Market Overview – The credit crunch continues to slow the global economy. The spread between LIBOR (inter-bank lending rate) and the three-month T-bill rate, known as the TED spread, is approximately four times as high as its historical average. This is one of the most important indicators concerning the health of the markets. The surprising factor is how little rate cuts have affected the spread. Central banks were unable to curb lending with a cycle of rate hikes from 2004 to 2006 and have thus far been unsuccessful in encouraging lending even with a 3% cut in the fed funds rate over the past eight months from 5.25% to 2.25%. Central banks control the price of credit but not the availability of credit as they can not force financial institutions to start or stop lending. While the Fed may continue to cut rates over the next few months, they have already begun to take alternative actions in an attempt to improve the availability of credit. This was first seen when the Fed begun lending money to financial institutions and allowing them to use illiquid mortgage linked assets as collateral. Another concern to the economy has been inflation. In typical market downturns inflation is not normally an issue because as growth slows, the demand for commodities tends to slow with it. This has not been the case thus far as foreign economies growth rates have been superior to their domestic counterparts, continuing to drive demand for commodities even as our economy softens. It is important to note that inflation is a lagging indicator and demand may begin to slow in the months following. If inflation does not slow, we expect the Fed to act accordingly and begin to raise rates as early as 4Q 2008 or 1Q 2009. The unemployment rate rose to 5.1% in March from 4.8% a month earlier, a sign of a slowing economy. Negative job growth is never an optimistic indicator; however, 5.1% is still low compared to historical averages. The S&P 500 Total Return Index returned -9.4% for the 1Q 2008, CPI (a gauge of inflation) was flat (0.0%) for February following a 0.4% increase in January. While we are currently in a slowing period of growth, it is yet to be determined whether we are in a recession or just an economic slowdown.

Domestic Equities - We continue to hold a large cap and growth bias for domestic equities. This proved to be very beneficial for 2007 where growth outperformed value in all market caps by at least 8%, but has not been the case thus far for 2008. Value has outperformed growth by approximately 2% in the mid and large cap spaces and by as much as 6% in small caps for the first quarter of 2008. Much of this can be attributed to the 2.5% rate cut over the same period. We continue to favor large cap equities for their ability to acquire capital when credit is scarce and growth for their reach into the global marketplace. The recent outperformance by small cap value is unwarranted. This space will have difficulties in the market until credit becomes more available (which will most likely lead to an increase in M&A activity). At this point we have no plans to change our domestic equity allocations but we are closely monitoring the markets to determine when conditions warrant further alterations since we expect to see further volatility in this space.

Fixed Income - High quality fixed income investments continue to add return and decrease risk to our portfolios as investors continue to flock to high quality bonds for shelter. In contrast to equities, this will most likely continue to be the case until credit spreads begin to shrink. US treasuries are trading at or near all time highs due in part to the recent rate cuts. The addition of international fixed income (early February) to our portfolios has been favorable thus far. The allocation is split between developed (75%) and emerging (25%) markets. While emerging market fixed income has been relatively flat for the year, international developed fixed income has returned over 8% for 1Q 2008. We believe this space will provide diversification within our fixed income allocation and act as a hedge against a possible slowdown in Europe which would most likely cause the European Central Bank (ECB) to cut interest rates.

Developed & Emerging Foreign Markets Equity - Both the developed and emerging market asset classes saw a decline in the first quarter that was on par with declines in the U.S. In Europe, inflation is on the rise coupled with tightening credit conditions. Emerging markets on the other hand are less dependent on credit and have not been as negatively affected. Even during periods when credit was easily available, it was not used to the same extent in emerging markets as it was in developed markets, and therefore their economies are not as accustomed to / reliant on it to thrive. Loan growth has picked up momentum and leading rates continue to decline in many emerging market sectors. Inflationary fears, however, are troubling and extend beyond energy sectors into other areas such as agriculture. International markets tend to be more volatile than US markets, so the fact that it performed inline with the US, and not significantly worse reflects relative strength of the asset class when compared to its domestic counter part. While the market environment is volatile, there continues to be growth opportunities abroad that will serve us well in future quarters.

Natural Resources - Natural resources have offered superior returns over the past few quarters, but continue to be one of the most volatile asset classes. The souring prices of natural resources including oil, gold, and grains which recently hit their all time highs, is fueled largely by a weakening US dollar along with increased global demand and inflation. Because commodity prices usually rise when inflation is accelerating, natural resources can offer protection from the effects of inflation. This unprecedented growth, however, is unsustainable in a slowing global enonomy. In the 4th quarter of 2007, despite the record high price of oil, US Energy companies were ranked 2nd in negative earning surprises among the S&P 500. As prices continue to climb, demand will likely be negatively impacted. We will be taking profits in the coming month and slightly reduce our exposure to hedge against the possible slowdown in growth.

Real Estate - Our worst performing asset class in 2007, real estate, has been one of the best performers in the 1st quarter of 2008. Compared to the overall U.S. market that returned -9.4%, the real estate asset class returned +2.2%. The recent moves by the Fed intended to ease the effects of the credit problems and US sub-prime mortgage crisis that lead to falling property prices, a slowdown in the US economy, and billions in write downs have helped to improve the performance of the asset class. Although we remain cautious of the asset class and expect to see further declines in property values, the real estate sector remains in our portfolio as a small allocation to provide diversification due to its low correlation to stock and bond markets. In the fall of 2007, we added an international REIT allocation to our portfolio because it has a limited correlation to the US stock market and we believed would produce attractive returns as well as act as a hedge against a weak US housing market. Although we have not yet seen performance, the low correlation between this asset class and the rest of the portfolio will likely benefit our portfolios by lowering the overall variance through diversification.