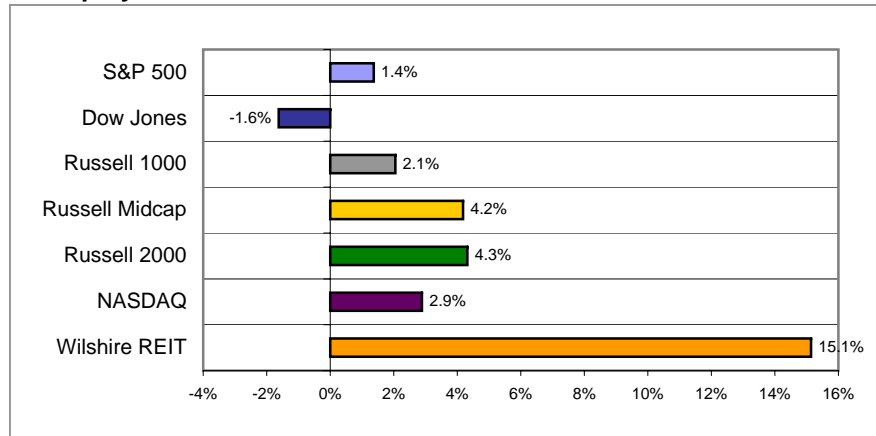


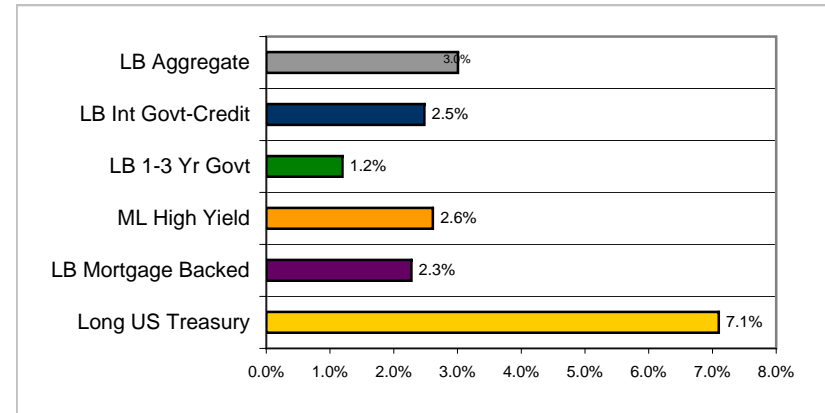
US Equity



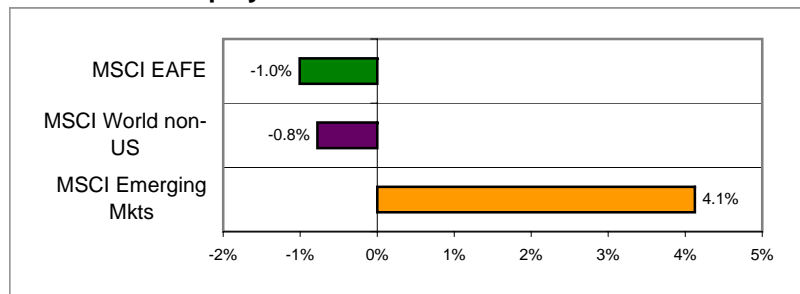
- Real estate has been *topic du jour* for the past six months. Everyone has a pet bubble-theory (except home builders). If there is a bubble that bursts, REITs are typically the first to drown, because they had to keep on investing in property at ever-higher prices, bubble or not.
- After the quarter's puny start in April, US stocks rocketed up in all sectors during May, then finished with a very modest June, resulting in an overall ho-hum quarter, with smaller cap stocks performing quite well.
- The value style continued its ruling position over growth stocks for the quarter in mid- and small-cap arenas, while growth was showing its head amongst the largest cap stocks.

US Fixed Income

- Amazing! Bonds posted the kind of returns everyone had assumed (for some pretty convincing reasons) were history. The so-called hedge funds continue to make markets jump through volatile hoops.
- There were two interest-rate stories: (1) the Fed continuing to ratchet up rates at every meeting and (2) the bond market guys thumbing their collective noses and actually *lowering* rates.
- Long US Treasury bonds performed at a dizzying pace, turning in a truly bull-bond-market return that is normally seen only when the economy is tanking, or about to tank. (But, see Int'l below.)



International Equity



- After a hefty runup in the value of the Euro for more than 4 years, the collapse of the European Union's efforts to adopt a Constitution triggered an immediate flight from Euros to Dollars.
- Dollar-based international stock investors who had coasted on the strong Euro-value tailwind for years suddenly found themselves facing a headwind.
- Not to be outdone by their stock market counterparts, non-US bond investors scrambled to chase the newly invigorated US Dollar, via purchasing long Treasuries, driving those rates down and returns up.