

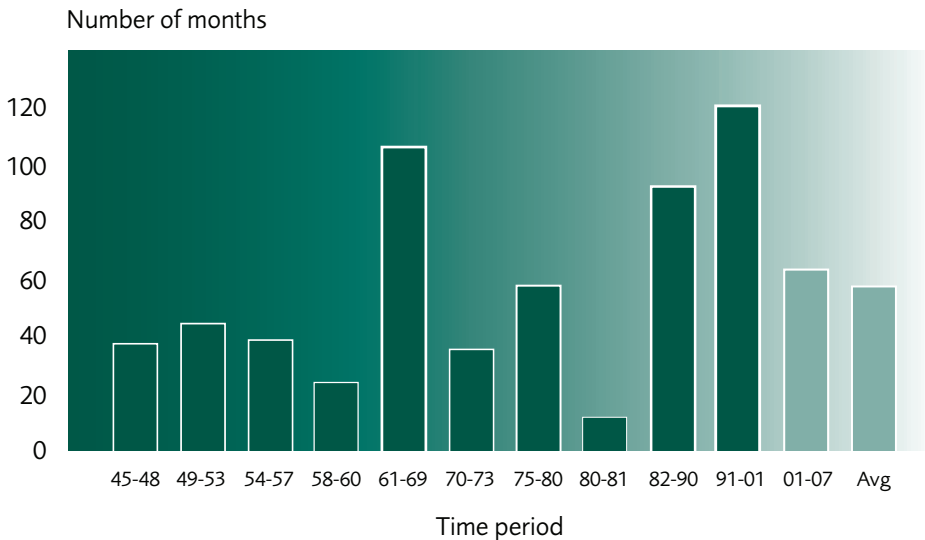


POSITIVE FUNDAMENTAL TRENDS,
SLOWING GROWTH

During the first quarter the equity markets went through several significant corrective swings including one intraday swing of over 400 points, or 3%. This short term volatility represented the largest one-day point decline since the terrorist attacks on September 11th 2001. This sharp increase in volatility, especially following a fairly benign six month period of stable market expansion, created an environment of investor nervousness and skepticism. While a correction such as this can be difficult on the nerves, it can also be beneficial in consolidating past price gains and reintroducing a healthy degree of caution into the general market psychology.

As we usher in spring 2007, the financial markets are being impacted by an increasing number of crosscurrents. The current economic recovery, now in its sixth year has already exceeded the average duration of the post World War II recoveries. The conflict in the Middle East continues to drain governmental resources. Economic momentum is slowing and Washington is becoming increasingly

US Business Cycle Expansions



focused on partisan politics as next year's election season approaches. While fundamental trends remain positive, the rate of growth is continuing to slow and corporate profits, which are expected to be positive in the current quarter, are only projected to show single digit gains on a year-over-year basis for the first time in over three years.

The broad economic recovery is continuing but after more than five years of consistent economic gains, the question becomes when will the next recession begin and what will be the trigger for the weakness? Although the recently publicized weakness in the housing and sub-prime mortgage market have helped to raise investor nervousness, this sector is relatively small and self contained and the major components of overall economic growth are continuing to show positive momentum.

The broad economic growth trends, as measured by the Gross Domestic Product (“GDP”), are supported by three major sectors, Consumer Spending, Corporate Investment Spending and Government Spending. Real GDP growth in 2007 is currently expected to be in the area of 2.7% following full-year growth of 3.3% in 2006. During the course of the year, Real Consumer Spending should slow to annual growth in the area of 2.8% as continuing weakness in the housing market and higher energy costs are somewhat offset by high employment levels and growing real wage rates. Real Government Spending should increase at a rate of 2.4% for 2007 as the continuing conflict in Iraq and increasing domestic spending brought on by pre-election positioning continues to frustrate budget tightening initiatives aimed at reducing our federal budget deficit position. Once again in 2007, Real Business Investment Spending should continue to show the strongest relative growth as strong balance sheets and increasing cash flow levels spur corporate spending on capacity expansion and modernization both domestically and overseas. Relatively high balance sheet liquidity levels should also contribute to a continuing trend toward mergers and acquisitions.

EQUITY MARKET

Our current outlook for the equity market in 2007 continues to be fairly positive. Earnings growth, as measured by the S&P 500, should be in the area of 8% for the full year to \$92.00 with positive growth focused on those quality companies that have shown the ability to produce relatively stable and visible earnings gains throughout the economic cycle. The current dividend yield on the S&P 500, although still relatively modest at 1.8%, has been showing average annual growth of 9% over the past four years. Based on low relative dividend payout levels, strong corporate liquidity, and sustained earnings growth, dividends should show continuing gains near the 9% level through 2008. Corporate earnings are slowing from the initial cyclical recovery of the past four years, price/earnings multiple levels at 15 times forecasted earnings remain fairly conservative in relation to historical averages expansion could very well cushion any interim earnings slowdown as we move through the year.

Highs & Lows

Highest price paid for a seat on the NYSE?

\$2,650,000

on August 23, 1999

Lowest price paid for a seat on the NYSE?

\$4,000 in 1876 and 1878

What was the highest volume day on the NYSE?

January 4, 2001, when 2,129,445,637 shares traded.

What was the lowest volume day on the NYSE?

March 16, 1830, when only 31 shares traded.

When did stock share trading volume for the NYSE first go over 1 million?

1886

Firsts

What was the first listed company on the New York Stock Exchange?

Bank of New York, which was the first corporate stock traded under the Buttonwood Tree in 1792, and the first listed company on the NYSE.

What were the first publicly traded securities in the U.S.?

\$80 million in U.S.

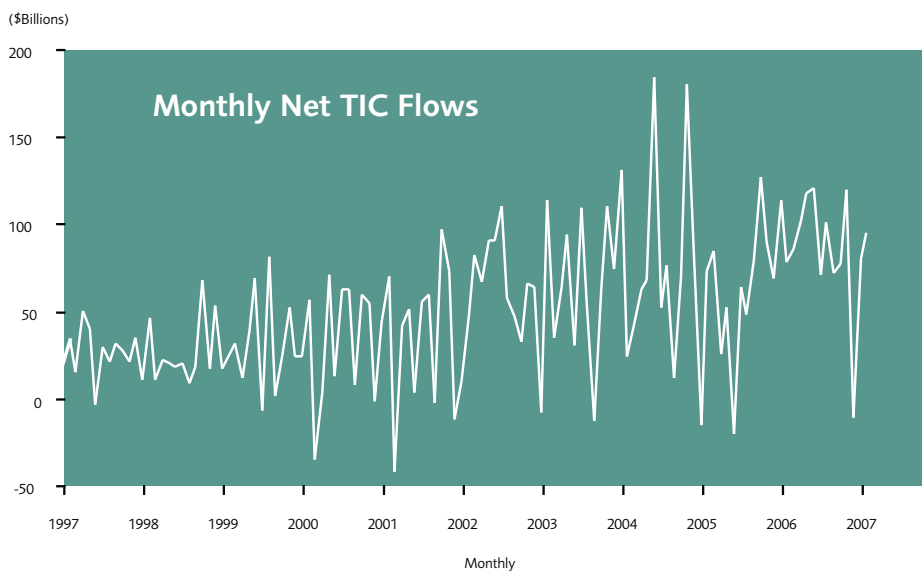
Government bonds that were issued in 1790 to refinance Revolutionary War debt.

LESS DRAMATIC RESPONSE IN THE BOND MARKET

Federal Reserve Chairman Ben Bernanke and the FOMC meeting minutes consistently repeat the same theme; the Fed will move in whatever direction they need to at and the present time, the bias is toward inflation concerns.

Regardless, every time the Fed speaks, the media does not listen very well adding their own “spin” to the tale. If the Fed is concerned about inflation, the next move is more likely to be an increase in overnight lending rates. If inflation concerns do not worsen, the bond market could move sideways for the rest of 2007 with no dramatic changes. At this point in time, we are looking for the Fed to make a move in 2008. Unfortunately, the bond market does not trade on current economic and global conditions, but on the perception of events to come, including everything from possible ramifications

from a slowing housing market to geopolitical events in Iran. This is why we have seen the 10-year Treasury trading between 4.44% and 4.92% in the first quarter of this year. As things settle down in the markets, we expect the 10-year to be trading in a near-term range of 4.80% to 5.00%. The economy continues to move forward at a moderate pace; however, the fixed income markets continue to be jarred by headline news. Sub prime mortgage lending is casting a shadow on the future pace of the economy, but the bond market is becoming less concerned, realizing that the number of sub prime loans in danger of default is less than 2% of outstanding mortgage securities.



Tax time brings a slow down in the municipal market supply. In complete defiance of the supply issue, the municipal yield curve had steepened significantly. The 10-year general obligation bond is now offered at 3.87%, 16 basis points cheaper than a month ago. The 2-year is 5 basis points



cheaper at 3.57%. This provides a tidy pick up of 30 basis points to move out the yield curve. Because the municipal curve is more of a “pure” market representation, we expect the Treasury market to start elevating to a more positive yield curve. There should be a more significant slope to the yield curve as we move through the third and fourth quarters, if the economy and politics cooperate!

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