COMMENTARY

The third quarter of 2007 was an eventful one. We saw the return of high volatility to world markets. The quarter featured one of the most highly anticipated Federal Reserve meetings in years. Domestic sub-prime mortgage markets unraveled and brought the market down. Wall Street exposure to the sub-prime sector and the implications of the massive sub-prime fallout were not full understood by the Street. Fund managers were forced to liquidate positions to raise cash to cover margin calls. The highly sophisticated computer modeling and trading programs that are used by Wall Street's investment firms could not handle the events in the market that were brought upon by the sub-prime mess, and that pushed the market further down.

Everyone looked to the Fed to come to the rescue. The subsequent cut of 50 basis points in Fed Funds rate did not surprise many and the market surged with the news. Although the rate cut vote by the Fed Governors was unanimous, there was a sense that the Fed did not want to be perceived as coming to the rescue of Wall Street.

In the post rate cut environment, the economy is appears to be slowing, and credit is still tight. Consumer discretionary spending is down, and housing has yet to bottom. People are looking to see to what extent the housing crisis is going to pull down the entire economy. This has been a recurring theme as we wait to see when the housing market bottoms. There are also several justifiable concerns regarding the outlook for the economy as the housing, credit and consumer spending sectors are definitely slowing.

The positive movement in our domestic markets in the first three quarters of 2007 is a reflection of booming overseas economic activity. This should help those companies who derive a large percentage of revenue from overseas markets. We continue to prefer issues in energy, technology and healthcare due to strong earning power and resilience in a slowing domestic economy.

We will be looking at the quality of third quarter earnings to see how the fourth quarter will begin, but we feel that the markets will continue to move upward. The volatility we saw in the third quarter should continue as the market assesses the global credit issues that face some of the large financial institutions.

October 24, 2007