

# Capital Markets Commentary

Third Quarter 2007

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Volatility returned in the third quarter as investors initially experienced record highs, followed by a global credit panic and worries of a housing-led U.S. recession. This caused U.S. equities to “correct” (defined as a 10% retreat from a previous high) by mid-day on August 15. Two unexpected moves by the Fed, a 50bps cut in the discount rate on August 16 followed by a 50bps cut in the fed funds rate on September 18, restored confidence to the financial markets helping stock prices finish the third quarter up slightly at 2.0%, as measured by the S&P 500 Index. Small-cap stocks, however, struggled to keep up this quarter, finishing with a decline of 3.1% as measured by the Russell 2000 Index.

With recessionary concerns arising out of a panic-driven lack of liquidity in the mortgage-backed securities market, high quality bond prices rallied and interest rates fell across the entire yield curve (see top of page 3). In this “flight to quality” environment, low quality or “high yield” debt securities lagged as lenders became much more reluctant to extend credit to borrowers of almost all types.

International equities continued to shine relative to U.S. equities partially due to the lack of problems in foreign housing markets as well as the sharp decline in the dollar as U.S. interest rates fell. Generally speaking, Asian markets were hot while European equity markets fell over concerns that the weak dollar will slow their economy. Emerging market equities continued to deliver particularly stellar returns and finished the quarter up 14.5%.

Like the first quarter, “hard assets” delivered strong results during a rather difficult period for U.S. equities. Crude Oil led the way, up over 10% to \$81 bbl. Grains and precious metals also rallied this quarter helping the Dow Jones AIG Commodity Total Return Index to a gain of 6.2% and driving the energy-heavy Goldman Sachs Commodity Total Return Index up 11.5%.

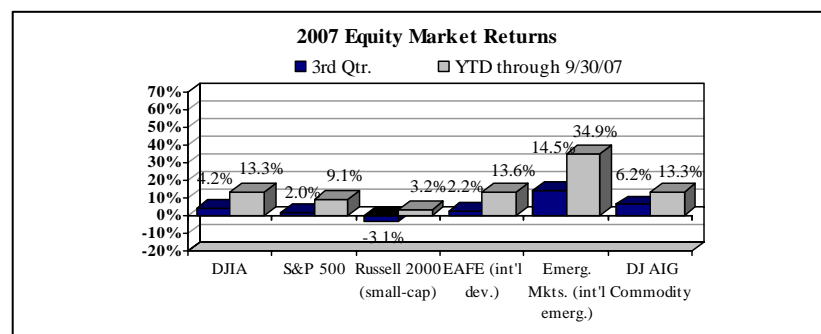
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Research



## Average Fund Performance

Fund investors experienced mixed results in the third quarter as the average U.S. equity fund gained only 0.4% according to Morningstar. Investors in large-cap funds generally experienced the best returns, while small-cap funds were mostly in the red this quarter. For the third quarter in a row, “growth” funds outperformed “value” funds across the capitalization spectrum. Strong performance in the Technology sector helped most “growth” funds while continued weakness in the Financial Services sector hurt most “value” funds. International funds with exposure to emerging markets and/or natural resources companies outperformed all others this quarter.

### STYLE PERFORMANCE MATRIX

#### 3rd Quarter Total Return

	Value	Core	Growth	AVERAGE
Large-Cap	-0.02%	1.94%	6.19%	2.95%
Mid-Cap	-3.28%	-1.48%	4.15%	0.77%
Small-Cap	-6.18%	-3.44%	1.22%	-2.23%
<b>AVERAGE</b>	<b>-2.30%</b>	<b>-0.09%</b>	<b>4.26%</b>	

Source: Lipper, Inc.

Your Independent Retirement  
Plan Investment Advisor

## Near-Term Capital Markets Outlook

### U.S. Economy – Stumbling But Not Falling Down

Falling home prices and record inventory of unsold homes have U.S. consumers on the defensive. Yet continued low unemployment and solid wage growth should keep consumers supporting this expansion. Corporate profits will show significant declines in the third quarter, hurt by huge write-downs in the Financial Services sector, but recent strength in the U.S. equity markets suggests to us that the economy will successfully ride out the steepest housing slump in 16 years and keep growing. The Fed's recent rate cuts, combined with pressure in many foreign countries to increase domestic interest rates to slow growth, leads us to believe there is increased risk of a dollar weakness that could push inflationary pressures much higher in this country.

### Domestic Equities - Neutral

Large-cap equities have meaningfully outperformed small-cap so far this year and there is no reason to believe this trend will end anytime soon. Outperformance by large-cap equities is currently being driven by two factors: valuation, and exposure to foreign markets. While the S&P 500 Index finished the third quarter close to its all-time high, it does not look overvalued to us. With the S&P trading at nearly 16 times times expected earnings, and yields on competing fixed income securities still at historically low levels, U.S. equities appear to have a limited downside at this time.

### International Equities – Overweight

As the U.S. economy decelerates due to the bursting of its housing bubble, most of the rest of the world continues to push ahead at a significantly faster pace. Combine our expectation of continued faster growth with the reality that most foreign markets trade at a discount to the U.S., and you have a recipe for continued outperformance by foreign equities. While a weaker dollar hurts most export-orientated foreign economies, the U.S. is becoming less significant in the world economic growth formula as many emerging countries absorb a larger share of all global imports. In fact, according to the IMF, developing countries now consume more than 40% of global imports, up from 28% in 1992. In contrast, the U.S.'s share of global imports has dropped from 18.8% to 14.3% in the past seven years.

### Domestic Bonds – Underweight

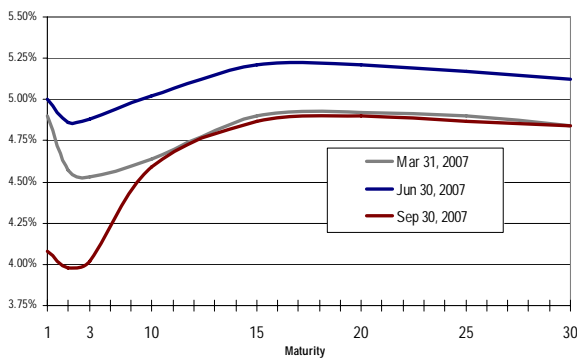
The recent unanticipated drop in yields, and corresponding increase in bond prices, looks short-lived to us. As the U.S. recovers from this summer's credit panic, we expect the economy to rebound and inflationary pressures to begin rising. Therefore, we remain defensive regarding our exposure to long-term interest rates and expect long-term rates to begin rising over the next twelve months.

### Hard Assets – Slight Overweight

The Fed's aggressive action this summer, to stem the panic from this summer's subprime lending scare, has left the U.S. more susceptible to inflation. Clearly the weaker dollar and stronger U.S. demand supported by these rate cuts will impact demand for U.S. goods and services in a positive manner and drive up the cost of imports. Oil, which is largely bought and sold on the world market in U.S. dollars, is showing signs of these pressures as it approaches the all-time highs set in the 70's on an inflation-adjusted basis. We will not be surprised to see \$100 bbl oil in the next 12 months and believe all portfolio's should be positioned with 5%-15% exposure to this category to take advantage of the increased likelihood of inflation.



## U.S. Bonds – Multiple Bond Indexes

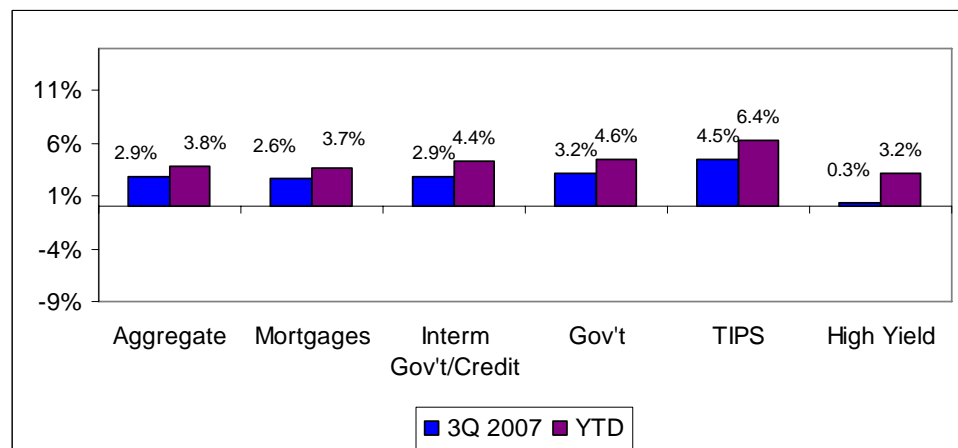


US Yield Curve as of 9/30/07  
Source: Bloomberg, courtesy Robert W. Baird.

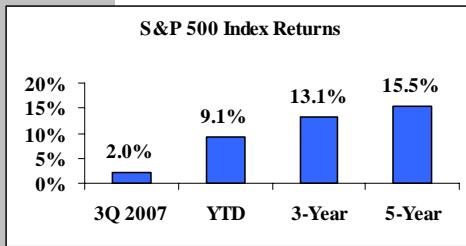
Turbulence in the bond market, via a near melt-down in the subprime loan marketplace led to a surprising 50 basis point cut in the discount rate by Federal Reserve Chairman Ben Bernanke after an emergency meeting in August. Bernanke followed-up his discount rate cut with yet again another “surprise” to the market, a 50 basis point cut to the targeted fed funds rate in September. Many in the markets expected only a 25 basis point move. What’s the difference between the so-called “discount rate” and “fed funds rate?” The discount rate is the rate at which commercial banks (i.e. US Bank, Wells Fargo) borrow money from the Fed and the target fed funds rate is the rate at which banks lend their excess reserves back and forth to each other. The August discount rate cut provided banks, such as Countrywide, with much needed liquidity and

restored the market’s confidence in the US banking system. Many mortgage lenders had begun experiencing a serious cash shortage as their normal sources of short-term funds panicked over concerns about exposure to subprime loans. The September fed funds rate cut was also unexpected in terms of magnitude, and was aimed at restoring consumer confidence in a weakening economy. The credit scare, and subsequent fears of a housing-led US recession, caused a sharp rally in the bond market and a simultaneous widening in the yield spread between high and low quality debt. The steepest decline in yields was on the short-end, falling almost 100 basis points (1%). The decline in yields was less on the long-end where the 30-year moved from 5.12% to 4.84%, or a drop of 28 bps. Treasury Inflation-Protected Securities (TIPS) were the highest returning bonds in the quarter with concerns about inflation looming as oil closed the quarter at \$81.62 bbl. High quality, short-duration bonds were also winners as they meaningfully outperformed high-yield and lower credit quality corporates (A and BBB rated). We believe that the subprime story is still not finished. For example, the primary concern resides with subprime mortgages with an adjustable rate (ARM) structure where delinquencies have increased substantially. Moreover, rate resets on the vast majority of many ARMs (vintage 2005, 2006) are not expected to peak until late 2008 and early 2009. However, subprime mortgages represent only 13% of the total mortgage market and of that total amount (\$1.3 trillion), less than 1% is in foreclosure. So, as they say, perception is reality, and it would appear that a relatively small part of the mortgage market is impacted, but the psychological impact in the credit markets is one of high anxiety because it’s not known with certainty who will be hit next.

## U.S. Bonds – Multiple Bond Indexes



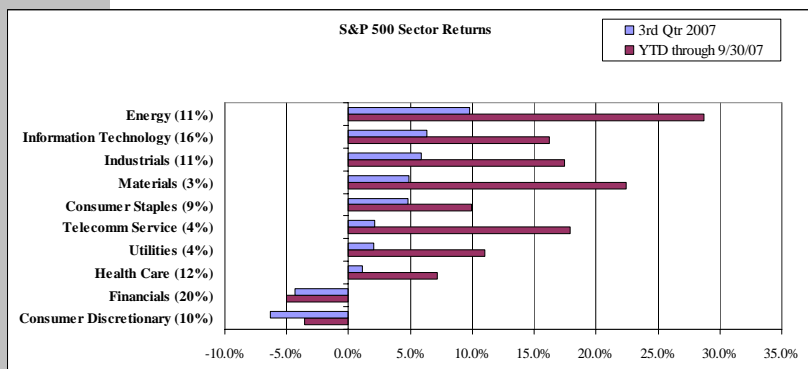
## Large-Cap Equities – S&P 500



Source - StyleAdvisor

In the third quarter US equities, as measured by the S&P 500 Index, gained 2.0%. After a strong finish in the second quarter and record setting highs early in July, investors quickly gave back gains as the S&P 500 Index fell into negative territory early in August; enter Fed Chairman Ben Bernanke in mid-August with a 50 bps cut in the discount rate to help stabilize the global credit markets, and equities were off and running again. By September, overall losses turned into gains with the index moving ahead 3.7% in the final month of the quarter. The Energy (+9.8%), Industrials (+5.9%), and Information Technology sectors (+6.3%) turned in especially strong results.

To a lesser extent, Telecommunication Services and Consumer Staples holdings added some positive results. The index's financial holdings were sharply lower in the quarter (-4.3%) and the largest declines were found in consumer discretionary holdings (-6.3%). Several areas in finance were hit hard this quarter including the commercial banks, thrifts & mortgages, insurance, and real estate management/development. The strongest individual contributors within the index included ExxonMobil (+10.8%), Apple Computers (+25.8%), Cisco Systems (+18.9%), and General Electric (+8.9%). In contrast, Citigroup (-8.0%), Countrywide Financial (-47.4%), Home Depot (-17.0%), and Wal-Mart (-8.8%) experienced losses in the third quarter. Looking to the future, we see further room for large-cap equities to advance, but concede there are factors likely to slow near-term momentum. For example, S&P's recent release of forecasted (shown below) operating earnings growth shows some of the lowest growth rates in the last 4-years (i.e. single digits vs. strong double digit growth throughout 2004-2006). Last quarter we highlighted the Dow Theory, which suggests that the performance of transportation stocks is a predictor of future performance in the broader market; year-to-date the category has returned 7.0%, but was meaningfully lower in the third quarter (-4.9%) and adds a bearish sentiment. In the bullish camp, we once again revisit the Fed Stock Model, which postulates that stocks are attractive when the current earnings yield (forward P/E ratio divided by 1) is greater than the 10-year government bond yield. The earnings yield for the S&P remained at 6.3% (based on the leading P/E of 15.87) and the yield on the 10-year government bond was 4.59%. This has widened since the second quarter, and continues to favor equities over bonds. Additionally, share buybacks are robust, setting a new record during the middle of 2007. Share buybacks are a corporate activity considered to be very shareholder friendly and have been interpreted as a positive signal of corporate strength. Finally, we believe the environment remains favorable for large-cap growth to continue its outperformance of other U.S. equity categories as investors seek companies that can grow their revenues independent of an overall slow down in the US economy.



Source – Vestek Systems, S&P

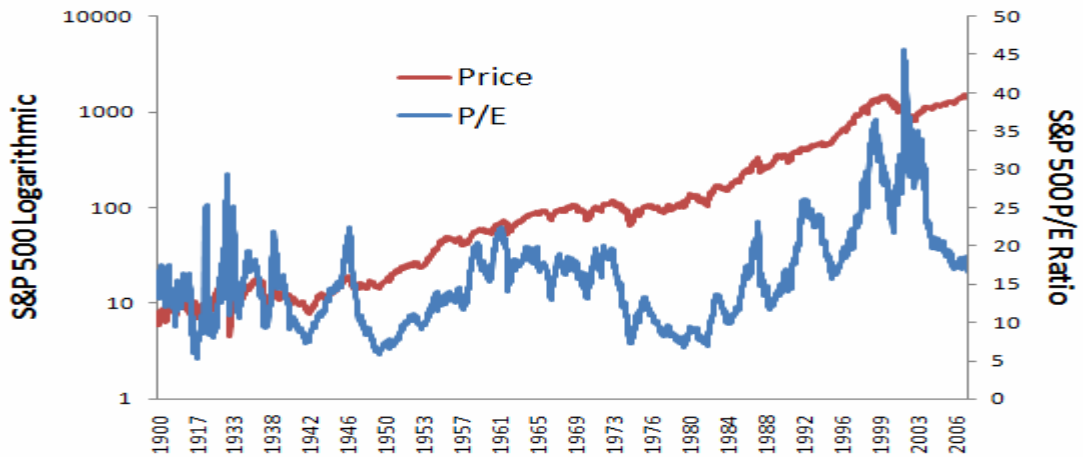
### S&P 500

#### QUARTER

### S&P 500 Operating Earnings with Estimates Included

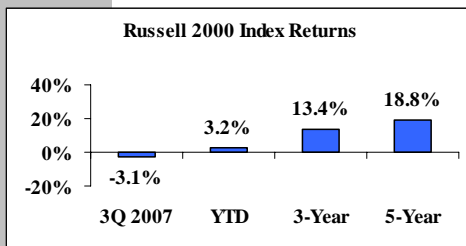
12/31/2007 Estimate	24.36	10.78%
09/30/2007 Estimate	23.51	2.08%
06/30/2007 (98%)	24.12	9.89%
03/31/2007	22.39	7.90%
12/31/2006	21.99	8.92%
09/30/2006	23.03	22.24%
06/30/2006	21.95	13.03%
03/31/2006	20.75	15.28%
12/31/2005	20.19	12.48%
09/30/2005	18.84	11.61%
06/30/2005	19.42	14.37%
03/31/2005	18.00	13.42%
12/31/2004	17.95	20.63%
09/30/2004	16.88	17.14%
06/30/2004	16.98	31.42%
03/31/2004	15.87	27.16%

## Historical P/E Ratio of the S&P 500: 1900-Present



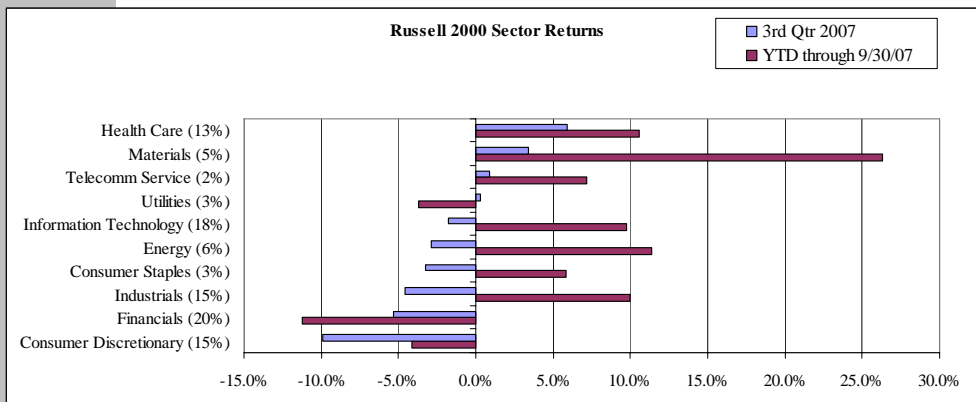
Source: S&P, Bespoke Investment Group

## Small-Cap Equities – Russell 2000 Index



Source - StyleAdvisor

The Russell 2000 lost ground in the third quarter with a decline of 3.1% and meaningfully underperformed large-cap equities. Like large-caps, the Financial Services sector detracted the most from index performance along with Consumer Discretionary stocks. In fact, it was very difficult to make money this quarter as 6 out of 10 sectors representing 78% of the total index (Energy, Industrials, Consumer Discretionary, Consumer Staples, Financials, and Information Technology) posted losses. Nevertheless, the Health Care sector, which is considered to be a defensive area of the market, posted nearly a 6% gain. The Materials sector also contributed with a gain of 3%. While small-cap stocks have the potential to show some strength (mostly in the “growth” genre), we continue to believe that they are poised to underperform large-caps due to valuation concerns.



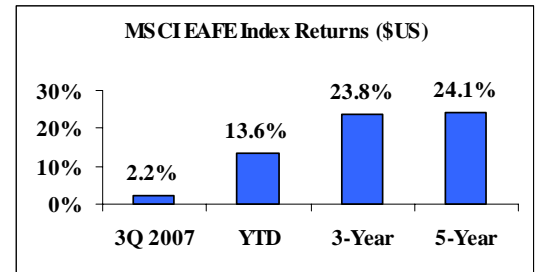
Source – Vestek Systems

*Small-cap health care and materials were the strongest performers in the third quarter and just like their large-cap brethren, Financials and Consumer Discretionary were the weakest sectors.*

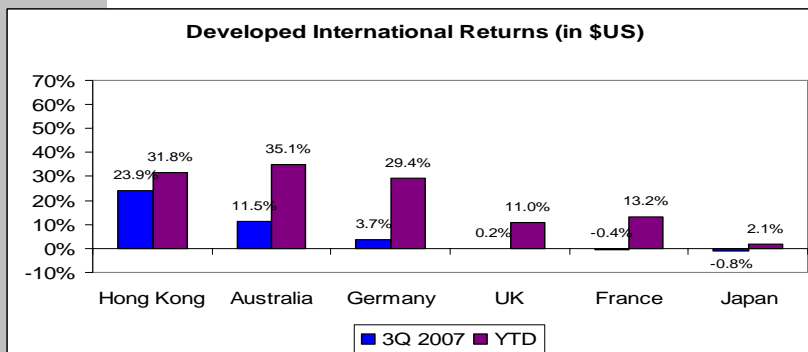
## International Equities – MSCI EAFE Index

International equities, as measured by the MSCI EAFE, returned 2.2% to U.S. investors, thanks mainly to a falling dollar. Hong Kong (+24%) turned in a lights-out quarter as that market reflected the current fortunes of the Chinese market. Australia moved higher with a quarterly gain of 11.5%, thanks mainly to the incredible performance of the nation's mining industry. Companies such as BHP Billiton, Rio Tinto, and Orica reached higher levels and overall the Australian stock

market reached a new high in the closing days of September. The jobless rate in Australia has reached a 33-year low and the economy expanded at a faster pace than even in the second quarter; profits are high and the central bank there is forecasting continued acceleration in growth. The German market cooled some, but was still positive. Sentiment has turned a little more negative in recent months as consumer confidence has declined. There is concern that the weak dollar relative to the Euro will hurt exporters. Nevertheless, unemployment is very low and wages continue to rise there. In terms of valuation, developed international markets are trading at a 10% discount to US equities when looking at forward price-to-earnings ratios. This isn't overly compelling on its own, but what continues to make these markets look attractive are the strengthening middle class, a bearish forecast for the US Dollar, and the expectation that emerging market economies will help propel more growth. We are continuing to recommend an overweight to international equities.

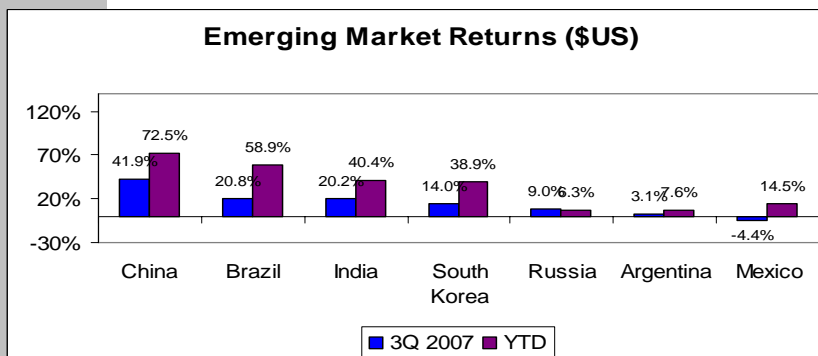


Source - StyleAdvisor



Source – StyleAdvisor

*Australia has been a beneficiary of the commodities boom, especially in the metals and mining arena. The European markets have rewarded investors in the past 12-months.*



*The story is all about China right now, although Brazil, India, and South Korea delivered very strong numbers this quarter. Argentina and Mexico meaningfully underperformed.*

## Emerging Market Equities - MSCI EM Index

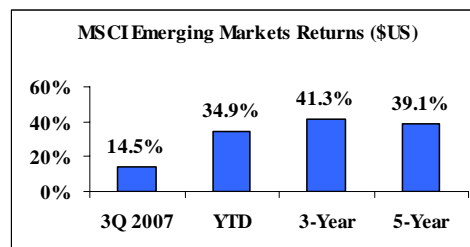
Emerging Markets (EM) once again had another spectacular quarter with a return of 14.5%. If the emerging market countries were in a horse race, China's performance this quarter could be analogous to Secretariat's 1973 win in the Belmont Stakes where there were many strong contenders, but no one could even stay close.<sup>1</sup> So was the case as China returned 41.9% and has now more than doubled in the last 12-months. These kinds

of quarterly gains are not uncommon (i.e the 4<sup>th</sup> quarters of 2003 and 2006, up around 35% each time), but this is the strongest return since 1999, and we of course remind investors about the historical volatility in the Chinese market as it also experienced quarterly meltdowns of 34% (Q2 1998) and 35% (Q3 2001). Nevertheless, the story there continues to be the developing middle class, strong GDP growth, and more-and-more people moving to the cities to find work which results in the so-called labor arbitrage. Importantly, many active managers we follow have not participated in the Chinese stock market to the extent that the country weighting has ballooned in the last 5-years, going from a weight of 5% to 16% (see chart below). Questions about corporate governance, political stability, and the Chinese government's propensity to meddle with business decision making represent variables that make most portfolio managers nervous. Last quarter we highlighted the economic strengthening in Brazil, and once again investors rewarded the region as the market skyrocketed 20.8%. Areas of underperformance this quarter included Mexico (-4.4%) and Argentina (+3.1%). In terms of valuation, the forward price-to-earnings ratio (P/E) of the EM index is 14.6, according to Morgan Stanley, which means that overall EM equities are trading around a 8% discount to US equities (forward P/E of 15.94 for S&P 500 Index). This spread is considerably tighter than it was at the first quarter of 2005 when it was nearly 40%. As such, our outlook for this asset class to outperform in the near-term is diminished considerably. While the

growth story marches on in emerging markets, it would seem that investors have priced a lot of that expectation into the market. We recommend investors consider taking some profits here and redeploy to areas such as large-cap growth and hard assets if appropriate.

### Commentary on MSCI EM Index

We've included a breakdown (to the right) of the MSCI Emerging Markets Index to illustrate the powerful impact of market performance and economic expansion changing the complexion of the index in the last 5-years. As shown, three of the "BRIC" nations (Brazil, Russia, India, and China) have increased substantially. Brazil's exposure has moved from 8.7% to 11.9%, Russia from 3.6% to 9.0%, and the largest change, China which increased from 5.4% to 16.2%. In contrast, South Korea and Taiwan have been moved from the top spots. The change in leadership is important to understand also from the perspective that the average emerging markets fund returned 11.2% and underperformed the index. As previously noted, many managers are underweight to China which explains a significant amount of underperformance.



Source - StyleAdvisor

MSCI Emerging Markets	Country Weightings	
COUNTRY	% as of September 2007	% as of March 2002
Argentina	0.61%	0.53%
Brazil	11.92%	8.68%
Chile	1.37%	2.32%
China	16.24%	5.36%
Colombia	0.27%	0.13%
Czech Republic	0.74%	0.60%
Egypt	0.79%	0.18%
Hungary	0.88%	0.93%
India	6.91%	5.54%
Indonesia	1.54%	0.92%
Israel	1.94%	3.25%
Israel - Non Domestic	0.25%	N/A
Jordan	0.10%	0.17%
South Korea	15.50%	19.66%
Malaysia	2.38%	6.52%
Mexico	4.92%	10.61%
Morocco	0.33%	0.21%
Pakistan	0.20%	0.21%
Peru	0.68%	0.42%
Philippines	0.52%	0.74%
Poland	1.65%	1.07%
Russia	9.02%	3.58%
South Africa	6.84%	9.95%
Taiwan	11.38%	14.84%
Thailand	1.35%	1.77%
Turkey	1.67%	1.58%
Venezuela	0.00%	0.22%

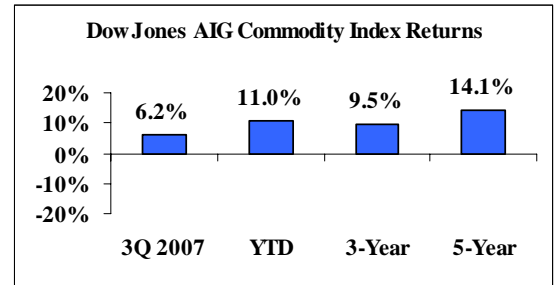
Source: MSCI, Brandes Investment Partners

<sup>1</sup> For those of you interested in seeing this Triple Crown Legend once again, please see the following link: <http://www.youtube.com/watch?v=QE8LSWhYyJs>



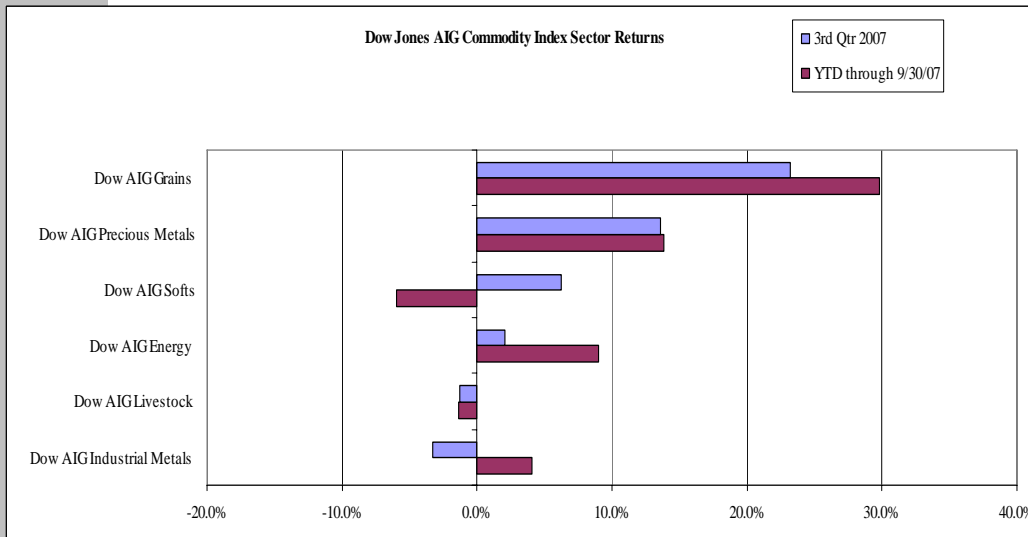
## Hard Assets – Dow Jones Commodity Index

“Hard Assets,” as measured by the Dow Jones AIG Commodity Total Return Index, gained 6.2%. Crude Oil returned to the headlines as it closed the quarter at \$81.62 bbl, an 11% increase in one month. This was partly the result of a bullish report from the Department of Energy showing that inventories were declining. Further, supply shortages caused by rough weather in the Gulf of Mexico also supported



Source - StyleAdvisor

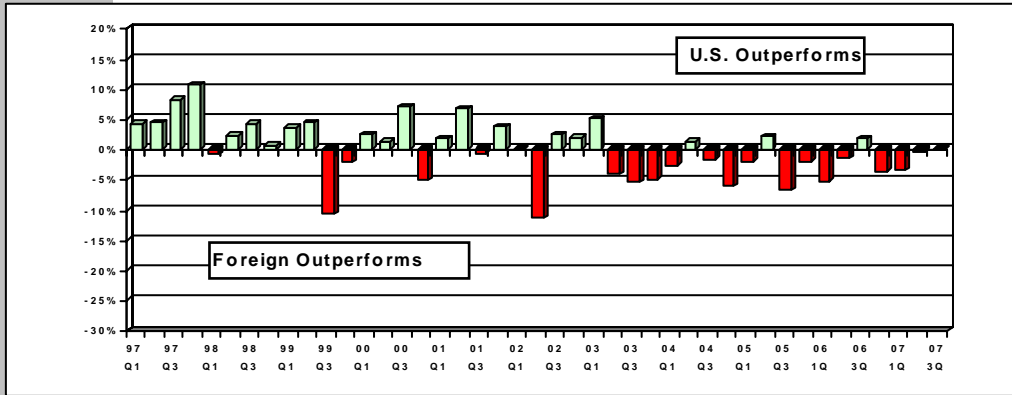
prices. However, many credit the Federal Reserve’s 50 bps rate cuts as the catalyst for oil exceeding \$80bbl and reaching an intraday high of \$83.90. Why? Oil is sold in the world markets in US Dollars and as the dollar falls against major currencies then it simply takes more dollars to purchase oil. Natural gas returned to positive territory in September as demand for winter heating started to kick-in, but remained is the only energy component lower year-to-date by nearly 17%. In terms of price appreciation, contracts in grains, especially wheat and soybeans soared during the quarter. Wheat contracts have moved 66% higher year-to-date thanks to short supply caused by poor weather conditions in Australia, which threaten to significantly reduce the harvest. In the turmoil of the summer credit crunch, investors bid-up the price of gold to over \$700 per ounce and gold reached it highest levels since 1979. We believe that investors can offset some of these effects as well as add some diversification to their retirement portfolios by keeping at least 5-15% of assets in this category. As of 9/30/07, the index was comprised of energy (34.0%), grains (21.6%), livestock (7.9%), grains (21.6%), basic metals (16.5%), precious metals (8.9%), softs (i.e. sugar, cotton, coffee 8.0%), and vegetable oil (3.2%).



*This quarter grains took the lead in the Dow Jones AIG Commodity Index. Industrial materials and livestock were both lower in the quarter.*

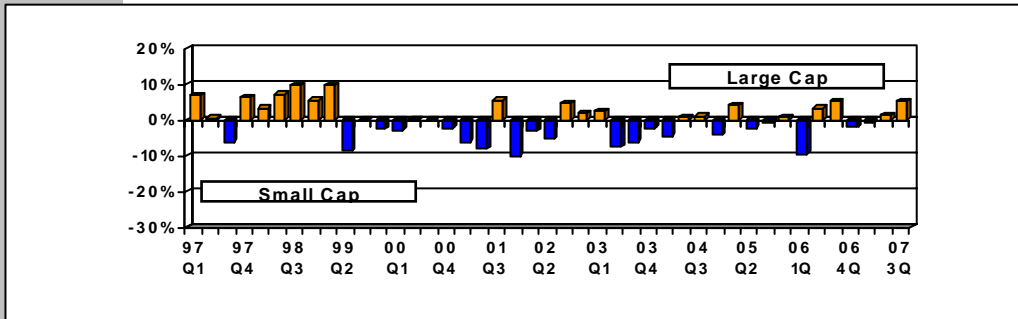
Source - StyleAdvisor

## Domestic vs. International (S&P 500 minus MSCI EAFE Index)



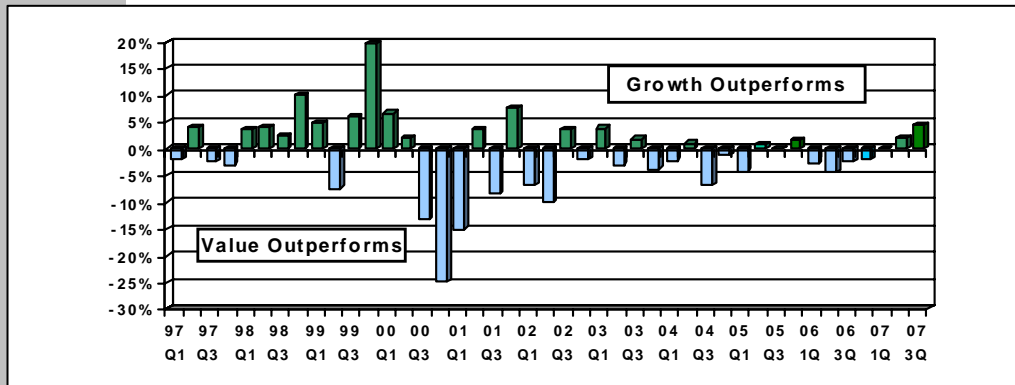
*International equities narrowly outperformed US equities this quarter.*

## Large-Cap vs. Small-Cap (Russell 1000 minus Russell 2000)



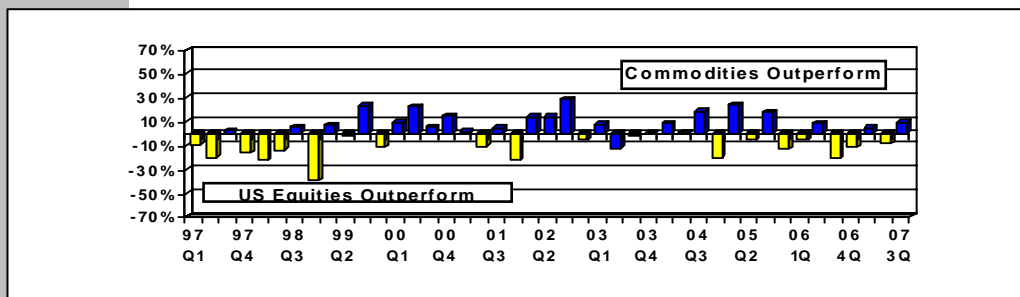
*Small-cap stocks underperformed large-cap for the quarter.*

## Growth vs. Value (Russell 1000 Growth minus Russell 1000 Value)



*Growth stocks outperformed both in the large-cap, and to a greater extent in the small-caps.*

## S&P 500 vs. Commodity Returns (S&P 500 Index and GSCI)



*Commodities outperformed US equities this quarter.*

## PASSIVE INDEX DEFINITIONS

*Indices used to answer the question, "Has the manager added value through skilled security selection?"*

**90-DAY TREASURY BILL INDEX** - This index is comprised solely of Treasury Bills and will always have an average maturity of 90 days.

**RYAN LABS 3-YEAR GIC INDEX** - This index is the arithmetic mean of the ten highest quotes from a representative universe of three-year high quality GIC issues as measured by Ryan Labs, Inc.

**LEHMAN BROTHERS AGGREGATE BOND INDEX** - This index is composed of approximately 25% U.S. Treasuries, 50% Agencies/Mortgages, and 25% Corporates, with an average duration of approximately 4.5 years.

**LEHMAN BROTHERS INT. GOVT/CREDIT BOND INDEX** - This index is composed of approximately 35% U.S. Treasuries, 25% Agencies, and 40% Corporates, with an average duration of approximately 3.5 years.

**LEHMAN BROTHERS GOVT/CREDIT BOND INDEX** - This index is composed of approximately 40% U.S. Treasuries, 20% Agencies, and 40% Corporates, with an average duration of approximately 5.0 years.

**DOW JONES INDUSTRIAL AVERAGE (DJIA)** - This index consists of the 30 largest and most widely held public companies in the United States which have been chosen to represent the U.S. stock market because they are larger, more actively traded issues, and leaders of American industry.

**STANDARD & POORS 500 INDEX (S&P 500)** - A basket of 500 stocks that are considered to be widely held. The S&P 500 index is weighted by market value, and its performance is thought to be representative of the U.S. equity market as a whole.

**WILSHIRE 5000 INDEX** – Measures the performance of virtually all U.S. headquartered equity securities with readily available price data. Composed of approximately 7,300 capitalization weighted securities, with additions/deletions to the index made monthly and represents virtually 100% of U.S. equity market.

**RUSSELL 3000 INDEX** – Composed of approximately 3,000 of the largest U.S. companies based on total market capitalization, which represents approximately 98% of the U.S. equity market.

**RUSSELL 1000 INDEX** – Composed of approximately 1,000 of the largest companies in the Russell 3000 Index, which represents the large-cap segment of the U.S. equity market.

**RUSSELL 1000 VALUE INDEX** – Composed of stocks with lower price-to-book ratios and lower forecasted growth values among the largest 1000 companies in the Russell 3000 Index.

**RUSSELL 1000 GROWTH INDEX** – Composed of stocks with higher price-to-book ratios and higher forecasted growth values among the largest 1000 companies in the Russell 3000 Index.

**RUSSELL MID-CAP INDEX** – Composed of the smallest 800 stocks in the Russell 1000 Index, which represent the mid-cap segment of the U. S. equity market.

**RUSSELL 2000 INDEX** – Composed of approximately 2,000 of the smallest companies in the Russell 3000 Index, which represents the small-cap segment of the U.S. equity market.

**RUSSELL 2000 VALUE INDEX** – Composed of stocks with lower price-to-book ratios and lower forecasted growth values among the smallest 2,000 companies in the Russell 3000 Index.

**RUSSELL 2000 GROWTH INDEX** – Composed of stocks with higher price-to-book ratios and higher forecasted growth values among the smallest 2,000 companies in the Russell 3000 Index.

**MSCI ALL-COUNTRY WORLD EX-US INDEX** - An arithmetic average of over 2,000 securities listed on the stock exchanges of the countries outside the United States, and includes exposure to emerging markets.

**NASDAQ COMPOSITE INDEX** – Composed of the return of stocks listed on the NASDAQ over-the-counter stock exchange. Typically, the index is comprised of mainly technology and emerging company stocks.

## ACTIVE INDEX DEFINITIONS

*Indices used to answer the question, "How does the manager compare to other managers with a similar investment style?"*

**LIPPER INTERMEDIATE INVESTMENT GRADE BOND FUND INDEX** – A peer group index comprised of fixed-income funds with an average duration consistent with intermediate range (3-5 years) and average credit quality of at least investment grade (AAA, AA, A, or BBB).

**LIPPER CORPORATE DEBT A BOND FUND INDEX** – A peer group index comprised of fixed-income funds focused on corporate-issued debt with an average credit quality of A.

**LIPPER BALANCED FUND INDEX** – Funds whose primary aim is to conserve principal by maintaining at all times a balanced portfolio of equities and bonds, with at least 50% in equity securities and at least 25% in fixed income securities. Typically, the equity/bond ratio is approximately 60%/40%.

**LIPPER SMALL CO. AVERAGE FUND INDEX** – Funds that, by portfolio practice, invest at least 75% of their equity assets in companies with market capitalizations (on a three-year weighted basis) less than 250% of the dollar-weighted median of the smallest 500 of the middle 1,000 securities of the S&P SuperComposite 1500 Index.

**MORNINGSTAR WORLD ALLOCATION UNIVERSE** – A peer group of tactical asset allocation products.

**LIPPER LARGE-CAP VALUE FUND INDEX** – Funds that, by portfolio practice, invest at least 75% of their equity assets in companies with market capitalizations (on a three-year weighted basis) greater than 300% of the dollar-weighted median market capitalization of the middle 1,000 securities of the S&P SuperComposite 1500 Index.

**LIPPER LARGE-CAP CORE FUND INDEX** – Funds that, by portfolio practice, invest at least 75% of their equity assets in companies with market capitalizations (on a three-year weighted basis) greater than 300% of the dollar-weighted median market capitalization of the middle 1,000 securities of the S&P SuperComposite 1500 Index.

**LIPPER LARGE-CAP GROWTH FUND INDEX** – Funds that, by portfolio practice, invest at least 75% of their equity assets in companies with market capitalizations (on a three-year weighted basis) greater than 300% of the dollar-weighted median market capitalization of the middle 1,000 securities of the S&P SuperComposite 1500 Index.

**LIPPER INTERNATIONAL FUND INDEX** – A peer group index comprised of the universe (approximately 900 mutual funds) of international mutual funds classified by Lipper Analytics, Inc.

## ECONOMIC SECTOR & INDUSTRY DEFINITIONS

### **CONSUMER DISCRETIONARY**

Auto Components (Johnson Controls, Goodyear Tire & Rubber)  
Automobiles (Harley Davidson, Ford, General Motors)  
Household Durables (Whirlpool, Maytag, Snap-On, Black & Decker, Stanley Works, Newell Rubbermaid)  
Leisure Equipment & Products (Eastman Kodak, Mattel, Hasbro, Brunswick)  
Text, Apparel & Luxury Goods (Liz Claiborne, Nike, Jones Apparel)  
Hotels, Restaurants & Leisure (McDonalds, Starbucks, Carnival, Hilton Hotels, Wendy's, Marriott, Yum Brands, Harrahs)  
Media (Walt Disney, Tribune, AOL Time Warner, Viacom, Dow Jones, Gannett, NY Times, McGraw Hill, Clear Channel)  
Distributors (Genuine Parts)  
Internet & Catalog Retailing (eBay)  
Multi-Line Retail (Costco, Target, Kohls, Sears, Wal-Mart, JC Penney, Nordstrom, Federated, Dillards)  
Specialty Retail (Tiffany, Staples, Gap, Best Buy, Home Depot, Sherwin Williams, Toys R Us, Circuit City, Lowes)  
Sporting Goods (**Johnson Outdoors**)

### **CONSUMER STAPLES**

Food & Staples Retailing (Walgreen, Kroger, Safeway, Sysco, Supervalu, CVS)  
Beverages (Coca Cola, PepsiCo, Adolph Coors, Anheuser Busch, Brown Forman)  
Food Products (HJ Heinz, Hershey, Kellogg, Sara Lee, Wrigley, Campbell, General Mills, ADM, ConAgra)  
Tobacco (Altria Group, RJ Reynolds, UST)  
Household Products (Kimberly Clark, Colgate Palmolive, Proctor & Gamble, Clorox)  
Personal Products (Avon Products)

### **ENERGY**

Energy Equipment & Services (Halliburton, Schlumberger, Noble, Baker Hughes, Nabors, Transocean, Rowan)  
Oil & Gas (Exxon Mobil, ChevronTexaco, ConocoPhillips, Sunoco, Occidental Petroleum, Amerada Hess)

### **FINANCIAL SERVICES**

Capital Markets (Northern Trust, Merrill Lynch)  
Commercial Banks (Bank of America, Wells Fargo, US Bancorp, JP Morgan Chase, Marshall & Ilsley, PNC)  
Diversified Financial Services (Citigroup, JP Morgan Chase, American Express)  
Insurance (Loews, Allstate, MGIC, Prudential, AIG, Aflac, Marsh & McLennan, Safeco, Metlife, Travelers)  
Real Estate (Equity Office Properties, Plum Creek Timber, Equity Residential, Simon Property)

### **HEALTH CARE**

Health Care Equipment & Supplies (Baxter, Medtronic, Bausch & Lomb, Boston Scientific, Stryker, St. Jude)  
Health Care Providers & Services (Tenet, UnitedHealth, Aetna, Cardinal Health, Humana, Cigna, Wellpoint)  
Biotechnology (Amgen, Biogen, Genzyme, Medimmune)  
Pharmaceuticals (Pfizer, Merck, Eli Lilly, Abbott, Wyeth, Bristol Myers Squibb, Johnson & Johnson, Forest Lab)



## INDUSTRIALS

Aerospace & Defense (Boeing, Northrop Grumman, Honeywell, Raytheon, United Technologies, Rockwell Collins)  
Building Products (Masco, American Standard Cos.)  
Construction & Engineering (Fluor)  
Electrical Equipment (Rockwell Automation, Emerson Elec., Cooper Inds., American Power Conversion)  
Industrial Conglomerates (3M, General Electric, Tyco International, Textron)  
Machinery (Deere & Co., Caterpillar, **Bucyrus**, ITW, Cummins, Ingersoll-Rand, Paccar, Eaton, Danaher, **Gehl, Actuant Corp.**)  
Trading Companies & Distribution (Grainger WW)  
Commercial Services & Supplies (HR Block, Waste Mgmt, ADP, RR Donnelley, First Data)  
Air Freight & Logistics (United Parcel Service, Fedex, Ryder)  
Airlines (Southwest)  
Road & Rail (Union Pacific, CSX, Burlington Northern, Norfolk Southern, Ryder)

## INFORMATION TECHNOLOGY

Internet Software & Services (Yahoo)  
IT Services (Unisys, Computer Sciences, Electronic Data Systems, First Data, Fiserv, Paychex, ADP)  
Software (Microsoft, Oracle, Electronic Arts, BMC, Computer Associates, Adobe, Novell, Intuit)  
Communications Equipment (Cisco, Motorola, Qualcomm, Corning, Tellabs, Avaya, JDS Uniphase, Ciena)  
Computers & Peripherals (Dell, Apple, EMC, Sun Microsystems, Hewlett Packard, IBM, Lexmark, NCR)  
Electronic Equipment & Instruments (Tektronix, Solectron, Waters Corp., Sanmina, Agilent, Jabil Circuit)  
Office Electronics (Xerox)  
Semiconductors & Semi Equipment (Intel, Texas Instruments, PMC Sierra, Applied Materials, Xilinx, Maxim, Analog)

## MATERIALS

Chemicals (Du Pont, Sigma Aldrich, Ecolab, Praxair, Rohm & Haas, Monsanto, Dow Chemical)  
Construction Materials (Vulcan Materials)  
Containers & Packaging (Sealer Air, Pactiv, Ball, Temple Inland, Bemis)  
Metals & Mining (Alcoa, US Steel, Newmont Mining, Freeport-McMoran, Nucor, Phelps Dodge)  
Paper & Forest Products (Intl Paper, Mead, Westvaco)

## TELECOMMUNICATION SERVICES

Diversified Telecom Services (AT&T, Verizon, Qwest, CenturyTel)  
Wireless Telecom Services (Sprint Nextel, Alltel)

## UTILITIES

Electric Utilities (Southern Co., Dominion, Exelon, TXU, PG&E, Xcel, American Electric Power, FPL)  
Gas Utilities (Nisource, Keyspan, Nicor, Sempra, Kinder Morgan, Peoples Energy)  
Multi-Utilities & Unreg. Power (Duke Energy, Williams Cos., AES, El Paso, Dynegy)

## SERVICES

Business Services (**Brady Corp.**)

Companies represented in the industries were selected from the S&P 500 Index as of 3/31/07.