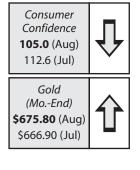


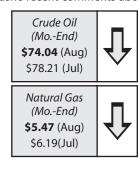
# TALKING POINTS

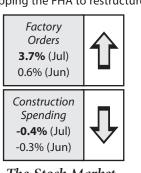
A Recap of August 2007

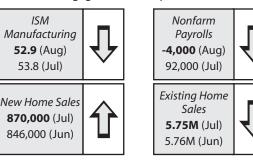
## The Economy

GDP growth in the second quarter was revised up from 3.4% to 4.0%. Despite the strong number, futures markets are pricing in a high probability of multiple rate cuts. The next Federal Open Market Committee meeting will take place on September 18. The small drop in nonfarm payrolls in August may bolster Wall Street's argument that the weakness in the housing market and the fallout from subprime mortgages is a greater threat to growth than the Fed's current take. Financial stocks, which have naturally been hit the hardest, would likely benefit from a rate cut. It is widely understood, however, that any potential rate cuts would provide little or no assistance to those homeowners facing mortgage rate resets in the coming months. President Bush's recent comments about tapping the FHA to restructure distressed mortgages is a better potential fix.





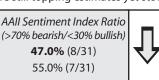




## The Stock Market

The major indices performed as follows (Aug & Y-T-D): S&P 500 (1.50% & 5.20%); DJIA (1.40% & 8.79%); Nasdaq Composite (2.07% & 8.06%); Russell 2000 (2.27% & 1.42%); MSCI Emerging Markets in USD (-2.08% & 20.95%); and MSCI World ex-USA in USD (-1.39% & 8.64%). Some of the top performing S&P 500 industry groups in August were as follows: Construction & Engineering (+10.1%); Retail REITs (+9.3%); Internet Software & Services (+8.8%); General Merchandise Stores (+8.4%); and Fertilizers & Ag Chemicals (+8.2%). The top performing S&P sector was Information Technology (+2.7%), In August, the dividend-payers (389) in the S&P 500 (equal weight) posted a total return of 0.21%, vs. -0.51% for the non-payers (111), according to Standard & Poor's, Year-to-date, the payers gained 3.56%, vs. 4.38% for the non-payers. For the 12-month period ended August 2007, payers gained 13.76%, vs. 14.22% for the non-payers. The number of dividend increases (S&P 500) year-to-date totaled 210, slightly lagging the 214 and 217 increases registered over the same period in 2006 and 2005. The dividend yield on the index was 1.91% at the close of August. It is easy to see why many on Wall Street are hoping for a Fed rate cut. Since 1928, stocks have appreciated an average of 17% in the 12 months following the first rate cut in a cycle, according to Ned Davis Research. The S&P 500 declined 9.46% from its July 19 all-time high of 1553 to 1406 on August 15. Historically, a 10% sell-off in the market is considered a correction, while a 20% or better decline is a bear market. It had been nearly 41/2 years since we have experienced an official correction. What baffles some is that S&P 500 earnings are still topping estimates yet stocks in the index are trading at a forward-looking P-E ratio of around 15.









The yield on the 10-Yr.T-Note fell 21 basis points in August closing at 4.53% – 20 basis points

lower than a year ago. The biggest surprise in August was the deviation in the performance

of municipal bonds relative to Treasury notes and bonds. Despite the decline in rates,

municipals were down about 2.25% for the month, while T-Notes were up about 1.5%.

Hedge funds and other institutions were reportedly responsible for the bulk of the selling

pressure. Now that tax-free rates are approaching 5%, pundits are hoping that retail investors

will take notice and buy. Moody's said it expects the default rate on speculative-grade bonds

in the U.S. to jump from around 1.5% today to 4.0% by July 2008. It expects companies that

are highly leveraged and illiquid to struggle the most as credit becomes harder to secure.

S&P 500 P-E Ratio (Trailing 12-mo. earnings) **17.32** (8/31) 17.55 (7/31)



### The Bond Market

Index (Source: Lehman) Aug Y-T-D 12-Mo. U.S. Treasury: Intermediate 1.49% 4.48% 6.05% GNMA 30 Year 1.16% 2.87% 5.07% Municipal Bond (22+) -2.26% -2.24% 0.36% U.S. Aggregate 1.23% 3.07% 5.26% Intermediate Corporate 0.73% 2.39% 4.67% U.S. Corporate High Yield 1.36% 0.58% 6.28% Global Aggregate 5.82% 1.23% 3.69% Global Emerging Markets 0.77% 0.84% 5.46%

5.25%

4.14%

4.53%

6.31%

4.91%

Key Rates as of August 31st Fed Funds

2-Yr.T-Note

10-Yr. T-Note

30-Yr. Mortgage

**Bond Buyer 40** 

	Key Yield Spread		
	The spread between the Merrill Lynch		
	High Yield Master II Index and the 10-		
	Yr. T-Note was 450 bsp. on 8/31. It was		
	427 bsp. on 7/31 and 374 bsp. on		
	8/31/06. The yield on the index was		
	9.03% as of 8/31/07.		
П			

2007 Debt Issuance through July (Source:Thomson Financial)				
Debt Category	\$ Amount	% change over '06		
Corporate	\$689.1 Billion	+17.6%		
Convertible	\$52.5 Billion	+57.2%		
Asset-Backed	\$669.1 Billion	-0.2%		
Municipal	\$261.3 Billion	+26.8%		

#### The Investment Climate

Net cash inflows to equity funds totaled \$10.7 billion in July, up from \$4.9 billion in June, according to the Investment Company Institute. Bond funds reported inflows totaling \$3.6 billion, down from \$7.6 billion in June. Money funds reported inflows totaling \$71.1 billion, up from \$34.8 billion in June. Y-T-D through July, inflows to equity funds totaled \$99.5 billion, vs. \$91.1 billion for bond funds.