

## MARKET COMMENTS

The stock market took investors on a roller coaster ride in the first quarter with new highs being reached in February followed by a correction that continued until the end of March. Many analysts now interpret a sell-off in Asia as the catalyst for the correction, but not the underlying cause. The overseas plunge reminded investors of pitfalls in the domestic markets, such as the slowing housing market with its risk to the sub-prime mortgage sectors, higher energy prices, and continuing geo-political risks.

Few stock market analysts' predictions came true as blue chip stocks lagged behind small stocks despite accurate forecasts of a slowing economy by leading economists. Prospects of a cut in short-term rates by the Federal Reserve dimmed, the opposite of what many expected. No one predicted the exact timing of the beginning of the correction, but most were aware of the steady climb the stock market had enjoyed since last summer. The Dow Jones Industrial Average was the only major stock index to decline for the quarter -0.9% to close at 12,354.36.

Expectations for the coming quarter are modest as investors battle fears about the sub-prime lending market and the continued downturn in housing. Other concerns include slowing corporate earnings, higher energy prices, and the uncertainty over the Fed's next move. Economic readings of employment and wages have remained surprisingly strong supporting consumer spending, but the annual rate of inflation has remained above the level generally regarded as the Fed's comfort level. Investors and traders alike have been reassessing their hopes for a rate cut, which would lower borrowing costs throughout the economy, encourage investment and consumption, and boost corporate profits. In late December, futures traders in Chicago indicated that a rate cut by July was a near certainty; now traders place the chance of a Fed cut by July at less than 50%.

The average diversified domestic stock fund advanced 2.1% for the quarter according to Lipper Analytical. Growth stock funds outperformed Value funds with Mid-cap funds being the top performer. The average domestic bond fund increased 1.7%, slightly better than money market funds. Top sector funds were utility, natural resources, and Latin America.

We began 2007 expecting another excellent year for our domestic stock market with expected annual gains of between 10-20% and the NASDAQ being the top performing domestic stock index. Corrections of up to 10% can occur at anytime, so we adjusted our asset allocation appropriately. We are not reducing our annual gain predictions at this time, nor are we changing our interest rate forecast for two rate cuts by the Federal Reserve by year-end. Stock allocations are near our maximum with bond allocations near our minimum. The maximum risk to the markets is sharply higher long term interest rates, not a severe decline in the stock market.

# ECONOMIC STATISTICS

INDICIES		INDUSTRY		CONSUMER	
Leading Indicators		Construction Spending		Retail Sales	
Sept	0.4	Sept	-0.8	Sept	-0.8
Oct	0.1	Oct	-0.3	Oct	-0.1
Nov	0.0	Nov	0.1	Nov	0.6
Dec	0.6	Dec	0.6	Dec	1.2
Jan	-0.3	Jan	-0.5	Jan	0.0
Feb	-0.5	Feb	0.3	Feb	0.1
Producer Prices		Factory Orders		Housing Starts	
Sept	-1.3	Sept	1.7	Sept	3.4
Oct	-1.6	Oct	-4.5	Oct	-14.6
Nov	2.0	Nov	1.2	Nov	-3.0
Dec	0.9	Dec	2.6	Dec	5.5
Jan	-0.6	Jan	-5.7	Jan	-2.8
Feb	1.3	Feb	1.0	Feb	-2.5
Consumer Prices		Industrial Production		Personal Income	
Sept	-0.3	Sept	-0.6	Sept	0.5
Oct	-0.5	Oct	0.0	Oct	0.3
Nov	0.0	Nov	-0.1	Nov	0.3
Dec	0.4	Dec	0.5	Dec	0.5
Jan	0.2	Jan	-0.3	Jan	1.0
Feb	0.4	Feb	1.0	Feb	0.6
Unemployment		Merchandise Trade		Durable Goods	
Sept	4.6	Sept	-64.3	Sept	7.8
Oct	4.4	Oct	-58.8	Oct	-8.2
Nov	4.5	Nov	-58.1	Nov	2.2
Dec	4.5	Dec	-61.5	Dec	2.8
Jan	4.6	Jan	-59.1	Jan	-9.3
Feb	4.5	Feb	N/A	Feb	2.5

## KEY INTEREST RATES

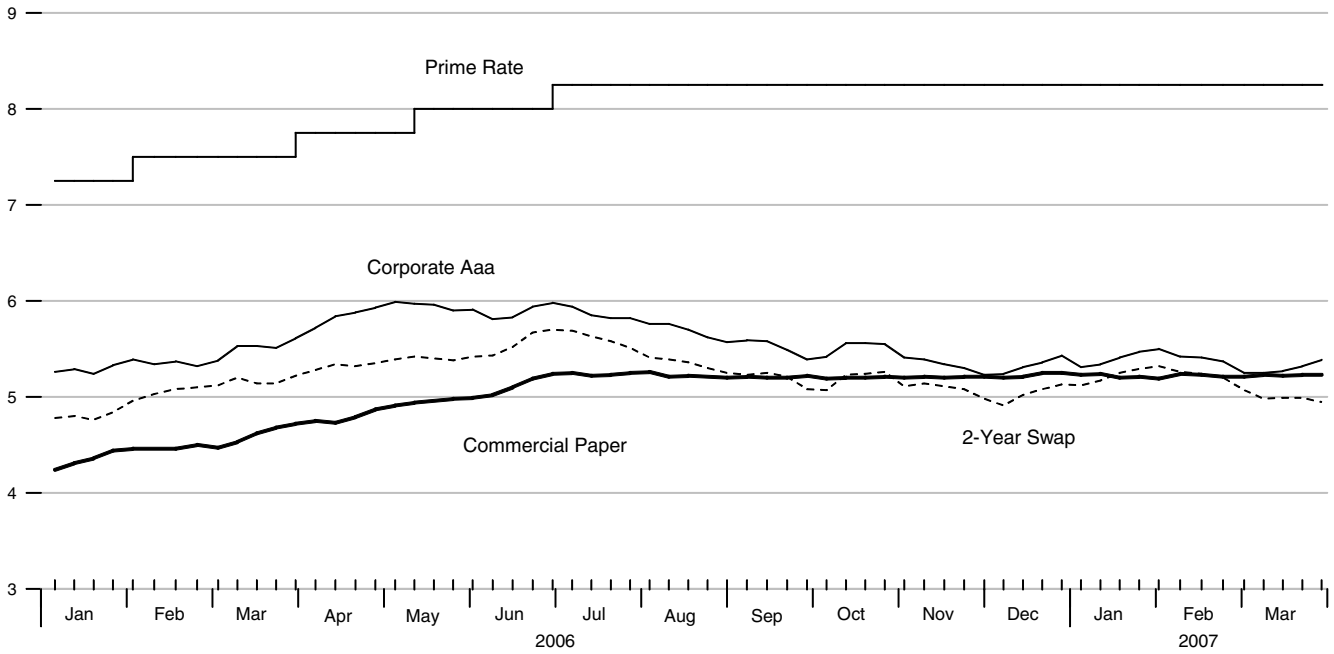
*March 31, 2007*

Week Ending	T-Bill 90 Day	CP 90 Day	CD 90 Day	FF Over	Euro \$	TB 1 yr	TN 3yr	TN 10 yr	TB 20 yr
12/29/06	4.87	5.24	5.32	5.24	5.36	4.99	4.70	4.67	4.88
1/5/07	5.05	5.22	5.32	5.22	5.35	4.98	4.68	4.66	4.84
1/12	5.09	5.20	5.32	5.23	5.35	5.03	4.74	4.70	4.88
1/19	5.12	5.18	5.32	5.24	5.35	5.08	4.81	4.77	4.96
1/26	5.13	5.17	5.32	5.25	5.35	5.10	4.87	4.83	5.01
2/2	5.13	5.17	5.32	5.27	5.35	5.10	4.89	4.86	5.04
2/9	5.15	5.16	5.32	5.25	5.36	5.07	4.80	4.77	4.96
2/16	5.17	5.17	5.31	5.26	5.36	5.07	4.78	4.75	4.95
2/23	5.19	5.18	5.32	5.25	5.35	5.05	4.73	4.70	4.91
3/2	5.15	5.19	5.30	5.28	5.34	4.96	4.55	4.55	4.78
3/9	5.11	5.17	5.29	5.25	5.34	4.92	4.51	4.53	4.76
3/16	5.07	5.20	5.30	5.25	5.34	4.93	4.50	4.54	4.78
3/23	5.06	5.21	5.30	5.26	5.33	4.93	4.51	4.58	4.82
3/30	<u>5.06</u>	<u>5.21</u>	<u>5.31</u>	<u>5.26</u>	<u>5.34</u>	<u>4.90</u>	<u>4.51</u>	<u>4.63</u>	<u>4.89</u>
<b>Net Change</b>	<b>+0.19</b>	<b>-0.03</b>	<b>-0.01</b>	<b>+0.02</b>	<b>-0.02</b>	<b>-0.09</b>	<b>-0.19</b>	<b>-0.04</b>	<b>+0.01</b>

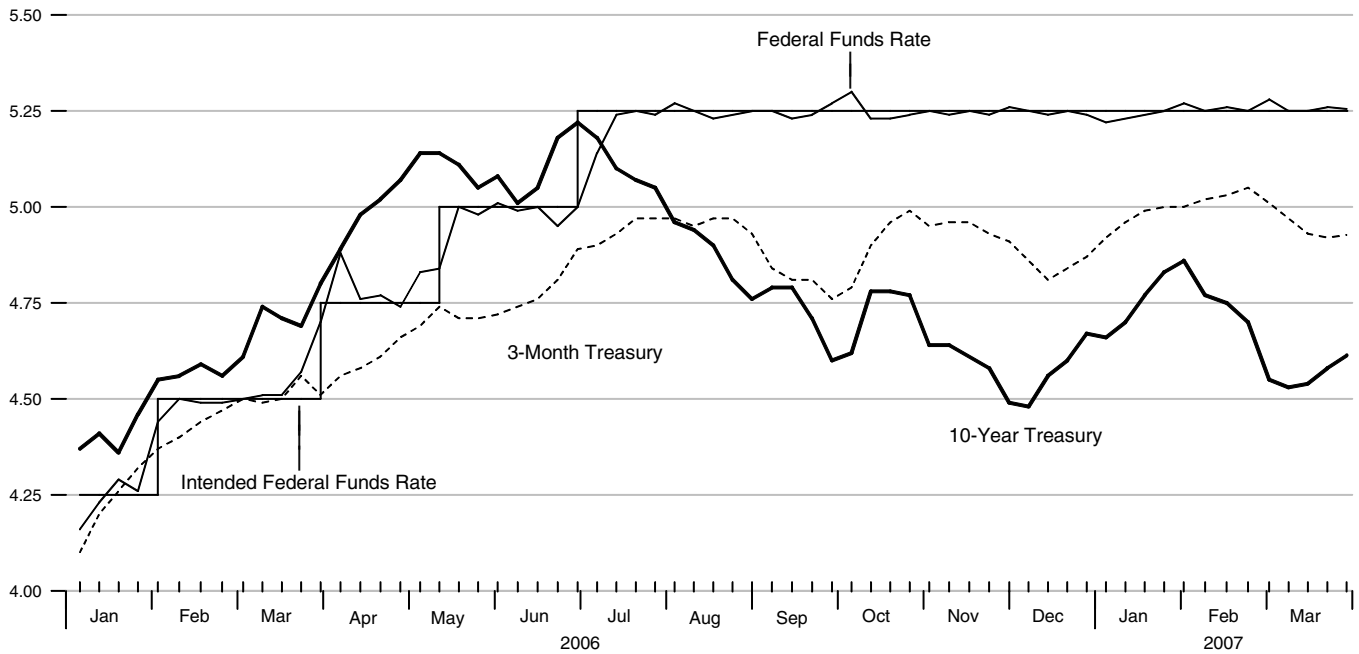
### Yields on Selected Securities

Averages of Daily Figures

Percent



Percent



**Interest Rates**

Percent

		30-Day Comm. Paper	90-Day CDs	2-Year Interest Rate Swap	Corporate Aaa Bonds	Corporate Baa Bonds	Municipal Bonds	Federal Funds	3-Month Treasury Bill	2-Year Treasury Securities	5-Year Treasury Securities	10-Year Treasury Securities	30-Year Treasury Securities
Jan	5	5.23	5.32	5.12	5.31	6.27	4.15	5.22	4.92	4.76	4.65	4.66	4.76
	12	5.24	5.32	5.17	5.34	6.29	4.21	5.23	4.96	4.82	4.70	4.70	4.79
	19	5.20	5.32	5.25	5.41	6.35	4.25	5.24	4.99	4.90	4.76	4.77	4.86
	26	5.21	5.32	5.29	5.47	6.39	4.32	5.25	5.00	4.95	4.82	4.83	4.92
Feb	2	5.19	5.32	5.32	5.50	6.42	4.31	5.27	5.00	4.96	4.85	4.86	4.95
	9	5.24	5.32	5.26	5.42	6.32	4.21	5.25	5.02	4.90	4.76	4.77	4.86
	16	5.23	5.31	5.24	5.41	6.30	4.17	5.26	5.03	4.88	4.74	4.75	4.84
	23	5.21	5.32	5.20	5.37	6.24	4.19	5.25	5.05	4.83	4.69	4.70	4.80
Mar	2	5.21	5.30	5.07	5.25	6.15	4.10	5.28	5.01	4.64	4.51	4.55	4.67
	9	5.23	5.29	4.98	5.25	6.19	4.08	5.25	4.97	4.57	4.48	4.53	4.66
	16	5.22	5.30	4.99	5.27	6.23	4.13	5.25	4.93	4.57	4.46	4.54	4.69
	23	5.23	5.30	4.99	5.32	6.31	4.20	5.26	4.92	4.58	4.48	4.58	4.74
	30 *	5.23	5.30	4.95	5.39	6.38	.	5.26	4.93	4.56	4.49	4.61	4.81

\*Averages of rates available

**Money Stock and Components**

Billions of dollars, seasonally adjusted

		M2	MZM	Currency	Small Time	Savings	Retail Money	Institutional Money
Feb	5	7092.5	7232.0	748.8	1176.1	3704.5	821.6	1315.6
	12	7098.0	7254.7	749.1	1178.2	3733.7	824.7	1334.9
	19	7109.8	7273.1	749.6	1179.8	3752.0	827.0	1343.1
	26	7143.8	7315.6	751.3	1181.1	3784.7	830.5	1352.9
Mar	5	7130.4	7303.3	751.2	1181.4	3734.8	832.0	1354.3
	12	7155.3	7334.9	750.7	1183.0	3752.0	847.5	1362.6
	19	7164.4	7348.9	750.8	1184.8	3779.2	845.4	1369.3

**Reserves and Base**

Billions of dollars, seasonally adjusted

		Adjusted Monetary Base	Adjusted Reserves
Jan	3	839.733	95.271
	17	846.726	96.740
	31	852.285	96.971
Feb	14	843.201	89.754
	28	851.325	93.330
Mar	14	847.311	91.836
	28	850.727	.

**Bank Loans and Credit**

Billions of dollars, seasonally adjusted

		Bank Credit	Loans and Leases	C&I Loans (All)	C&I Loans (Large)	Comm. Paper (nsa)	Total Borrowings
Feb	14	8371.9	6146.2	1197.0	573.1	156.0	0.038
	21	8377.1	6153.2	1200.8	576.3	160.6	0.026
	28	8413.3	6167.0	1211.4	581.7	158.0	0.033
Mar	7	8436.8	6173.9	1207.4	579.4	161.3	0.032
	14	8327.2	6071.8	1204.3	577.7	160.6	0.053
	21	.	.	.	.	163.7	0.040
	28	.	.	.	.	162.5	0.080

**Exchange Rates**

		Major Exchange Rate Index	Broad Exchange Rate Index	Exchange Rate: Euro/\$	Exchange Rate: Yen/\$
Feb	16	82.0	107.2	0.765	120.5
	23	81.8	107.0	0.761	120.9
Mar	2	81.4	107.0	0.758	118.4
	9	81.8	107.2	0.762	116.9
	16	81.4	106.9	0.756	117.0
	23	80.9	106.4	0.751	117.7
	30 *	80.8	106.2	0.750	117.5

\*Averages of rates available