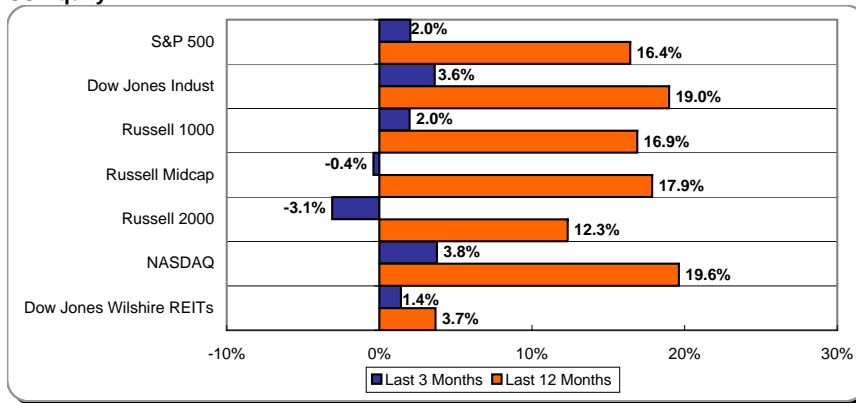


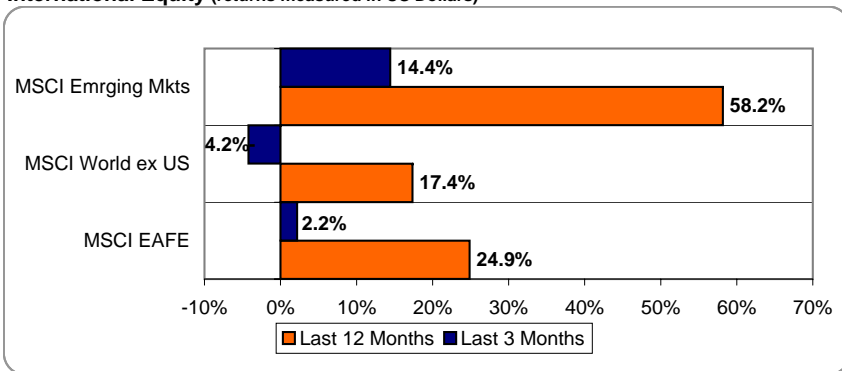


US Equity



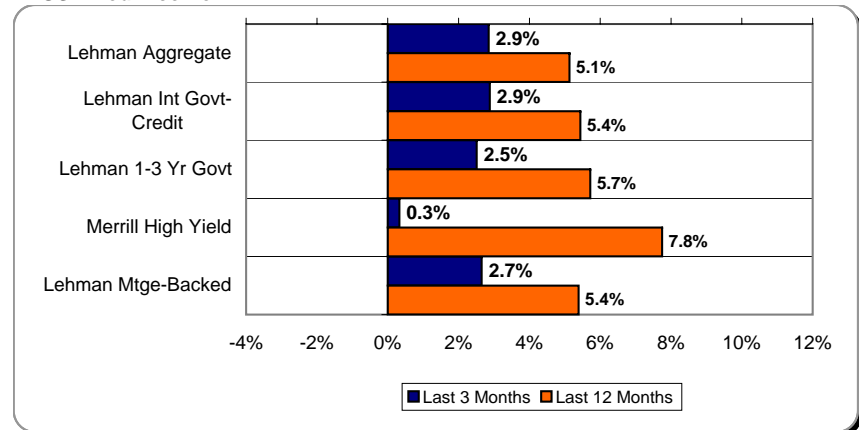
- ◆ The Federal Reserve Open Market Committee's September meeting produced a surprisingly sharp downward re-targeting of short term interest rates, the first such down-tick in four years. Reason(s) given, depending on the source were: (a) tea leaves indicating a pending US business slump and/or (b) application of Fed ointment to the deep financial wound caused by junk mortgages despite (c) Fed Governors' growing concerns about signs of inflation and further despite (d) the US dollar's surely-continued-decline versus other currencies, as result of this action.
- ◆ Meanwhile, in the same week, ex-Fed chairman Greenspan was everywhere...hawking his new book which of course purports to be the Real Story of his 20-year wearing of the nation's financial crown. Perhaps his key statement (responding to a sharp question about why he let the junk-mortgage situation develop wings on his watch) was that he tried and failed to abort the growth of pervasive, low-adjustable-rate mortgages. The failure, he said, was attributable to "global market forces" that were beyond his control.
- ◆ Driven by the bond market's sudden return to the realization that investment risk is not merely about standard deviations, but also involves the threat of default, the 3rd quarter saw a significant abandonment of a flat, or even inverted yield curve, in favor of a more normally shaped, upward sloping one, probably a healthy sign for bonds and, we believe therefore, for US stocks.

International Equity (returns measured in US Dollars)

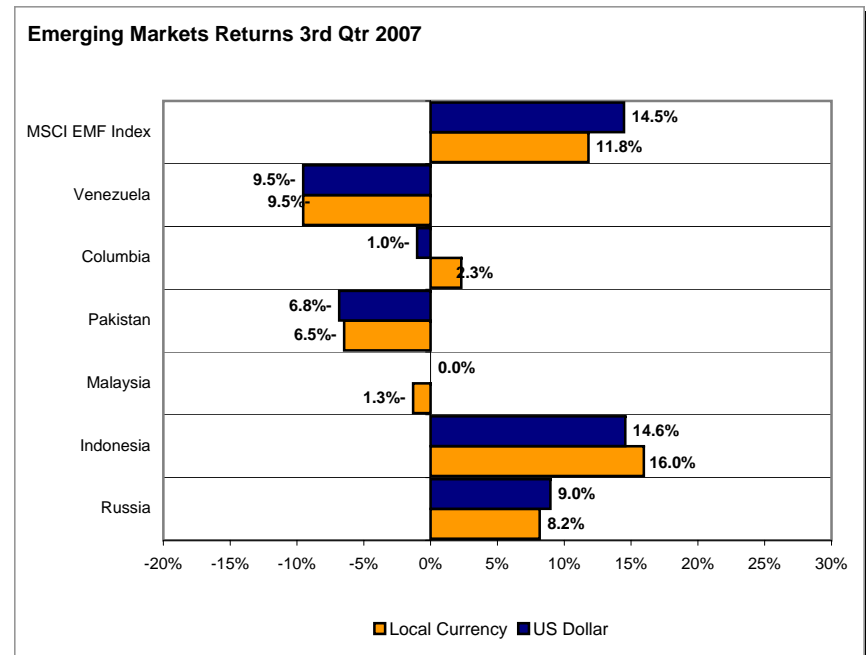
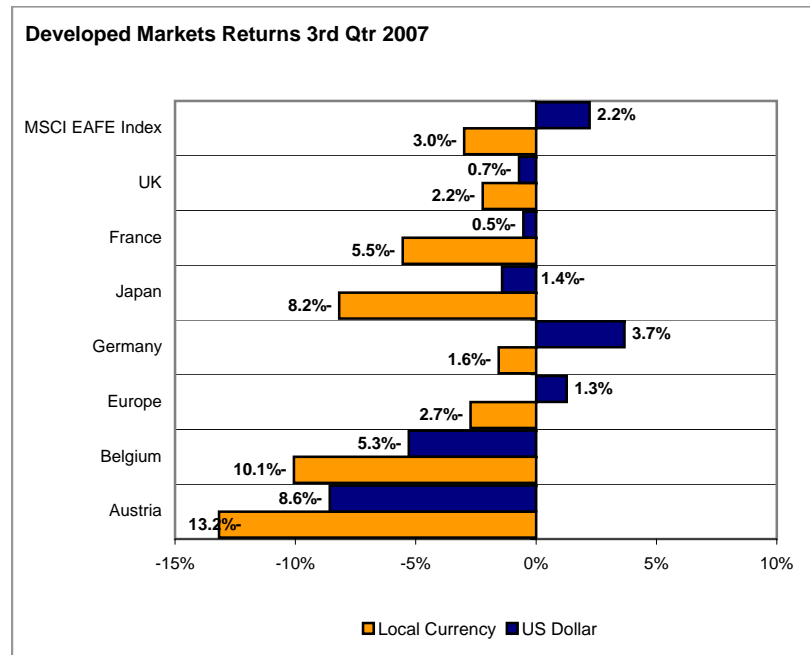
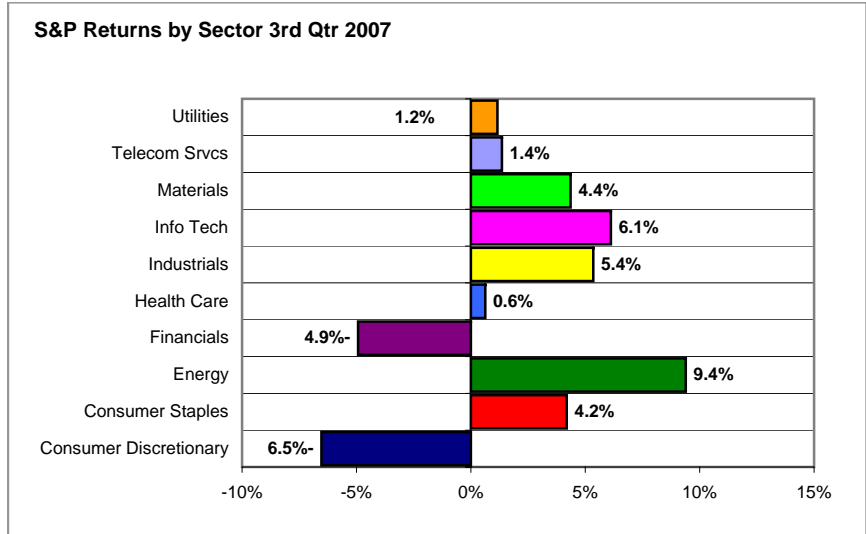
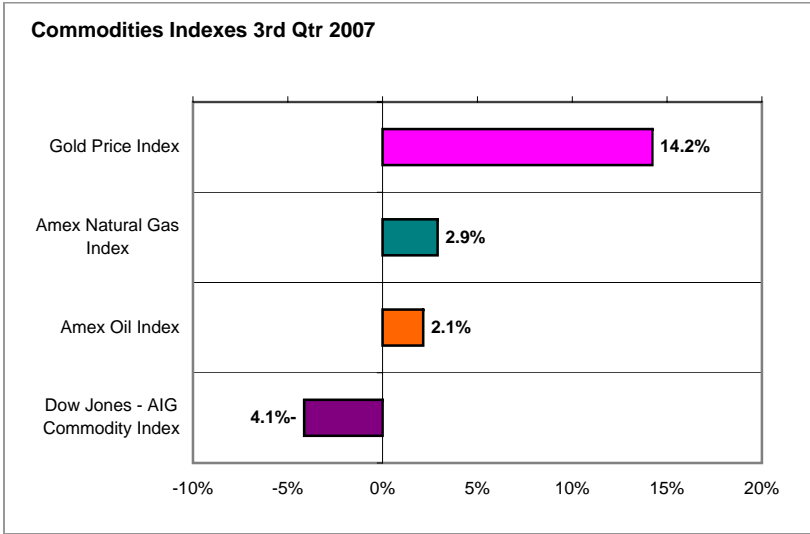


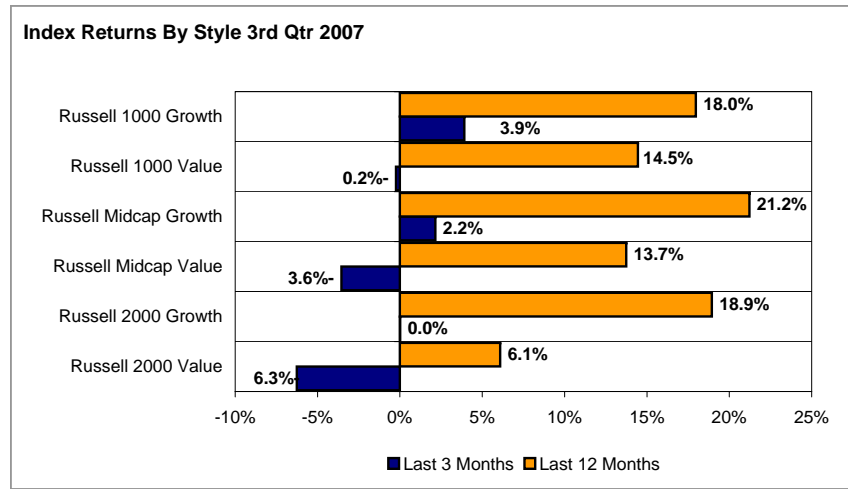
- ◆ As we predicted (though too early), big cap, growth-style shares continued strong for 2007's 3rd quarter. On a year-to-date basis, the biggest of the big (Russell Top 200 Growth Index) have now amassed a 600 basis-point gap versus their value brethren. But this year's growth-style dominance is even more evident in mid-cap and small-cap where growth's return-spreads above value were respectively about 900 and 1200 basis points.
- ◆ Check this quarter's wide performance gap favoring growth stocks over value stocks, both large cap and small cap. But, it is apparent that this quarter's growth-stock triumph is mostly about the fact that value-stock indexes are all heavily weighted in the financial sector. In general, therefore, value indexes took a beating during this summer's panic over discovery of large pockets of junk mortgages buried in shallow financial-company graves, all across the investment globe.
- ◆ Although previously red-hot REIT stock returns were in free-fall for a few months, and were down hard for 2007 through July (almost -13%), they turned in nearly 6% for August and added 4.5% for September, which actually caused a net positive 3rd quarter (though still down about 4% for 2007).

US Fixed Income

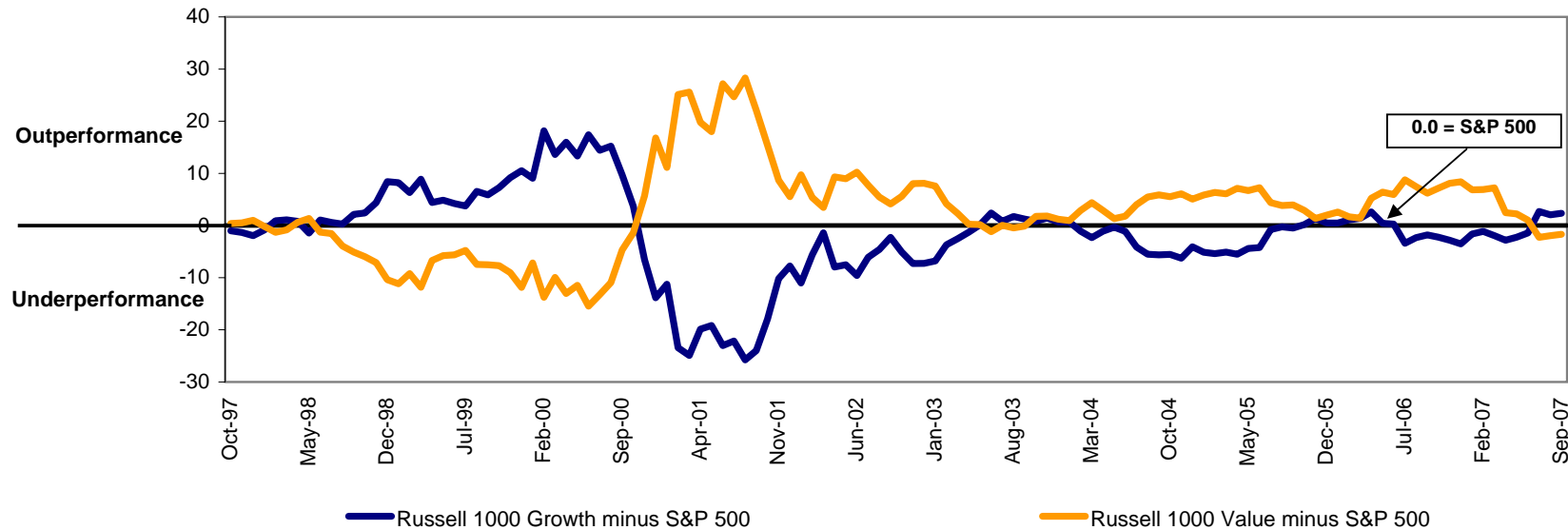


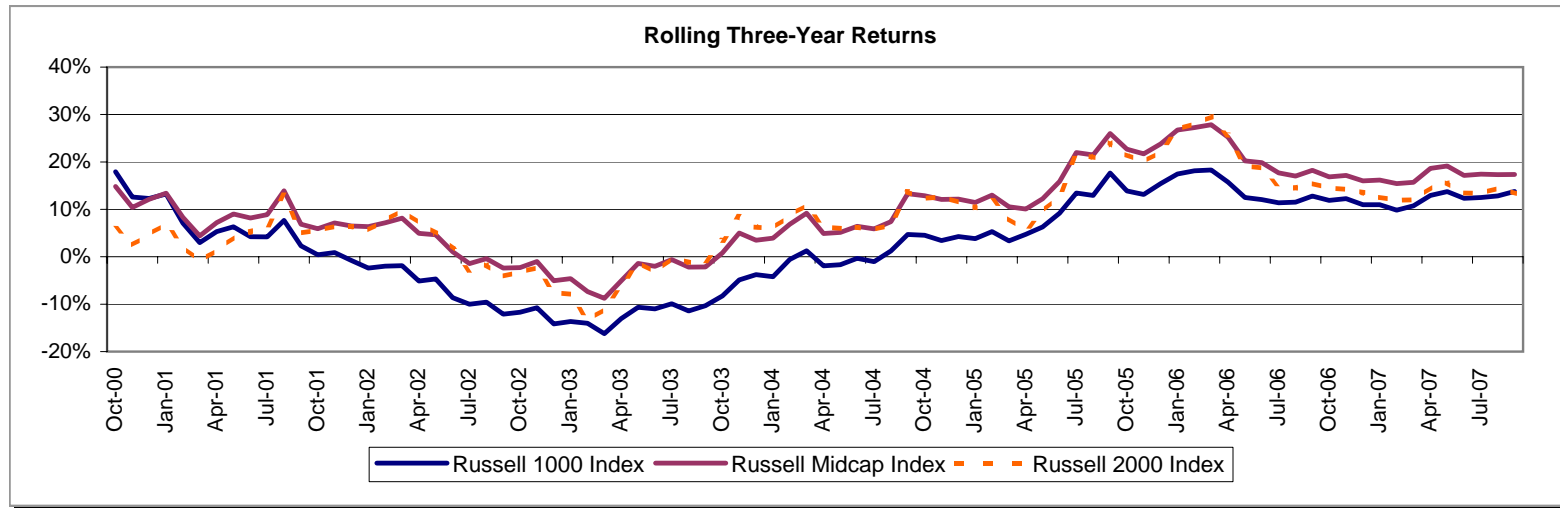
- ◆ The continued runaway returns of so-called emerging markets (1 yr 60%; 3 yrs 180%, 5 yrs 417%, 11% in September alone!), are apparently producing little queasiness among the market players. These semi-liquid outposts of unbridled growth will, of course, run amok at some point, presumably when the typical too-much-money-chasing-too-little-worthwhile-product scenario produces valuations that are as insane as the last bubble's were.
- ◆ The Fed's recent interest rate action has kicked away the dollar's last remaining props, producing a renewed tailwind for dollar-based investors in foreign-market securities. In case you haven't kept track, it now takes more than \$1.40 to buy one Euro, but when Euro currency debuted on New Years Day 2001, we bought it for only 88 US cents...that's a less-than-7-year dollar decline of roughly 60%. Meanwhile, a barrel of oil continues to be globally priced in US dollars, which explains most of the change in what US news outlets are conditioned to call The Price at the Pump. (Oil's intrinsic price is actually not going up much now, if at all.)



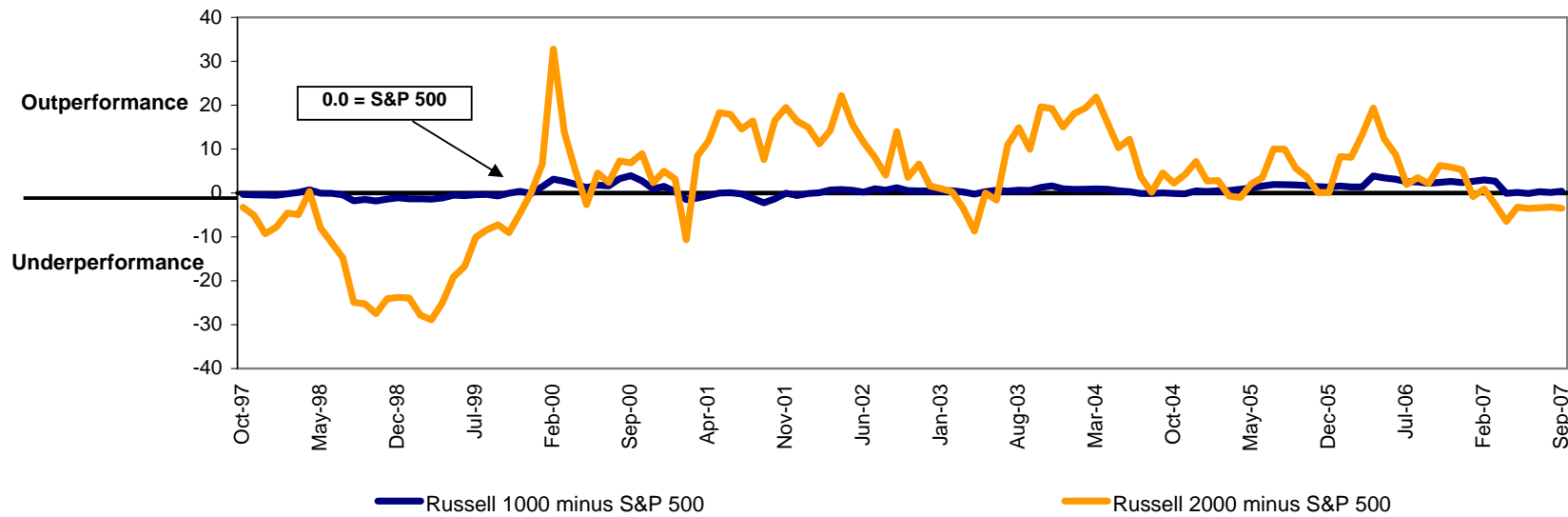


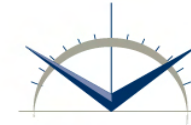
Growth vs. Value Style Stocks' Performance
(rolling twelve months compound total returns) - Using the S&P 500 Index as a Baseline



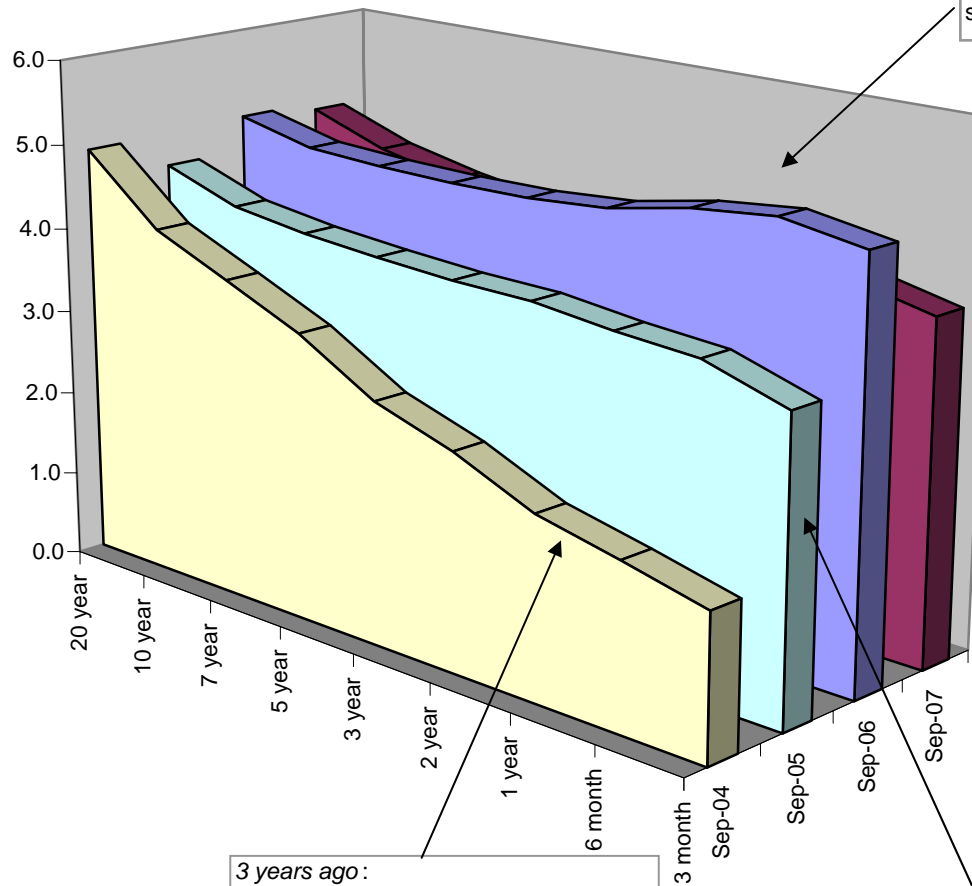


Large Cap vs. Small Cap Stocks' Performance
 (rolling twelve months compound total returns) - Using the S&P 500 Index as a Baseline





**U.S. Government Bond Yields
At Selected Quarter End Dates**



Now:
Not very visible here, but market is trending back to more normal upward sloping curve

3 years ago:
Fed is tightening short term (T-bill) yields. Market-determined, longer term rates are also rising (falling bond prices), except at the longest maturities.

2 years ago:
Flat yield curve, indicating possible economic crossroads due to elevation of short term rates (by the Fed) and absence of similar change in long-dated bond yields.