TRIVANT
CUSTOM PORTFOLIO GROUP, LLC

January 2008

quarterly INSIGHTS

Fourth Quarter 2007

EXECUTIVE SUMMARY

Financials, Cyclicals, Small Cap and Japan Lead Q4 2007 Decline

In the Fourth Quarter, the domestic S&P 500 Index fell 3.33% while the MSCI EAFE Index (foreign) fell 1.71%. With the exception of Emerging Markets and Europe, all global equity markets had negative performance. Fears of a recession took its toll in the marketplace. Housing market weakness and sub-prime mortgage woes, along with higher oil prices, significantly impacted the markets. Four areas of note include:

- Financials (-15.04%) were devastated by exposure to sub-prime mortgages
- Cyclicals (-10.49%) were hurt by recession fears and reduced consumer spending
- Small cap stocks lagged large cap stocks for the second consecutive quarter
- Japan (-6.07%) finished the year in negative territory amidst strong foreign performance

Our 2007 Equity Market Forecast Was Optimistic

We expected global equity markets would advance 11%-15% in 2007 (2007 Market Forecast, Quarterly Insights, January 2007). From a quantitative perspective, our forecast was optimistic (the S&P 500 Index rose 5.50% and the MSCI World Index rose 9.57% in 2007). The factor we did not anticipate was the extent of the sub-prime mortgage mess. (See Appendix: Our 2007 Report Card for a detailed discussion).

Our 2007 Equity Performance Exceeded the Market

The equity component of our portfolio exceeded the performance of the S&P 500 Index (composite data available upon request).

Our 2008 Forecast: Global Equity Markets Will Advance 5%-9%

We believe that global equity markets will advance 5%-9% in 2008. Our rationale includes the following:

- Standard and Poor's forecasts corporate profit growth of 16.2%
- Reduced US interest rates should positively impact the market
- The current equity Price Earnings ratio (16.41) is attractive

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EXECUTIVE SUMMARY

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TriVant 2008 Portfolio Strategy

2008 Portfolio Strategy Considerations	2008 Portfolio Position (Anticipated)	2007 Portfolio Position (End of Year)
Equity		
Domestic versus Foreign	Maintain Current Weighting	80% Domestic, 20% Foreign
Sector Weighting	*Over-weight (to S&P 500 Index)* - Health Care - Technology *Under-weight (to S&P 500 Index)* - Financials - Energy	*Over-weight (to S&P 500 Index)* - Health Care - Technology *Under-weight (to S&P 500 Index)* - Financials - Energy
Average Market Cap	Maintain current level	$55 Billion
Style (Growth versus Value)	Maintain current level	Weighted - Emphasis towards growth stocks
Portfolio Beta Level (Risk)	Maintain current level	Below Market (less than 1.0)
Fixed Income		
Desirable Securities	Shorter term government bonds and Treasury Inflation Protected Securities (TIPS) Average Duration = under 4.0 years	Shorter term government bonds and Treasury Inflation Protected Securities (TIPS) Average Duration = under 4.0 years
Securities with Less Emphasis	Longer term government bonds, corporate bonds	Longer term government bonds, corporate bonds

TRIVANT CUSTOM PORTFOLIO GROUP, LLC Fourth Quarter 2007 Review

Commentary in this review reflects our portfolio strategy. Many of our clients have different objectives and circumstances which are reflected in unique portfolio considerations. Please note that accounts may not contain all elements of the strategy discussed here. Additionally, individual client customizations and start dates may preclude certain elements of this strategy from being implemented. Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.

John Barber, CFA
Chief Investment Officer

Dan Laimon, MBA
President

Equity Market Review

Financials, Cyclicals, Small Cap and Japan Lead Q4 2007 Decline

In the Fourth Quarter, the domestic S&P 500 Index fell 3.33% while the MSCI EAFE Index (foreign) fell 1.71%. With the exception of Emerging Markets and Europe, all global equity markets had negative performance. Fears of a recession took its toll in the marketplace.

Housing market weakness and sub-prime mortgage woes, along with higher oil prices, significantly impacted the markets. Four areas of note include:

- Financials (-15.04%) were devastated by exposure to sub-prime mortgages
- Cyclicals (-10.49%) were hurt by recession fears and reduced consumer spending
- Small cap stocks lagged large cap stocks for the second consecutive quarter
- Japan (-6.07%) finished the year in negative territory amidst strong foreign performance

Equity Index Performance

Index	Q4 2007	2007
S&P 500 (Domestic)	(3.33%)	5.50%
MSCI EAFE (Foreign)**	(1.71%)	11.63%
MSCI World	(2.33%)	9.57%
MSCI Emerging Markets	3.66%	39.78%
Russell 2000 (Small Cap)*	(4.89%)	(2.75%)
MSCI Japan	(6.07%)	(4.14%)
MSCI UK (United Kingdom)	(2.38%)	8.39%
MSCI EMU (European Monetary Union)	2.02%	20.35%

* Performance data does not include dividends ** Europe, Australia and the Far East

Our 2007 Equity Market Forecast Was Optimistic

We expected global equity markets would advance 11%-15% in 2007 (2007 Market Forecast, Quarterly Insights, January 2007). From a quantitative perspective, our forecast was optimistic (the S&P 500 Index rose 5.50% and the MSCI World Index rose 9.57% in 2007). The factor we did not anticipate was the extent of the sub-prime mortgage mess. (See Appendix: Our 2007 Report Card for a detailed discussion).

Our 2008 Forecast: Global Equity Markets Will Advance 5%-9%

We believe that global equity markets will advance 5%-9% in 2008. Our rationale includes the following (see 2008 Market Forecast, page 9 for detailed discussion):

- Standard and Poor's forecasts corporate profit growth of 16.2%
- Reduced US interest rates should positively impact the market
- The current equity Price Earnings ratio (16.41) is attractive

Currency, Country, Sector & Market Cap Performance at a Glance

The US Dollar

The US Dollar depreciated versus the Euro and Japanese Yen in the Fourth Quarter, and appreciated versus the British Pound. After two consecutive annual declines in the range of 10% versus the Euro, we believe the dollar has reached an appropriate level and expect a relatively flat currency market in 2008.

U.S Dollar Appreciation vs. Foreign Currencies

Currency	Q3 2007	2007
US Dollar/Euro	(2.44%)	(9.59%)
US Dollar/Japanese Yen	(3.07%)	(6.43%)
US Dollar/British Pound	3.14%	(1.01%)
US Dollar Index*		(8.47%)

* The Dollar compared with a weighted basket of currencies. Source: Telemet

In 2007, the dollar fell 8.47% against a basket of diversified currencies.

A weaker US Dollar can spur domestic inflation and negatively impact the US consumer. This was evidenced in the Fourth Quarter by the decline (-10.49%) in the Cyclicals sector.

US exporters will benefit from a relatively weaker US Dollar. Heightened exports and favorable currency translation will increase dollar-denominated revenues. This is one of the reasons why we have emphasized large cap US companies with significant international markets. We believe the Technology sector in particular will benefit from the current level of the US Dollar.

The US Dollar: Portfolio Strategy Considerations

We continue to anticipate growing European concerns regarding the relative strength of their currencies because it has hurt European exports. In the event of a further US Fed rate cut (which would pressure the US Dollar in itself), we believe the European Central Bank (ECB) will take aggressive measures (lower their interest rates) to protect their exports. This should effectively cushion the US Dollar from significant further depreciation against European currencies.

Assuming the US Dollar stabilizes, we expect US stocks to out-perform the developed foreign markets. Our current portfolio weighting of approximately 80% domestic exposure would be well-positioned.

Japan

Japan trailed global markets all year and finished as the worst performing developed market with a return of -6.07% for the Fourth Quarter (-4.14% for the year). Consumer sentiment worsened to its most pessimistic level in four and a half years (source: Cabinet Office Consumer Confidence Survey). Fears have been rising due to the US sub-prime mortgage woes and falling stock prices. Since consumer spending makes up about 55% of Japan's economic activity, a reduction in consumer spending due to a bearish outlook does not bode well for the Japanese economy.

High oil prices negatively impact Japanese manufacturing, since Japan must import oil. Corporate profits and capital investments have been weakening, wage growth is sluggish, the service sector is struggling, and Japan's most important export market (the US) is in a slump.

Japan: Portfolio Strategy Considerations

We view Japan as neutral at this time and will maintain our small portfolio position.

Emerging Markets

Emerging markets finished a stellar year (+39.78%) with a positive Fourth Quarter (+3.66%). China was +66.24% for 2007, yet was -13.10% in the first two weeks of 2008. This demonstrates the high portfolio volatility of exposure to this area. India also had a phenomenal 2007 (+73.11%).

We view India as stable through the first half of 2008, but believe China exhibits the characteristics of a classic bubble. In 2006 and 2007, we observed an increasing investor appetite for risky investments. Much of China's stock price growth has been pushed by small investors ("day traders") versus institutional investors. These investors have little patience or long-term discipline. They are prone to sell stock as quickly as they buy it (as evidenced by the Chinese market performance year to date).

Reported Chinese company profits have been bolstered more by stock holdings carried on their balance sheet (including their own stock) versus operating earnings. We anticipate the Chinese economy will decelerate due to the end of the Olympics economy. As the Beijing Olympics approach, we would not be surprised to see the bubble burst.

Emerging Markets: Portfolio Strategy Considerations

Strong returns increased our portfolio weighting and caused us to rebalance the portfolio at the beginning of this year. We will keep our target weight in the range of 2%-3% and will rebalance if necessary.

Europe

Europe returned over 20% for the year, partially attributable to an almost 10% appreciation of the Euro versus the US Dollar. Strong currency appreciation has hurt European exports, and we believe the European Central Bank (ECB) will be pressured to lower interest rates. GDP growth is expected to decelerate (from 2.8% in 2007 to 2.4% in 2008) partially due to a US slowdown and sluggish overseas orders due to a strong Euro.

Europe: Portfolio Strategy Considerations

We will maintain our current European exposure as we see no factors that point to out-performance.

Sector Performance

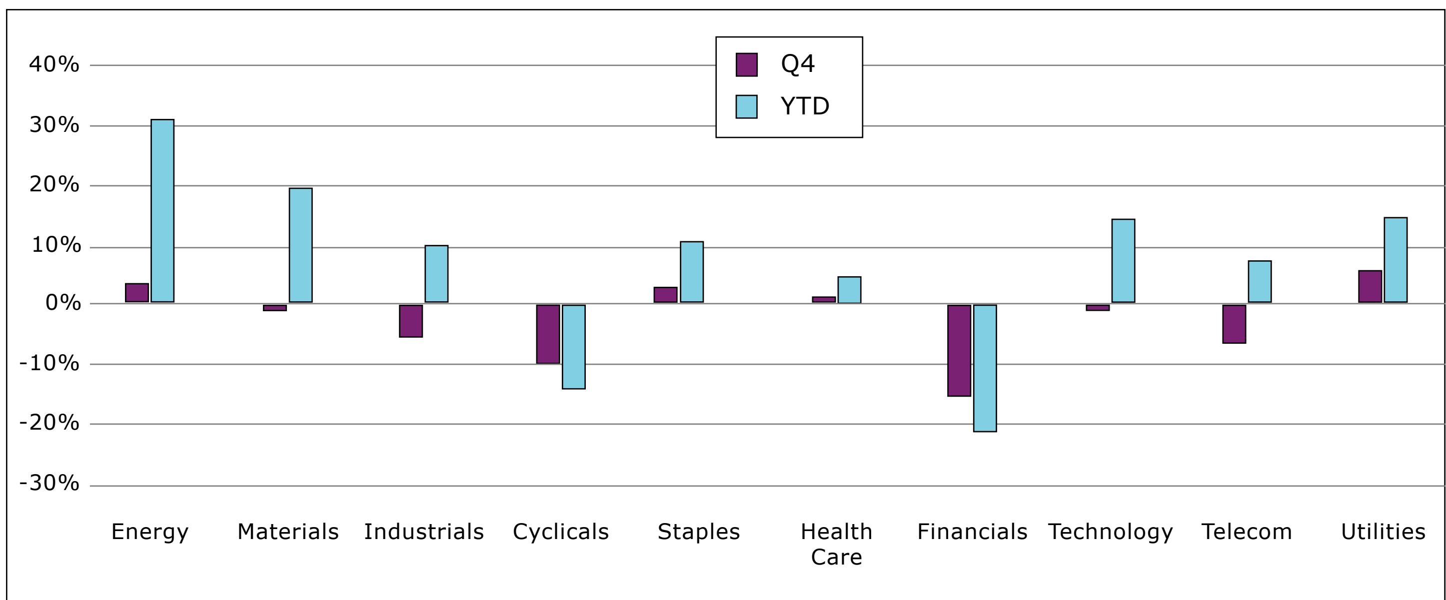
Energy was the best performing sector in 2007. An impressive +32.38% return was primarily driven by higher oil prices that approached $100/barrel. Spare oil production capacity continues to grow, yet the market did not discount this capacity in 2007 (the market has begun to discount this capacity in the first two weeks of 2008).

Materials (+19.98%) was the second leading sector in terms of 2007 performance, although its returns trailed off considerably in the second half of the year. This was a precursor to a slowing economy.

Financials was the worst performing sector in 2007 (-20.84%), due in no small part to the devastating financial impact of the sub-prime mortgage crisis. Almost all the sector decline occurred in the second half of the year.

Cyclicals (-14.32%) was the second worst sector in terms of 2007 performance, and it is interesting to note that it lost all its ground in the second half of the year. This was also a precursor to a slowing economy.

S&P 500 Index Sector Performance



Source: Standard & Poor's

Sectors: Portfolio Strategy Considerations

The Energy sector appears to have more downside than upside potential. We have slightly increased our portfolio exposure, but will maintain our current under-weight position. The Financials sector will likely continue to suffer from bad earnings announcements through the first half of 2008. Consequently, we will continue to under-weight this sector.

We continue to overweight Health Care and Technology (as compared to its weightings in the S&P 500 Index). Health Care had the highest operating earnings growth (+18%) of any sector in 2007 and should continue to flourish in a slower economic environment. Technology enjoyed a strong 2007 performance (+15.54%) and should continue to gain from healthy corporate balance sheets and global product demand. Since Technology is becoming an export-driven industry, it may benefit from the weaker US Dollar.

Market Cap Performance

Large cap stocks fared better than small cap stocks in 2007 as investors moved money to perceived safety. The larger US companies are better positioned to withstand a slowdown in the economy and consumer spending. This is because these companies derive a significant portion of their revenues (over 40%) outside the US.

We anticipate continued large cap out-performance in 2008. Out-performance tends to go in streaks. The last period of noteworthy large cap excess annual returns lasted five years (from 1994 through 1998).

Market Cap Performance

	Fourth Quarter 2007	2007
Large Cap Performance		
World	(2.33%)	9.57%
Foreign	(1.71%)	11.63%
USA	(3.16%)	6.03%
Small Cap Performance		
World	(4.14%)	5.89%
Foreign	(4.49%)	6.62%
USA	(4.76%)	2.03%

Source: MSCI

Market Cap: Portfolio Strategy Considerations

We continue to believe that large cap stocks are better positioned from a risk/reward standpoint and will maintain our large cap focus. Our current average market cap is approximately $55 billion, which is slightly smaller than the S&P 500 Index and larger than the MSCI EAFE Index.

Style Performance

Led by the considerable decline of the Financials sector, value stocks significantly lagged growth stocks for the Fourth Quarter 2007 and for the year. In a slowing economic environment, investors sought large growth companies with strong balance sheets and solid historical earnings.

Style Performance

	Fourth Quarter 2007	2007
US Growth	(0.26%)	12.79%
US Value	(5.36%)	1.08%
Foreign Growth	0.75%	18.62%
Foreign Value	(2.40%)	5.43%

Source: MSCI

Style: Portfolio Strategy Considerations

We will maintain our growth bias due to our expectation of a slightly normal yield curve, slowing (yet positive) economic growth, attractive growth fundamentals, and anticipated continuing fallout from the sub-prime mortgages.

Bond Market Review

We believe the Fed rate cuts experienced in the second half of 2007 (-100 basis points) will continue in early 2008. The Lehman Brothers Government/Corporate Bond Index widely considered the broadest of the major US bond indices, rose 3.09% for the Fourth Quarter and 7.24% for the year.

Key US Interest Rates

	31 Dec 2006	31 Dec 2007	Change
Federal Reserve Board Funds Rate	5.25%	4.25%	-100 basis points
2-Yr Treasury (Constant Maturity)	4.79%	3.05%	-174 basis points
5-Yr Treasury (Constant Maturity)	4.68%	3.44%	-124 basis points
10-Yr Treasury (Constant Maturity)	4.68%	4.03%	- 65 basis points

Note: 100 basis points (bp) = 1.00% Source: Bloomberg

During the year, interest rates fell and bond prices rose (yields decreased) as investors continued to shift money from stocks to bonds.

The yield curve, which compares the 2-Year Treasury rate (Constant Maturity) versus the 10-Year Treasury rate, moved from being slightly inverted to slightly normal (as the fall of longer yields did not match the fall of shorter yields). This implies that future inflation will be an increasingly important issue. Core inflation increased in 2007 due to rising oil and food costs.

Increasing inflationary pressures would normally cause the Fed to consider an interest rate increase. However, we are in the midst of the fallout from the sub-prime mortgage crisis and signs of an economic slowdown. The need to reduce interest rates will likely supercede the need to raise interest rates.

We anticipate the Fed will lower interest rates in the near future. Rather than a return to a slightly inverted yield curve, we expect the yield curve to remain normal (the longer-term bonds will be compensated for inflation risk).

Lowered interest rates should benefit the stock market. Due to economic uncertainty and negative investor sentiment, we believe that the bond market will be stable in the first half of 2008. Later in the year, we expect a shift in investor funds from bonds to stocks.

Bond Market: Portfolio Strategy Considerations

We continue to maintain our fixed income portfolio position in shorter term maturity bonds (average duration of less than 4.0 years) and Treasury Inflation Protected Securities (TIPS). If investor funds shift from bonds to stocks later in the year as expected, we will consider increasing the bond duration and incorporating a component of corporate bonds.

Inflation is becoming a larger risk. TIPS offer protection in the event inflation becomes more prominent. This can be especially important for investors who require portfolio income.

2008 Market Forecast

In 2008, we believe global equity markets will advance 5%-9%. Negative market momentum will carry forward from Q4 2007, but should reverse in the middle of the year.

Our 2008 Equity Market Prediction
"Global Markets Will Advance in the Range of 5%-9%"

RATIONALE				
Domestic Considerations		**Positive**	**Neutral**	**Negative**
Market Sentiment	The 2007 S&P 500 consensus forecast return of 9% is reasonable.		◆	
Leading Economic Indicators	The index will fall in the first half of the year due to slowing economic growth and negative sentiment, but will improve near the end of the year.		◆	
Monetary Policy	The Fed has the flexibility to lower interest rates (and we expect this will occur), which should positively impact the equity market.	◆		
Fiscal Policy	Current fiscal policy (tax policy and deficit levels) will neither help nor hinder the equity market.		◆	
Market Momentum	Negative market momentum will continue in the first half of the year, but reverse in the second half.		◆	
History	The fourth year of the Presidential cycle has historically been the second strongest for the market.	◆		
Equity Valuations	The current equity price/earnings ratio remains attractive.	◆		
Corporate Profitability	Profitability will show slightly above-average gains in 2008.	◆		
Foreign Considerations				
Currency Translation	Exchange rates will stabilize.		◆	
GDP Growth, Monetary and Fiscal Policy	Foreign GDP growth will lag US GDP growth.		◆	

Our 2008 Bond Market Prediction
"Longer-term bond yields will slightly increase."

RATIONALE				
Domestic Considerations		**Positive**	**Neutral**	**Negative**
Interest Rate Expectations	The yield curve will become more "normal". The FRB will lower the current level of interest rates.	◆		
Inflation Rate Expectations	Future inflation expectations will be further discounted into the longer maturity bond yields.		◆	

Global Equity Markets Should Rise in 2008

We predict that global equity markets will advance between 5%-9% in 2008. Our rationale is as follows:

Domestic Considerations

Market Sentiment

The 2008 S&P 500 consensus forecast of 9% (BusinessWeek, December, 2007) is, in our opinion, reasonable given the other factors we will discuss shortly. The consensus forecasts have been very accurate in the last four years. Last year's forecast (+5.85%) proved extremely accurate (the S&P 500 index rose 5.50% in 2007).

Leading Economic Indicators

The Index of Leading Economic Indicators (LEI) fell at an annualized rate of 1.2% for the last half of 2007. As Q4 2007 stock market growth is factored into the LEI, we anticipate the index will further decline in the first half of 2008. This is a level that would be consistent with slowing economic growth. A rising LEI Index in the latter part of 2008 could equate to stock market growth.

Monetary Policy

The Fed Funds Rate is currently 4.25%, a level we believe is accommodative to business. We foresee a (further) downward rate adjustment in 2008 that would spur economic growth. This should benefit the equity markets.

There is no longer an "inverted yield curve" (a scenario in which the 2-Year Treasury Yield exceeds the 10-Year Treasury Yield). If the Fed cuts interest rates, we believe the yield curve will further move to "normal" (the 10-Year Treasury Rate exceeds the 2-Year Treasury Rate).

In general, longer term interest rates are determined by expectations of future inflation. When investors believe inflation is ahead of us, interest rates rise. When slower economic growth is on the horizon, interest rates fall. We believe that inflation expectations will start to factor into longer term interest rates. Consequently, we anticipate a further "normalizing" of the yield curve. This bodes well for the economy and the equity markets.

Fiscal Policy

Previous federal government tax cuts have spurred economic growth, although we believe that there is little ability to further lower taxes. Through the Third Quarter 2007, the federal deficit is estimated at $440 billion (Source: Bureau of Economic Analysis).

The war in Iraq has greatly exceeded original cost estimates. This situation continues to fester and will be a major issue in the upcoming primaries and election. Many of the war costs are "off balance sheet", and are not accurately reflected in the deficit level.

We believe the federal deficit level is still within an acceptable boundary at this time, but remain concerned for the longer term. Actual and perceived federal deficit levels have been a contributing force to the depreciation of the US Dollar.

Persistently large deficits can lead to higher long-term interest rates, essentially rule out the possibility of additional tax cuts, and put increasing pressure on Congress to make hard decisions about maintaining tax cuts, raising taxes, and/or cutting federal programs and benefits.

Market Momentum

There is negative market momentum to carry over from Q4 2007. We believe negative momentum will continue in the first half of 2008, but reverse in the second half of the year.

History

Last year proved to be disappointing (the S&P 500 was +5.50%). We believe this year (the fourth year of the Presidential cycle) will perform below historical levels. (Historically, the fourth year of the Presidential cycle has been strong for the stock market.)

Presidential Cycle — Annual Returns since World War II

First Year	Second Year	Third Year	Fourth Year
6.1%	6.9%	20.9%	12.2%
			Source: Standard & Poor’s

Equity Valuations

A stock Price Earnings (PE) ratio is calculated as stock price/company earnings (over the last 12 months). A bond PE ratio is the inverse of the bond yield.

The S&P 500 PE Ratio is 16.41 (as of December 31, 2007). The 10-Year Treasury has a yield of 4.03% and a bond PE Ratio of 24.81 (as of December 31, 2007). In 2008, the S&P 500 PE Ratio is predicted to decrease (from 16.41 to 14.12), which may further the gap between S&P 500 and bond PE Ratios.

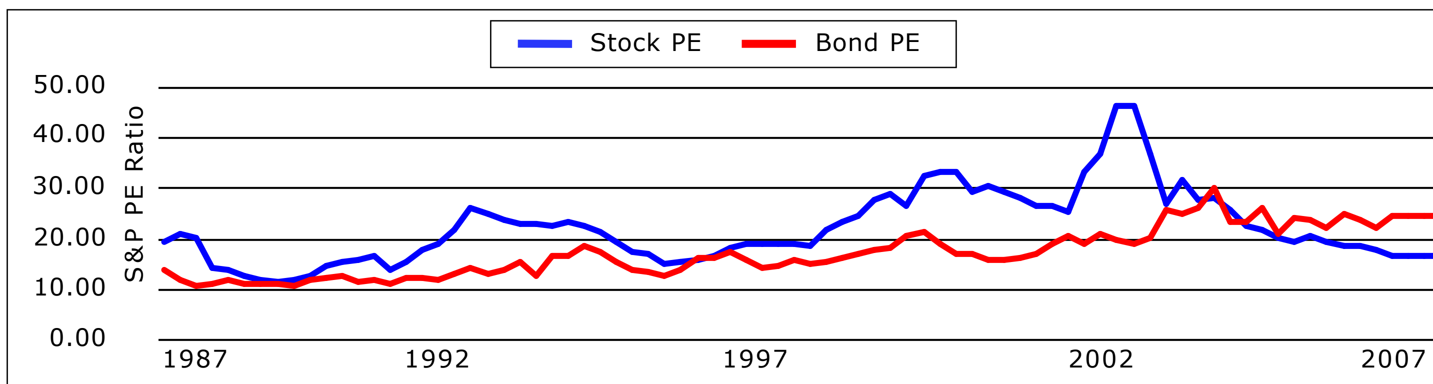
S&P 500 Index Estimated Price/Earnings Ratios by Economic Sector as of January 14, 2008

S&P 500 Index Sector	2007 Estimate Current Price/ Estimated Earnings (P/E)	2008 Estimate Current Price/ Estimated Earnings (P/E)
S&P 500 Index (Net)	16.41	14.12
Consumer Discretionary	17.64	14.40
Consumer Staples	19.05	17.23
Energy	13.08	12.39
Financials	13.03	10.50
Health Care	17.77	15.52
Industrials	15.97	14.55
Technology	22.18	18.08
Materials	15.84	15.49
Telecommunication	18.08	13.40
Utilities	18.75	16.79

Source: Standard & Poor's

Due to its higher expected future earnings, we believe that a stock PE should theoretically exceed a bond PE. Indeed, this was the case from 1987-2003. However, from 2004 to date, the 10-Year Treasury PE has exceeded the S&P 500 PE.

S&P 500 Price Earnings (PE) Versus 10-Year Treasury Price Earnings (1987—2007)



Source: Standard & Poor's

There are three possible ways to interpret why the stock PE does not exceed the bond PE:

1. Bonds are over-priced
2. Stocks are under-priced
3. A combination of the above two points

Given the considerable bond price appreciation in 2007, we believe that bonds may be slightly over-priced. The wide gap between the PE ratios also leads us to conclude that stocks continue to be under-priced. The main factors that affect stock valuation levels are interest rates, expected growth, and risk.

We expect the Fed Rate (4.25%) to be lowered in 2008. The interest rate environment should allow for stronger earnings. Standard and Poor's forecasts corporate profit growth at 16.2% in 2008 for S&P 500 companies.

Risk is the hardest of the three factors to quantify. Elections (politics), oil supply shocks, and terrorism remain the 'Big 3' of risk. There may be some political risk as the presidential election approaches in November. For the time being, we do not view elections as a 2008 risk. We do not believe oil supply poses a 2008 risk (see Sectors: Portfolio Strategy Considerations, page 6). Terrorism is a constant risk, but in itself should not negatively impact stock PE values.

The price earnings ratio of the S&P 500 Index should slightly fall in 2008 because of the following:[1]

- We anticipate stock prices will rise 5% to 9%
- Standard & Poor's forecasts 2008 profit growth to rise 16.2%

The PE ratio numerator (stock price) should rise at a relatively lower rate than the ratio denominator (company earnings), causing the ratio to decrease. A lower PE ratio is attractive from an equity valuation standpoint.

[1] A stock Price Earnings (PE) ratio is calculated as stock price/company earnings (over the last 12 months). A bond PE ratio is the inverse of the bond yield.

Corporate Profitability

The bad news regarding the S&P 500 Index 2007 operating earnings is that it is projected to be -1.6%. The good news is that if you strip out the companies that make up the financial sector, operating earnings are reasonable.

S&P 500 Index Estimated Operating Earnings by Economic Sector as of January 14, 2008

S&P 500 Index Sector	Estimated Percentage Change 2007	Estimated Percentage Change 2008
S&P 500 Index (Net)	-1.6%	16.2%
Consumer Discretionary	-13.4%	22.5%
Consumer Staples	9.1%	10.6%
Energy	2.6%	5.6%
Financials	-23.5%	24.0%
Health Care	18.0%	14.5%
Industrials	10.2%	9.8%
Technology	13.9%	22.6%
Materials	7.0%	2.3%
Telecommunication	9.9%	34.9%
Utilities	2.3%	11.7%

Source: Standard & Poor's

Looking ahead to 2008, economic growth rates may be slowing, but corporate profits remain healthy. Standard and Poor's forecasts corporate profit growth of 16.2% in 2008. This forecast takes into account the expectation that second half earnings will be higher than first half earnings.

There are many unknown factors in looking ahead six months. Even if a 16.2% profit growth forecast proves to be optimistic, we believe that 2008 profit growth in the 10%+ range will be a stabilizing factor for market performance.

It is interesting to note that the highest rate of operating earnings growth in 2007 was in the Health Care and Technology sectors. Relatively strong earnings growth in these sectors is projected to carry into 2008. This trend of strong earnings is one the reasons why we have, and will continue to, overweight these sectors.

Foreign Considerations

We do not believe the US Dollar will fluctuate dramatically in 2008 (see page 4), and consequently do not currently view the US Dollar as an important factor to determine US versus foreign equity exposure. We will maintain our current level of US equity exposure because we believe it is the optimal risk/return tradeoff at this point in time.

Longer-Term Bond Yields Should Slightly Increase in 2008

We anticipate the Fed will lower current US interest rates, and believe that foreign interest rates will also fall modestly. In our opinion, there is slower economic growth and higher inflation risk. The bond yield curve should become more "normal" and hence longer-term bond yields should slightly increase in 2008.

In the early 1980's, US consumers accounted for approximately 14% of the world product demand. At this time, US consumers account for approximately 20% of world product demand. Therefore, we do not believe that world economies will "decouple" (become independent to the US) to the level of current market sentiment. In other words, the US economy will continue to heavily impact foreign economies.

We anticipate that demand for US bonds (especially from China and Japan) will not waiver as these Asian countries need US consumers to buy their exports. The US deficit level should not significantly impact the bond market (see page 8). All in all, these factors point to a 2008 bond market that should be relatively stable.

2008 Portfolio Strategy

We believe that the US economy is already in a recession. Rather than "panic" regarding equity exposure, our strategy is to remain well-diversified and "ride out" the current slowdown. There are six reasons why we think this is the best course of action:

1. Most Recessions Are Short In Duration

There have been 10 recessions since World War II, and only two of them lasted more than a year. Disrupting our longer-term portfolio strategy for an anticipated short increment is not, in our opinion, worthwhile. Additionally, it is impossible to "time the market" in terms of efficient exit and entry. For taxable accounts, an attempt to "time the market" may cause unnecessary tax implications (capital gains). For all types of accounts, an attempt to "time the market" may cause unnecessary transaction costs.

2. The Stock Market Anticipates Future Trends

Stock prices typically start to recover six months before the economy rebounds. Assuming the duration of the recession is short, this would signify a potential stock recovery in 2008.

3. Much Of The Bad News Is Already Out

The worst news is coming from the Financials sector. After the fourth quarter results are announced (in the next few weeks), we anticipate that the news will get better.

4. We Believe Stocks Are Under-Valued

For reasons discussed earlier, we believe stocks are attractively priced at this time. In the late 1990's, stocks were highly overvalued (as evidenced by high PE levels), and although the recession that followed lasted only eight months, stocks prices fell considerably for more than two years. In the event of a mild recession, we are confident that stocks are well positioned for resiliency.

5. "Blue Chip" Companies Have Diversified Global Earnings

Our current equity portfolio emphasizes large cap companies with international operations. On average, these companies derive over 40% of their revenues in international markets. In the event that US consumer spending is reduced, there is a well-cushioned revenue stream.

6. The Fed Has Further Ammunition

We anticipate (as do most market observers) that the Fed will reduce interest rates in the near term to counter the effects of a recession. Reduced interest rates should help an economic recovery and propel stock prices.

Our 2008 outlook is slightly more optimistic for the equity market than the fixed income market. We believe the portfolio is already properly positioned for a recession. Other than various stock-specific adjustments, we will maintain our current portfolio strategy at this time and adjust if/when necessary.

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Equity		
Domestic versus Foreign	Maintain Current Weighting	80% Domestic, 20% Foreign
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Securities with Less Emphasis	Longer term government bonds, corporate bonds	Longer term government bonds, corporate bonds

Equity

Domestic versus Foreign

We are maintaining our current domestic equity exposure (80%) and foreign equity exposure (20%) because we believe it is the optimal risk/return tradeoff in an economy that is likely in a recession. Regarding foreign equity regional exposure, we will

- Slightly increase Japan
- Slightly reduce Emerging Markets
- Maintain Europe

(For detailed discussion, see Portfolio Strategy Considerations, page 5.)

Sector Weighting

We continue to over-weight Health Care and Technology, and under-weight Financials and Energy. The remaining sectors are neutrally-weighted (to the S&P 500 Index sector weights).
(For detailed discussion, see Sectors: Portfolio Strategy Considerations, page 6.)

Average Market Cap

We will maintain the average market cap of our equity portfolios at $55 billion because we believe it lowers our portfolio risk without sacrificing performance. (For detailed discussion, see Market Cap Performance, page 7).

Style (Growth versus Value)

We continue to weight our equity portfolio towards growth stocks because:

- Growth stocks have more attractive fundamentals versus value stocks at this time
- A slightly normal yield curve should favor growth versus value stocks
- Given the recent (negative) earnings announcements (especially in the Financials sector), investors will likely seek large growth companies with solid historical earnings

Portfolio Beta Level (Risk)

We have a current portfolio beta below the market (lower than 1.0) and anticipate maintaining this level throughout the first half of 2008.[2]

Fixed Income

We will maintain our fixed income strategy. The average duration of the portfolio is below 4.0 years.[3] We believe there is a greater likelihood of an interest rate decrease versus increase in 2008.

[2] The beta of an individual stock is a measure of its risk in relation to the market. By definition, the market has a beta of 1.0. Portfolio beta describes the relative volatility of an individual securities portfolio, taken as a whole, as measured by the individual stock betas of the securities making it up.

[3] Duration measures the sensitivity of bond prices to a 1% change in interest rates. As interest rates increase (decrease), bond prices decrease (increase). For example, the average duration of 4.0 years would mean that if interest rates decrease by 1%, the bond portfolio value would be expected to increase by 4.0%.

Closing Thoughts

In 2007, we were successful regarding our equity strategy and selection. The equity component of our portfolio exceeded the performance of the S&P 500 Index.

The fixed income component of our portfolio also performed reasonably well in relation to the market. (See Appendix: Our 2007 Report Card for a detailed discussion regarding our 2007 strategy and results.)

Our 2008 outlook is slightly more optimistic for the equity market than the fixed income market.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

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"*Our favorite holding period is forever*."
Warren Buffett

Disclaimer: The information presented herein is intended for informational purposes only. All views are subject to change based on updated indicators. The recommendations made in this publication are made without regard to individual suitability. Investors should consider their own needs and objectives before making any investment decision. A risk of loss is involved with investments in stock markets.

Our 2007 Report Card

In this section, we re-visit our 2007 Market Forecast and Portfolio Strategy. How accurate was our forecast? How successful were our strategy decisions?

Our 2007 Equity Market Prediction

"Global Equity Markets Will Advance 11%-15%." Optimistic

RATIONALE				
Domestic Considerations		**Correct**	**Neutral**	**Incorrect**
Market Sentiment	The 2007 S&P 500 consensus forecast return of 7% is conservative.			◆
Leading Economic Indicators	The index will continue to grow at an annualized rate of 3%to 4%, consistent with moderate economic growth.			◆
Monetary Policy	Stable interest rates should positively impact the equity market.		◆	
Fiscal Policy	Current fiscal policy (tax policy and deficit levels) will neither help nor hinder the equity market.	◆		
Market Momentum	Market momentum will continue.		◆	
History	The third year of the Presidential cycle has historically been the strongest for the stock market.			◆
Equity Valuations	The current equity price/earnings ratio remains attractive.	◆		
Corporate Profitability	Profitability will show average gains in 2007.			◆
Foreign Considerations				
Currency Translation	Exchange rates will stabilize.			◆
GDP Growth, Monetary and Fiscal Policy	Relative to the USA, foreign GDP growth should lag, monetary and fiscal policy is comparable.			◆

Our 2007 Bond Market Prediction

"Longer-term bond yields will slightly increase." Incorrect

RATIONALE				
Domestic Considerations		**Correct**	**Neutral**	**Incorrect**
Interest Rate Expectations	The currently inverted yield curve will slightly flatten. The FRB will maintain the current level of interest rates.		◆	
Inflation Rate Expectations	Future inflation expectations will be minor and only slightly discounted into the longer maturity bond yields.		◆	

Our 2007 Portfolio Strategy Considerations

PORTFOLIO POSITIONING				
Equity		**Correct**	**Neutral**	**Incorrect**
Domestic versus Foreign	The foreign component of a properly diversified equity portfolio should not exceed 22%. Domestic exposure was increased from 78% to 80%.			◆
Sector Weighting	*Over-weight (to S&P 500 Index)* - Consumer Staples - Health Care - Technology *Under-weight (to S&P 500 Index)* - Financials - Energy		◆	
Average Market Cap	Average market cap was increased to $55 billion (from $40 billion).	◆		
Style (Growth versus Value)	We maintained a slight emphasis on growth stocks.	◆		
Portfolio Beta Level (Risk)	Portfolio beta level was decreased from "above the market" (more than 1.0) to "below the market" (less than 1.0).	◆		
Fixed Income				
Desirable Securities	Shorter term government bonds and Treasury Inflation Protected Securities (TIPS). Average Duration = 4.0 years.	◆		
Securities with Less Emphasis	Longer term government bonds, corporate bonds.		◆	

2007 Equity Market Prediction – How We Fared

Our overall prediction of an 11%-15% advance in equity market growth proved to be optimistic (see Equity Market Review, page 3). Domestic market sentiment was accurate. We were incorrect in believing that the 2007 S&P 500 consensus return of 7% (a prediction made at the beginning of 2007) would prove conservative (the S&P 500 Index was +5.50% for 2007). The Leading Economic Indicators index fell (-1.2%) for the six months spanning May through November (we anticipated this index would rise).

We were neither wrong nor right regarding our expectation that monetary policy and market momentum would positively impact the market (both were non-factors). We correctly anticipated the somewhat insignificant impact of fiscal policy, corporate profitability, and equity valuations on 2007 market performance.

The S&P 500 corporate earnings dropped 1.6% in 2007 primarily due to two sectors. Earnings in Consumer Discretionary were -13.4% and earnings in Financials were -23.5%. If the Financials sector earnings were excluded from the overall S&P 500 corporate earnings, our prediction of average profitability gains in 2007 would have been accurate.

Although the third year of the Presidential cycle has historically been the strongest for the market, (we anticipated this pattern would occur in 2007), this was not the case.

The US Dollar depreciated against the Euro and Yen at a rate higher than we expected, and slightly depreciated versus the British Pound. Currency translation proved to be an important factor in our 2007 portfolio performance when we did not anticipate that it would. According to The Economist (December 2007), foreign GDP growth (2.5%) slightly exceeded US GDP growth (2.0%). This was likely one of the reasons why the European foreign markets out-performed at a rate greater than their relative currency appreciation. This was an occurrence we did not foresee for the second straight year.

2007 Fixed Income Market Prediction – How We Fared

We anticipated that the Federal Reserve Board would maintain the 2006 year-end level of interest rates. Rates decreased a total of 1.00% (100 basis points) in 2007 (from 5.25% to 4.25%), so our interest rate prediction was not very accurate. The major factor we did not foresee was the extent of the mortgage crisis, which was the driving factor for reduced Fed interest rates.

Despite the slight decrease in interest rates, we were partially correct in predicting that the yield curve would flatten in 2007 (in fact, the yield curve was slightly "normal" by year end). The 2-Year Treasury yield fell 1.74% (174 basis points) from 4.79% to 3.05%. The 10-Year Treasury yield fell 0.65% (65 basis points) from 4.68% to 4.03%. Inflation and expected inflation did not significantly factor into longer term interest rates.

2007 Portfolio Strategy Considerations – How We Fared

Equity

We were moderately successful regarding our equity strategy and selection. Our equity composite comfortably exceeded the S&P 500 index in 2007. Overall, our portfolio has significantly out-performed the S&P 500 index since our inception.[4]

In our opinion, 2007 was a year where our equity strategy decisions had greater performance attribution than our equity selection. Strategy considerations included the following factors:

- Domestic versus Foreign Weighting
- Sector Weighting
- Average Market Cap
- Style (growth versus value) Weighting
- Portfolio Beta Level (risk)

Overall, we assess our 2007 decisions in the above areas to be above satisfactory, but not excellent.

Domestic versus Foreign

Our proprietary research concludes that an equity portfolio (for a USA-based investor) comprised of 79% domestic (USA) stocks and 21% foreign (non-USA) stocks carries the least amount of risk (see Quarterly Insights, July 2006, page 10). We slightly reduced our 2007 foreign exposure (from 22% to 20%) in our equity portfolio because we felt it was a time to be conservative versus aggressive in terms of portfolio risk (standard deviation).

Foreign stocks out-performed (with the exception of Japan), partially due to relatively strengthened currencies. There was notable stock out-performance in the European Monetary Union and Emerging Markets. The small reduction in foreign exposure slightly hindered our portfolio performance. However, reducing foreign exposure enabled us to implement desired positioning regarding portfolio sector weighting, average market cap, style and beta.

Sector Weighting

In 2007, our portfolio was over-weighted to Health Care and Technology. It was under-weighted to Financials and Energy.

The S&P 500 Index was +5.50% in 2007. In hindsight, our portfolio performance would have improved had we over-weighted Energy (+32.38% in 2007). Our Technology (+15.54% in 2007) overweight helped the portfolio, while our Health Care (+5.39% in 2007) overweight neither helped nor hindered the portfolio.

The most important sector strategy decision we made in 2007 was to underweight Financials. The Financials sector was -20.84% in 2007. From a performance attribution standpoint, our portfolio gained more from its underweight to Financials than it lost to its underweight to Energy. This is one of the main reasons why we were able to out-perform the S&P 500 Index in 2007.

We neutral-weighted the remaining sectors (Materials, Industrials, Cyclicals, Staples, Telecom, and Utilities). Our positioning in these sectors collectively had little impact on our 2007 equity performance.

Entering 2008, we have maintained an over-weight to Health Care and Technology, and an underweight to Financials and Energy (see page 6).

[4] Composite data is available upon request.

Average Market Cap

We raised the average market cap of our equity portfolio from $40 billion to $55 billion because we believed it would lower our portfolio risk without sacrificing performance. In 2007, large cap US stocks (+6.03%) out-performed small cap US stocks (+2.03%). Our positioning proved correct.

Style: Growth versus Value

We weighted our equity portfolio towards growth stocks because

- Growth stocks had more attractive valuations versus value stocks at that time
- A flatter yield curve should have favored growth versus value stocks
- Given a slower profit growth outlook, investors would likely seek large growth companies with solid historical earnings

For the same reasons, we continue to weight our equity portfolio towards growth stocks. US growth stocks (+12.79%) dramatically out-performed value stocks (+1.08%) in 2007 (see page 7). The Financials sector hurt value stocks. Our growth bias considerably helped the portfolio.

Portfolio Beta Level (Risk)

The beta of an individual stock is a measure of its risk in relation to the market. By definition, the market has a beta of 1.0. Portfolio beta describes the relative volatility of an individual securities portfolio, taken as a whole, as measured by the individual stock betas of the securities making it up.

We decreased our portfolio beta from "above the market" (greater than 1.0) to "below the market" (less than 1.0). Our equity out-performance (versus the S&P 500 Index) was achieved by taking less than average market risk. The move towards a lower portfolio beta level was successful.

Fixed Income

The fixed income component of our portfolio performed reasonably well in relation to the market. Given our expectation that the yield curve would flatten, we held shorter term government bonds and Treasury Inflation Protected Securities (TIPS). The average duration of our fixed income holdings was 4.5 years at the beginning of 2007, and was lowered to less than 4.0 years by the end of the year.

In 2007, we removed the small level of corporate bond exposure we had at the end of 2006. This decision had minimal performance impact.

We could have slightly benefited from higher average bond duration. The yield curve shifted to a "normal" level more than we anticipated. Bearing in mind our clients' specific portfolio income needs, we felt the potential risk in having average bond duration greater than 4.0 years, given our interest rate and inflation rate expectations, would have been too great.