



## First Quarter 2007 Results

### **Volatility returned to the stock market during the first quarter of 2007.**

Following a strong start for the year, the markets reversed course as the S&P 500 declined 3.5% on February 26. The decline was in response to the sharp drop that occurred for the Chinese stock market the night before, concerns over high risk mortgage loans and concerns over U.S. economic conditions. Fast forward to the end of the quarter and we find the Chinese market at new all-time highs, the worst of the home mortgage fiasco likely behind us and a U.S. economy not on the brink of a recession. As a result, the U.S. stock market recovered with the S&P 500 gaining 0.64% for the quarter.

### **FIRST QUARTER RETURNS**

	<u>Growth</u>	<u>Value</u>	<u>Overall</u>
Russell 1000	1.19%	1.24%	1.21%
<b>Russell MidCap</b>	<b>3.96%</b>	<b>4.86%</b>	<b>4.38%</b>
Russell 2000	2.48%	1.46%	1.95%
Russell 3000	1.29%	1.26%	1.28%

Dissecting the quarter we find that **Mid-Cap stocks were the clear leaders during the period** followed by Small-Caps and then Large-Cap issues. Overall, growth stocks slightly outperformed value stocks for the period and the advantage was most evident in the small-cap space. From an industry/sector perspective, Basic Materials was the top performer at +9.3%, followed by Utility stocks (+8.7%) and Telecommunications (+5.5%).

**Both our All-Cap Core 50 and All-Cap Core 100 portfolios gained approximately 2.9% for the period.** A large part of the increases achieved by our core strategies came from **outsized gains from basic material and industrial stocks**. On the other hand, an overweight position in the financial service sector detracted from the portfolios value given the sub-prime lending/banking uncertainties of the period.



## Sector Analysis

Sector	First Quarter % Change			Return Contributions	
	All-Cap Core 100	All-Cap Core 50	S&P SPDRs	All-Cap Core 100	All-Cap Core 50
Basic Materials	11.0%	11.5%	9.3%	28.7%	31.8%
Capital Goods/ Ind.	8.1%	15.4%	1.8%	26.5%	34.7%
Information Tech.	0.3%	(3.9%)	0.3%	1.4%	(20.5%)
Consumer Discret.	4.8%	9.2%	(0.7%)	20.2%	41.2%
Healthcare	7.8%	7.1%	0.8%	30.4%	21.5%
Consumer Staples	18.3%	-	2.5%	5.4%	0
Energy	9.7%	11.6%	3.1%	20.6%	23.9%
Financial Services	(4.2%)	(3.8%)	(1.8%)	(35.3%)	(34.7%)
Utilities	15.0%	-	8.7%	1.4%	-
Telecommunications	1.1%	1.8%	5.5%	0.7%	2.1%

Looking into the balance of 2007, we continue to believe the biggest potential threats to the securities markets are unrest in the Middle East and if Congress legislates income tax increases. The combination of much higher energy prices and almost any increase in tax rates could put the economy dangerously close to a recession. While we are not forecasting a recession, we believe the lingering threat of tax increases may not provide for a very good investment environment. Nonetheless, we are supporters of today's higher energy prices since the free market has now found it economical to invest in much needed alternative energy projects. We believe the stock market will move modestly higher the remainder of the year and that consumer discretionary, basic materials, technology, and growth stocks in general will lead the way.

