



August 10, 2007

Equity markets worldwide plunged again yesterday after BNP Paribas (French bank) announced it is freezing three funds which invested in U.S. sub-prime mortgages because it was unable to properly value some of the assets. The announcement placed fear in the markets due to concerns that a larger number of assets may be susceptible to the same difficulties of valuations. The negative news in Europe quickly spread to impact the U.S. markets, pushing the Dow Jones Industrials Average down 387 points, or 2.8% for the day. The S&P 500 was down 44 points, or 2.9% for the day. Yesterdays drop was the second biggest pullback this year. Before yesterdays slide, the S&P 500 had its best three-day winning streak in nearly five years. High quality bonds performed fairly well yesterday as investors sought the relative safety of Treasuries.

Unfortunately, it appears today's market activity will be much like yesterday as investors continue to grasp for an understanding of the full impact within the sub-prime mortgage markets. U.S. regulators are looking into the books of some of the top Wall Street brokers and investment banks to get a better sense of the sub-prime losses at the major firms. The Securities and Exchange Commission is trying to determine whether the firms are calculating the value of the sub prime-mortgages consistently. The turbulence in the credit markets has already impacted highly leveraged hedge funds as well as mortgage providers which have had lenders cutting them off from new loans. The overall market uncertainty is predicated partly on whether or not the impacts will spread wider through the economy. The negative sentiment could spell disaster for some underperforming companies, which historically have been able to finance their way out of trouble. If tightness in lending continues, some of these companies with lower-quality balance sheets could be at risk for bankruptcy.

As mentioned in our last email commentary, we continue to believe the volatility within the equity markets will remain for some time. It is still unknown how much impact the current credit issues will have on the economy and the markets. Until there is a better understanding of these issues, markets will likely remain directionless. Our roster of portfolio managers and mutual funds is made up predominantly of investment strategies that focus on higher-quality stocks and bonds which we anticipate may help protect somewhat during these types of market environments. We continue to focus on each of your portfolios and will let you know if we believe we need to make a change to investment managers or your asset allocation.

Should you have any questions regarding the recent market activity, please do not hesitate to contact us.