



Tough Start to the New Year

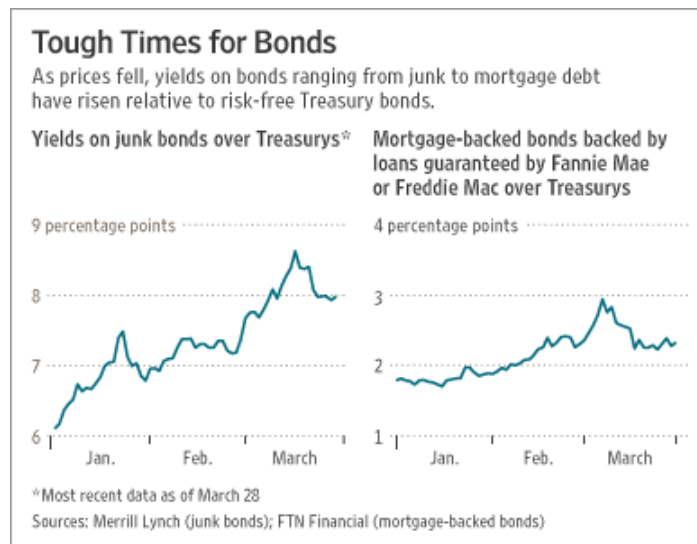
In Review

Equity markets delivered the worst quarter in years as continued negative news from housing, consumer confidence, financial company write-downs, and continued fears over the spreading impact of the credit crunch weighed on the markets over the last three months.

Benchmark Performance					
Data as of March 31, 2008					
	<u>YTD</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>7 Year</u>
Lehman 5 Year Muni	1.93%	6.17%	4.19%	3.41%	4.37%
Lehman Aggregate	2.17%	7.67%	5.48%	4.58%	5.68%
S&P 500	-9.45%	-5.08%	5.85%	11.32%	3.70%
Russell 1000	-9.48%	-5.41%	6.19%	11.86%	4.20%
Russell 2000	-9.90%	-13.00%	5.06%	14.90%	7.57%
MSCI EAFE Net	-8.91%	-2.70%	13.32%	21.40%	9.21%
MSCI Emerging Markets	-10.92%	21.65%	29.64%	35.95%	22.93%

Source: PSN Informa

Not just equity markets are feeling the pain. With persistently falling home prices continuing to create uncertainty about what mortgage-backed securities may ultimately be worth, spreads on non-Treasury bonds increased throughout the quarter and many mortgage-backed securities are not trading at any price. Long-dated municipal bonds were especially hard hit.

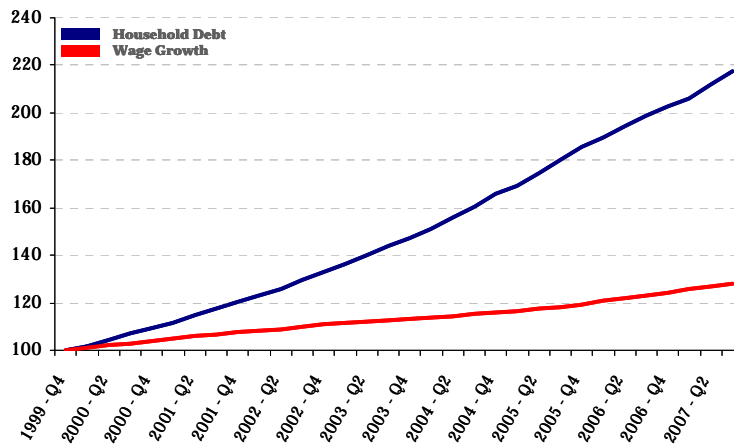


The Current View

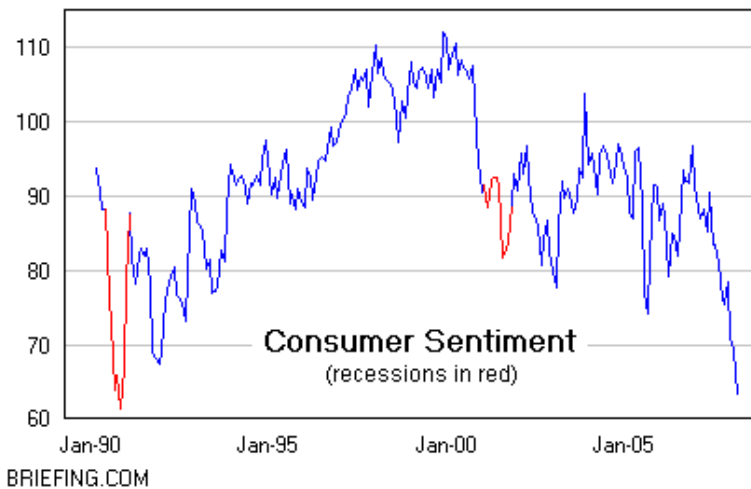
The process of de-levering which began nearly a year ago, the rebuilding of the US consumers' balance sheets after the borrowing binge of the past several years (followed by falling home prices) and the resulting impact on the US economy from these forces will negatively influence the capital markets for many quarters to come, perhaps even years.

It is not as important to us whether the economy will ultimately meet the technical definition of a recession during this cycle, but instead, what the recovery will look like. That is where we have concern that growth in the US may remain muted for far longer than the markets may be discounting. The principal reason for this concern is the influence consumers (and their ability to spend) have on economic growth, since total consumer spending has recently accounted for more than 70% of GDP. The consumer has countenanced bad news from housing (and the negative wealth effect that ensues), soaring food and energy prices, and a deteriorating jobs environment. This has resulted in the lowest consumer sentiment reading in 18 years.

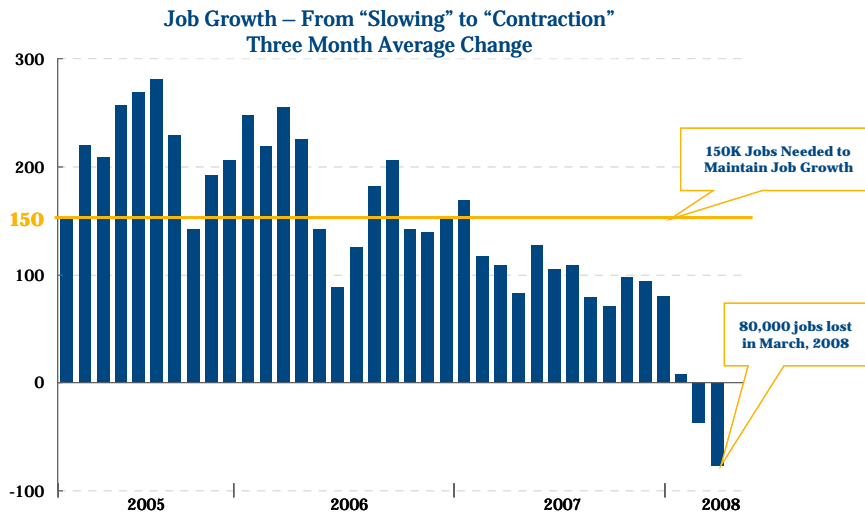
Growth of Average Hourly Wage and Household Debt



Source: Bloomberg.



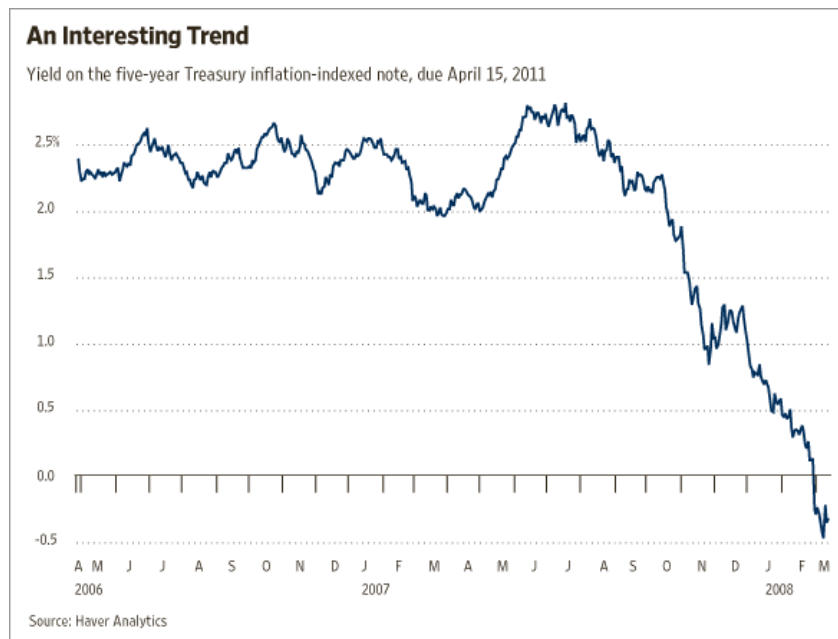
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Source: Bureau of Labor Statistics/Haver Analytics; seasonally adjusted; (thousands).

These data are generally not associated with a bottom in economic activity. If you add the impact of banks' increasingly tighter credit standards and general reluctance to lend in the face of massive write-downs, it is not exactly a prescription for economic growth. On the other hand, the Fed has been aggressive in easing rates and implementing other creative liquidity measures. In addition, the stimulus package checks are expected in the coming weeks, and, along with the Fed actions, should help combat the slowing trends. We will have to wait and see how effective the consumer response to these policies will be.

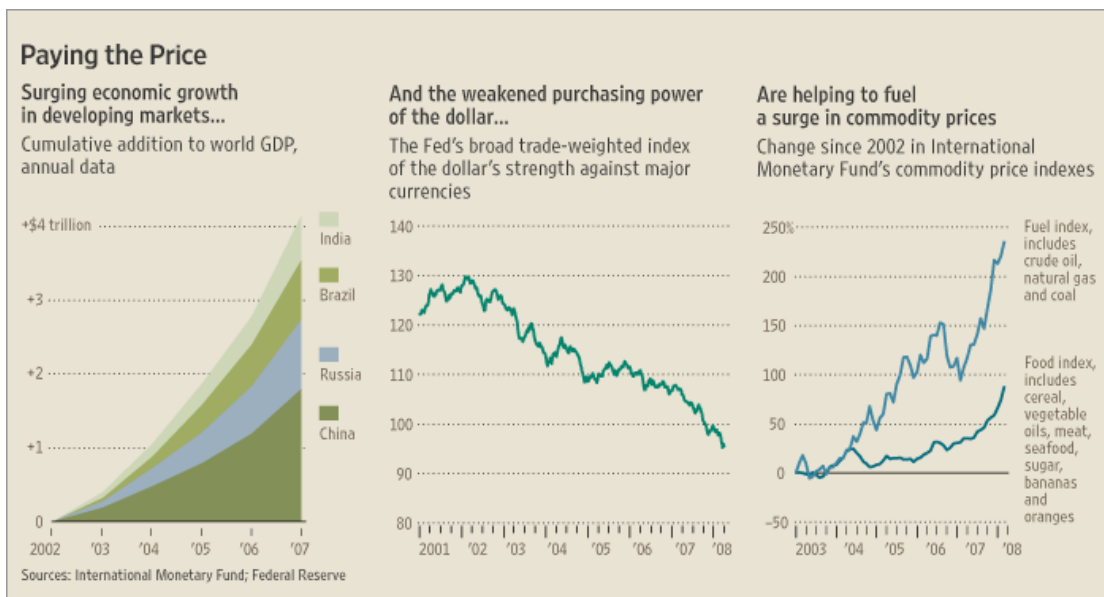
One possible unintended consequence of the heavy stimulus, low rates, higher commodity prices and weak dollar is the possibility of emerging inflationary pressures. The price of inflation-indexed Treasury notes has been soaring on those concerns and merits watching. The weak dollar does have the benefit of boosting the prospects of US exports.



Outlook

With these headwinds, investors may be tempted to temporarily fold their tents and go home. Unfortunately, timing the investment markets is an exceedingly difficult and usually futile exercise. We believe investment portfolios should be re-evaluated to renew focus on quality, consistency, and growth. In any difficult environment, new opportunities present themselves for those investors willing to take advantage of them.

Those companies that can maintain growth in the context of sluggish earnings improvements, for the market as a whole, will outperform as investors seek out that consistent performance. Developing countries, that are not as dependent on the US consumer as our market, continue to offer attractive long term investment opportunities. This should prove true for both companies exposed to growing geographical areas as well as the straightforward GDP growth play of investing directly in the equities of those countries.



It is during the most uncertain of times that a well thought out and carefully executed long term investment plan can provide the most value. We believe we are living in that uncertainty now.

We stand ready to discuss any of the issues presented in this report in greater detail and would welcome your inquiry. Thank you for your support.

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