

MARKET COMMENTS

With strong gains in April and May, the Dow Jones Industrial Average had its best quarterly performance since 2003 advancing 8.5% even after a 2% decline in June. Other indexes followed similar patterns with the Standard & Poor's 500 Index advancing 5.8% and the NASDAQ Composite Index up 7.5% also with June declines. In fact, the S&P 500 broke through to its all time high in May surpassing its previous high in March 2000. The NASDAQ Composite Index, however, is still almost 50% below its March 2000 all time high.

The "Goldilocks" scenario in which the economy—is not too hot or too cold—is still very much alive, but cracks are showing. Interest rate forecasters no longer see a Federal Reserve rate cut anytime soon and higher food and energy costs have begun to worry Ben Bernake and the Federal Reserve. The yield of the 10-year Treasury note at 4.63% in early May surged to over 5% by the end of the quarter, reflecting those inflation fears. Corporate profits have continued to advance, but at a slower pace. Geopolitical risks have increased with the recent terrorist attacks in England.

As reported in the Wall Street Journal, the mid-year forecast for the economy by 60 leading economists is mostly upbeat with consumer spending holding up, a weaker dollar expanding U.S. exports, and a pickup in production and investment. They expect real Gross Domestic Product (GDP) to grow at an annualized rate of 2.6% in the second half of the year and 2.9% in 2008. That is down from 3.3% in 2006, but much better than the 0.7% pace in the first quarter of 2007. In their consensus forecast, they expect a moderate rate of job growth with the unemployment rate rising from today's 4.5% to 4.7% in November and remaining at that level for 2008. Forecasters expect overall U.S. consumer prices to be up 3.1% including food and energy in December from a year earlier, marking the fifth straight year this measure has exceeded the Fed's target.

Second quarter gains for mutual fund investors were across the board with stocks of large companies performing relatively well amid the slower economy. Funds focused on small and midsize stocks also delivered respectable gains with fixed income funds delivering negative returns. In general, funds focused on mid-cap growth stocks were the best performers. Emerging market funds are the best international performers year-to-date. The average U.S. diversified stock fund returned a solid 6.4% for the quarter, even with a "June Swoon". Money Market funds provided the only positive returns for fixed income investors.

We began 2007 expecting another excellent year for our domestic stock market with annual gains of between 10-20%. The strong second quarter has not made us change our forecast, although further upside surprises can occur. The corrective phase that began in May will end this summer, but declines of 5-10% can occur at anytime. We still expect the Federal Reserve to cut interest rates by year-end. Stock allocations are near our maximum and bond allocations near our minimum. As we approach the fourth quarter of the year, the normal four year election cycle will begin to affect both stocks and bonds.

ECONOMIC STATISTICS

INDICIES		INDUSTRY		CONSUMER	
Leading Indicators		Construction Spending		Retail Sales	
Mar	0.6	Mar	0.6	Mar	1.0
Apr	-0.3	Apr	0.2	Apr	-0.1
May	0.2	May	1.1	May	1.5
June	-0.3	June	0.1	June	-0.7
July	0.7	July	-0.5	July	0.5
Aug	-0.6	Aug	0.2	Aug	0.3
Producer Prices		Factory Orders		Housing Starts	
Mar	1.0	Mar	4.1	Mar	0.3
Apr	0.7	Apr	0.5	Apr	-0.4
May	0.9	May	-0.5	May	-3.0
June	-0.2	June	1.0	June	1.9
July	0.6	July	3.4	July	-6.9
Aug	-1.4	Aug	-3.3	Aug	-2.6
Consumer Prices		Industrial Production		Personal Income	
Mar	0.6	Mar	-0.3	Mar	0.8
Apr	0.4	Apr	0.4	Apr	-0.2
May	0.7	May	-0.1	May	0.4
June	0.2	June	0.5	June	0.4
July	0.1	July	0.5	July	0.5
Aug	-0.1	Aug	0.2	Aug	0.3
Unemployment		Merchandise Trade		Durable Goods	
Mar	4.4	Mar	-62.4	Mar	5.0
Apr	4.5	Apr	-58.7	Apr	1.1
May	4.5	May	-59.2	May	-2.8
June	4.5	June	-59.4	June	1.9
July	4.6	July	-59.2	July	6.1
Aug	4.6	Aug	N/A	Aug	-4.9

KEY INTEREST RATES

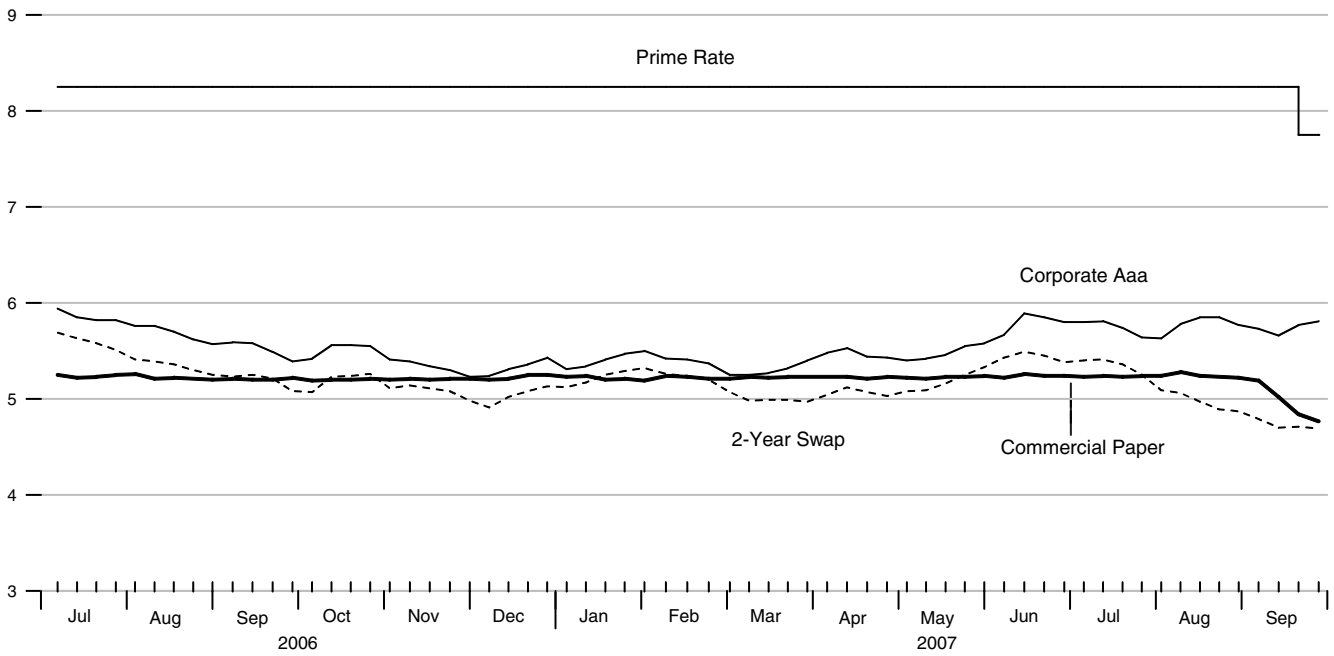
September 30, 2007

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
6/29	4.80	5.25	5.33	5.25	5.35	4.94	4.93	5.09	5.28
7/6	4.95	5.21	5.33	5.28	5.36	4.99	4.95	5.10	5.27
7/13	4.96	5.21	5.32	5.23	5.34	5.00	4.94	5.10	5.27
7/20	4.97	5.22	5.32	5.27	5.36	4.99	4.87	5.03	5.19
7/27	4.96	5.23	5.32	5.26	5.34	4.91	4.68	4.88	5.09
8/3	4.91	5.21	5.33	5.27	5.35	4.83	4.53	4.77	5.00
8/10	4.83	5.22	5.43	5.25	5.43	4.78	4.53	4.79	5.06
8/17	4.23	5.23	5.52	4.79	5.54	4.44	4.32	4.70	5.05
8/24	3.70	5.24	5.49	4.91	5.54	4.16	4.21	4.62	5.00
8/31	4.17	5.24	5.59	5.11	5.65	4.30	4.18	4.55	4.90
9/7	4.30	5.21	5.73	5.03	5.85	4.27	4.06	4.48	4.82
9/14	4.04	5.00	5.67	4.98	5.78	4.15	4.01	4.42	4.73
9/21	3.92	4.86	5.30	5.12	5.30	4.11	4.11	4.57	4.87
9/28	<u>3.78</u>	<u>4.76</u>	<u>5.20</u>	<u>4.78</u>	<u>5.26</u>	<u>4.05</u>	<u>4.07</u>	<u>4.61</u>	<u>4.92</u>
Net Change	-1.02	-0.49	-0.13	-0.47	-0.09	-0.89	-0.86	-0.48	-0.36

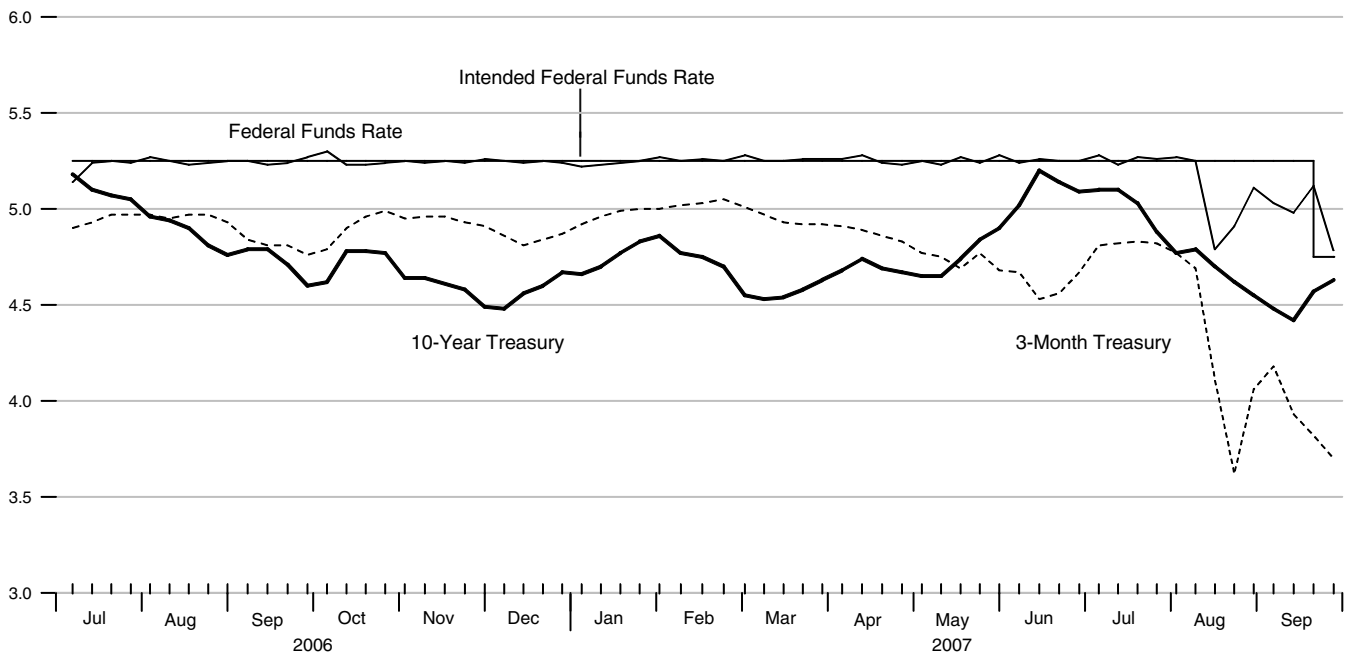
Yields on Selected Securities

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
Jul	6	5.23	5.33	5.40	5.80	6.69	4.61	5.28	4.81	4.93	5.00	5.10	5.19
	13	5.24	5.32	5.41	5.81	6.69	4.60	5.23	4.82	4.92	5.00	5.10	5.20
	20	5.23	5.32	5.36	5.74	6.62	4.55	5.27	4.83	4.86	4.93	5.03	5.12
	27	5.24	5.32	5.25	5.64	6.61	4.47	5.26	4.82	4.69	4.74	4.88	5.01
Aug	3	5.24	5.33	5.09	5.63	6.62	4.51	5.27	4.77	4.55	4.60	4.77	4.91
	10	5.28	5.43	5.06	5.78	6.66	4.59	5.25	4.69	4.52	4.60	4.79	4.97
	17	5.24	5.52	4.97	5.85	6.70	4.59	4.79	4.11	4.28	4.42	4.70	4.98
	24	5.23	5.49	4.89	5.85	6.68	4.81	4.91	3.62	4.16	4.34	4.62	4.94
	31	5.22	5.59	4.87	5.77	6.60	4.70	5.11	4.06	4.16	4.28	4.55	4.85
Sep	7	5.19	5.73	4.79	5.73	6.55	4.57	5.03	4.18	4.04	4.16	4.48	4.78
	14	5.02	5.67	4.70	5.66	6.54	4.46	4.98	3.93	3.98	4.12	4.42	4.69
	21	4.84	5.30	4.71	5.77	6.65	4.51	5.12	3.82	4.05	4.25	4.57	4.83
	28 *	4.77	5.18	4.69	5.81	6.65	.	4.78	3.70	4.01	4.28	4.63	4.89

*Averages of rates available

Money Stock and Components

Billions of dollars, seasonally adjusted

		M2	MZM	Currency	Small Time	Savings	Retail Money	Institutional Money
Aug	6	7282.4	7638.4	759.3	1177.3	3838.1	892.0	1533.3
	13	7288.9	7672.3	758.3	1176.9	3855.2	901.1	1560.3
	20	7334.2	7746.7	758.3	1178.4	3894.2	910.2	1590.9
	27	7399.6	7841.4	758.5	1180.8	3912.5	939.6	1622.6
Sep	3	7365.0	7817.0	758.7	1183.8	3819.8	939.4	1635.8
	10	7351.4	7831.7	759.0	1185.0	3854.0	935.7	1665.3
	17	7370.3	7867.9	759.1	1189.4	3883.8	937.6	1687.0

Reserves and Base

Billions of dollars, seasonally adjusted

		Adjusted Monetary Base	Adjusted Reserves
Jul	4	849.611	94.125
	18	854.921	93.148
Aug	1	856.023	93.582
	15	860.988	99.137
	29	854.857	92.859
Sep	12	850.762	93.409
	26	858.932	.

Bank Loans and Credit

Billions of dollars, seasonally adjusted

		Bank Credit	Loans and Leases	C&I Loans (All)	C&I Loans (Large)	Comm. Paper (sa)	Total Borrowings
Aug	15	8755.7	6432.9	1303.7	663.3	200.6	0.271
	22	8814.6	6459.3	1320.3	669.9	204.3	1.541
	29	8842.4	6485.6	1324.9	674.0	197.9	1.577
Sep	5	8913.3	6543.9	1338.1	683.6	183.8	1.341
	12	8924.7	6528.4	1350.2	698.0	186.1	3.158
	19	.	.	.	.	185.1	2.421
	26	.	.	.	.	185.7	0.306

Exchange Rates

		Major Exchange Rate Index	Broad Exchange Rate Index	Exchange Rate: Euro/\$	Exchange Rate: Yen/\$
Aug	17	78.0	103.9	0.740	116.3
	24	77.6	103.6	0.739	115.2
	31	77.3	103.3	0.733	115.6
Sep	7	77.1	103.1	0.731	115.1
	14	76.2	102.3	0.722	114.5
	21	75.6	101.6	0.716	115.3
	28 *	74.8	100.8	0.709	115.0

*Averages of rates available

DAILY MARKET AVERAGES WITH NEWS ANNOUNCEMENTS

