

Capital Markets Commentary

Fourth Quarter 2008

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The panic selling that began in September gained momentum in the fourth quarter, as the world's equity markets continued their historic sell-off. As we noted in last quarter's commentary, high levels of fear cause extreme market volatility and equity markets around the world to become much more highly correlated. It was the worst quarter for equities in 21 years, with large-cap domestic and foreign stocks declining approximately 20% in value, while small-cap, emerging international, and commodity markets sank nearly 30%. The disastrous fourth quarter helped make 2008 the worst year for equity investors since 1931.

High quality bonds were the only asset class to register gains this quarter as interest rates fell around the world and investors sought security. The Federal Reserve slashed short-term rates to a range of 0.0% to 0.25% in an attempt to jump-start the economy. The Barclays Capital Aggregate Bond Index (formerly Lehman Brothers) gained 4.6% in the fourth quarter.

We believe the current market environment reflects the inevitable conclusion of a 25-year process of increasingly excessive debt (leverage) in the U.S. economy. The personal savings rate has declined from 10% in 1983, to 0% (or lower in some studies) by 2008 as banks encouraged additional credit card and home equity debt to balloon in order to stoke ever higher profits for their shareholders and bonuses for their executives. Consumers, on the other hand, are not blameless in this mess as they struggled to "keep up with the Jones'" and voluntarily went deeper and deeper into debt. (see graphs on page 3) It all came crashing down in 2008 after excessive borrowing left consumers unable to drive inflated home prices higher and real estate prices began to fall. This unanticipated decline in home prices caused the house of cards that the banks had built to collapse. Underscoring the significance of these events, this country's five major investment banks, averaging +100 years of doing business, all ceased to exist in 2008 and there is some speculation that significant portions of the U.S. banking system may be bankrupt.

Michael J. Francis, CIMA

President, Senior Consultant



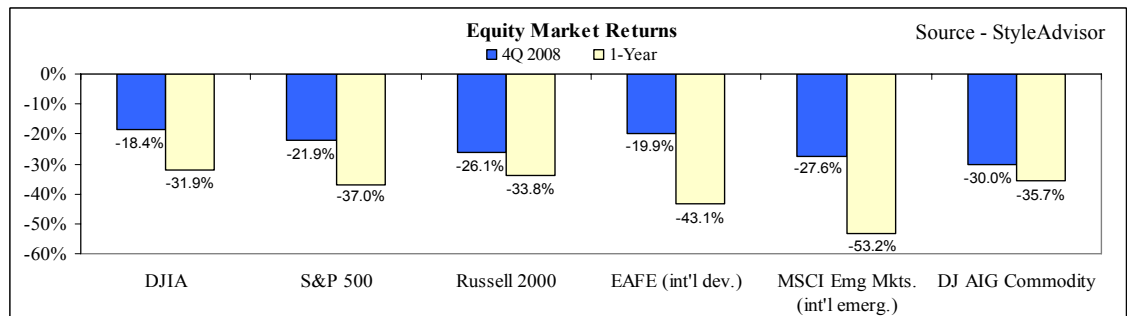
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According to Lipper Analytical, whose records go back to 1959, equity mutual funds had their worst year ever. The average equity fund declined 39.54% last year, surpassing the previous worst year of -24.35%. The fourth quarter was similarly the worst single quarter for equity mutual funds in history with an average decline of 23.42%. The other big story of the year was the record redemptions from mutual funds estimated by Lipper at more than \$150 billion for the year while more than \$530 billion was added to money market funds. Forced selling caused the vast majority of actively managed funds, and many of the highest quality and liquid stocks, to underperform market averages this quarter and year.

Average Equity Fund Performance

STYLE PERFORMANCE MATRIX
4th Quarter 2008 Total Return

	Value	Core	Growth	AVERAGE
Large-Cap	-21.72%	-22.00%	-23.25%	-22.37%
Mid-Cap	-24.96%	-25.09%	-26.97%	-25.91%
Small-Cap	-25.94%	-25.95%	-26.58%	-26.17%
AVERAGE	-23.42%	-23.75%	-25.07%	

Source: Lipper, Inc.

STYLE PERFORMANCE MATRIX
2008 Total Return

	Value	Core	Growth	AVERAGE
Large-Cap	-37.00%	-39.64%	-41.29%	-39.31%
Mid-Cap	-39.71%	-39.79%	-44.04%	-41.18%
Small-Cap	-32.82%	-35.59%	-42.12%	-36.84%
AVERAGE	-36.51%	-38.34%	-42.48%	

Source: Lipper, Inc.

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Near-Term Capital Markets Outlook

U.S. Economy – Recession Deepens

The frantic attempt by U.S. consumers to reduce debt and prepare for the difficult economic times ahead has led to an unprecedented evaporation of consumer demand. While historians will undoubtedly applaud Americans' sudden re-embrace of frugality in 2009, in the short-run, it means tremendous over capacity exists in nearly all industries. The U.S. financial services sector is going through a similar revival of conscience and has begun attempting to clean up its own balance sheet and change its lending practices. This simultaneous deleveraging is responsible for an economic slowdown the likes of which this country has not experienced for 75 years. We do not expect this cycle to end until 2010 at the earliest. Initial fourth quarter economic results have been uniformly worse than predicted, and it is our view that first quarter 2009 results will be even weaker. Unemployment, already up to 7.2%, could top 8% in the first quarter and surpass 10% before this contraction ends. While U.S. politicians attempt to prop up the economy by borrowing even more money from foreigners, proving how little they have learned from the past six months, the reality is that the U.S. economy had become over-inflated by debt-crazed consumers and needs to contract to a sustainable level. While the drop in GDP will be sharp, we fear even more the long-term implications of any move towards a government controlled "command economy."

Domestic Equities – Neutral

We believe it is prudent to lower our ranking back to "Neutral" this quarter to properly reflect the increasing risks that have arisen over the past 90 days. Risks that could move the market sharply lower include: massive bank failures as the continued erosion of bank balance sheets overwhelm government attempts to bail them out; the dismantling of the U.S. auto industry; unanticipated pension funding requirements damaging corporate balance sheets; war time-like federal budget deficits that destabilize the dollar; and severe political unrest in countries like Russia, Mexico, Venezuela (oil), and China (unemployment). In the past 90 days, these risks have increased to a point that we believe those with short-term investment horizons should be more cautious regarding their stock market exposure. While these risks are certainly higher than initially forecasted, they are not strong enough to shake our conviction that in the long run, U.S. equities will outperform their historical averages from here (Dow 8100). Our reasons for long-term optimism include: a tremendous amount of cash accumulating in short-term instruments capable of fueling an explosive rally; the stimulative powers of sharply lower commodity prices and increasing real wages; a housing market decline which is closer to the end than the beginning; the financial advantages to the U.S. government of printing the world's reserve currency; and the belief in the power of economic freedom advancing the position of the growing middle class worldwide.

International Equities – Neutral

We are lowering our ranking on International equities from "Overweight" to "Neutral" for many of the same reasons. Simply put, we are in the midst of a significant global economic contraction that has meaningfully increased the downside risk of foreign equities to the point that for those with a time frame of less than five years, the level of equity exposure needs to be evaluated carefully. Long-term we remain bullish on foreign equities because of their economies' stronger balance sheets, higher expected growth rates, and cheaper current valuations. Our expectation for a weakening U.S. dollar due to our rapidly expanding budget deficit, and weakening position in the world's economic order also supports our bullish long-term position.

Domestic Bonds – Neutral

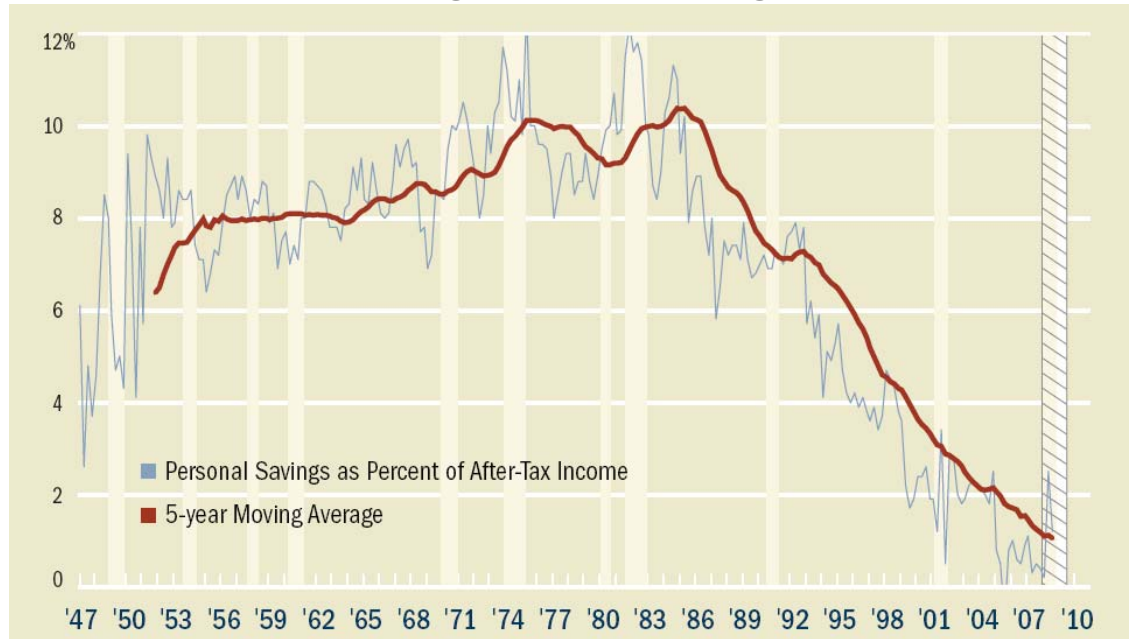
A global economic contraction is generally positive news for bonds. High quality short- to medium-term bonds have been attractive since the credit markets disintegrated in the third quarter of 2008. But a meaningful rally in bond prices since that time has lessened their appeal in the short run as a source of added return going forward, yet increased their attractiveness as a safe harbor in a storm. For long-term investors, U.S. fixed-income is becoming a riskier asset class as its current yield lowers, and the U.S. goes deeper into debt.

Hard Assets – Neutral

We are also lowering our ranking on hard assets from "Overweight" to "Neutral" to reflect the increased risk and uncertainty that currently exists in the short run. The deflationary pressure put on hard asset prices by the dual deleveraging of the world financial services industry and individual consumers is difficult to quantify yet nonetheless significant.



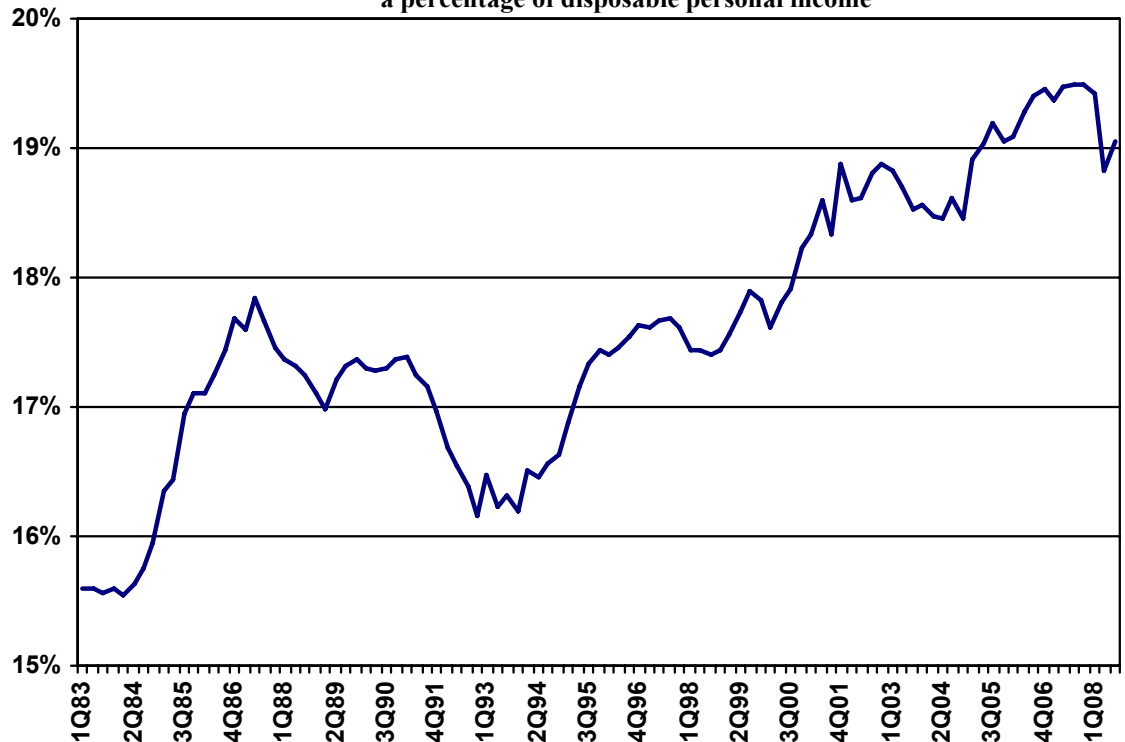
Declining Personal Savings Rate



Note: Recession periods shown in white
 Source: Haver Analytics, Bureau of Economic Analysis.
 Courtesy of Wachovia 2009 Outlook

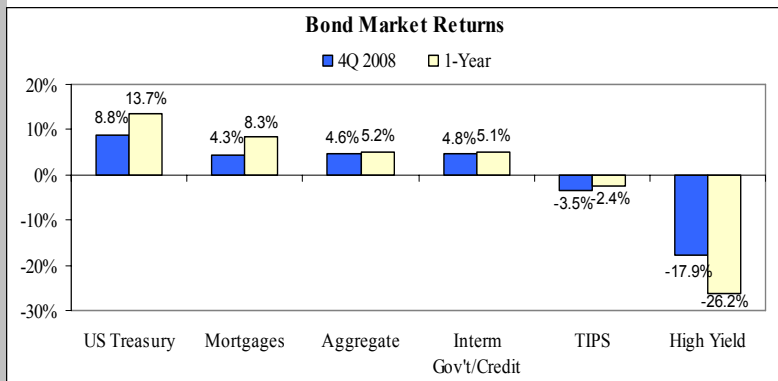
25-Year Increasing Household Indebtedness

Household debt service payments and financial obligations as a percentage of disposable personal income



Source: The Federal Reserve Board (Federalreserve.gov/releases/housedebt)

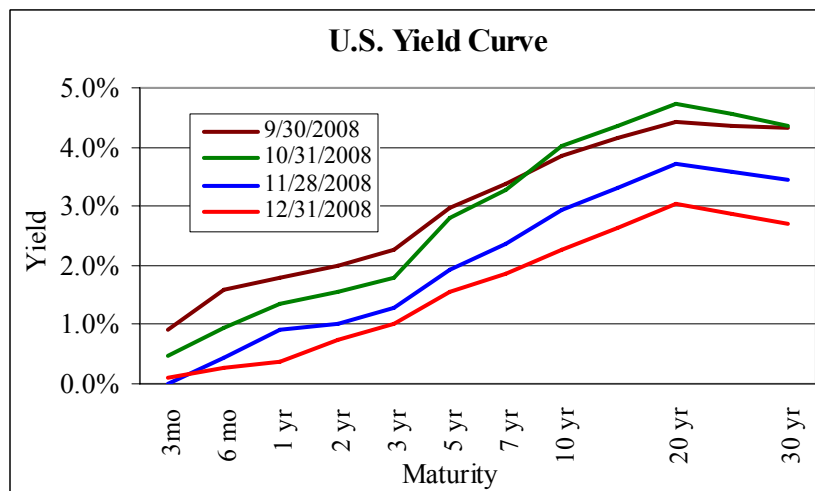
U.S. Bonds – Multiple Bond Indexes



Source: Morningstar

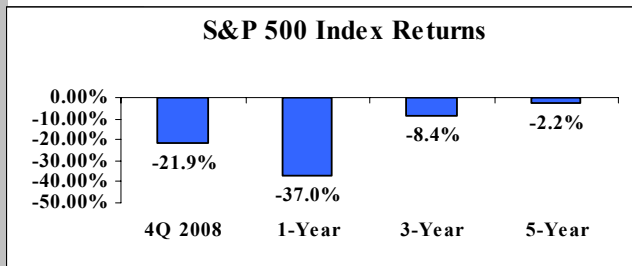
Bonds were the big winner this quarter as interest rates fell across the yield curve as investors sought refuge in fixed-income securities. The Federal Reserve cut short-term rates twice in the month of October, bringing the Fed Funds target rate to 1.00%. As the quarter progressed, the Fed eventually slashed the target rate a third time to a defined range of 0.25% to 0.00%. The Barclays Capital Aggregate Bond Index (f.k.a. Lehman Brothers) gained 4.6% in the fourth quarter. Investors rushed once again to the safest and shortest maturity securities in the quarter and consequently it was no surprise that U.S. Treasury Bonds gained the most in the period (+8.8%) while high-yield (junk bonds) declined

sharply by 17.9%. Protecting principal was the chief concern on many investor's minds as flows to money market funds spiked, especially those specializing in managing Treasuries. Amazingly, the interest in short-term Treasuries and the Fed's new target of 0.25% to 0.0% forced many Treasury only funds to close their doors to new investors. 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. Last quarter, the spread between the three-month LIBOR and the three-month T-Bill, the "TED Spread," peaked at 320 bps. It is now at 130 bps. This spread is still high by historical standards and we caution reading too much into the improvement. We still look to be in a crisis with the spread similar to periods such as 9/11 and when the Savings & Loan meltdown. Other problems that emerged in the bond market were found in Commercial Mortgage Backed Securities (CMBS). CMBS are backed by pools of commercial mortgage loans on income producing properties which can include multi-family, office buildings, industrial properties, shopping centers, hotels and health care facilities. Fearing another residential mortgage-like problem brewing in CMBS, investors quickly exited positions in October and November. Looking to the future, the bond market is bifurcated in terms of valuation, with Treasuries & Agencies of most kinds (with the exception of Treasury Inflation-Protected Securities) at an extreme overvaluation and some non-Treasuries looking absurdly attractive. High quality corporate bonds, municipal bonds, and high-yield debt are trading at very high yields relative to Treasuries. While there are individual entities that truly are in dire circumstances, and we would expect to see a meaningful increase in defaults ahead, we do believe that professional bond managers stand to benefit from many opportunities in these categories. For many, it is time to shift some assets away from the short-end of the yield curve and increase exposure to corporates. The current U.S. yield curve is upward sloping, as are many others in the Eurozone, the U.K. and Japan which has historically been a positive signal for economic improvement. Current deflationary pressures are severe and present a risk to underweighting bonds.



Source: Baird

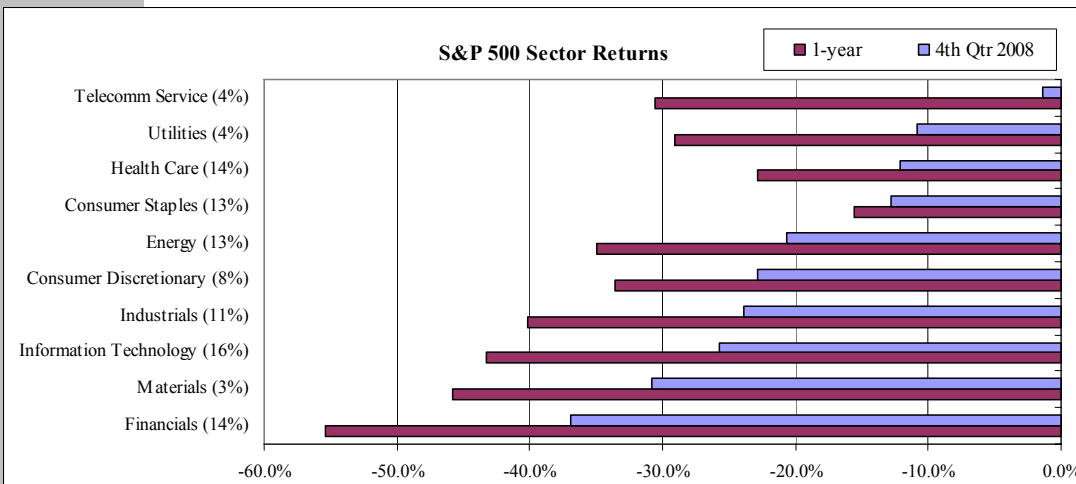
Large-Cap Equities – S&P 500



Source – StyleAdvisor

In the fourth quarter, U.S. equities, as measured by the S&P 500 Index, lost 21.9% and were down 37% for the year. The index was crushed in October and appeared to bottom on November 20th. Record investor outflows from equities in October fueled the declines as money was moved to money market funds, stable value, and anything treasury oriented. As noted below, nearly every area of the S&P took a beating, but Telecommunications Services only lost 1.4%. Financials fell hard with a quarterly loss of nearly 37% along with Materials (-30.8%), Information Technology (-25.7%), Energy (-20.6%), Industrials (-23.9%) and Consumer Discretionary

(-22.9%). For the year, no area of the S&P 500 made money. The best relative performing categories were the defensive Consumer Staples and Health Care sectors which lost 15.4% and 22.8% respectively, while the Financials and Materials sectors were slashed by 55.3% and 45.7%. Last quarter, we noted that many money managers we speak with thought just about everything was on sale, especially high-quality large-cap stocks. We've included a chart comparing the earnings yield (inverse of the P/E) from the S&P 500 to the yield on the 10-year Treasury bond on page 6. This is known as the Fed Stock Model and postulates that equities look very attractive when their earnings yield is higher than the 10-year Treasury yield. Indeed, when we look at the spread between the earnings yield and 10-year Treasury, stocks are cheap, so far as relative value is concerned. While it's arguable that all investors need to do is buy an S&P 500 index fund, we believe the most attractive area for large-caps continues to be within growth style equities. They were over 30% cheaper than their historical valuations at the end of the third quarter 2008, but now they are over 50% cheaper (P/E of 11.9 versus historical average of 26.3 using the Russell 1000 Growth Index as a proxy). While the valuation data strongly suggests that large-caps look more attractively priced than small-caps, we cannot deny that small-cap stocks have typically led the pack out of the blocks in a market recovery. In the past, we have heavily tilted our recommendations to large-caps over small-caps, but given the decline in commodity prices and low interest rates, small-caps could find some momentum. While the fourth quarter was painful, we note that the current trailing P/E of 17.1 is meaningfully lower than the market bottom of October 9, 2002 at 25.3 as well as the end of 1996 at 19. Valuations at some of the cheapest levels in decades give us reason to be optimistic that now is a decent time to buy, but we advise a cautious approach, becoming fully invested over a time frame of 6-9 months. While a severely contracting economy may very well lead to a more attractive entry point in the next nine months, long-term investors can be optimistic that purchases made at these levels should lead to above average returns.



Source – Vestek Systems, S&P

Some traditionally defensive sectors including Consumer Staples and Health Care were lower this quarter, but still relatively better than others. Commodities prices collapsed, pushing the Energy and Materials Sectors meaningfully lower and Financials tumbled.

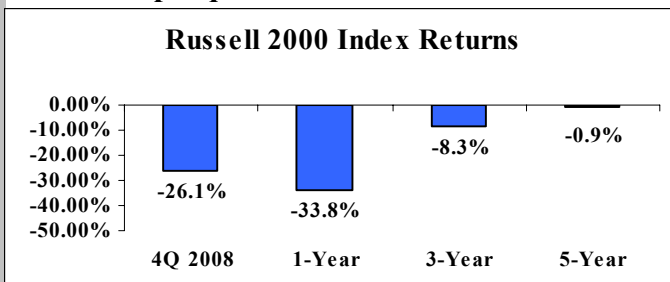


Source: Standard & Poor's, Compustat, EcoWin, FactSet, JPMorgan Asset Management. Earnings yield (E/P) is the reciprocal of Price to Earnings (P/E) and is based on trailing P/E as calculated on a top-down basis. Data are as of 12/31/08.

The "Fed Stock Model"

The earnings yield, an inverse of the S&P 500 P/E ratio, versus the 10-year Treasury bond yield is at the highest levels since the 70s. This would indicate that equities are meaningfully undervalued relative to bonds. Naturally, this assumes that the earnings keep up with expectations. At this point, earnings momentum is low and expectations are dropping.

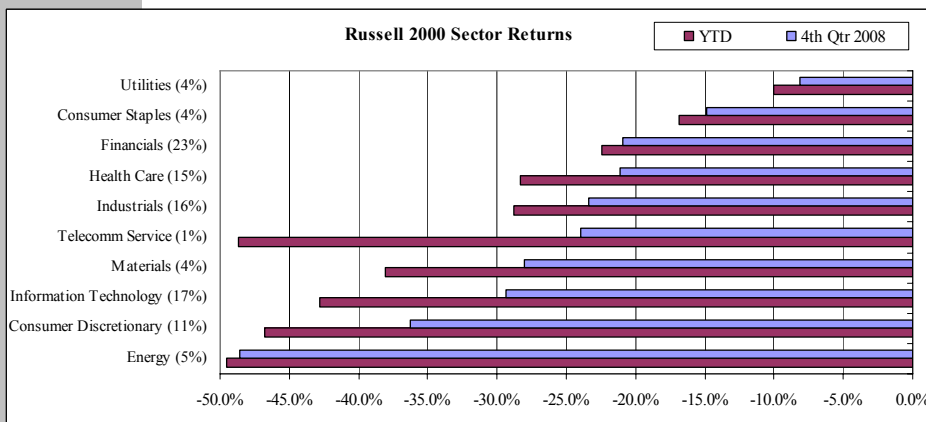
Small-Cap Equities – Russell 2000 Index



The Russell 2000 Index fell 26.1% in the fourth quarter, which brought its total one-year loss to 33.8%. Large-cap equities, as measured by the S&P 500, handily outperformed small-cap equities in the fourth quarter, albeit with a loss of 21.9%. However, on an annual basis, small-cap equities outperformed large-caps by roughly 3%. Though it may not come as a shock, every sector of the Russell 2000 was in negative territory on both a quarterly and annual basis. In the fourth quarter, Energy posted a loss of 48.6% due to the continued decline of oil and natural gas prices. Consumer Discretionary lost 36.3%, and Information Technology

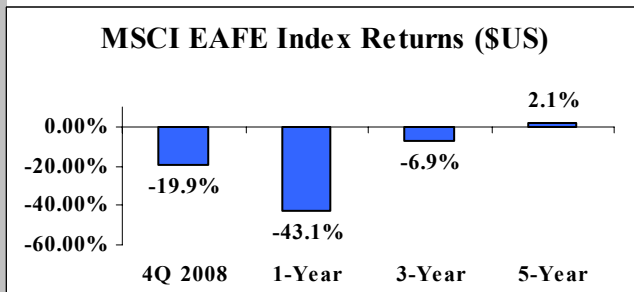
lost 29.4% because of eroding global consumption. With a loss of only 8.1%, Utilities was far and away the best performing sector in the fourth quarter. Consumer Staples and Health Care, two conventionally defensive sectors, also performed relatively well with losses of 14.9% and 21.1%, respectively. For the year, the Energy sector erased large gains from the first half of the year and ended down 49.5%. Although Telecommunications only represents 1% of the Russell 2000, that sector posted the second largest annual decline with a loss of 48.7%. Consumer Discretionary and Information Technology losses totaled 46.8% and 42.8%, respectively. Top performing sectors in 2008 included Utilities (-10.0%), Consumer Staples (-16.9%), and Financials (-22.4%). Across all market capitalizations, both on a quarterly and on an annual basis, value stocks outperformed growth stocks as weak demand dampened growth prospects. For the quarter, the Russell 2000 Value Index lost 24.9% while the Russell 2000 Growth Index lost 27.5%. For the year, the disparity was even more pronounced; the Russell 2000 Value Index lost 28.9%, and the Russell 2000 Growth Index

lost 38.5%. The valuation concerns we have about small-caps versus large-caps remain, but have been somewhat lessened in our minds with the broad sell-off. It is important to note that small-cap stock returns have typically led the market immediately following a recession. In particular, small-cap growth stocks have fared well in the first year of previous bull markets. In fact, small-cap growth stocks have led the market in eight of the last fifteen bull markets.



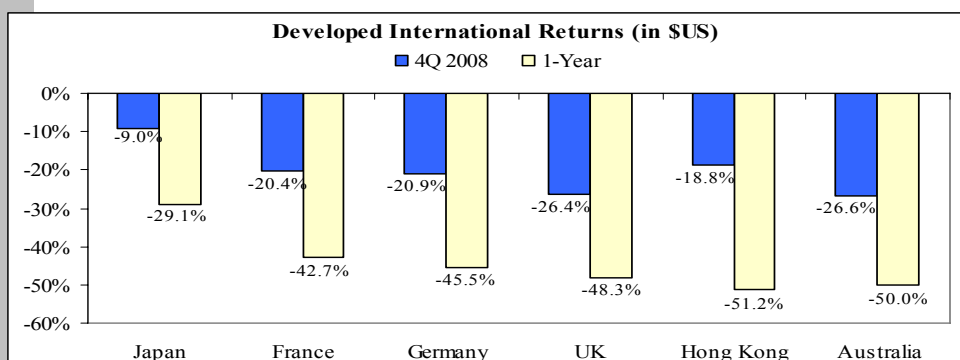
Source – Vestek Systems, S&P

International Equities – MSCI EAFE Index



Source - StyleAdvisor

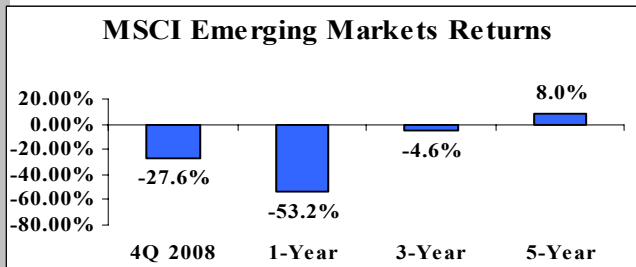
International Equities, as measured by the MSCI EAFE Index, were down 19.9% for the quarter. For 2008, the MSCI EAFE Index fell 43.1% for U.S. investors (in local currency -39.9%) and underperformed the S&P 500 Index which declined 37.0%. The three worst performing countries for the quarter included Austria (-43.3%), Greece (-41.4%), and Norway (-40.7%). For the year (2008), the worst performing markets included Ireland (-71.7%), Austria (-68.0%), and Belgium (-66.2%). The three best performing countries for the quarter and all of 2008 included Japan (-9.1% QTD, -29.1% YTD), Switzerland (-13.3% QTD, -29.9% YTD), and Spain (-16.7% QTD, -40.1% YTD). A collapsing global economy and generally a stronger U.S. dollar detracted from returns in the quarter, and in some cases currency was a significant factor. In the United States, from July to November, the combined value of exports and imports dropped by 18%. The drop in imports accounted for nearly 2/3 of the decline. This massive slide in demand from the world's largest economy has clearly had an impact on exports and domestic demand in foreign economies. Japan, the world's second largest economy, saw exports post a 27% decline, the worst decline on record according to Japan's Ministry of Finance. Imports to Japan also dropped 14% indicating the slowdown of domestic demand. Japan's domestic auto sales dropped 22% in December and 27% in November. This brought Japan's domestic auto sales to the lowest level seen since 1974. The Eurozone's largest economy, Germany, saw exports drop 11.8%, according to the country's central bank. As a result of the global slowdown, unemployment is rising. The decline has been so broad that JP Morgan's Global Manufacturing Index of 19 countries reached a new low in December, indicating an annualized contraction of 17% in the index. According to the OECD, the leading indicators for the G-7 and other major economies are showing signs of a "strong slowdown." Unfortunately, the weak economy is predicted to extend through 2009 as the World Bank predicted in December that global trade will drop 2.1%. This would top the largest decline on record of 1.9% in 1975. In recognition of a shrinking global economy, foreign central banks aggressively cut interest rates in the fourth quarter. The European Central Bank cut its key lending rates three times in the fourth quarter to 2.5% and is expected to lower again in early January to 2.0%. This drop in interest rates, combined with the global movement of capital to safety (U.S. Treasury Bonds) caused the U.S. dollar to strengthen versus many currencies during the year. As a result, the downward move was exaggerated in some international markets for U.S. based investors. For instance, in the fourth quarter, the MSCI Australia Index declined 17.9% in local currency and 39.9% for 2008. However, when measured in U.S. dollars, the index was down 26.0% for the quarter and 50.0% for the year. The Eurozone markets could continue their underperformance versus the S&P 500 in the near term for two reasons. First, the Eurozone Central Banks have been slower to respond to the crisis and the measures taken have not been as drastic. While the key lending rate of the ECB stood at 2.5% at the end of 2008, the U.S. Federal Reserve is effectively maintaining rates at 0%. Also, the size of the fiscal stimulus efforts looks to be smaller than the United States. Whereas early reports are for the Obama plan to be around \$800 billion, Germany (the Eurozone's largest economy) recently announced a \$67 billion stimulus plan. Finally, European companies have \$800 billion of corporate debt coming due in 2009 at a time when foreign investment banks are closing (45% of corporate debt underwritten in Britain was from foreign corporations). This contraction in available financing will make it harder for corporations to restructure their debt. Japan could continue to fair relatively well because their corporate balance sheets are strong as the result of hoarding cash (\$1.25T) for years during its recession. The liquidity has allowed Japanese companies to be active in acquiring foreign companies. In 2008, Japanese companies spent \$77.8 billion on acquisitions outside Japan, triple the amount spent in 2007. Buying companies at depressed prices could help the Japanese market outperform moving forward. In terms of valuations, the MSCI EAFE Index is trading at 4.9x trailing earnings, which is at a discount to U.S. equities and even emerging markets.



It's important to realize that a rising U.S. dollar meaningfully hurt returns to U.S. investors in the Eurozone, but a falling U.S. dollar to the Japanese Yen helped returns in this country for U.S. investors.

Source – StyleAdvisor

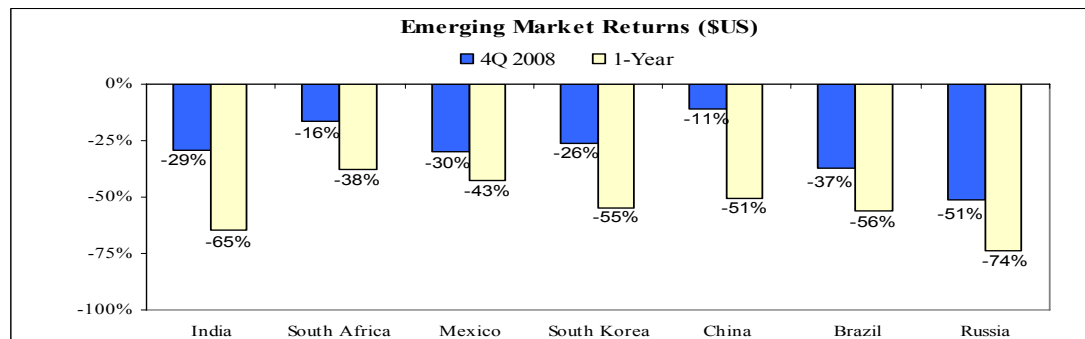
Emerging Market Equities - MSCI EM Index



Source - StyleAdvisor

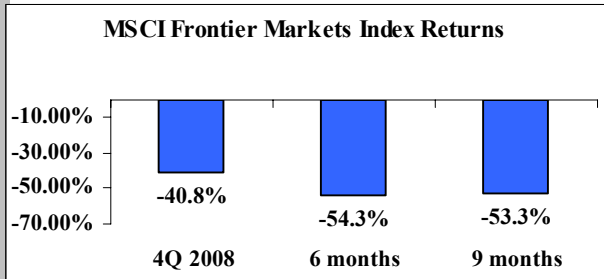
Emerging market equities set a new record, falling to their lowest quarterly return since the data on the MSCI Emerging Markets Index was first published in 1988 with a loss of 27.6%. The BRICs (Brazil, Russia, India and China) collectively lost 30.2% during the quarter as demand for oil, steel, iron-ore, and soybeans dropped sharply. Brazil and Russia felt the downdraft of energy prices, while India and China declined on concerns about cuts in demand for many of the services and products they export. Brazil's two largest companies that had been significant beneficiaries of the commodities boom, Petro

Brasileiro SA and mining company Cia Vale do Rio Doce, each fell around 50%. In addition to the decline in commodities prices and a global credit freeze, Russian investors had to deal with issues including the war in Georgia, state-backed corporate probes, the closing of the Micex (Russian stock market) close to 30 times since September, and clumsy central bank policy with respect to managing the value of the ruble. A terrorist attack rocked India's financial capital, Mumbai, in late November but failed to materially alter the country's economic growth, which is still estimated to be as much as 7%. Post-quarter, Indian-based Satyam Computer Services, which had been a strong provider of outsourcing, collapsed when it revealed that it had been cooking the books for years. Such instances as these give rise to investor questions concerning how many other types of fraud have yet to be revealed and serve to remind investors that financial accounting risk is alive and well when investing in emerging markets. What's more troubling is how the fraud was carried out over so many years and that the financial statements were audited by a world class accounting firm. China announced a 4 trillion Yuan (\$586 billion) investment plan after its economy turned-in its slowest quarterly growth in 5-years. Emerging markets present some of the best growth opportunities in the world and money managers that we talk to that specialize in this category are very bullish. Their conflict noted, we also share their hopeful outlook. In the past, we've pointed to the emergence of a middle class and better governmental policies to stimulate growth as large macro reasons for strength in emerging nations. We also note that credit markets are showing signs of some stress with spreads in emerging market debt over Treasuries jumping from under 200 bps in 2006-2007 to over 700 bps. This is nowhere near the levels coming out of the Asian crisis in 1999 with bonds spreads at 1,400 bps or even the last recession in 2001 at 1,000 bps. Why talk about emerging market debt in an equity commentary? As we saw powerfully played out domestically in 2008, the flow of capital and the price paid by companies to finance themselves is tremendously important in generating sales and expanding their property, plant and equipment needs. With yield spreads increasing but at levels below other crises, we see some evidence that the emerging markets are maturing. This is the good news; the flip side is that with maturing markets, investors should have some lower expectations about returns in this category. The strength of the credit markets will continue to be a leading indication, in our view, that the case for emerging markets is still quite strong. We've discussed the whole notion of "decoupling," the phenomenon that emerging nations are gaining more independence from the fortunes of the United States. While the momentum for this to take shape seems to be intact, as evidenced by the positive growth projections even as the U.S. declines, strong evidence against the decoupling of emerging market financial markets from the U.S. has been offered in the panic. In terms of valuation, emerging market equities are trading at 8.2x trailing earnings versus the S&P 500 at 17.1x trailing earnings. This discount of about 50% is attractive in our view and is supportive of a recommendation to rebalance some equities here. It's interesting to note that emerging market equities are trading at a premium to the MSCI EAFE Index, which is trading at 4.9x trailing earnings. A few quarters ago, we reported that there would be some upgrades of some countries to developed status and some others demoted. Those decisions are not final, and MSCI will likely advise in more detail by mid-2009.



Source - StyleAdvisor

Frontier Markets - MSCI Frontier Markets Index



Source - StyleAdvisor

The Frontier Markets were pounded once again this quarter with a loss of 40.8%. The largest decliners included the United Arab Emirates (-58.8%), Bulgaria (-56.3%), Ukraine (-50.0%), Bahrain (-47.6%), and Nigeria (-44.6%). The relatively better performing countries included Tunisia (-18.4%) and Kazakhstan (-19.8%). We initiated coverage of this area of the capital markets last quarter. 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 continue coverage, we're taking some time to detail the countries in this index. This quarter we've selected Vietnam, United Arab Emirates and Kenya.

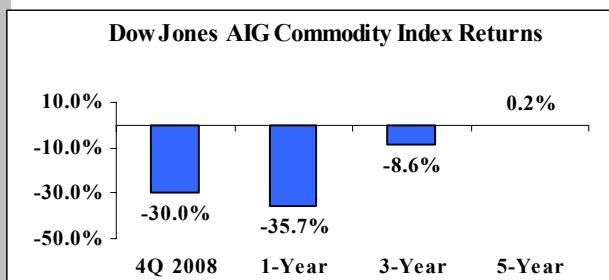
In Vietnam, inflation has recently been a significant concern. In fact, inflation shot-up to a 16-year high of 28% in the first half of 2008 and predictions that Vietnam may undergo a currency crisis. Some extreme measures were taken by the Vietnamese Central Bank as it cut gasoline prices, capped prices of electricity, water, bus fares, and coal, and it raised interest rates three times to 14%. In late 2008, the central bank shifted its focus from containing inflation to boosting the economy. A reduction in foreign investment and slowing exports has prompted the government to reduce its 2008 growth target from 9% to 6.7% and will make it difficult to achieve its 2009 target of 6.5%, as analysts expect 5% growth. After growing at an annual rate of 8.1% over the last five years, 5% growth would be the slowest since 1999. To stimulate the economy, benchmark interest rates were cut five times to 8.5%, corporate taxes were reduced from 28% to 25%, and lending reserve requirements were reduced to 5%. Even though its largest markets are in recessions, Vietnam has benefited from exporting lower-cost items in a time of economization. Falling commodity prices, especially in oil and coffee, have hurt exports. Oil accounts for 17% of Vietnam's total exports; and though 2008 will be the nation's fourth straight year of declining output, Talisman Energy may begin production at two new oil fields within three years.

For an economy that runs on oil, it's no surprise that the United Arab Emirates (UAE) has been hit hard by rapidly declining crude prices. As prices have tumbled from \$147/barrel, so have growth forecasts for the nation that controls approximately 9% of the world's oil supply. After annual real GDP growth has averaged 9.3% over the last five years, the economy's growth is expected to be in the low single digits through 2010. If need be, the government has invested a large sum of surplus oil revenue overseas that could be tapped if oil prices remain depressed. In an effort to reduce its dependence on hydrocarbons (which accounts for over 45% of exports), the UAE has been diversifying its economic base and expanding into financial services and tourism. In an attempt to add stability to the financial system, the UAE injected \$33 billion into the banking industry, guaranteed deposits and restricted loan growth at local banks, and cut interest rates. After property prices rose fourfold in the last five years, UAE property prices are starting to experience a correction.

Kenya continues to struggle with poverty, and the problem was only intensified in December of 2007 when more than 300,000 people fled their homes as a result of violence that broke out following Kenya's disputed presidential election. To help with the added burden of providing relief for refugees, Kenya received a record \$260 million from the UN in 2008, and may receive an additional \$390 million for humanitarian assistance in early 2009. Due to the turmoil that resulted from the presidential election, Kenya's economy experienced a dramatic slowdown in food production (25% of economy) and tourism (10% of economy), and GDP contracted by 1.1% in the first quarter of 2008. In the second quarter, the economy stabilized and grew by 3.2%. Total economic growth for 2008 is expected to be near 3.5%. While spending has provided a short-term fix, the government has introduced a number of programs that should combat poverty and stimulate the \$16 billion economy for years to come. To stimulate growth and enhance infrastructure, the Kenyan government plans to invest \$4.4 billion through 2012 to develop ports, roads, and railways, and construction will begin shortly on a \$175 million pipeline. Due to increased food costs, inflation accelerated throughout 2008 and reached 29.4% by November. Despite the increase in inflation, Kenya cut its benchmark interest rate by a half percentage point in December to 8.5% and still expects inflation to slow to 20% in early 2009.



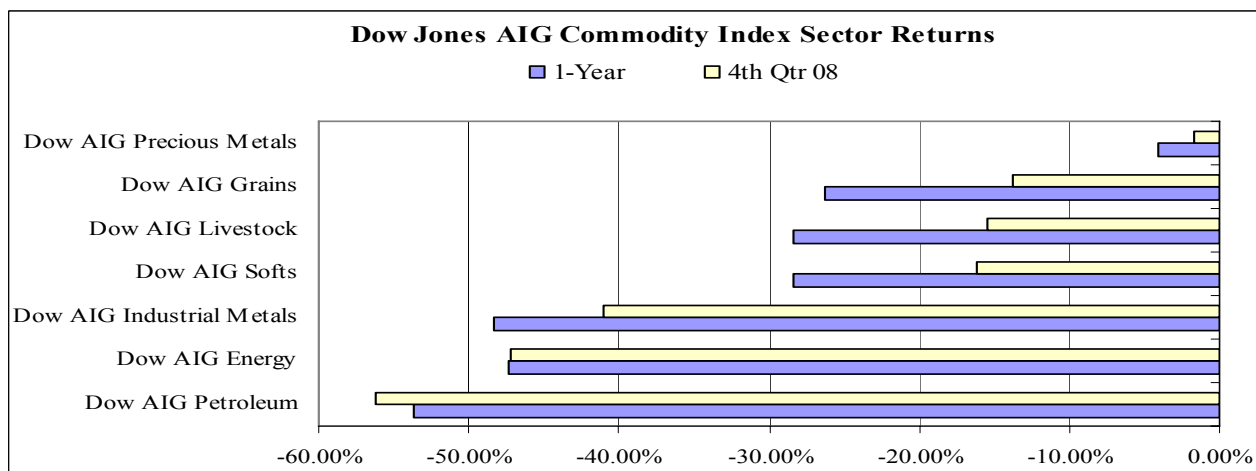
Hard Assets – Dow Jones Commodity Index



Source - StyleAdvisor

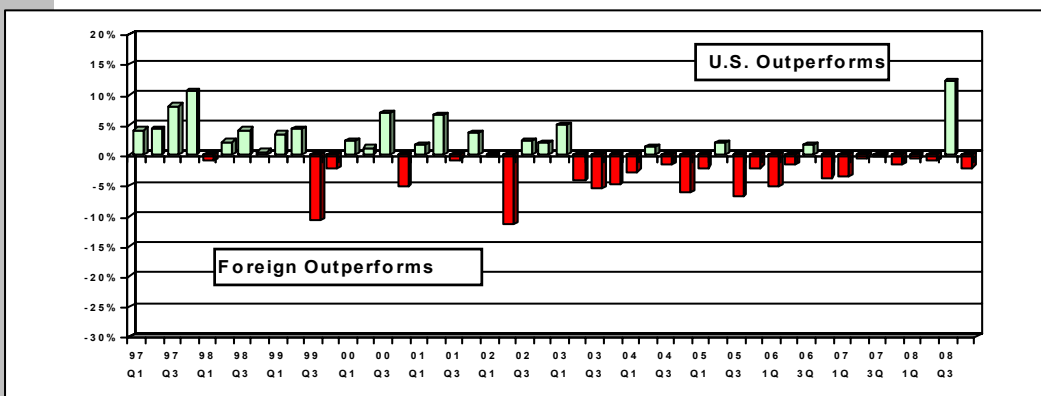
“Hard Assets,” as aggregated by the DJ AIG Commodity Index, sank 30.0% in the quarter primarily due to a global economic slowdown as well as the continuation of the U.S. dollar’s rally against most major currencies. Commodity prices crashed as all contracts lost money except Gold, which eked out a gain of 0.1%. Eleven contracts declined more than 20% with the largest drops coming in Unleaded Gas (-60.0%), Crude Oil (-56.3%), Heating Oil (-52.8%), Copper (-40.2%) Aluminum (-38.4%), and Natural Gas (-31.5%). Broadly speaking, commodity futures prices sold-off early in the quarter on the poor economic data, reports of over supply, and a stronger dollar; however, some incremental

support for prices in Energy came from OPEC’s December 17th announcement to reduce oil production as well as the Federal Reserve’s cut of interest rates to essentially zero. The reduction in the Fed Funds rate suggested the likelihood of a return to an inflationary environment, which benefits most commodities. The Dow Jones AIG Commodities Index is composed of futures contracts on physical commodities. Unlike equity and bond investments, which offer the investor a stake or claim on a company’s assets, commodity futures contracts typically specify a date for the delivery of the underlying physical commodity. The delivery process is avoided for investors tracking this index because it is a “rolling index,” meaning that before the contracts expire they must be sold and contracts that have not reached the delivery period must be purchased. This commodity index has 19 contracts, principally chosen for their economic significance, diversification, and liquidity. The contracts are broadly divided into 3 subsets and categorized as Energy, Metals, and Agricultural and are rebalanced annually in January to give the index exposure to 33% of each broad area. Deleveraging has placed this asset class at a distinct disadvantage for the moment as there has been a flight to quality, essentially bringing some strength to the U.S. dollar even as the Government has turned on the printing press and flooded the system with liquidity. Once the deleveraging subsides and the fiscal stimulus kicks in to boost economic growth, we believe that there is a long-term fundamental case for holding commodities. In our view, there is still a mismatch between worldwide demand to build infrastructure and supply energy, especially from emerging economies, caused by the chronic under investment in discovery and production for resources. With commodity prices in free-fall, this threatens to take several projects “off-the table” such as exploring oil sands and other alternative solutions that would help alleviate the situation. In essence, while the drop in prices serves to provide a boost to the economy, it undermines the incentive to continue exploration. Additionally, it has inspired more potential price colluding to prop-up energy markets. The Financial Times reported late in December that a “gas OPEC” group of 12 nations met in Moscow. Vladimir Putin chaired the meeting and proclaimed that the era of cheap gas was over, while at the same time denying that this would turn into a cartel. That said, our short-term expectation remains that a slower than expected world economic expansion will likely hurt returns in this category. Rebalancing some money into this asset class is clearly the contrarian move right now, but given the ridiculously low Treasury yields (i.e. 10-years trading below 3%), enormous fiscal stimulus and loose domestic monetary policy points to an eventual recovery in the economy and an uptick for inflation. While the current environment may be mildly deflationary our recommendation in this asset class is neutral with target allocations of 5-10% for long term portfolios.



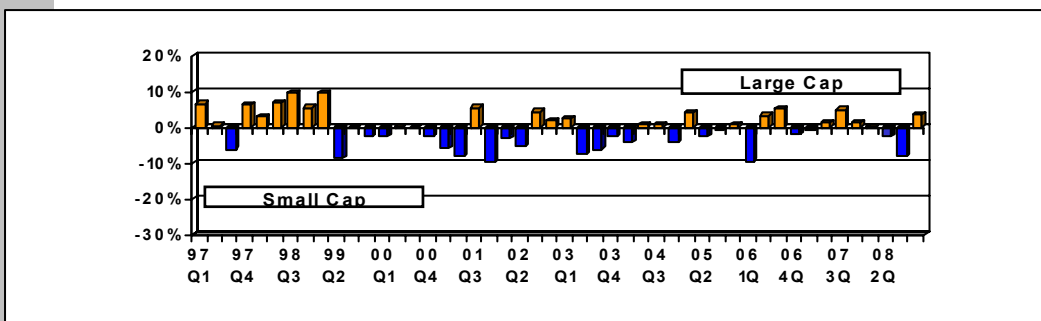
Source - StyleAdvisor

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



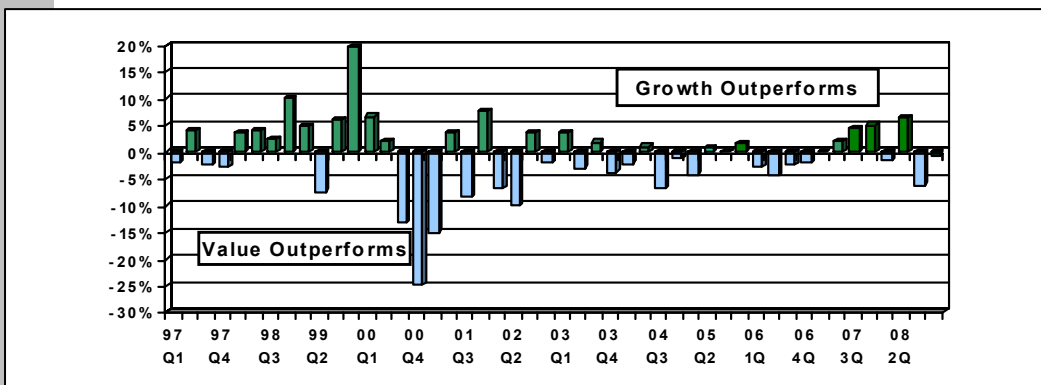
International equities, as measured by the EAFE, slightly outperformed U.S. equities in the 4th quarter.

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



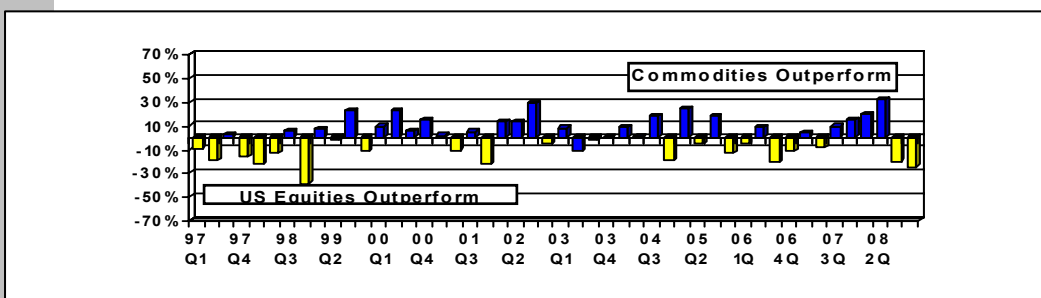
Large-cap stocks outperformed small-caps stocks this quarter, but lagged them in 2008.

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



In response to the Federal intervention, Value stocks easily outperformed last quarter, but essentially finished even this quarter.

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



Commodities once again meaningfully underperformed equities in the fourth 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, 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.

