

Capital Markets Commentary

Fourth Quarter 2007

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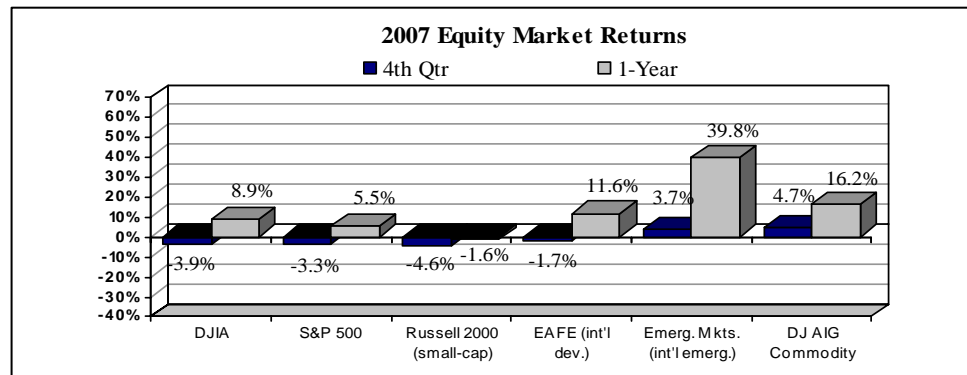
Fourth Quarter and Year End 2007

For the first time in 10 years, U.S. equity markets failed to gain ground in the fourth quarter. Falling home prices, tightening credit markets, rising unemployment, and sagging consumer confidence caused the S&P 500 Index to drop 3.3% in the quarter, and despite solid economic growth, finish the year with a modest 5.5% gain.

Correctly forecasting an economic slowdown, the Fed acted aggressively in the second half of the year, cutting interest rates 3 times. This had the seemingly contradictory affect of driving interest rates lower, and inflation expectations higher. Conservative investors were rewarded in 2007 as falling yields on high-quality bonds caused the Lehman Aggregate Bond Index to outperform stocks, returning 3.0% in the fourth quarter and 7.0% for the year.

While U.S. investors and the Fed were focused on growing fears of recession, many foreign Central Banks were dealing with rapidly expanding economies and inflationary pressures. Strong economic growth overseas, and a weak dollar, led the broadest measure of foreign stock markets, the MSCI All-World ex-U.S. Index, to return 17% for the year, meaningfully outperforming U.S. stocks for the 6th year in a row.

Robust global demand, along with shortages of supply and the weakening dollar, triggered higher commodity prices in energy, metals, and agriculture. This drove the Dow Jones AIG Commodity Index up 4.7% in the fourth quarter, and 16.2% for all of 2007. The energy-heavy Goldman Sachs Commodity Index faired even better up 11.6% for the quarter, and 32.7% for the year as oil, which started the year near \$60 per barrel, finished the year near an inflation-adjusted record high of \$100 per barrel.



Source - StyleAdvisor

Average Fund Performance

2007 brought a change in leadership for domestic equity funds. After eight consecutive years of out performance, U.S. small-cap funds meaningfully lagged U.S. large-cap funds in the fourth quarter and for the year. Growth funds out performed value funds across all capitalization categories by a wide margin after significantly underperforming them since the tech stock bubble burst in 2000. One trend that continued in 2007 was the out performance of foreign stock funds over domestic stock funds. Foreign funds were led by another stellar year for emerging market equity funds, up 36.3% on average for the year. Natural resources and TIPS bond funds were also category leaders up 6.3% and 4.6% respectively in the quarter and 39.6% and 10.8% for the year.

STYLE PERFORMANCE MATRIX 4th Quarter Total Return

	Value	Core	Growth	AVERAGE
Large-Cap	-4.72%	-3.06%	-0.03%	-2.41%
Mid-Cap	-5.05%	-3.63%	-1.06%	-2.76%
Small-Cap	-6.72%	-5.69%	-3.19%	-4.97%
AVERAGE	-5.33%	-3.81%	-1.17%	

Source: Lipper, Inc.

STYLE PERFORMANCE MATRIX 2007 Total Return

	Value	Core	Growth	AVERAGE
Large-Cap	2.25%	5.74%	14.17%	7.83%
Mid-Cap	1.98%	5.90%	16.48%	9.99%
Small-Cap	-5.55%	-1.00%	8.69%	1.67%
AVERAGE	0.19%	4.10%	13.63%	

Source: Lipper, Inc.

Your Independent Retirement Plan Investment Advisor

Near-Term Capital Markets Outlook

U.S. Economy – “Growth Recession” Most Likely Outcome

Despite weak residential real estate markets and large write downs by certain financial institutions, U.S. GDP is projected to finish up 2.8% in 2007, up from 2006, when the economy grew at a 2.6% rate. Currently, the economy is experiencing a meaningful slowdown, but we do not believe it will disintegrate into a full blown recession, defined as two consecutive quarters of declining GDP. Currently, the U.S. is simultaneously experiencing one of the broadest declines in residential real estate prices since the 1930's, and a minor banking crisis. These events represent the unwinding of recent speculative excesses that have begun to sap consumer confidence.

Thanks largely to weakness in the dollar, elements of the U.S. economy have begun to expand due to increased foreign trade. Because of the lagged effect of dollar weakness on foreign demand for U.S. goods and services, we expect U.S. exports to show continued strong growth in 2008 thus offsetting weakness in other sectors. It is worth noting that relative to our GDP, U.S. exports are three times as large as the residential home construction industry.

Domestic Equities – Neutral

Slowing economic growth and continued losses in the housing and financial services sectors are clear negatives for U.S. equities. Yet unlike the last U.S. recession seven years ago which led to a 48% drop in the S&P 500 Index, U.S. equities are currently trading at less than one-half their valuation in 2000 and investor sentiment is as negative as it has been for over ten years. Therefore, while the road may be bumpy in 2008, those who choose to remain invested should be reasonably well rewarded. In fact, it could turn out to be an above-average year for U.S. equities. We continue to favor large-cap over small-cap, and “growth” over “value” stocks.

International Equities – Overweight

The primary story in overseas markets is solid growth and fears of rising inflation. This should keep foreign interest rates high and continue to place downward pressure on the dollar. Asia's growth is increasingly driven by internal demand from its rapidly growing middle class and urbanization movement which is still in its early stages. While many emerging market fund managers are pulling out of China after a 250% gain in two years, asset price “bubbles” in real estate and stocks remain well below those of Japan in the late 80's and the U.S. in the late 90's. Latin America is thriving primarily due to its commodity-based economies and growing demand for these natural resources by a growing global economy. Developed Europe and Japan remain the weakest foreign economies but valuations are modest relative to most of the rest of the world. We expect 2008 to be another year of out performance by international equities over domestic equities.

Domestic Bonds – Underweight

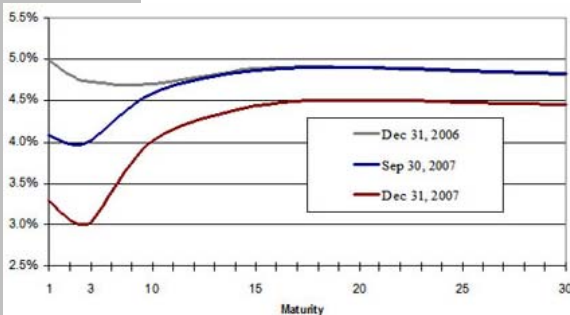
Aggressive cuts in short-term interest rates by the Fed have helped calm the markets' recession fears by making it easier to borrow money. But these cuts put increasing downward pressure on the dollar and invite unwanted inflationary pressures. While recession fears run high, quality bonds attract a lot of attention and will be a top performing asset class. Recent events underscore the importance of bonds in a well-diversified portfolio as a hedge against the unknown or unexpected. Our “glass is half full” economic outlook has caused us to downplay the likelihood of this scenario for the past six months and be wrong about the relative attractiveness of bonds. We expect bonds to deliver below average returns from their current levels.

Hard Assets – Overweight

Slowing global economic growth will detract from recent strength, but be somewhat offset by a weaker dollar. This asset class continues to display excellent portfolio diversification properties and gain favor with large institutional investors. Unlike equities, commodity prices are positively correlated with inflation. They can be expected to outperform their historical average return (+10%) in an inflationary environment.



U.S. Bonds – Multiple Bond Indexes



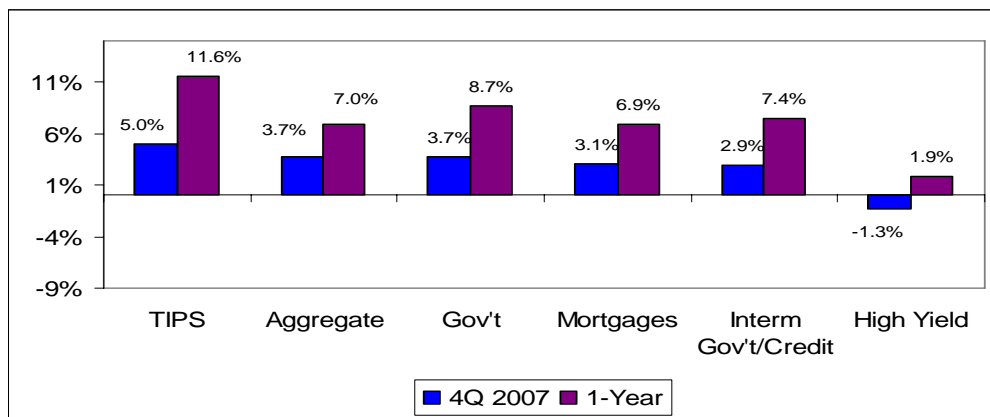
U.S. Yield Curve as of 12/31/07

Source: Bloomberg, courtesy Robert W. Baird.

Risk avoidance was the theme of the fourth quarter as yields moved lower on the safest issues (i.e. Treasuries). The Lehman Treasury 7-10 Year index rose 5% in the quarter bringing annual performance up to 10.2%. There was high volatility for rates across the entire range of maturities. Two factors influenced this experience: short term liquidity needs and investors sorting through conflicting economic signals from the U.S. economy. On the one hand, GDP is slow and inflation rising, but employment remains relatively healthy compared to historical standards and the earnings for many industries are still largely positive. Nevertheless, the Federal Reserve Board voted to cut the Fed Funds target rate in October and December by a quarter

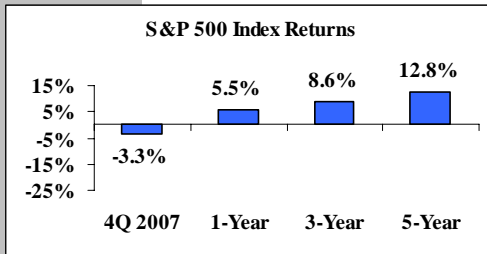
point each time which left the Fed Funds rate at 4.25% as 2007 came to a close. Banks required significant infusions of capital as they incurred multiple billion dollar losses from investments in bonds related to subprime borrowers. The damage was increased for some, typically hedge funds through the use of leverage. Leveraging is a process by which the size of the investment is increased by borrowing funds then used to make additional purchases. The pain came when deleveraging began, i.e., selling your investments to raise cash then used to pay down the amount borrowed. In most instances, the collateral for these borrowings were the subprime securities themselves. Sellers of subprime mortgage securities faced the identical situation: a lack of interest in the securities at prices near recent prices, or for any price at all. Eventually, banks knew that the collateral pledged was well below the values stated on paper. Not only were bond investors more aware of the uncertainty surrounding subprime mortgage-backed securities, they decreased their exposure to risk and increased their exposure to safety. In this environment, anything that had credit risk of any kind was under selling pressure and Treasury obligations attracted significant assets. Not surprisingly, high yield bonds, which are the lowest in credit quality, dropped 1.3% for the quarter and finished 2007 with a slight gain of 1.9%. Looking to the future, we don't believe the dust has settled on the credit situation in the U.S. Just how widespread is this financial crisis? One of the more bizarre stories related to U.S. credit problems came from four small northern Norwegian towns that invested in complex mortgage-backed securities. It's reported that these towns lost \$64M on their investments. The obscurity of this event in tandem with a flight to quality elsewhere would seem to suggest that this stuff is "everywhere."

U.S. Bonds – Multiple Bond Indexes



Source: Bloomberg, courtesy Robert W. Baird.

Large-Cap Equities – S&P 500



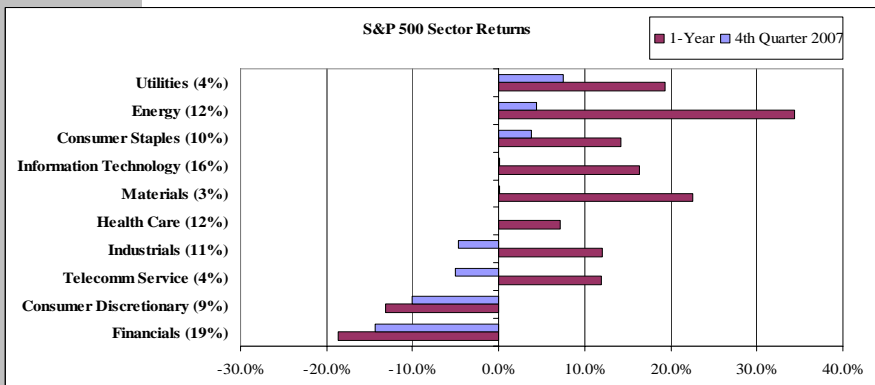
Source - StyleAdvisor

In the fourth quarter, U.S. equities, as measured by the S&P 500 index, lost 3.3%. The rotation away from the value style toward growth in large company stocks continued in earnest. The Russell 1000 Growth index returned -0.8% versus Russell 1000 Value which returned -5.8%. Three of the ten sectors showed a meaningful positive return for the quarter: Energy (4.4%), Consumer Staples (3.8%), and Utilities (7.6%). Two were essentially flat: Materials and Information Technology. The rest were negative with Consumer Discretionary down 10% and Financials down 14%. Operating earnings reported during the fourth quarter

declined 8.5% versus the prior year. Generally, value stocks are believed to have less risk associated with them. Nevertheless, value meaningfully underperformed growth in the quarter and the year. The outperformance of growth versus value might seem to indicate a year that rewarded investing in riskier stocks. This was not the case, though, if one uses beta to distinguish the relative riskiness of stocks. Beta measures the sensitivity of a stock's return relative to the return of the S&P 500 and the beta of the S&P 500 is 1. Stocks with a beta greater than 1.5 averaged returns of -2% in 2007, while stocks with a beta below 1.5 had an average return of 2%. While risk was the leading topic in the bond market, earnings were a particular focus in the stock market. Earnings reported in the fourth quarter were originally expected to show improvement compared to the prior quarter, but the story deteriorated during the quarter. Earnings expectations for the broad market fell (see chart below provided by S&P) with the headlines carrying news of significant asset writedowns at banks. Returns were generally highest in the sectors with the best earnings expectations during the quarter, namely Consumer Staples and Health Care. According to Thompson Financial, at year end the S&P 500 had a forward price to earnings ratio of 16.2, which equates to earnings yield of 6.1%. This earnings yield from equities is favorable relative to bonds given the current yield on the 10-year Treasury of just over 4.0%. However, given that Financials and Consumer Discretionary stocks make-up nearly one third of the index, and their earnings projections are in deeply negative territory, the index as a whole will likely be held back.

OPERATING EARNINGS	2005	2006	Q1 2007	Q2 2007	Q3 2007
	OVER 2004	OVER 2005	OVER Q1 2006	OVER Q2 2006	OVER Q3 2006
S&P 500	12.97%	14.75%	7.91%	9.59%	-8.48%
Consumer Discretionary	-3.51%	20.01%	-6.77%	-1.77%	-38.94%
Consumer Staples	4.93%	5.49%	6.02%	7.92%	12.61%
Energy	44.02%	24.72%	1.70%	8.70%	-9.92%
Financials	3.63%	17.52%	10.86%	12.99%	-33.15%
Health Care	8.47%	7.79%	13.25%	21.69%	14.80%
Industrials	24.78%	16.19%	14.34%	9.28%	11.82%
Information Technology	18.52%	1.31%	10.75%	5.16%	13.68%
Materials	18.54%	27.30%	16.74%	8.85%	5.50%
Telecommunication Services	5.55%	9.94%	-1.13%	2.93%	4.09%
Utilities	12.84%	18.07%	3.66%	-2.01%	0.73%

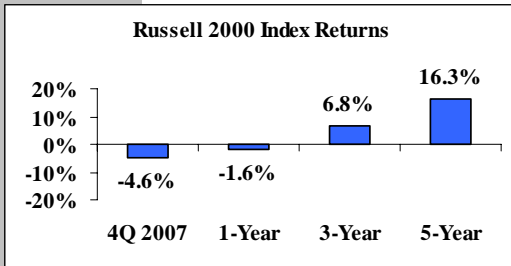
Source –S&P



Source – Vestek Systems, S&P

Investors moved to traditionally defensive areas like Utilities and Consumer Staples as cyclicals and Financials experienced sharply lower returns for the quarter and the year. Energy and Materials sectors finished 2007 with the strongest returns as prices for commodities moved notably higher. The earnings for the Consumer Discretionary and Financials sectors moved sharply lower.

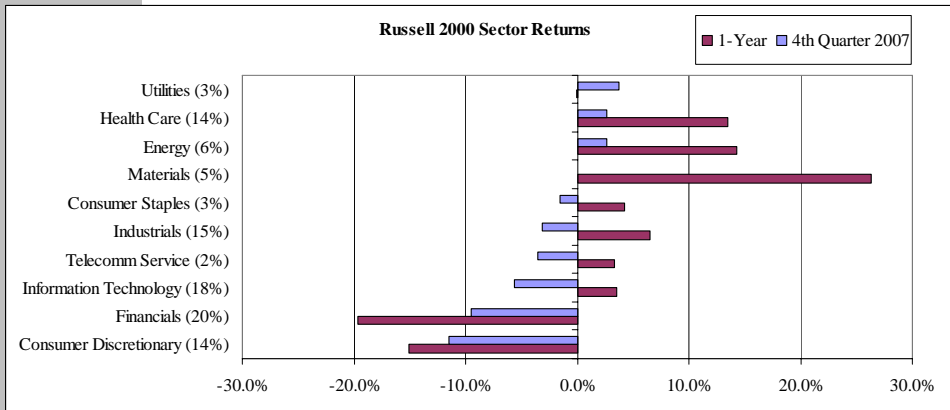
Small-Cap Equities – Russell 2000 Index



Source - StyleAdvisor

The fourth quarter was hard on small company stocks with the Russell 2000 index down 4.6%, wiping out three quarters of positive performance. That left the index with a full year return of -1.6%. By comparison, the S&P 500 (large company stocks) had a full year return of 5.5%. As was the case in large cap stocks, growth outperformed value. The Russell 2000 Growth Index returned -2.1% in the fourth quarter but was meaningfully ahead of Russell 2000 Value which returned -7.3%. This disparity was amplified for the year as growth gained 7.0% while value lost 9.8%. During the quarter, there was great

similarity to large cap stocks on an attribution basis for sectors. The Consumer Discretionary sector was down 11.5%, the index's worst performer, followed by Financials which were down 9.5%. Four other sectors were negative. Three sectors were positive: Energy (2.6%), Health Care (2.7%), and Utilities (3.7%). The Materials sector was essentially flat for the quarter. In the first half of the year, merger and acquisition activity increased valuations for the many companies that were perceived as targets for private equity funds, management buyouts, and larger corporations. This speculation slowed with the tightening of credit standards at investment and commercial banks. Without easy access to lending facilities, acquirers were expected to complete fewer deals for cash removing buyout premiums from small cap stock prices in the fourth quarter. We continue to prefer large-cap stocks to small-cap stocks. Valuations ended the quarter relatively high for the riskier small-cap stocks. The forward price to earnings ratio stood at 20.3 versus 16.2 for large-cap stocks. We believe this will limit small-cap's ability to see increases in valuations without significant increases in earnings.

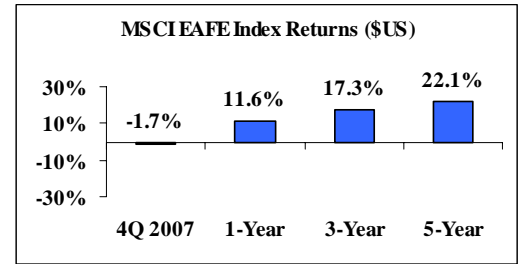


Source – Vestek Systems, S&P

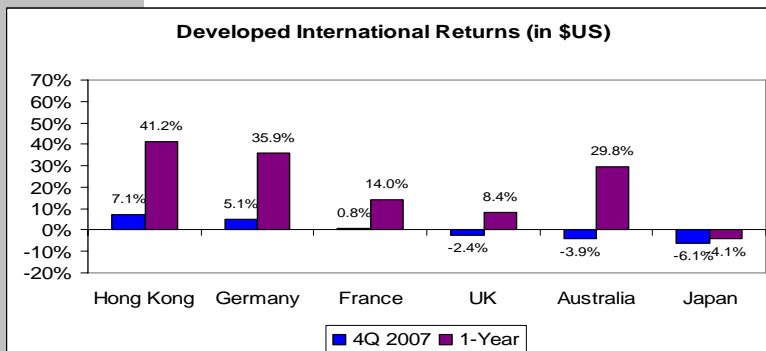
Small-cap Utilities, Health Care and Materials were the strongest performers in the quarter and just like their large-cap brethren, Financials and Consumer Discretionary were the weakest sectors.

International Equities – MSCI EAFE Index

International equities experienced a negative quarter, down 1.7% to end the year but maintained a relatively strong year, up 11.6%. Like the U.S., they struggled with liquidity and credit concerns and in terms of market cap, small cap international stocks trailed large cap stocks. The quarter and year were both higher than the domestic large cap and small cap areas. Like their domestic counterparts, growth outperformed value in the quarter and the year. Like the U.S. though, foreign financials with exposure to the subprime segment of the U.S. mortgage market announced losses and suffered stock price declines. Currency effects via a falling U.S. Dollar, helped U.S. investors as it inflated foreign denominated stock investments. Currency, in fact, explains most of the difference in the performance advantage that international held over domestic stocks. All of the developed regions of the world posted small positive to small negative returns in the quarter, with the exception of Japan (down 6.1%) which extended its string of disappointing performance. Germany was the strongest developed market performer, up 5.1% and France was up 0.8%. The UK (-2.4%) and Australia (-3.9%) both turned in losses. Relative valuations are keeping pace with U.S. equities over the last few quarters, but still favors international equities. The forward price to earnings ratio estimate stands at 13.8 for the MSCI EAFE Index. This compares favorably to the S&P 500 Index forward PE of 16.2. The weakening U.S. dollar has hurt prospects for export-driven countries, especially those on the European continent. Some monetary authorities are seeing the delayed effects of having previously raised interest rates to stifle inflation or slow growth rates. There is slowing in the rest of the world though not yet as worrisome as slowing in the U.S. While there has been much discussion about the “decoupling” of the world economies with the U.S., this type of market environment will put that to the test. Japan alone has a lower unemployment rate than the U.S. keeping the stakes higher for these countries to maintain growth, particularly in growth in jobs. Because the use of leverage is not a domestic phenomenon (i.e. small Norwegian towns getting bit by subprime exposure), we must be careful to consider that global investors utilize the same methods to gain the exposure and risk level they desire. While economies will vary in their levels of exposure to commodity pricing, exports, currency volatility and the like, investors who attempt to exit illiquid and/or leveraged investments will find plenty of company even if there seemed to be none when they entered their positions. Finally, it is worth noting that emerging market equities are now trading at a premium to developed nations with a forward PE of 15.2 vs. 13.8 for the EAFE. Increased divergence between the developed markets and emerging markets is a signal that risks are increasing, even if there appears to be more promise than what we find domestically. That said, growth prospects overseas still appear to be better than domestic equities and a weaker dollar should continue to be beneficial to U.S. investors abroad.



Source - StyleAdvisor



Source – StyleAdvisor

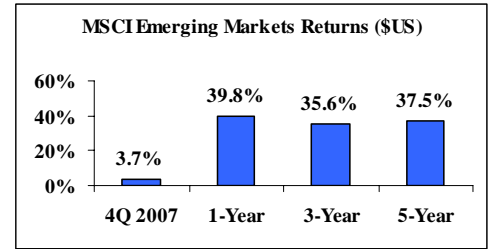
Australia has been a beneficiary of the commodities boom, especially in the metals and mining arena. Hong Kong was lifted by investors over the many companies listed on its exchange that do business in China.

Emerging Market Equities - MSCI EM Index

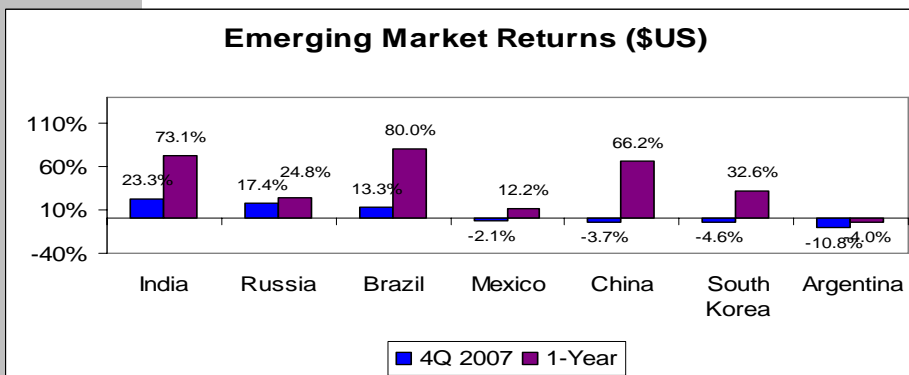
Despite the fourth quarter volatility for the emerging markets, the quarter was positive and clearly superior on a relative basis. Emerging markets have accurately been characterized by their volatile returns. Large swings in both positive and negative directions have occurred throughout their history. In the fourth quarter alone, the MSCI EM index returned 11.2% in October, -7.1% in November, and 0.36% in December. That works out to a

gain of 3.7% for the quarter, ahead of all diversified domestic stock index and some domestic bond indexes. Regionally, Asia ex-Japan and Latin American were strong performers. Some of the outstanding country performers in the quarter were: India (+23.3%), Brazil (+13.3%), Russia (+17.4%), Turkey (+5.9%), and Hong Kong (+7.1%), a proxy for China investment. Emerging market indexes fared better due to structural differences between themselves and their developed market trading partners. First of all, emerging market financial institutions have yet to report large exposure leveraged to subprime mortgage securities as has been reported by the larger global banks. Emerging markets have realized less dollar exposure when you consider that they have increased their level of trade in and among themselves. Their economies represent a higher level of exposure to raw materials than that of developed markets.

Last year the MSCI EM index returned 39.8% to U.S. investors. This brings the three-year performance to an average of 35.6% and the five-year performance to an amazing average of 37.5%. With the single exception of 2006, emerging markets have led all international regions every year since their streak began in 2001. (They only returned 32.6% in 2006.) Earnings growth has been strong over this period. The increase in international trade, demand for raw materials, the substitution of labor in emerging economies for that of developed economies, and strong U.S. imports have all helped to increase earnings for emerging countries. Focusing on forward PE estimates, we see that valuations gaps have closed or reversed. An asset class with a lower forward PE ratio provides more cushion against a fall in valuations than an asset class with a higher ratio. At the end of the quarter, emerging markets had a forward PE of 15.1 compared to the 13.8 for the MSCI EAFE Index. The S&P 500's forward PE of 16.2 leaves little room between these three groups. Historically, there has been a reasonably large discount given to emerging market stocks relative to developed market stocks. Beyond the increased valuation risk, emerging markets still bear all of the event risks that come with investing in countries with a less developed legal, regulatory, political and financial framework than the U.S. Despite the risks, emerging markets continue to offer the most compelling long-term growth opportunities of the asset classes we follow, and accordingly remain a key ingredient of a well diversified portfolio.



Source - StyleAdvisor

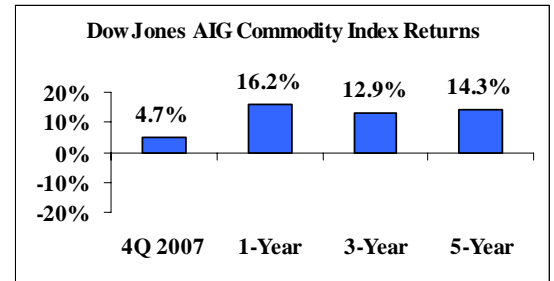


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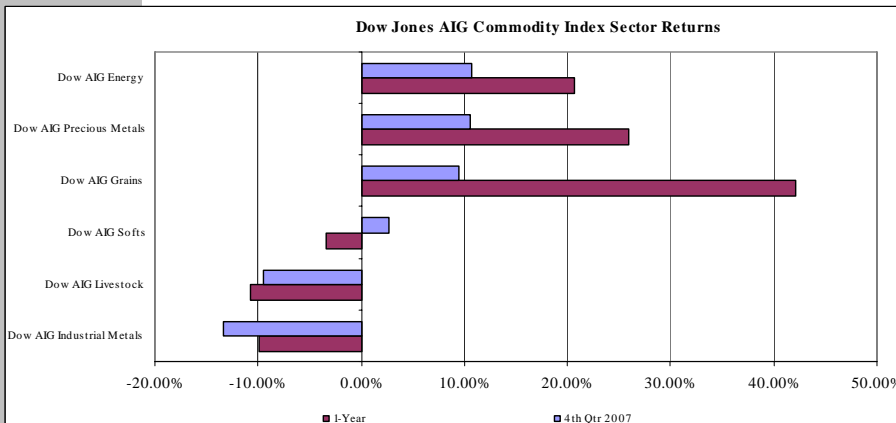
China received a lot of attention throughout 2007, and rightly so, but India and Brazil finished the year up 73% and 80% respectively versus China's return of 66%.

Hard Assets – Dow Jones Commodity Index

Hard Assets, or raw material commodities, was a top performing investment category in the fourth quarter of 2007, rising 4.7% as measured by the Dow Jones AIG Commodity Total Return Index. Energy had a very strong quarter with crude oil up 19.6% and unleaded gasoline up 18.9%. Wheat fell 8.4% while corn rose 21.6% and soybeans rose 18.2%. Industrial metals fell during the quarter: aluminum (-6.6%), copper (-17.4%), zinc (-22.6%), and nickel (-14.9%). Precious metals were up, with gold rising 10.8% and silver rising 5.8% for the period. Crude price movements gain the most attention of consumers if not investors. As the year ended, oil neared \$100 per barrel. The price was widely followed because what we once thought of as unthinkable was now reality. Declining global inventories supported the price. Dollar weakness and geopolitical concerns added to that support. There was a noticeable correlation between the dollar's fall against the euro and the price of gold. Dollar weakness also benefited gold as global investors sought gold as an alternative store of value. Recession concerns hit industrial metals, especially because of the damage that has a slowdown in housing does for demand for zinc, copper, and aluminum. Growing inventories reported in December put additional downward pressure on these metals. Wheat and corn prices were supported by talk of Chinese tariffs on imports being used as a way to increase domestic Chinese production. Heavy foreign buying raised soybean prices. The range of commodity returns was great in 2007. Six commodities (crude, unleaded gas, heating oil, wheat, soybeans, and soybean oil) were each up over 40% on the year. Natural gas, lean hogs, aluminum, zinc, nickel, and sugar were down by 15% or more. The factors currently in place driving global growth will continue to support commodity prices in the coming months. Given the dispersion of individual commodity returns noted above, the above average expected return in the near-term, and the low correlation of returns to the U.S. stock market, we continue to recommend a diversified approach to commodity exposure with a portfolio allocation of 5-15%.



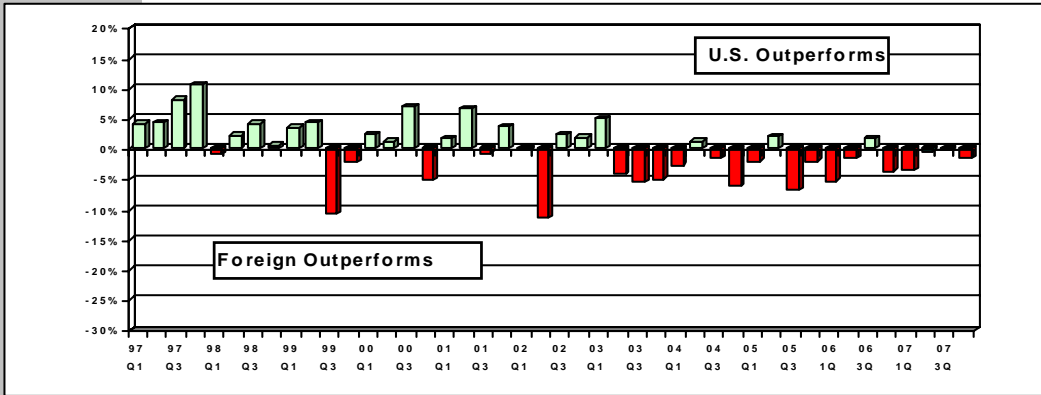
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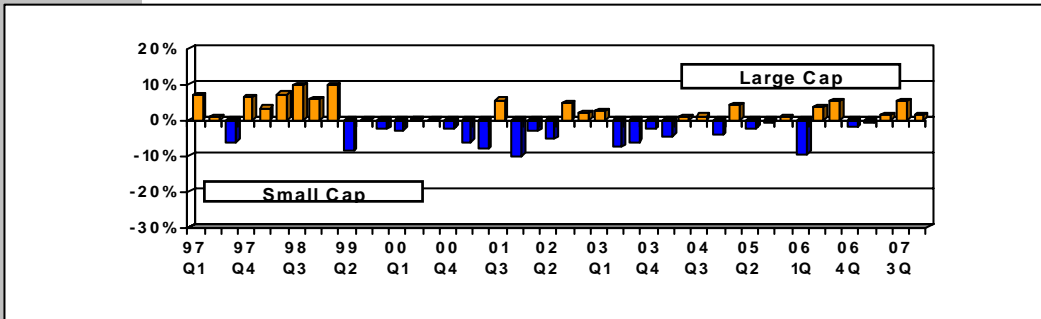
Higher crude oil prices led the way for high returns in the energy component of the AIG Commodity Index. On the other hand, industrial metal prices sank.

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



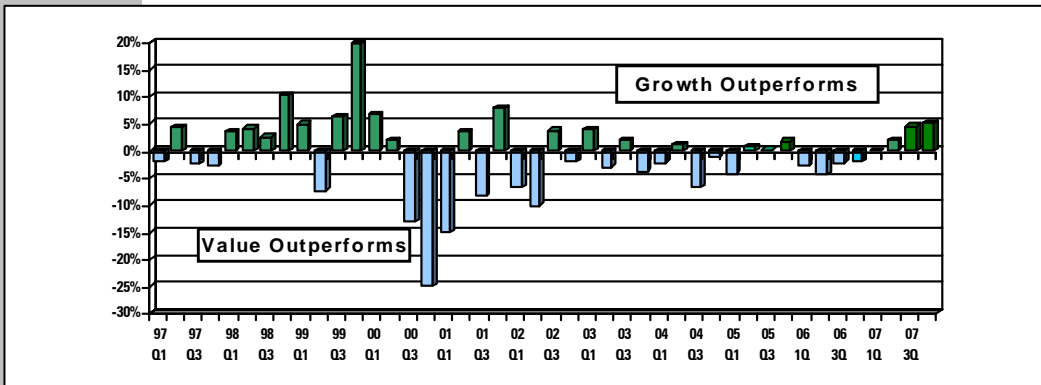
International equities narrowly outperformed U.S. equities this quarter.

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



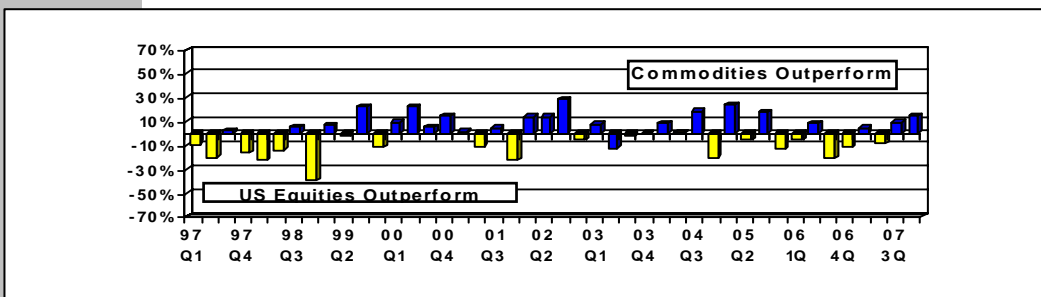
Small-cap stocks underperformed large-cap for the quarter.

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 U.S. 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-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, 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.