being "hoarded" as the deleveraging process continues. To help resolve the problem, the Fed has been very aggressive in going beyond monetary policy to help thaw the illiquidity that has hamstrung the markets. The supplementary strategies employed have included various lending facilities designed to get liquidity pumping through the system. The most recent example, announced by the Fed in late March, is the Term Securities Lending Facility, or TSLF. The TSLF will serve as a new source of liquidity for lending institutions, providing up to $200 billion in Treasury securities via weekly auctions to primary dealers in exchange for accepted collateral. One of the key features of the TSLF is that the collateral the primary dealers may provide includes agency-backed mortgage securities and top-rated private mortgage securities.

In addition to the monetary policy and creative lending facilities initiatives, the Fed was also integrally involved in the rescue of Bear Stearns from the brink of insolvency. By agreeing to work jointly with JP Morgan to backstop certain of Bear's positions, and by essentially dictating terms of JP Morgan's purchase of Bear, the Fed expanded its usual role and served notice to the market that it would not let an investment bank fail. It appears the Fed's goal was to avert a financial market meltdown.

Congress and the Bush administration also played a role in the first quarter's drama by enacting a $150 billion stimulus plan that should begin to take effect sometime during the summer. Economists are debating whether the plan will serve to provide a boost to the economy, but if nothing else, the plan communicates the government's desire to minimize any economic slowdown. Some commentators believe the crisis will be put completely behind us only when the government takes direct action to bail out the subprime mortgage market.

Most of the problems the economy is now facing, is caused by the housing crisis; however, it is beginning to show faint signs of improvement. While the government announced that new-home sales dropped for the fourth consecutive month in February, existing-home sales actually rose 2.9% in February, and the rate of decline over the past few months slowed significantly. Even such a slight improvement suggests that lower house prices and declining mortgage rates are having a somewhat positive effect.

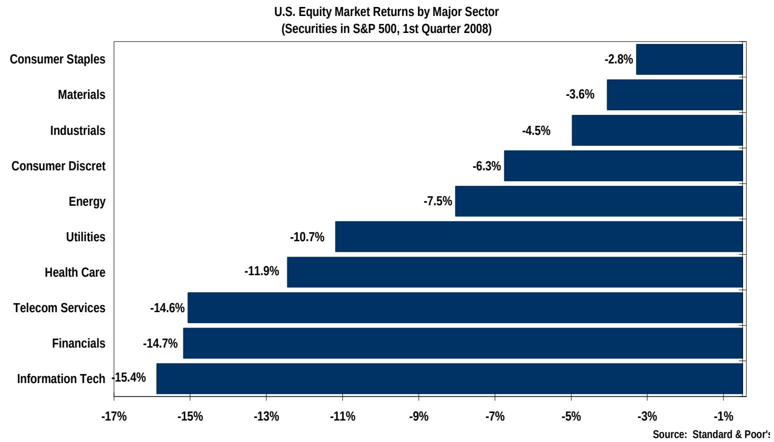
In regards to the dollar, one would expect continuing weakness with the massive amount of reflation now being undertaken by the Fed. Even though the dollar has been in a long decline against most of the major currencies, we anticipate it may drift lower until the various stimulus plans have run their course. The dollar's decline, of course, has also been helpful to our exports, and has been a materially positive contributor to GDP growth in recent quarters.



Interest Rates

With the aggressive interest rate actions taken by the Fed, bonds enjoyed strong gains in the first quarter. The strongest gains remained in the areas of high quality, with shorter-term US Treasury securities leading the way. The 2-year Treasury saw its yield drop from 3.05% on 12/31 to 1.59% at the end of the first quarter. The yield on the 5-year note declined from 3.44% to 2.44%; the yield on the 10-year note fell from 4.03% to 3.41%; and the 30-year long bond witnessed a much more muted drop in yield from 4.45% to 4.30%. As happened in the fourth quarter of last year, the yield curve steepened again, continuing to create a beneficial environment for banks' financial statements. The positive impact of a steepening yield curve will be increasingly apparent as liquidity begins to free up.

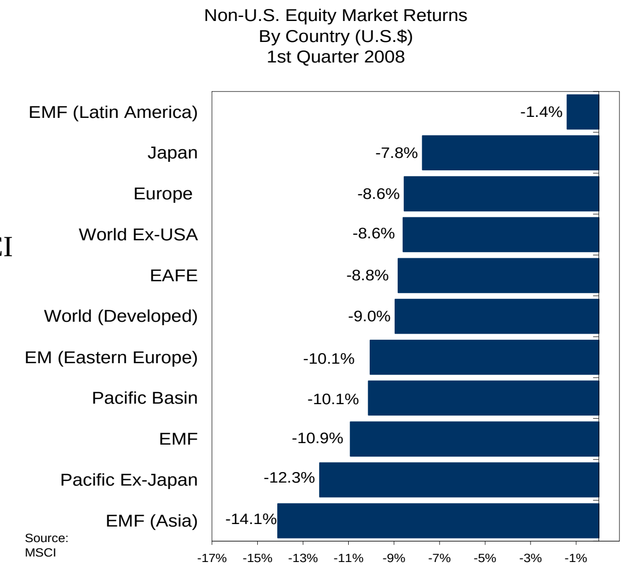
As in the previous quarter, municipal bonds fared well, but not as well as taxable Treasury obligations. The yield on the Lehman Brothers index of 5-year AAA insured municipal bonds declined from 3.62% at 12/31 to 3.05% at the end of the first quarter. The yield on the Lehman 10-year index actually rose slightly during the quarter, from 3.78% to 3.86%. Because their yields are actually higher than comparable-maturity Treasury securities (and even more so on a taxable equivalent basis), municipals represent excellent relative value.



Equity Markets

Equity markets hit the skids as soon as the calendar changed in the first quarter, due to the continuing uncertainty over the extent of the subprime crisis. Stock prices reached an interim low on January 22, at which point the Fed stepped in with an emergency rate cut. The intraday low of that day represented a 13.5% decline since the end of the fourth quarter. The market then continued to be volatile, with big daily swings, before it reached its low for the quarter on March 17th, at which time the S&P 500 had suffered a 14.4% price decline since the end of the year. From that quarterly low, the S&P 500 enjoyed a 5.2% price gain, and ended the quarter with a total return of -9.5%.

In a reversal of fortunes from previous quarters, Value stocks outperformed Growth, but Large Caps continued to outperform Small Caps, albeit only slightly. The Russell 1000 index of Large Cap stocks declined 9.5% for the quarter, while the Russell 2000 index of Small Cap stocks fell 9.9%. The Russell 1000 Value index declined 8.7% and the Russell 1000 Growth index dropped 10.2%.



International developed markets fared somewhat better on a relative basis than domestic stocks. The MSCI EAFE index, which includes primarily developed markets equities, declined 8.8% for the quarter. Emerging markets equities saw their run of strong performance halted in the first quarter, as the MSCI Emerging Markets index suffered a decline of 10.9%.

In terms of individual sector performance, the poorest performing sectors in the first quarter, according to Standard & Poors, were Information Technology (-15.4%), Financials (-14.7%) and Telecom (-14.6%). As one might expect, investment banks and mortgage finance companies were among the worst performing industries within the Financials sector. The best relative performers for sectors were Consumer Staples (-2.8%), Materials (-3.6%) and Industrials (-4.5%). Look for Financials to stage a rebound once greater clarity is achieved in regards to the subprime crisis.

Outlook

Much of the focus from financial commentators is still centered on whether the economy will slide into a recession. While that debate may be a worthy one in which to engage, markets lead the data, and we may not know whether the economy officially entered a recession for many months. The question which seems more pertinent at present is: Will the cumulative effect of the Fed's monetary and Congress' fiscal policy actions be enough to avert a downward economic spiral and continued market decline? In other words, is the worst over for equity markets?

The Fed has used many tools (e.g., the previously mentioned TSLF, the Term Auction Facility, discount rate reductions, intermeeting fed funds rate cuts) over the past several months, which seem to have had little immediate effect. Generally speaking, with each new program the Fed announced in the first quarter, as creative as they have been, the equity market rallied and then sold off in subsequent days when the sheen wore off and the underlying liquidity problems persisted. It is also unlikely the fiscal stimulus plan initiated by Congress, which will begin to be applied in May, will by itself have a material impact on the credit constraints facing the economy.

So where does that leave us? Is this a problem that is unsolvable by the Fed and its arsenal of monetary levers? While it is our opinion, and hope, that the aggressive actions the Fed has taken so far this year will eventually serve to unlock the credit markets and free up liquidity, we believe there will be increasing pressure in coming weeks on the Bush administration and Congress to provide a backstop in the form of some type of a bailout of subprime mortgages. The volume of such calls for a Resolution Trust-type solution will surely increase if the equity market continues to trend lower or additional financial firms go the way of Bear Stearns.

In short, while we believe that both equity and bond markets will remain volatile over the upcoming weeks and months, it is our opinion the aggressive actions undertaken by the Fed will eventually serve to unfreeze liquidity, mitigate the severity of an economic downturn, and shore up confidence in the financial markets. These actions in aggregate may not be a prescription for a sustained equity market rally in the near-term, but should enable the current lows to hold, and allow the markets to build a base.