Capital Markets Commentary – Expanded Special Edition

Third Quarter 2008

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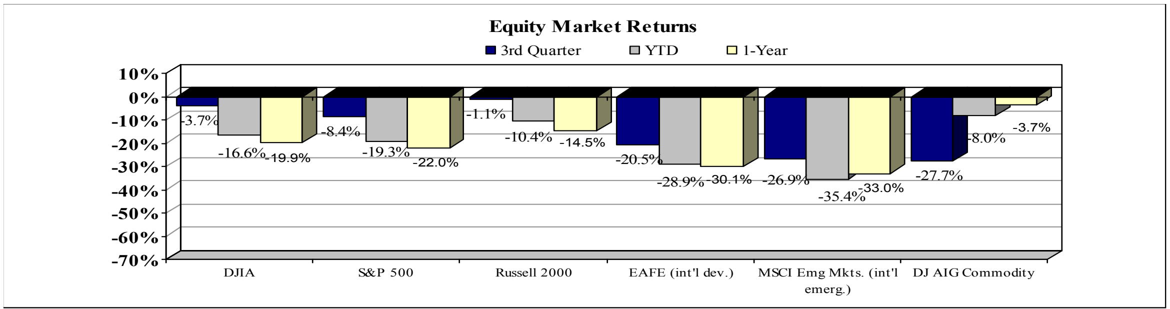
Global equity and fixed-income markets were hammered in the third quarter as simmering fear turned into outright panic induced by the country's largest ever bankruptcy (Lehman Brothers). The wholesale sell-off of non-Treasury fixed-income securities and resulting lack of liquidity in the bond market has 2008 shaping up to be the first calendar year since the early 70's in which both the average U.S. stock (-20% YTD) and bond (-4% YTD) fund decline simultaneously. Modern Portfolio Theory, which extols the virtue of diversifying retirement assets, was rendered ineffective this quarter as stocks, bonds, and hard assets registered significant declines simultaneously. Despite unprecedented government intervention announced in September, evidence suggests that the U.S. consumer has finally succumbed to their own fears and have, for the time being, meaningfully curtailed spending. This will accelerate the current economic slowdown and foreshadows more pain for investors. We've consolidated several of the history making stories from the third quarter on the next page.

Hardest hit this quarter were international equity and commodity markets as investors rushed to take profits and seek shelter from the coming economic slowdown. The MSCI EAFE Index and MSCI Emerging Markets Index were down 21% and 27% respectively. Domestic equities fared much better with the S&P 500 falling 8.4% while the Russell 2000 only lost 1.1%. Bonds were the best place to be as the Lehman Brothers Aggregate Bond Index only fell 0.49% and short-term U.S. Government bonds gained handsomely on a flight to quality. Commodities, as measured by the DJ AIG Commodity Index, dropped nearly 28%, the result of a stronger U.S. Dollar and concerns that demand would fall off if the world economy would go into a meaningful slump.

After a number of months of slowing growth, we now believe the U.S. economy has fallen into a recession. This is significant because historically, investments made during recessionary periods have yielded above average returns. That said, we encourage investors to take a long-term view of their retirement investment strategy and stick with their asset allocation plan. Making big changes now to more conservative investments will undoubtedly prove costly when the inevitable rebound occurs.



Source - StyleAdvisor

Average Equity Fund Performance

STYLE PERFORMANCE MATRIX

3rd Quarter 2008 Total Return

	Value	Core	Growth	AVERAGE
Large-Cap	-8.02%	-9.41%	-14.03%	-10.71%
Mid-Cap	-9.58%	-12.14%	-17.06%	-13.71%
Small-Cap	-1.98%	-5.20%	-10.35%	-6.39%
AVERAGE	-7.53%	-9.06%	-13.99%	

Source: Lipper, Inc.

The average U.S. diversified equity fund lost 9.96% in the third quarter, all of the decline coming in the month of September (-10.97%, the worst one-month decline for U.S. stock funds since August 1998 according to Lipper). That brings the average fund down 19.6% YTD through the end of September. For the quarter, "value" outperformed "growth" as investors were drawn to the safety of Consumer Staple stocks and the bargain prices of Financial Services stocks. The strengthening U.S. dollar took its toll on shares of large U.S. exporters and helped drive small-cap stocks to outperform large-caps for the first time in six quarters. As painful as these declines were, they paled in comparison to the 21.02% decline in the average world equity fund. According to Lipper, this was the worst quarterly decline for foreign funds since the Cuban Missile Crisis in 1962. It's also worth noting that, according to Barron's, the 50 stocks most commonly found among hedge funds in their top 10 holdings dropped twice as much as the S&P 500 in September. The record redemptions in public and private funds in September help explain the pervasive underperformance of actively managed funds relative to their passive benchmarks for the quarter.

Your Independent Retirement Plan Investment Advisor

September News Events

Date	Headline	Significance
9/6/08	Fannie Mae & Freddie Mac placed into conservatorship by the Treasury	U.S. Government takes over mortgage giants with potential of saddling debt on taxpayers.
9/14/08	Bank of America / Merrill Lynch announce a merger	Continued evidence that the banking sector is under extreme duress.
9/15/08	Lehman declares bankruptcy	The event shocks the credit markets and leads to significant losses throughout the fixed-income market.
9/16/08	Fed, BOE, ECB, BOC, BOJ, SNB inject liquidity	International banks attempt to rapidly increase the money supply to get credit flowing.
9/16/08	New all-time low yield on 30-year Treasury	Investors buy-up what are perceived to be the safest securities in flight to quality.
9/16/08	Reserve's Primary Money Market fund trades at $0.97 and breaks the "buck."	2nd time in history that we are aware that a money market fund breaks the $1. Due to Lehman debt defaulting.
9/16/08	80% takeover of AIG by Fed.	Largest insurance company is brought to its knees. Furthers stock market fears following Lehman bankruptcy.
9/17/08	S&P volatility index spikes to highest point since August 2002.	Uncertainty in the equity markets reaches proportions similar to the last bear market in 2002.
9/18/08	Moscow Micex index doesn't open.	Emerging Markets worldwide decline dramatically.
9/18/08	Guaranty program announced by Treasury for money market funds.	Done in response to massive outflows of investors fearing money market not in treasuries are unsafe following Reserve Primary Money Market "breaking the buck."
9/25/08	Washington Mutual assets seized by the Office of Thrift Supervision (OTS) and JP Morgan gets the assets but no debt.	Continued evidence that the banking sector is under extreme duress.
9/28/08	General agreement reached on $700 billion TARP. (Trouble Asset Relief Program)	Government attempts to shore-up balance sheets of many financial institutions by offering to buy "toxic" debt from troubled banks. Legislation is given to Congress for vote.
9/28/08	UK nationalizes mortgage lender Bradford & Bingley. (largest lender to landlords)	The crisis moves overseas rapidly.
9/29/08	Fortis gets $11.2 billion euro package from Belgium, Netherlands, and Luxembourg. Hypo Real Estate Holding.	Large European insurance company experiencing similar difficulties as AIG.
9/29/08	Citigroup seeks Wachovia banking operations for $2.16 billion in stock.	Continued evidence that the banking sector is under extreme duress.
9/29/08	Morgan Stanley agrees to sell 21% to Mitsubishi UFJ for $9.0 billion.	More foreign capital pledged to help the U.S. banks.
9/29/08	Dow Jones Industrial Average declines 777 points; S&P closes down 7.39%.	Following a failed vote in Congress on TARP, the equity markets sink.
9/30/08	Overnight Libor surges to 6.88% from 2.57%.	The "TED" spread, difference between 3-month Libor and treasuries spikes to higher levels than in the last 20-years. Indicates a total lack of confidence and trust among lenders of short-term debt.

Near-Term Capital Markets Outlook

U.S. Economy – Recession

Our prediction for a stagnant U.S. economy this year turned out to be overly optimistic as panic in the world's capital markets has pushed an already soft economy into a full-blown recession. A rebound in the housing market, key to economic recovery, now looks at least two years away as the inventory of unsold homes continues to rise thanks to the sharply weakening economy and growing number of foreclosures. A significant contraction in available credit, rising unemployment, and the negative "wealth effect" caused by the disappearance of over $8 Trillion in wealth since October of 2007, has finally pushed the U.S. consumer into a bunker. Expectations for the upcoming holiday shopping season are dropping fast and a 5% contraction is U.S. GDP seems a reasonable forecast. The bigger question is the long-term impact from all of this turmoil on the workings of our capital markets. Clearly, mistakes were made and ammunition provided to parties on both sides of the "free market" debate. The "more government control" crowd can point to the lack of oversight in certain derivative markets (credit default swaps in particular) arguing that left to their own devices, free markets are unstable and collapse under the weight of their own greed. The "free market is the most efficient allocator of capital" crowd argues that without government intervention into the U.S. housing market through Fannie Mae and Freddie Mac and excessive monetary easing after 9/11, we would never have gotten into this housing bubble in the first place. In the short run, the effective nationalization of the U.S. banking system, and the world's largest insurance company (AIG), has moved us meaningfully away from the free market model that has prevailed in the U.S. since the deregulation of the 1980's. The probable Democrat victory in November will most likely take us further down the path of more government intervention into the capital markets. Reasons for optimism include: 1) aggressive and coordinated world Central Bank stimulus programs, 2) a less U.S.-centric world economic order, 3) plunging commodity prices, and 4) the U.S. Dollar's position as the world's reserve currency. When the crisis has passed, we believe that the significant expansion in the world's money supply, along with numerous stimulative fiscal policies, will eventually reignite inflationary pressures in the U.S.

Domestic Equities – Overweight

Despite all the bad economic news, we're moving from a longstanding "Neutral" ranking to "Overweight" based on the 44% drop in the U.S. equity market from its peak in October of 2007 and our belief that most of the decline is behind us. While in the short run significant downside risk still exists, given the deterioration we anticipate in earnings over the next six to twelve months, we believe longer-term returns from U.S. equities will be above average from this point forward. Our best advice is to start buying now while leaving some powder dry for potentially more attractive entry points over the next six months. We continue to favor large-cap equities over small-caps based on relative valuation levels (see chart on page 6) and see recent weakness in certain "growth" sectors of the market as an opportunity for future outperformance of "growth" over "value."

International Equities – Overweight

While these markets still face significant risks in the short run from a global economic slowdown, we're maintaining our overweight ranking for the intermediate- to long-term. This position is based on the significant sell-off in these markets and our conviction that most emerging non-U.S. economies are in solid financial condition coming into this global slowdown with large capital reserves to support their local economies. Currently, countries with the largest cash reserves include: China, Japan, Russia, Taiwan, Kuwait, India, and Brazil. Falling commodity prices have a significant impact on many emerging market economies – some positive (China, India) and some negative (Russia, Brazil). Meanwhile, Europe is struggling with its own financial services industry crisis and developed countries like Germany and Japan are extremely vulnerable to a U.S. consumer-led recession. A strengthening U.S. dollar will help all of these economies in the near term, but hurt U.S. investor returns. All economies benefit from the expected continued expansion in emerging market countries. Longer term, we expect the U.S. dollar to resume its decline reflecting a growing current account deficit, and weakening position in the world economic order. We continue to recommend international allocations be evenly divided between developed and emerging markets.

Domestic Bonds – Long-Term (Underweight), Short-Term (Overweight)

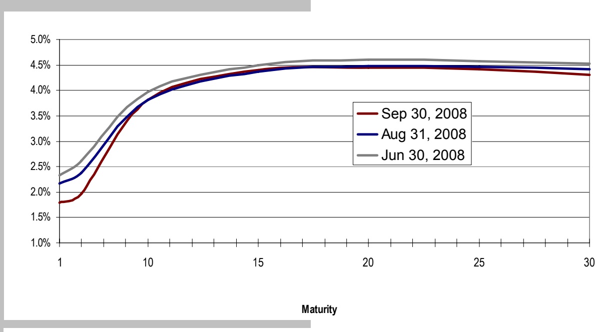
We are once again splitting our ranking on the Domestic Bond category between attractiveness in the short-term (0 – 6 months) and in the long-term (+7 months). The bond market, with the exception of Treasuries, experienced a sharp correction as unexpected total losses in the debt securities of Lehman Brothers and Washington Mutual caused a panic flight to quality and a significant yield spread to develop between corporate and government bonds. This presents a short-term opportunity for above-average returns in corporate bonds. The bond market should also benefit from any further decline in economic activity as calls for global interest rate cuts will increase over the next couple of quarters. As the U.S. economy stabilizes, we expect meaningful underperformance from domestic fixed-income securities as inflationary pressures begin to reappear.

Hard Assets – Overweight

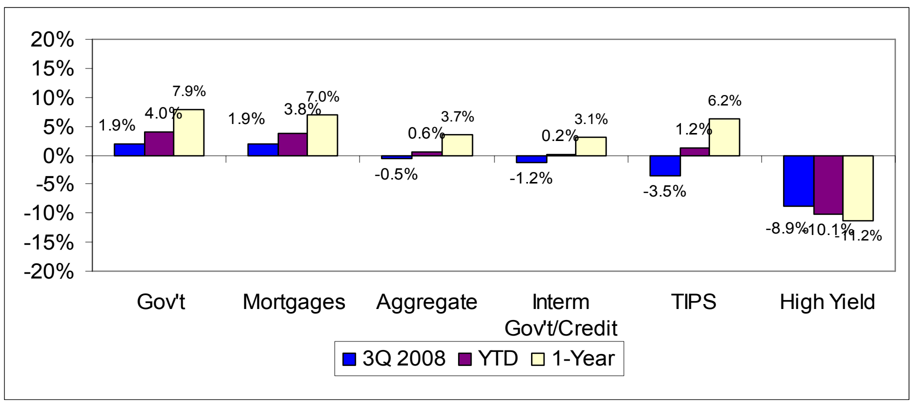
With the gift of perfect foresight, we would have downgraded our ranking on this category last quarter, citing the unprecedented run-up in oil prices. Given oil prices have fallen by nearly 50% since the end of June, it's our opinion that changing our ranking at these levels would be unwise. We have just experienced one of those rare times when Modern Portfolio Theory is rendered useless as stocks, bonds, and hard assets registered significant declines simultaneously. In the short-term, with the dollar strengthening, and the global economy weakening, hard asset prices will continue to suffer from deflationary pressures. Longer-term, we have confidence that world economies will recover with gusto and hard assets will go back to being an important inflation hedge within a well-diversified portfolio.

U.S. Bonds – Multiple Bond Indexes

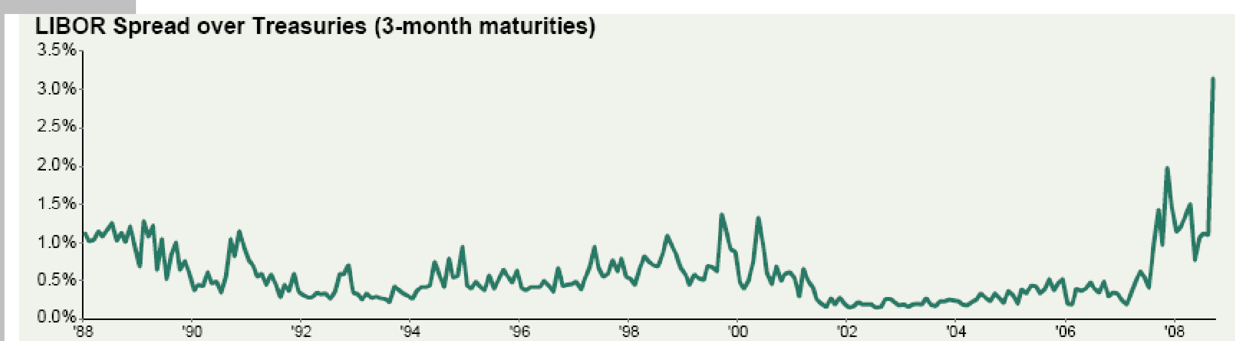
Domestic bonds were clearly the better place to be this quarter with the Lehman Brothers Aggregate Bond Index returning -0.49% in the third quarter. Investors stampeded to the safest and shortest maturity securities in the quarter and consequently it was no surprise that Government bonds gained the most in the period while high-yield (junk bonds) declined sharply by 8.89%. A high degree of mistrust emerged within the credit markets during the quarter. On July 10th, the Treasury Secretary Paulson stated that Fannie Mae and Freddie Mac were adequately capitalized while the Fed Chairman Bernanke said that they needed to raise more capital. With such high-ranking members of government holding conflicting opinions about these two massive institutions, it raised serious questions if those in charge understood what was going on. Additionally, several events rocked the credit markets, but the most notable were the eventual takeover of Fannie Mae and Freddie Mac (mortgage giants) in September, the collapse of Lehman Brothers, the takeover of Washington Mutual, and a spike in the 3-month LIBOR rate. The failure of Lehman Brothers had several profound effects, which included the default of Lehman debt which crippled several money market funds causing more than one to "break the buck" and triggered an unknown amount of payments for credit default swaps. LIBOR, which stands for the London Inter Bank Offering Rate, is utilized for determining the cost of borrowing for corporations and like other fixed-income benchmarks has different maturities. The importance of the spike in 3-month rates over 3-month T-bills means that there is an extreme aversion to risk involved in short-term borrowing. We've provided a chart below that shows the historical difference between the three-month LIBOR and 3-month T-bills, which is known as the "TED Spread." The spread at the end of the quarter is larger than it was during the credit crisis in the early 90s, the failure of Long-Term Capital Management in the late 90s, at the height of the dot com era, and post 9/11. In our opinion, this provides ample evidence of a lack of trust in the credit markets and we would be looking for this spread to narrow significantly before there is a sustained improvement in the economy and the stock market. In terms of valuation, Treasuries look significantly overvalued at this time and we would argue that corporate bonds, TIPS, and high yield bonds are attractive investment opportunities on a relative basis.



U.S. Yield Curve as of 9/30/08 Source: Bloomberg, courtesy Baird

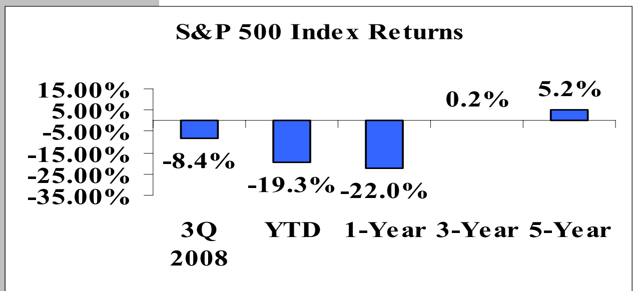


Source: Bloomberg, courtesy Robert W. Baird.



Source: British Bankers Association, U.S. Treasury, Reuters, EcoWin, JPMorgan Asset Management, FactSet.

Large-Cap Equities – S&P 500

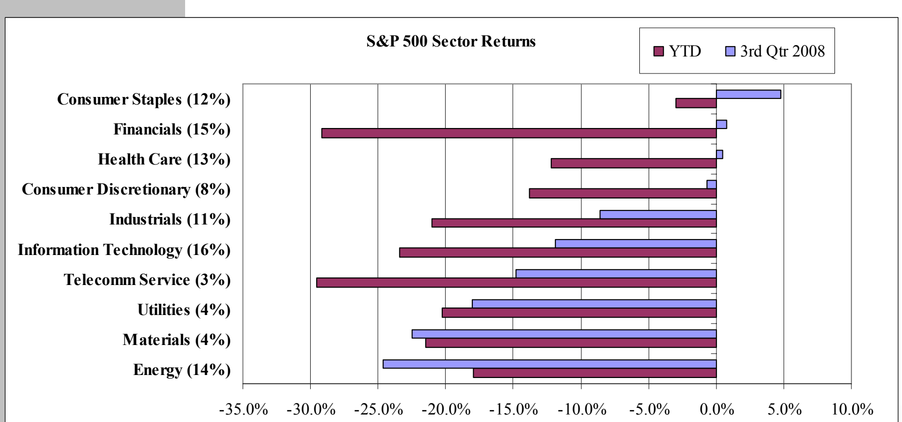


Source – StyleAdvisor

In the third quarter, U.S. equities, as measured by the S&P 500 Index, lost 8.4% and were down 19.3% year-to-date. The index essentially moved sideways during July and August, but sold-off rapidly in September in the midst of intensifying credit fears, increasing evidence of a U.S. recession, and a flight to quality. The most dramatic declines were found in the Energy and Materials sectors (down 24.7% and 22.6%) as a result of the collapse of many commodities that effect those equities. Financials finished slightly higher on bargain hunting, up 0.8% and the traditionally defensive Consumer Staples and Health Care sectors gained 4.8% and 0.5% respectively. From our stand point, and from many money managers we speak with, just about everything is on sale, especially high-quality large-cap stocks. We've included a chart below showing the current trailing P/E ratios within the index and their discount to a 20-year average. From the data presented, we can infer that Financials look almost fairly valued while Energy, Technology, and Industrials are trading at attractive valuations in addition to several other sectors. Furthermore, stocks look like an amazing value in comparison to domestic bonds with an earnings yield of 7.5% (inverse of the forward P/E of 13.34 for the S&P 500) which is compelling in comparison to the yield of the 10-year Treasury bond at 3.8%. The spread between these two, commonly referred to as the Fed Stock Model, has widened even further since last quarter and is approaching levels seen in the late 1970s. While it's arguable all an investor would need to do, and we concede could be effective, is to simply buy an S&P 500 index fund, the best area for large-caps continues to be, in our opinion, within growth style equities. They remain over 30% cheaper than their historical valuations (current P/E of 18.2 vs. 26.1 20-year average) and are most attractive in comparison to all other style boxes in terms of historical valuations. We continue to remain bullish on large-cap equities over small-caps and we have included the free-cash flow yield chart on the following page. The data suggest that the spread between free-cash flow yields for large- and small-caps is most favorable to large-caps since the late 1990s, another time when large-caps meaningfully outperformed. One of the larger headwinds to the recovery in the S&P 500 Index could potentially come from the strengthening of the U.S. Dollar as nearly 50% of the sales for the constituents for the index come from overseas. In short, a strengthening U.S. Dollar reduces the revenues to companies reporting in USD when translated from a foreign currency. Of course, when the dollar weakens this provides an extra boost to the companies reported revenues. While the third quarter was painful, we note that the current trailing P/E of 18.8 is meaningfully lower than the market bottom of October 9, 2002 at 25.3 as well as the end of 1996 at 19. Attractive valuations, low interest rates by historical standards, and a more global theme within the S&P provide ample arguments to be bullish on U.S. equities.

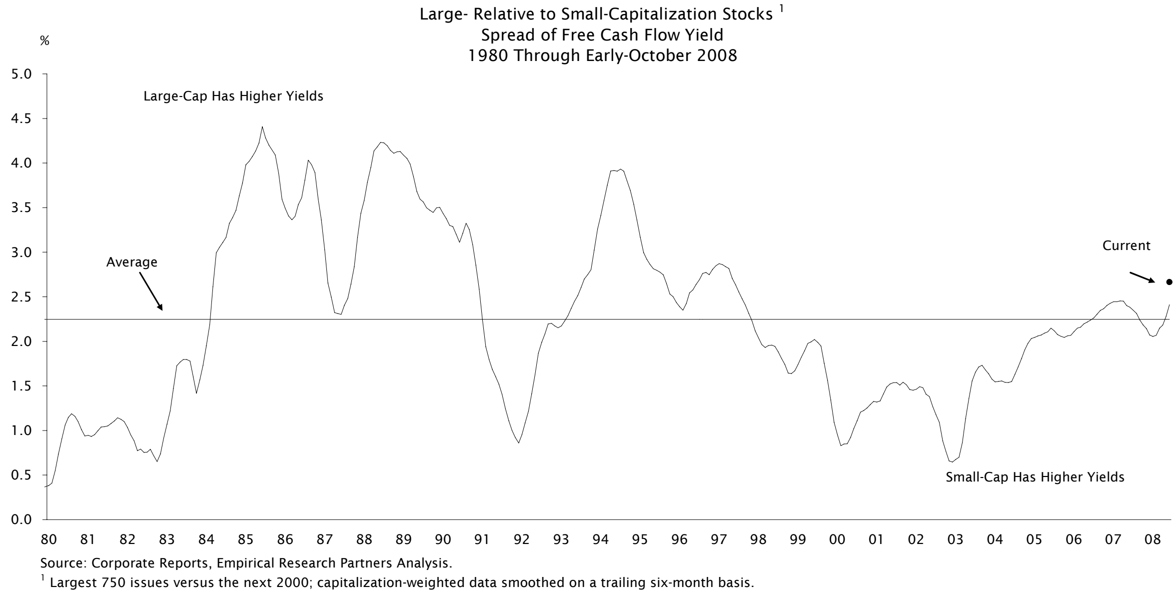
	Financials	Technology	Health Care	Industrials	Energy	Cons. Disc	Cons. Staples	Telecom	Utilities	Materials	S&P
Trailing P/E	14.7	16	16.6	13.4	9.9	13.7	16.9	12.4	12.4	13	18.8
20-year avg	15.3	27.8	25.2	20.5	19.8	19.3	22	18.8	14.5	20.1	22.3
Discount	-3.9%	-42.4%	-34.1%	-34.6%	-50.0%	-29.0%	-23.2%	-34.0%	-14.5%	-35.3%	-15.7%

Source – JP Morgan



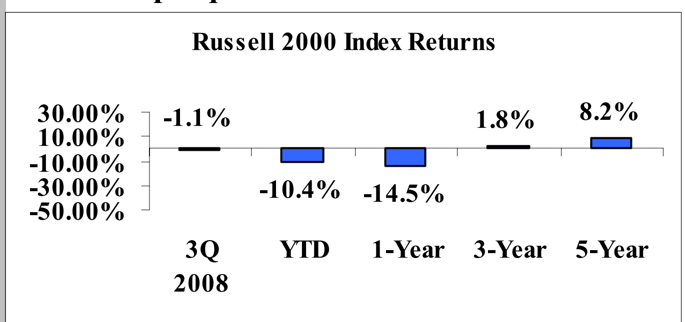
Source – Vestek Systems, S&P

Some traditionally defensive sectors including Consumer Staples and Health Care were in favor this quarter. Previous sector leaders, Energy and Materials, were at the bottom this quarter as commodities prices moved appreciably lower on a stronger dollar and concerns about lower worldwide future demand.



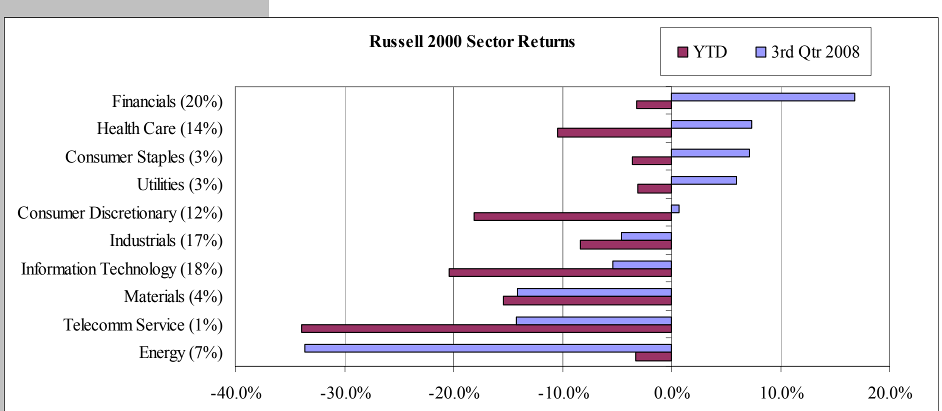
Free Cash Flow is generally defined as cash flow from operations minus capital expenditures. "Free Cash Flow Yield" relates that number to the current prices of equities and is calculated as free cash flow per share/price per share. In practice, free cash flow has several different definitions.

Small-Cap Equities – Russell 2000 Index



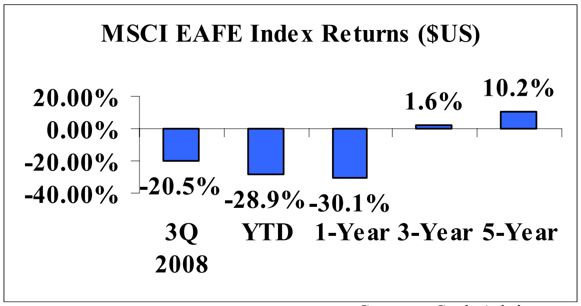
Source - StyleAdvisor

For the quarter, the Russell 2000 Index lost 1.1%. However, large-cap equities, as measured by the S&P 500, were down 8.4%. Seven out of ten sectors in the small cap universe outperformed their peers from the large cap universe. Certain sectors within the index were big contributors to the negative return in the Russell 2000. Energy and Material stocks were down 33.59% and 14.14% respectively. This represents a direct contrast to our report from the second quarter in which these sectors were the only two delivering positive returns. This downdraft was due to the deflation of commodity prices. Oil sank from its high of $145.18 per barrel to $100.64. With the announcement of significant Government intervention, Financial Services companies were up 16.8%. Health Care (+7.3%) and Consumer Staples (+7.1%) stocks also performed admirably as investors flocked to companies whose earnings growth may hold up during a severe economic slowdown. For the quarter, the Russell 2000 Value Index gained 5.0% while the Russell 2000 Growth Index lost 7.0%. The Russell 2000 Value Index has significant exposure to Financials, 34.0% of assets vs. 4.7% for the Russell 2000 Growth Index, and a large underweight to Energy stocks (4.5% of assets vs. 10.3%). These were clearly the biggest reasons that Value outperformed Growth in the quarter. The outperformance of small-cap equities to large-cap equities was attributable to lower interest rates in 2008, sharply lower commodities prices, and a stronger U.S. dollar. Why does currency matter? Small-cap stocks derive on average 80% of their revenues domestically while large-caps derive nearly 50% of their revenues internationally. Therefore, small-caps are viewed as being more insulated from a stronger U.S. Dollar. On a relative valuation basis to large-caps as well as free-cash flow yields, small-caps look expensive to us and as such we recommend an underweight position.



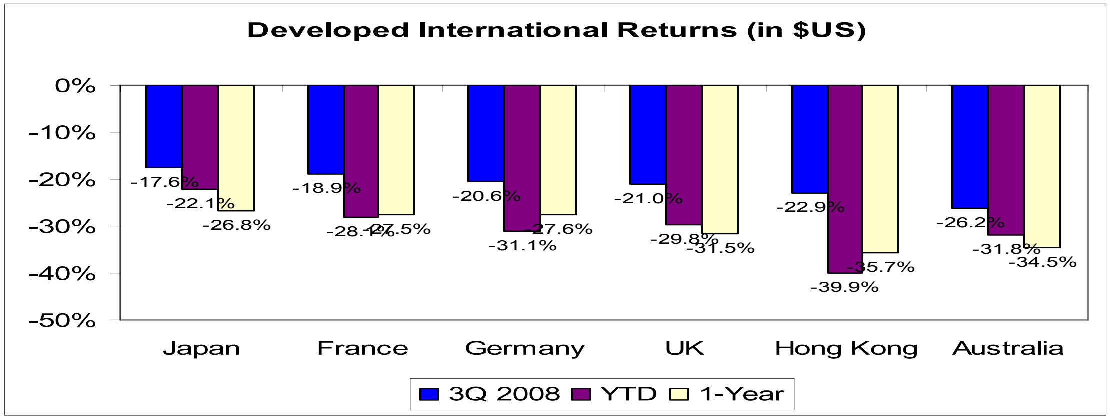
Source – Vestek Systems, S&P

International Equities – MSCI EAFE Index



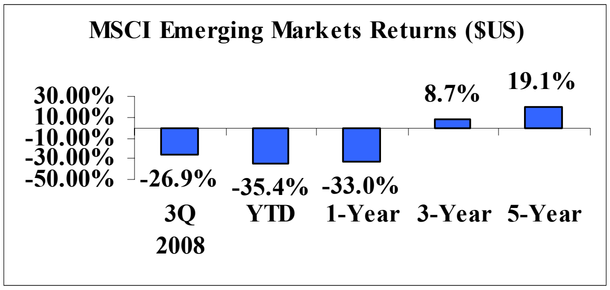
Source - StyleAdvisor

International Equities, as measured by the MSCI EAFE Index, were down 20.5% for the third quarter, handily underperforming the S&P 500 which was down 8.4%. The one year return was -30.1%. There has not been a reprieve from a decline in these markets since November 1, 2007. At that time, the MSCI EAFE Index stood at 2398.71. From that date until the end of the quarter, the MSCI EAFE Index had dropped over 33%. To put this abysmal performance into perspective, there have been 452 twelve month period returns since the inception of the MSCI EAFE Index. There have been only 4 of these twelve month periods, all during the early 1970's, when the MSCI EAFE Index has had a worse return than this last twelve months. As a result of this performance, at the end of September, the index stands at the same level it was at in November 2005. Countries which represented the worst performers of the MSCI EAFE basket were Ireland (-42.1%), Austria (-41.2%) and Norway (-40.6%). The market decline was so broad in the international developed world that every country represented in the index saw a decline of at least 13%. On a relative basis, the better performing countries included Switzerland (-13.2%), Spain (-16.9%) and Japan (-17.6%). As the year has progressed, it has become apparent, that foreign developed economies have exposure to many of the same issues plaguing the U.S. markets. As a result, forecasts of World GDP growth, as tracked by Economist Magazine, have gone from nearly 4.8% in late 2005 to 3.7% in 2008. Of the 17 countries in the MSCI EAFE Index tracked by them, forecasts of GDP growth are lower in 15 of those countries for 2009 than in 2008. As a result of the lowered expectations and the subsequent performance, the forward P/E ratio for the MSCI EAFE Index now stands at 9.92. This compares with the S&P 500 forward P/E of 13.34. Looking at GDP growth rates, with 14 of those 17 countries tracked by the Economist expected to have higher GDP growth rates than the U.S., the lower forward P/E is a compelling indication that the MSCI EAFE is relatively cheap. However, the U.S. dollar has rallied significantly versus the developed international currencies such as the Euro and Pound. While we believe the U.S. dollar might remain strong while fear dominates the markets, our long-term outlook suggests a return to a weaker domestic currency which will ultimately support U.S. investors' overseas holdings.



Source – StyleAdvisor

Emerging Market Equities - MSCI EM Index

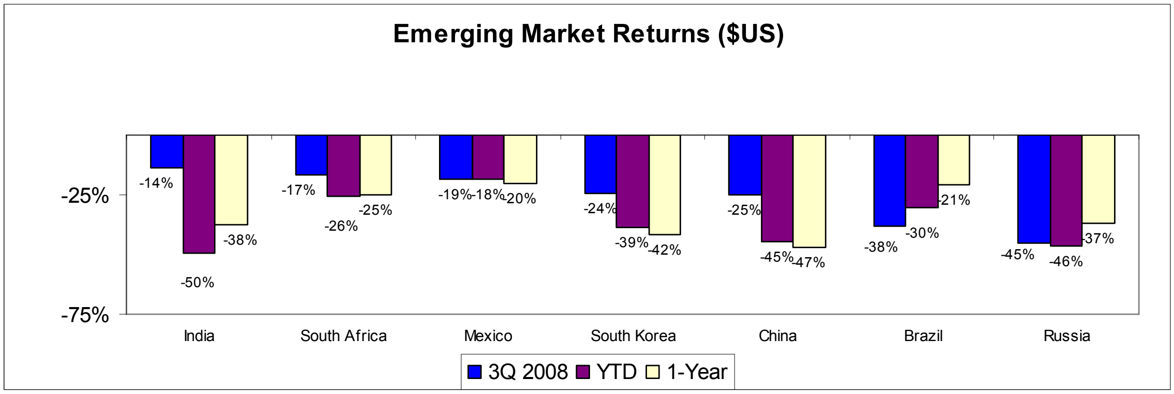


Source - StyleAdvisor

Emerging market equities swooned to their lowest quarterly return since the data on the MSCI Emerging Markets Index was first published in 1988 with a loss of 26.9%. A number of the strongest emerging markets from earlier in the year lost substantial ground including South Korea (-24%), Brazil (-38%), Russia (-45%), India (-14%), and China (-25%). Profit taking and fear overtook the emerging markets this past quarter as investors fled these markets for safer havens in the developed world. Fear was a clear motivator for the selling pressure experienced in these markets, and one of the main fundamental concerns that stoked fear, aside from the concerns of a global crash, was the prospect of food inflation running away on policy makers. While there has indeed been a steep decline in energy prices, wage inflation has also been a source of concern. Inflation rates are expected to run in the high single to mid-double digits throughout the emerging economies and it seems that, despite financial problems in the developed world, some investors are not willing to see if monetary policy in emerging economies will be sufficient to combat inflation. So, has the tide turned? Are emerging markets out-of-favor and should you consider shying away from this asset class for a while? We don't believe so. On the contrary, the steep sell-off has presented a favorable buying opportunity and is the reason why we continue to recommend an overweight position. Emerging markets present some of the best growth opportunities in the world and we note that generally speaking, emerging economies are in a fiscally better position than the advanced economies as the chart below shows. Additionally, the forward P/E of the MSCI Emerging Markets Index is 9.4, which is a discount of 30% to the forward earnings of the S&P 500 at 13.3. While this isn't the largest discount we've seen by any means, it's more favorable than any period since the end of 2005.

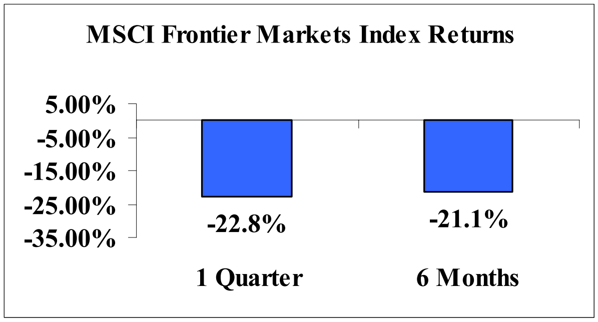
Catgories	Real GDP 2009*	Current Account Positions 2009*
Advanced Economies (i.e. U.S., Germany)	0.5%	-0.6%
Emerging Asia (i.e. China, India)	7.1%	5.0%
Western Hemisphere (i.e. Brazil, Mexico)	3.2%	-1.6%
Emerging Europe (i.e. Czech Rep., Poland)	3.4%	-7.2%
Commonwealth of Independent States (Russia, Kazahkstan)	5.7%	3.0%
Africa (i.e. Algeria, Morocco)	6.0%	0.2%
Middle East (i.e. Saudi Arabia, Egypt)	5.9%	17.1%

*Estimates provided by IMF, Current Account Positions are % of GDP.
Negative value indicates a current account deficit.



Source – StyleAdvisor

Frontier Markets - MSCI Frontier Markets Index



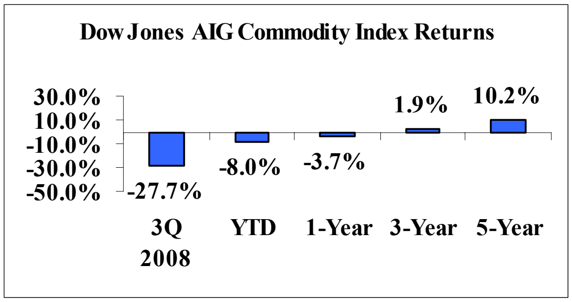
The Frontier Markets have felt the downdraft of selling pressures just like many other international markets as the index fell 22.8%. Seventeen of the nineteen countries in the index were in significantly lower territory. The largest decliners included Ukraine (-57%), Kazakhstan (-49%), Bulgaria (-45%), Romania (-43%), and Estonia (-32%). Beginning this quarter, we are initiating coverage of the "Frontier Markets." MSCI recently created the MSCI Frontier Markets Index which is a compilation of 19 pre-emerging market countries. The most recent list is included below. While we believe that these markets present a compelling long-term growth opportunity, it's our opinion that they are probably 3-5 years away from being mature enough to recommend as a stand alone option for most 401(k) plans, mainly due to a lack of liquidity, available investment products in this category, and a seasoned track-record to evaluate their return characteristics. As we initiate coverage, we plan to highlight some of the countries in the index to familiarize the readership with the characteristics of these investment opportunities. This quarter we've selected Bulgaria, Croatia, and Estonia. Bulgaria's economic growth reached a three year high in the second quarter when the country's GDP expanded by 7.1%. A lending boom helped spur consumption and investment in construction and real estate. Agricultural output in the country of 7.8 million people is expected to rise considerably in the coming months after unfavorable weather conditions devastated crops in 2007. A decline in export growth due to weakening European economies will weigh heavily on growth in the second half of 2008. Year-end GDP growth is expected to be between 6.2% and 6.5% for 2008. Inflation slowed from 14.5% in July to 11.2% in August as food prices declined and fuel costs fell. The European Central Bank expects inflation to accelerate in the coming years as the European Union's poorest state catches up with price levels in the 27-nation union. Inflation forecasts for 2009 range from 9.1% to 9.9%. Croatia. Gross domestic product for Croatia rose at an annual rate of 3.4%, which is the slowest pace in more than three years. Lower industrial output and weak consumer spending were the main reasons for slower growth. The tourism industry, which makes up one fifth of the country's economy, continues to weaken as global economic conditions deteriorate. Slower economic expansion, combined with high inflation and easing wage growth, may inhibit chances for boosting the country's standard of living, whose purchasing power is 52% of the European Union average. Year-end GDP growth should be around 4.5% for 2008. Estonia. In the second quarter, Estonia's economy fell into a recession for the first time since 1999. Gross domestic product fell by an annualized 1.1% in the second quarter as inflation cut consumption and property sales slumped and inflation rose to a three year high of 2.9%. Corporate earnings dropped to a nine year low in the second quarter due to rising labor costs and weak demand. Industrial production has fallen for four straight months due mainly to a 25% decline in energy output. While the recession isn't expected to last more than two or three years, the length may ultimately be determined by the country's ability to battle 11% inflation and 15.2% wage growth. After enjoying budget surpluses in the last seven years, the Baltic country is expected to have a trade deficit of 1.3% of GDP in 2008. Forecasts anticipate GDP of -1% and 2% in 2008 and 2009, respectively, although some expect negative GDP in 2009 as well.

MSCI Frontier Markets Index

Central & Eastern Europe & CIS	Africa	Middle East	Asia
Bulgaria	Kenya	Lebanon	Sri Lanka
Croatia	Mauritius	Bahrain	Vietnam
Estonia	Nigeria	Kuwait	
Kazakhstan	Tunisia	Oman	
Romania		Qatar	
Slovenia		United Arab Emirates	
Ukraine			

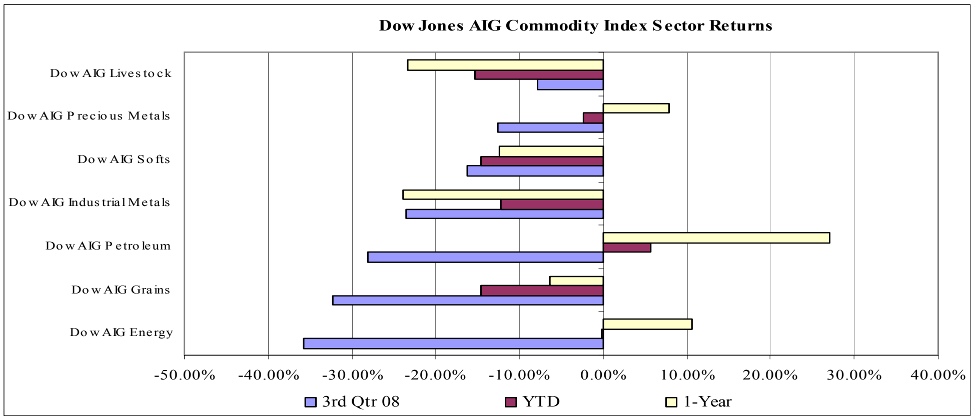
Source – MSCI

Hard Assets – Dow Jones Commodity Index



Source - StyleAdvisor

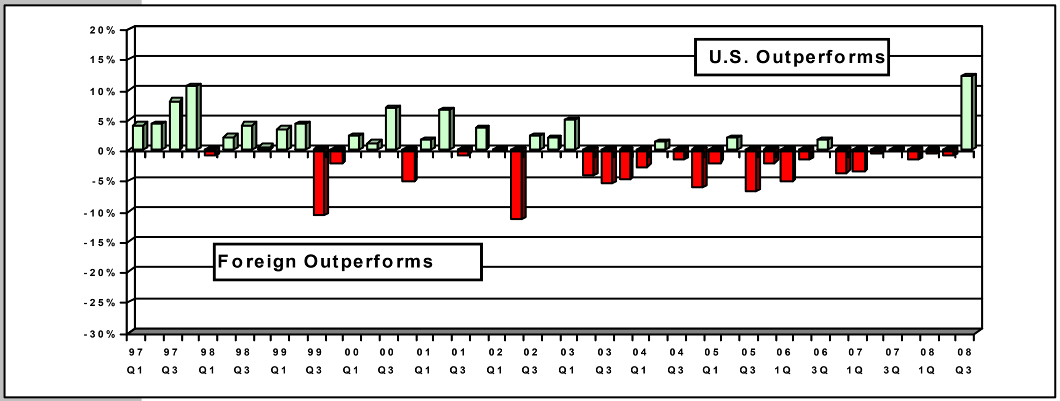
"Hard Assets," as aggregated by the DJ AIG Commodity Index, lost 27.7% thanks to the confluence of a strengthening U.S. Dollar, deleveraging, and concerns about U.S., European, and Asian growth prospects. On a contract basis, Natural Gas (-47%), Corn (-36%), Soybean Oil (-34%), Silver (-30%), and Crude Oil (-29%) lost the most and 16 of the 19 commodities within the index lost double digits during the period. While Gold (-6%) was widely discussed as the financial crisis spread to the rest of the world as a safer haven, it actually was not the best performing commodity in the period. That distinction goes to "Lean Hogs," with a slight decline of -3.9%. Last quarter we opined that the world is probably in a "supercyle" of hard assets outperformance over financial assets for perhaps a period as long as 18-years starting in 2000. We have not changed our opinion on this and even noted that there may be sharp drops in prices such as in 2001. Commodities have historically been very volatile and our recommendation for this asset class is mainly from a portfolio diversification standpoint in addition to a conviction that demand from emerging economies, low inventories, and various supply constraints seems to still have momentum. Studies conducted by the IMF (International Monetary Fund) and CFTC (U.S. Commodity Futures Trading Commission) suggest that there have been some subtle changes in the behavior of commodity prices as the result of financialization of commodities. However, variables such as market tightness, supply levels, or geopolitical risks may be better explanatory variables.[1] Often times, the direction of financial flows is inconsistent with the direction of price changes as evidenced by the continued increase in prices in WTI Crude Oil, Heating Oil, and Copper while net long positions in these commodities declined significantly from 2005 through August of 2008.[2] We believe that there is a strong fundamental case for holding commodities long and it continues to be based on global growth, tight supply, and the frenzy to develop biofuels which places upward pressures on corn and other agricultural products because corn planting displaces space to grow wheat, soybeans, and the like. We believe the case to keep commodities in a retirement plan remains intact. In the short-term, however, our expectation is that the rising dollar and slower than expected world economic expansion will hurt returns in this category but we concede nothing so far as the importance of this asset class for diversification purposes. As of September 30, 2008, the index was comprised of Energy (35.1%), Livestock (8.5%), Grains (16.6%), Industrial Metals (17.8%), Precious Metals (10.2%), Softs (9.3%), and Vegetable Oil (2.6%). At the beginning of this year, Dow Jones rebalanced this index to broadly align the exposure to Energy, Agriculture, and Metals at 1/3 each for the index. This rebalancing occurs annually in January.



[1,2] – *Kevin Cheng, IMF World Economic Outlook 2008,, International Monetary Fund, Box 3.1, pp88-91, http://www.imf.org/external/pubs/ft/weo/2008/02/pdf/c3.pdf*

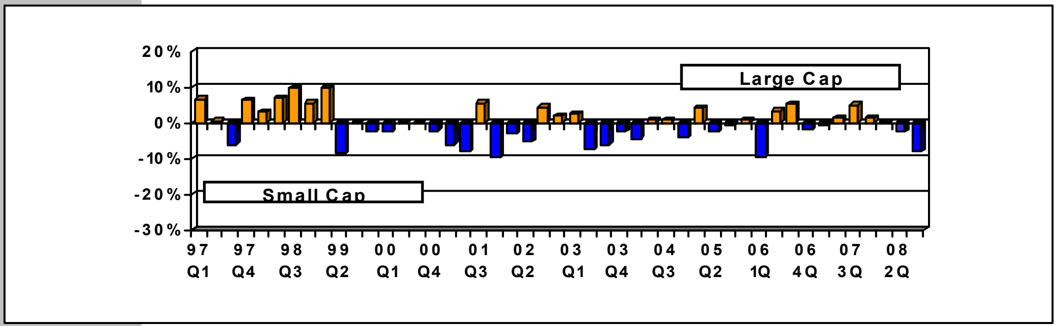
Source - StyleAdvisor

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



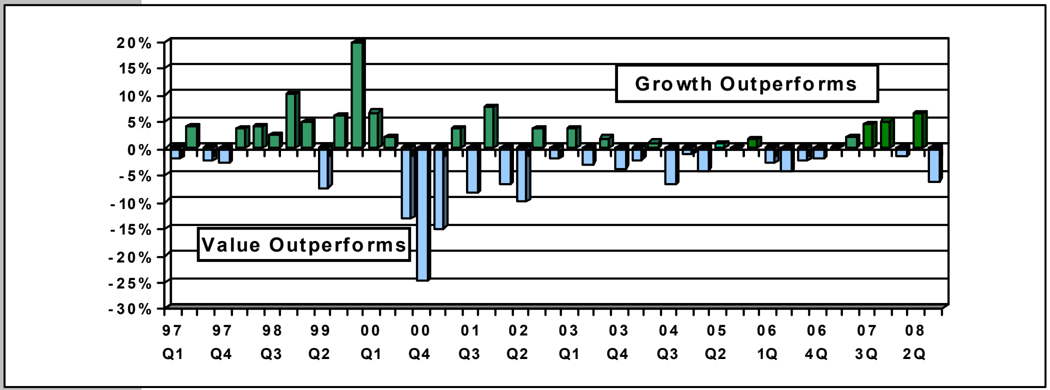
U.S. equities outperformed international equities by the largest margin since we have been tracking this chart, which started in 1997.

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



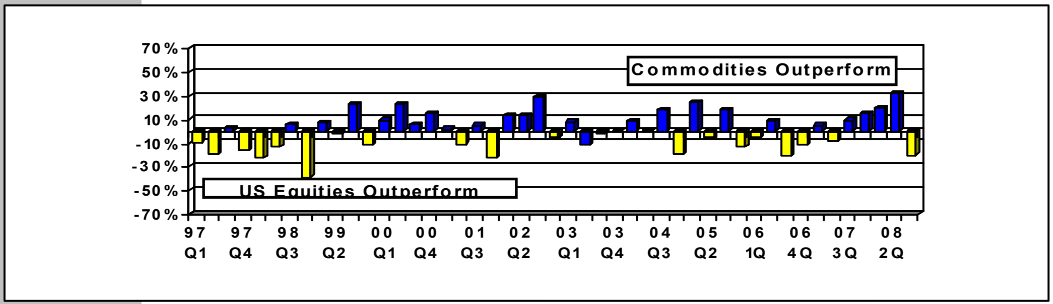
Small-cap stocks outperformed large-cap for the quarter thanks to continued low interest rates, falling commodities prices, and less exposure to international revenues.

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



In response to the Federal Intervention, Value stocks easily outperformed as financials were propped-up by the action.

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



In a sharp reversal, commodities meaningfully underperformed equities in the third quarter.

FRANCIS
Investment Counsel LLC

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 INDU.S.TRIAL 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-U.S. 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, Snap-On, Pulte Homes, Lennar, KB Home, Harman, Fortune Brands, Black & Decker, Centex, D R Horton, Stanley Works, Newell Rubbermaid)
Leisure Equipment & Products (Eastman Kodak, Mattel, Hasbro, Brunswick)
Text, Apparel & Luxury Goods (Liz Claiborne, Nike, Jones Apparel, Coach, Ralph Lauren, V F Corp.)
Hotels, Restaurants & Leisure (McDonalds, Starbucks, Carnival, Hilton Hotels, Wendy's, Wyndham, International Game, Starwood, Darden, Marriott, Yum Brands, Harrahs)
Media (Comcast, Direct TV, Interpublic, Meredith Corp., News Corp., Omnicom, Walt Disney, Time Warner, Viacom, Gannett, NY Times, McGraw Hill, Clear Channel, Washington Post)
Distributors (Genuine Parts)
Internet & Catalog Retailing (Amazon, Expedia, IAC Interactive)
Multi-Line Retail (Big Lots, Dillards, Family Dollar, JC Penny, Nordstrom, Kohls, Macy's, Sears, Target)
Specialty Retail (Autonation, Abercrombie & Fitch, AutoZone, Bed Bath & Beyond, Best Buy, Circuit City, GameStop, Gap, Home Depot, Lowes, Limited Brands, Office Depot, OfficeMax, RadioShack, Sherwin Williams, Staples, Tiffany & Co., TJX Co.)

CONSUMER STAPLES

Food & Staples Retailing (Kroger, Supervalu, Safeway, Sysco, Walgreens, Whole Foods, Wal-Mart)
Beverages (Brown Forman, Anheuser Busch, Coca Cola, Pepsi, Constellation Brands, Molson Coors)
Food Products (Archer Daniels, Conagra Foods, Campbell, Dean Foods, General Mills, Heinz, Hershey, Kellogg, Kraft, McCormick & Co., Sara Lee, Tyson Foods, Wrigley)
Tobacco (Altria Group, RJ Reynolds, U.S.T, Philip Morris)
Household Products (Kimberly Clark, Colgate Palmolive, Proctor & Gamble, Clorox)
Personal Products (Avon Products, Lauder Estee)

ENERGY

Energy Equipment & Services (Baker Hughes, BJ Services, Ensco, Halliburton, Nabors, Noble, National Oilwell Varco, Rowan, Transocean, Smith, Schlumberger, Weatherford, Cameron)
Oil, Gas & Consumable Fuels (Apache, Anadarko Pete, Peabody Energy, Chesapeake Energy, Consol Energy, Conoco Phillips, Chevron, Devon Energy, EOG Resources, El Paso, Hess, Marathon Oil, Murphy Oil, Noble Energy, Occidental Pete, Range Resources, Spectra Energy, Sunoco, Tesoro, Valero Energy, Williams, Exxon, XTO Energy)

FINANCIAL SERVICES

Capital Markets (American Capital, Ameriprise, Franklin, Bank of New York, Bear Stearns, E Trade, Federated, Goldman Sachs, Janus, Lehman Brothers, Legg Mason, Merrill Lynch, Morgan Stanley, Northern, Charles Schwab, State Street, T. Rowe Price,)
Commercial Banks (Bank of America, First Horizon, Keycorp, M & T, National City, Regions, SunTrust, Wachovia, Zion's, Wells Fargo, U.S. Bancorp, Marshall & Ilsley, PNC)
Diversified Financial Services (Bank of America, Citigroup, CME, Intercontinental Exchange, JP Morgan Chase, Leucadia, Moody's, NYSE)
Insurance (Ambac, Ace, Aflac, American, Assurant, Allstate, Aon, Chubb, Cincinnati, Genworth, Hartford, Lincoln, Loews, MBIA, MetLife, Marsh & McLennan, Principal, Progressive, Prudential, Safeco, Torchmark, Travelers, Unum, XL Capital)
Real Estate (Apartment Investment & Management, Avalon bay, Boston Properties, Developers Diversified, Equity Residential, General Growth, Host Hotels & Resorts, Kimco, Plum Creek Timber, Prologis, Simon Properties, Vornado, HCP)

HEALTH CARE

Health Care Equipment & Supplies (Baxter, Bard, Becton Dickinson & Co., Boston Scientific, Boston Scientific, Covidien, Hospira, Medtronic, St. Jude, Stryker, Varian, Zimmer)
Health Care Providers & Services (AmerisourceBergen, Aetna, Cardinal Health, Cigna, Coventry Health, Quest Diagnostics, Express Scripts, Humana, Laboratory, McKesson, Medco Health, Patterson, Tenet Healthcare, UnitedHealth Group, WellPoint)
Biotechnology (Amgen, Biogen, Celgene, Genzyme, Gilead Sciences, IMS Health)
Pharmaceuticals (Abbott, Allergan, Bristol Myers, Barr, Forest, Johnson & Johnson, King, Lilly Eli, Merck, Mylan, Pfizer, Schering Plough, Watson, Wyeth)

INDUSTRIALS

Aerospace & Defense (Boeing, Rockwell Collins, General Dynamics, Goodrich, Honeywell, L-3 Communications, Lockheed Martin, Northrop Grumman, Precision Castparts, Raytheon, United Technologies)
Building Products (Masco, Trane)
Construction & Engineering (Fluor, Jacobs)
Electrical Equipment (Rockwell Automation, Emerson Elec., Cooper Inds.)
Industrial Conglomerates (3M, General Electric, Tyco International, Textron)
Machinery (Deere & Co., Caterpillar, Cummins, Ingersoll-Rand, Paccar, Eaton, Danaher, Dover, ITT, Illinois Tool, Manitowoc, Parker Hannifin, Pall, Terex)
Trading Companies & Distribution (Grainger WW)
Commercial Services & Supplies (Avery Dennison, Allied Waste, Cintas, Equifax, Monster Worldwide, Pitney Bowes, Robert Half, Donnelley R. R. & Sons, Waste Management)
Air Freight & Logistics (United Parcel Service, FedEx, C. H. Robinson, Expeditors)
Airlines (Southwest)
Road & Rail (Union Pacific, CSX, Burlington Northern, Norfolk Southern, Ryder)

INFORMATION TECHNOLOGY

Internet Software & Services (Akamai, EBay, Google, Verisign, Yahoo)
IT Services (Affiliated, Automatic Data, computer Sciences, Cognizant, Convergys, Electronic Data, Fidelity, Fiserv, Paychex, Total System, Unisystem, Western)
Software (Adobe, Autodesk, BMC Software, CA Inc., Compuware, Citrix, Electronic Arts, Intuit, Microsoft, Novell, Oracle, Symantec)
Communications Equipment (Cisco, Motorola, Qualcomm, Corning, Tellabs, Avaya, JDS Uniphase, Juniper Networks, Ciena)
Computers & Peripherals (Dell, Apple, EMC, Sun Microsystems, Hewlett Packard, IBM, Lexmark, Netapp, Qlogic, SanDisk, Teradata, NCR)
Electronic Equipment & Instruments (Agilent, Jabil Circuit, Molex, Tyco Electronics)
Office Electronics (Xerox)
Semiconductors & Semi Equipment (Analog Devices, Altera, Applied Materials, Advanced, Broadcom, Intel, KLA-Tencor, Linear, LSI, Microchip, Micron, National Semiconductor, Nvidia, Novellus, Teradyne, Texas Instruments, MEMC Electric, Xilinx)

MATERIALS

Chemicals (Air Products & Chemicals, Ashland, Du Pont, Dow Chemicals, Ecolab, Eastman, Hercules, International Flavors, Monsanto, PPG, Praxair, Rohm & Haas, Sigma Aldrich)
Construction Materials (Vulcan Materials)
Containers & Packaging (Sealer Air, Pactiv, Ball, Pactiv, Bemis)
Metals & Mining (Alcoa, U.S. Steel, Newmont Mining, Freeport-McMoran, Nucor, Phelps Dodge, Allegheny, Titanium Metals)
Paper & Forest Products (Intl Paper, MeadWestvaco, Weyerhaeuser)

TELECOMMUNICATION SERVICES

Diversified Telecom Services (AT&T, Citizens, Embarq, Windstream, Verizon, Qwest, CenturyTel)

Wireless Telecom Services (Sprint Nextel, American Tower)

UTILITIES

Electric Utilities (Southern Co., Allegheny Energy, Duke Energy, Edison, Entergy, FirstEnergy, Progress, Exelon, Pinnacle West, Pepco, PPL, Southern, American Electric Power, FPL)

Gas Utilities (NiSource, Questar)

Industrial Power Production / Energy Trd (Constellation Energy, Dynegy, AES)

Multi-Utilities & Unreg. Power (Ameren, CMS, Centerpoint, Dominion, DTE, Consolidated Edison, NiSource, PG&E, Public Service, Sempra, Teco, Integrys, Xcel)

SERVICES

Companies represented in the industries were selected from the S&P 500 Index as of 3/31/08.