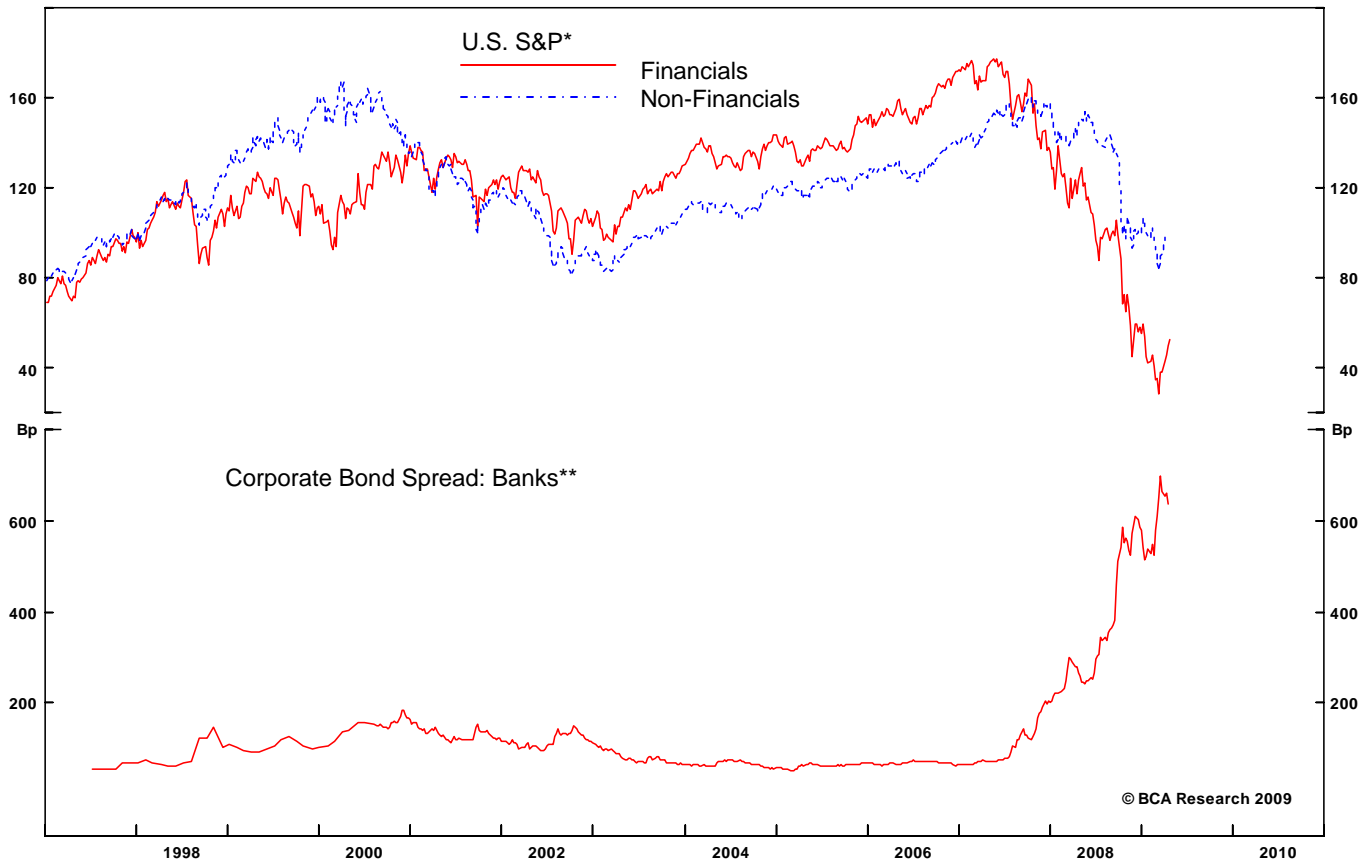


Economic & Market Commentary

After the significant January and February sell off in the global stock markets due, in part, to the fear that several large financial institutions would need to be nationalized, investor psychology has shifted from panic to relative optimism.



* Shown rebased to Jan. 1998 = 100.

**Option-adjusted spread. Source: Barclay's Capital

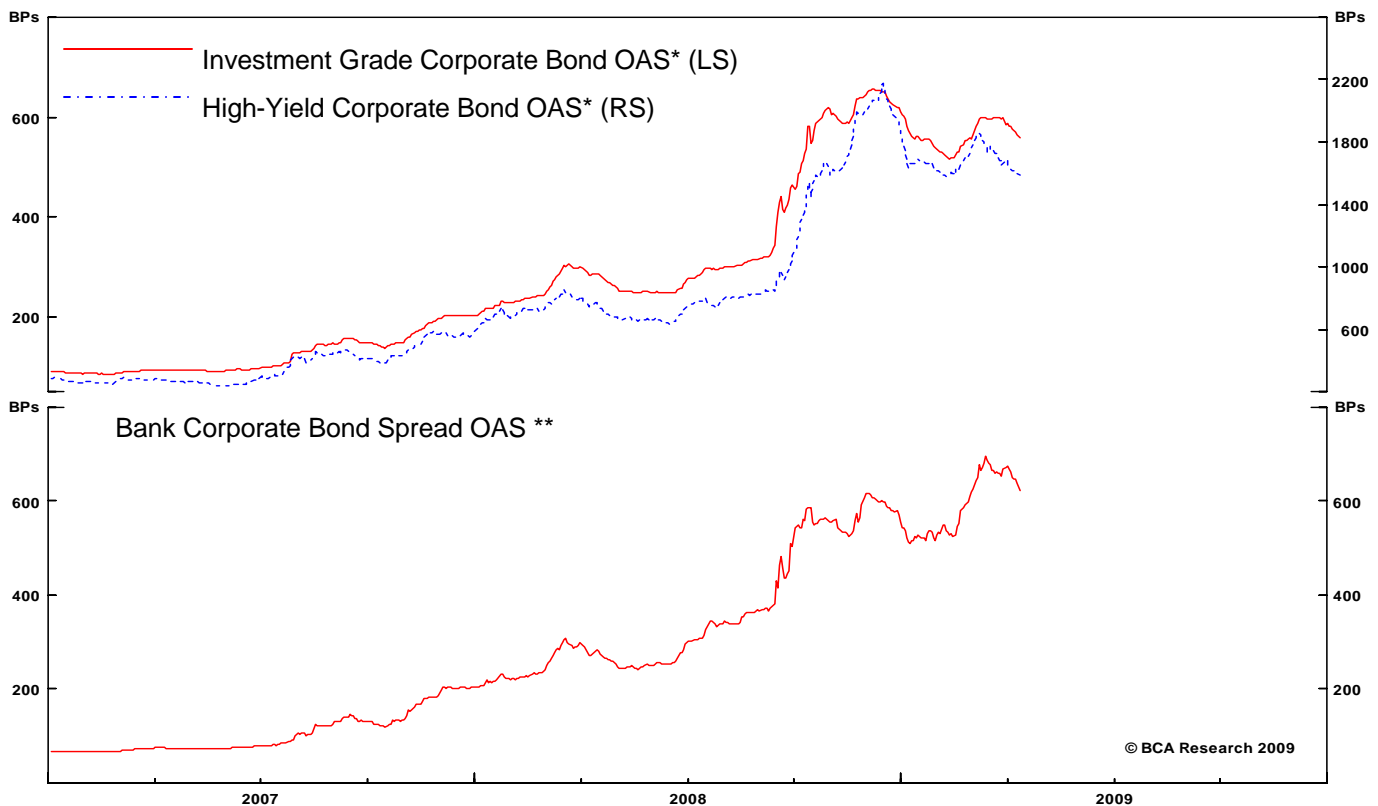
While we believe the US economy suffered another large contraction in the first quarter, there have been a few indications that the rate of decline has begun to slow modestly. After consumers severely cut their expenditures in the 4th quarter of 2008, retail sales increased approximately 0.5% on a quarter over quarter basis in the first three months of this year.

New and existing home sales increased 4.7% and 5.1%, respectively, in February versus January, driven by the continuing fall in home prices and lower mortgage rates. Unfortunately, there is still a well above average twelve month supply of new homes and a nine month supply of existing homes. Despite much improved home affordability, buyers will need greater confidence about their employment prospects and a stabilization in prices before inventories are reduced to a more normal six month level.

We continue to believe the large decline in household net worth due to falling home and stock values, as well as the increase in unemployment and weak income growth, will negatively affect consumer psychology and spending during the year.

The Federal Reserve after being behind the policy curve has gotten much more aggressive in the last few months. They have set the Federal Funds target rate at effectively zero and announced their intention to purchase \$300 billion of intermediate-term fixed income securities in an effort to lower interest rates, particularly mortgage rates. Lower mortgage rates should help stimulate housing demand, as well as allow current homeowners to refinance and reduce their monthly payments.

The Federal government continues to announce new programs to help stabilize the financial system. On March 23rd, Treasury Secretary Timothy Geithner finally unveiled the Public-Private Partnership Investment Program (PPIP) to help banks sell some of the toxic assets on their balance sheets. There are significant incentives for the private sector to participate in the PPIP, but we remain skeptical that banks will be able to sell these assets at prices that would be attractive to purchasers and not cause further significant write-downs for the banks. Unfortunately, the banks have a lot of troubled assets and not much equity capital to support them. Nevertheless, the stock market rallied sharply the day the PPIP was announced and has moved generally higher since then.



* Source: Merrill Lynch

** Source: Barclay's Capital

Note: OAS = Option Adjusted Spread

Concerns about credit issues over the last six months caused a “flight to quality”, which drove U.S Treasury and government agency bonds up in price (lowering the yield) and the interest rate differential (spread) compared to other bond issuers to widen significantly. There are indications that some of the government programs such as the Term Asset-Backed Securities Loan Facility (TALF) are having a salutary effect on the credit market spreads.

We believe the tremendous monetary and fiscal stimulus that is being injected not only in the U.S. economy, but around the world, will have a positive impact on economic activity as the year progresses. Some observers are worried that this will cause inflation to accelerate sharply. While we are concerned about the future impact of the large budget deficits on the value of the dollar, we think the bigger near-term risk to the US economy continues to be deflation. The excess capacity globally in manufacturing and employment should limit a sustained rise in prices until the economic recovery fully develops.

As we are preparing this report, companies have begun to report their first quarter earnings, which we expect will show large year over year declines. We are paying particularly close attention to what company managements say about the current and prospective state of their orders, inventories, capital spending plans and employment needs. As with our outlook for the U.S. economy, we expect the decline in corporate profits to slow as the year progresses. However, we continue to believe the consensus forecast for corporate profits is too optimistic. Specifically, the forecast for 2009 Standard & Poor’s 500 operating earnings is now \$62, down from \$93 last November. We still believe 2009 S&P 500 earnings will end up somewhere between \$25 and \$50, based on a return on equity of between 5%-10%. If our more pessimistic expectations for 2009 earnings prove accurate, we think the S& P 500 index (\$852 as of April 9) is at the upper end of the 600-900 range we have assumed for the year. As a result, we continue to manage our client portfolios defensively. We have above average cash positions and, if approved by clients, an investment in various equity hedges. In addition to owning stocks that did not decline as much as the broad equity market in January and February, the hedges also cushioned the stock market decline. We sold a number of the inverse exchange traded funds (ETFs) in late February and early March as the stock market was spiraling downward and so the hedged client portfolios partially participated in the March stock market advance. As the risk/reward for the market seemed less favorable in late March, we began building the hedge positions again.

We continue to favor companies that have a leadership position in their respective industry, strong balance sheets, high returns on invested capital and free cash flow. If the companies pay a dividend, we have focused on those that are able to maintain or increase their dividends even in a difficult economic environment. It is important to point out that the companies we have purchased and own for clients have not cut their dividends and the yields are attractive compared to those available from many fixed income alternatives.