

July 3, 2007

<i>INVESTMENT STRATEGY OVERVIEW</i>
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The stock market rallied during the second quarter as investors became more confident that growth would improve. Ample liquidity in the market would enable hedge funds and private equity firms to continue to take companies private.

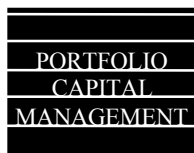
	<u>Value</u>	<u>June</u>	<u>3 Months</u>	<u>2007 YTD</u>
DJIA	13408.62	-1.6%	8.5%	7.6%
S&P 500	1503.35	-1.8%	5.8%	6.0%
NASDAQ Comp.	2603.23	0.0%	7.5%	7.8%
Value Line 1700	494.85	-1.4%	4.9%	8.1%
Russell 2000	833.70	-1.6%	4.1%	5.8%

Although the market faltered slightly in June, the quarter and the twelve month returns were impressive following the lack luster first quarter. The market staged a strong rally in the face of rising interest rates, higher oil prices, and the growing concern in the sub prime mortgage market. Likewise, economic reports provided a mixture of renewed optimism only to be followed up with weak reports causing doubt and concern among investors.

Economic growth in the second quarter is forecast to rise between 3.0 to 3.5%; well above first quarter pace of 0.7%, the slowest quarterly pace in four years. The domestic economy and stock market have benefited from the boom in China and other emerging markets. Corporate profits from foreign operations surged 20% in the first quarter as reported by Merrill Lynch. The strong international operations are helping overall corporate profits for S&P 500 companies to remain near double digit.

The residential real estate market remains the major trouble spot in our economy. Sales of new homes continue to fall. In May new home sales fell a modest 1.6%, however, this is 34% below the peak level in 2005. Also, existing home sales show a similar pattern. May sales hit a four year low and remain 18% below 2005. The pace of the decline is clearly approaching a bottom, however, the growing problem of foreclosures and additional problems in sub prime lending may cause the turn in housing to take longer. The Center for Responsible Lending estimates 2.2 million borrowers who got subprime loans since 1998 either have lost or will lose their homes through foreclosures over the next several years. If their prediction is correct, this means one in every five borrowers in the subprime market will default. This rate of default is unmatched in the history of the modern mortgage market.

We believe the combination of problems in subprime lending and high oil prices will impact consumer spending later this year. We have begun to see problems for investors in the subprime mortgage market with the recent news concerning Bear Stearns. They recently had to inject \$3.5 Billion into a money losing hedge funds to bail it out. Many experts believe this is just the beginning of further problems to emerge in this sector of the market. Fortunately, our clients have not participated in this risky sector of the high yield market. Unfortunately, the same can not be said of large corporate pension funds, major endowments, and a host of foreign investors.



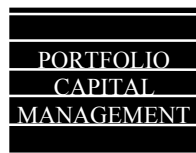
Stock Market Outlook/Strategy

The market returns in the second quarter were positive, as the S&P 500 rose 5.8% and the Russell 2000, a small capitalization index, rose 4.1%. The market has performed very nicely over the last twelve months. We believe the market will need a period of consolidation to absorb the recent advance. Economic growth remains positive and investors have reacted by demanding higher interest rates. Furthermore, high oil prices, weak consumer confidence, a sluggish real estate market, and problems with subprime mortgages will likely weigh on the market.

We continue to believe valuation levels for large companies are the most compelling when compared to other sectors of the market. The S&P 500 index is selling at 16.7 price/earnings ratio (P/E) on future earnings. In contrast the Russell 2000 is selling at 28.7 P/E on future earnings. In addition, larger companies have more exposure to foreign earnings and we continue to expect these companies to do better in the last half of the year.

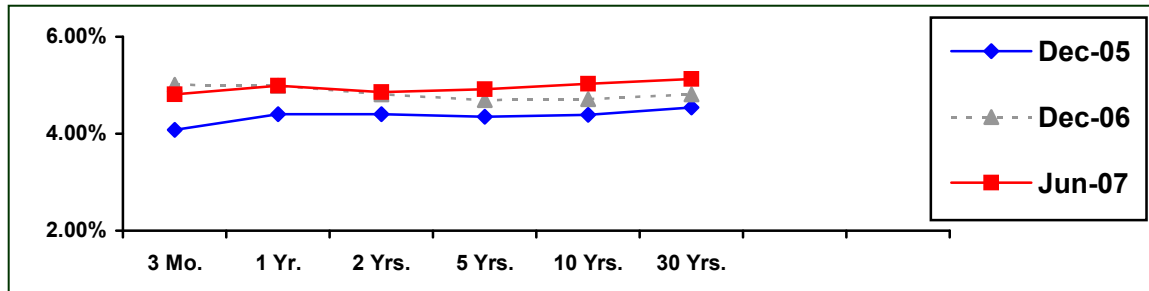
During the second quarter we made several changes to the portfolios. The stocks that were sold from the portfolios were Quest Diagnostics (DGX), Newell Rubbermaid (NWL) and Northrop Grumman (NOC). We added new positions in Boeing (BA), BHP Billiton (BHP), and Deere (DE). We also added to existing positions in Thermo Fisher Scientific (TMO). Our purchases were concentrated in economic sectors we view constructively such as aircraft production, farm and industrial equipment. We are holding modest cash levels that will enable us to take advantage of attractive new opportunities that present themselves in the coming months.

We have been pleased with our relative performance in the second quarter. Our returns were very competitive with S&P 500. Those accounts with large low cost basis in selective financial services and electric utility stocks have lagged the returns of the index due to their interest rate sensitivity. Our investment style has served our clients well over the long term and our investment returns since the peak in the market in 2000 have been very good. We have preserved our client's assets in the bear market and continue to increase client's assets in a prudent and consistent manner. We remain committed to our investment style of large-cap core investing in growing companies.



Fixed Income Outlook

The Federal Reserve has maintained the Federal Funds rate at 5.25% for the past fourteen months. The recent FED statement once again stated “the economy seems likely to continue to expand at a moderate pace over the coming quarters.” In regard to inflation they are slightly more hawkish, as they have stated the risk of inflation is still on the upside and sustained moderation of inflation is in question.



	<u>12/31/05</u>	<u>12/31/06</u>	<u>06/30/07</u>	<u>2007 Change</u>
3 Mos.	4.08%	5.01%	4.81%	-0.20%
1 Yr.	4.40%	4.99%	4.99%	+0.00%
2 Yrs.	4.40%	4.81%	4.86%	+0.05%
5 Yrs.	4.35%	4.69%	4.92%	+0.23%
10 Yrs.	4.39%	4.71%	5.03%	+0.32%
30 Yrs.	4.54%	4.81 %	5.13%	+0.32%

The yield curve shown above has become moderately more positively sloped. As investors became more confident with renewed economic growth, longer term interest rates began to move higher. During the month of June the 10-year Treasury rose to 5.30% before falling at the end of the month. The late rally was based on speculation that the FED would need to lower rates to help avert a larger problem in the subprime mortgage market.

The current structure of the yield curve along with our interest rate outlook continues to make the two to five year maturity range as the most attractive. However, the rise in rates of longer maturities has made them more attractive at this time.

