FIRST Trust ADVISORS L.P.

Quarterly Market Overview

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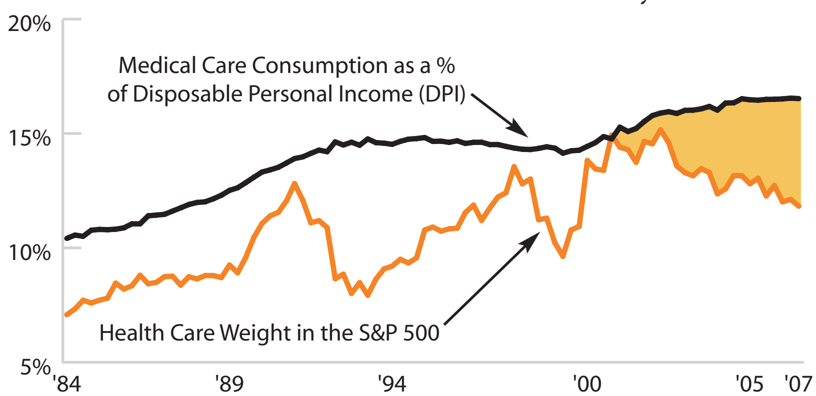
Mr. Carey has appeared as a guest on such programs as Bloomberg TV and CNBC and has been quoted by several publications, including *The Wall Street Journal, The Wall Street Reporter, Bloomberg News Service, and Registered Rep*.

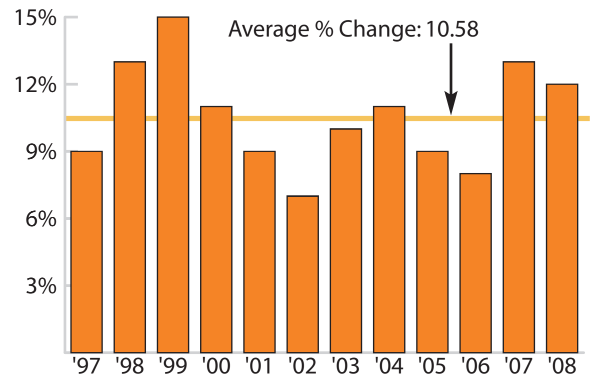
If we could just get beyond the political rhetoric

Health Care's Role In the Economy



Source: Bureau of Economic Analysis & FactSet

S&P Health Care Index (Earnings)



Source: Thomson First Call. Earnings for '07 & '08 are estimates.

Who is going to pay?

The debate over whether the U.S. government should adopt and run a universal health care system or maintain the status quo of managed care is best left to the politicians. Voters need to understand at a base level that shifting all of the burden to government does not a free health care system make. It will still need to be funded by huge tax dollars. The government already oversees Medicare and Medicaid and it is going to have its hands full with those two down the road. In 2006, outlays for the two programs combined totaled $589.2 billion. Today, Medicare covers some 42.9 million seniors. By 2030, that number is expected to soar to 78.3 million, according to Plunkett Research.

Health spending in the U.S. approached 16% of GDP in 2006. It is expected to inch higher to around 18.7% by 2014. In recent years, as its influence on the economy has risen, its influence within the S&P 500 has lessened (see chart above). In our opinion, that is a function of a decline in the amount of significant new drugs brought to market. We believe that aspect will change in 2008-2009, with biotechnology leading the way.

In closing this topic, we offer the following quote from Other People's Money, a movie about a corporate raider's take on navigating the legal system: *"They can pass all the laws they want. All they can do is change the rules. They can never stop the game."* The game in health care isn't who picks up the check – it's product.

New products are the key

With respect to the performance of health care stocks, the dominant theme over the last 7-8 years has been cost-cutting (see chart on page 2). In other words, managed care companies garnered the lion's share of the attention and profits. We believe that it will be product innovation that leads health care higher over the next 2-3 years. We look for the biotech sector to be the primary driver of growth with pharmaceutical companies participating via licensing agreements.

A report released by Ernst & Young in April said that 52% of biotech CEOs plan to partner to bring new products to market, up from 29% of products that are currently marketed with the help of partners. Even more telling, 68% of CEOs polled indicated plans to introduce new products within two years. Partnerships between biotech and pharmaceutical companies usually entails the pharma company providing much needed capital to the biotech firm for R&D in exchange for a share of the revenues and the responsibility of marketing and selling the new drug once it receives FDA approval.

The biotech industry has never turned a profit. Had it not been for $4 billion in charges related to deal/merger activity, the U.S. publicly-traded biotech sector would have posted its first aggregate net profit in its 30-year history in 2006, according to Ernst & Young.

Continued

Cost containment has trumped innovation this decade

How the various health care industries have fared (cumulative returns) in this decade (12/31/99-9/28/07):

S&P Managed Health Care Index	393.0%
AMEX Biotech Index	109.9%
S&P Health Care Equipment Index	105.0%
S&P Health Care Facilities Index	18.9%
S&P Pharmaceuticals Index	10.5%
S&P 500 Index	**18.0%**

Source: Bloomberg

How health care has fared (cumulative returns) against the other major sectors in this decade (12/31/99-9/28/07):

S&P Energy Index	219.1%
S&P Materials Index	96.5%
S&P Utility Index	88.2%
S&P Financials Index	71.2%
S&P Consumer Staples Index	65.0%
S&P Industrials Index	56.1%
S&P Health Care Index	40.8%
S&P Consumer Discretionary Index	4.5%
S&P Telecom. Services Index	-30.7%
S&P Information Technology Index	-47.3%

Source: Bloomberg

Health Care Tidbits

- **Priced to Move:** The average price-to-earnings ratio (trailing 12-month earnings) for the companies in the S&P Health Care Index is currently 24. Over the past decade, that ratio has been 30.2, according to *Money*.
- **Biotechs:** Global revenues of publicly traded biotechnology companies surpassed $70 billion for the first time in 2006, according to Ernst & Young. The industry is on pace to reach $100 billion by the end of the decade. Capital raised by biotech companies grew by 42% to $27.9 billion.
- **Pharmaceuticals:** Worldwide pharmaceutical sales will grow 5%-6% in 2007, down slightly from the expected 6%-7% sales growth in 2006, according to IMS Health. Sales should range from $665 billion to $685 billion. Biotech and generic drug sales are expected to grow by 13%-14%. Pharmaceutical companies derived 20% of total sales from licensing deals in 2003, and that ratio is expected to rise to 40% by 2009, according to *BusinessWeek*.
- **Medical Devices:** The global market for minimally invasive surgery devices was estimated to be $12.9 billion in 2006, according to Piribo.org. It expects sales to grow 7.5% a year through 2011. The U.S. has about a 60% share of the market.

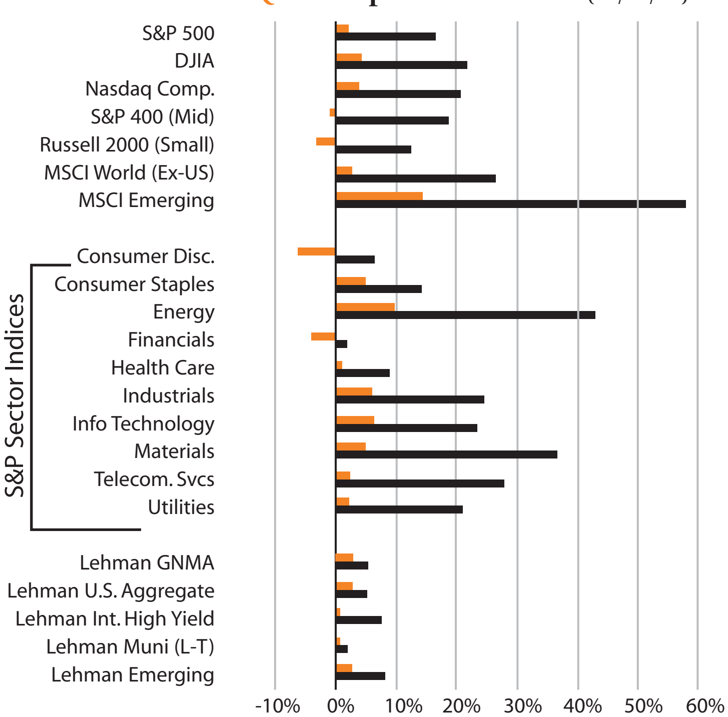
In other news, growth stocks are finally getting some traction...

Index	3/99-9/07	12/06-9/07
S&P 500/Citigroup Growth (LCG)	6.22%	10.59%
S&P 500/Citigroup Value (LCV)	70.72%	7.80%
S&P 400/Citigroup Growth (MCG)	125.20%	14.49%
S&P 400/Citigroup Value (MCV)	215.26%	7.62%
Russell 2000 Growth (SCG)	76.20%	9.35%
Russell 2000 Value (SCV)	168.91%	-2.68%

Source: Bloomberg

It almost seems too good to be true, but growth stocks have finally come to life. As the returns in the chart show, growth stocks significantly lagged their value counterparts over the past 8+ years. Historically, LCV stocks return an average of 3 percentage points more than LCG in a given year, according to data from Russell. The last eight years its been closer to 8. At Citigroup's annual small- and mid-cap conference held in March, 45% of managers polled said the Russell 2000 will end 2007 essentially flat. Wonder if they were value investors?

Total returns for *Q3* and past *12 months* (09/28/07)



A Look Ahead:
The outlook for earnings (year-over-year)...

	Q4'07E	Q1'08E	2008E
Financials	**1.8**%	**0.8**%	10.4%
Technology	**17.6%**	**15.3%**	**21.6%**
Health Care	16.2%	7.3%	11.6%
Consumer Staples	**10.0%**	**10.8%**	**10.8%**
Consumer Discretionary	19.0%	20.5%	20.6%
Industrials	**11.2%**	**13.3%**	**14.2%**
Telecommunications Services	12.4%	15.0%	13.0%
Energy	**13.4%**	**19.8%**	**5.6%**
Utilities	7.3%	7.5%	9.5%
Materials	**-0.2%**	**7.6%**	**10.8%**
S&P 500 Index	**6.6%**	**12.0%**	**6.5%**
S&P 400 Index (Mid-Cap)	**9.0%**	**6.3%**	**16.1%**
S&P 600 Index (Small-Cap)	**14.6%**	**13.2%**	**20.0%**

Source: Thomson First Call/Baseline (9/28/07)