FIRST Trust ADVISORS L.P.

Quarterly Market Overview

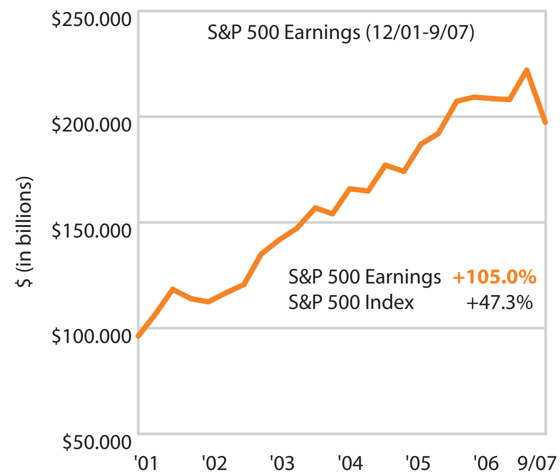
Issue 32, January 2008

Robert F. Carey, CFA
Chief Investment Officer

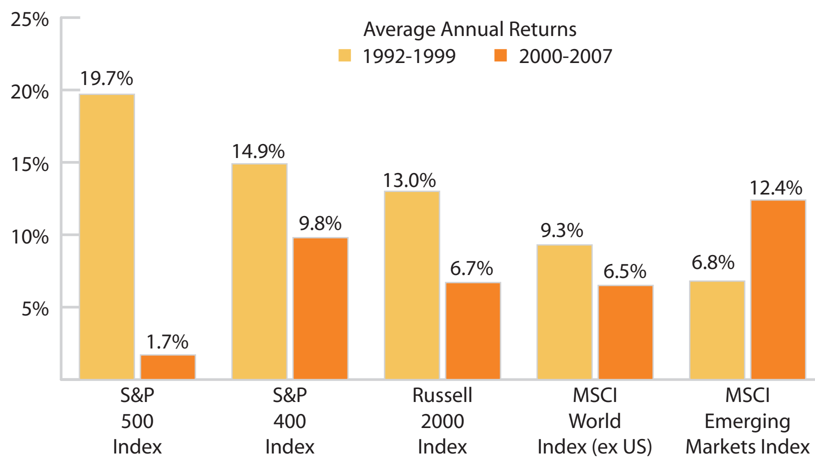
Mr. Carey has 21 years of experience as an Equity and Fixed-Income Analyst and is a recipient of the Chartered Financial Analyst (CFA) designation. He is a graduate of the University of Illinois at Champaign-Urbana with a B.S. in Physics. He is also a member of the CFA Society of Chicago and the CFA Institute.

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*.

Investor sentiment seems to be saying the glass is half empty



Source: Bloomberg



Source: Bloomberg

Something is wrong with this picture

There is a 38% chance the U.S. economy will slide into recession in 2008, according to the latest Blue Chip Economic Indicators survey (Jan. '08). The subprime mortgage meltdown has clearly had a greater impact on earnings and the psyche of investors than first thought. The chart above reflects the 9.4% decline (y-o-y) in the Q3'07 earnings posted by the S&P 500. Earnings, excluding the financial sector, would have been flat, according to S&P. What is wrong with the picture portrayed above is while the S&P 500 earnings more than doubled since the close of '01(end of recession), the S&P 500 returned only 47.3% – less than half.

The overall lack of interest in the large-cap issues that comprise the S&P 500 may have something to do with the returns referenced in chart #2. In our opinion, the 19.7% average annual total return posted by the S&P 500 for the 8-year period ended 12/99 was so extraordinary that the 1.7% average annual return generated over the first 8 years of this decade makes sense. When combined ('92-'07), the average annual total return was 10.3%, right in line with the historical norm for large-caps.

The 1.7% average return for this decade is on pace to be the worst since the 1930s. This is one reason why we believe the S&P 500 is not in need of a correction. The index would have to gain 54% between now and the end of the decade just to match the 5.4% average gain posted in the 1970s, according to *BusinessWeek*.

Income still trumps growth in the U.S.

When the bear market began in early 2000, investors had some attractive alternatives to common stocks. Historically, when the potential for growth dissipates investors will shift a larger portion of their capital to income-oriented vehicles, such as REITs. In addition to the steady stream of income, investors can bolster their return by capturing capital appreciation when interest rates decline. This is precisely what transpired from 3/00-6/04.

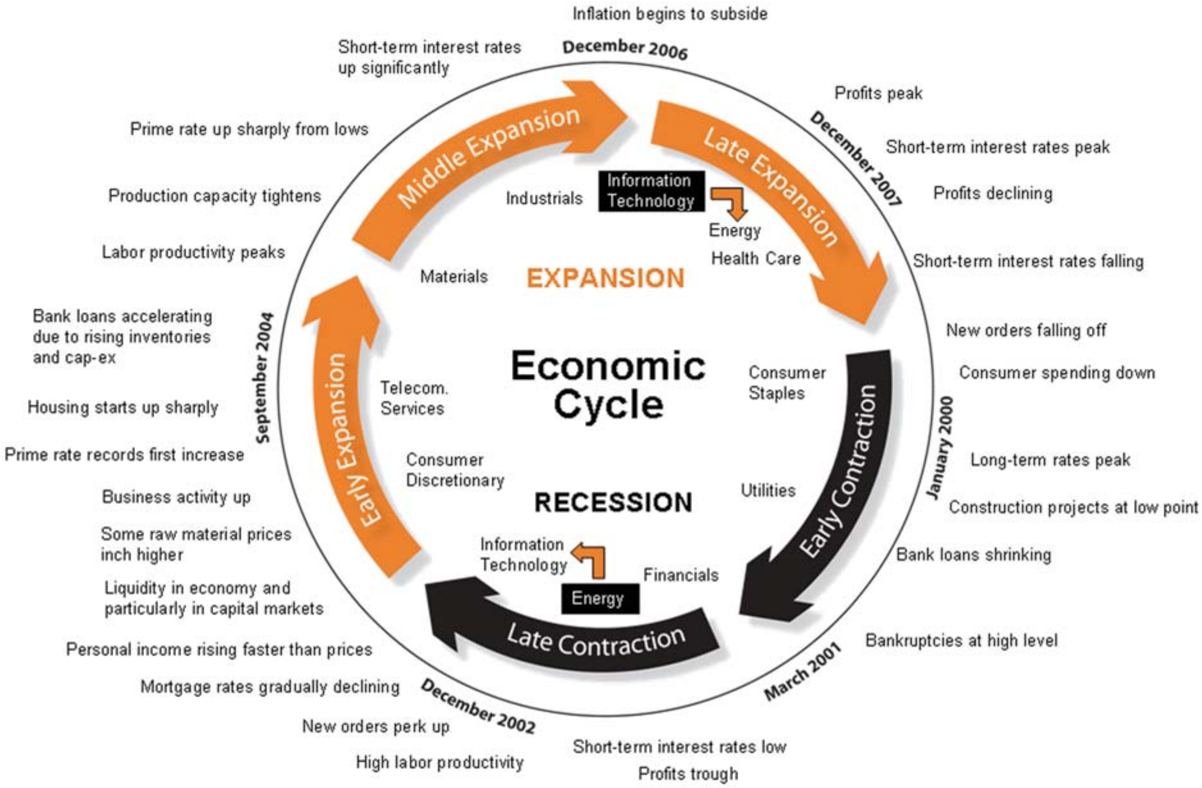
Since the yield curve has remained flat to slightly inverted since 6/04, investors have yet to embrace U.S. equities anywhere close to the way they did in the late 1990s. In fact, even with all of the turbulence in the debt markets from the subprime fallout in July and August of '07, Investment Company Institute data shows that net bond fund inflows (taxable + tax-free) outpaced equity fund flows in the first 11 months of 2007 ($108.5 billion vs. $92.3 billion). Equity funds held a 3-to-1 advantage in 2006. The vast majority of equity fund flows have been funneled into international/global portfolios over the past two years where economic and earnings growth have consistently topped the U.S.

The slope of the yield curve today is telling the Fed that it is too tight. T-bill rates are one percentage point below the Fed funds target rate of 4.25%. While we have never subscribed to the notion that there is a shortage of liquidity, we believe the Fed will cut rates further at the end of January.

Continued

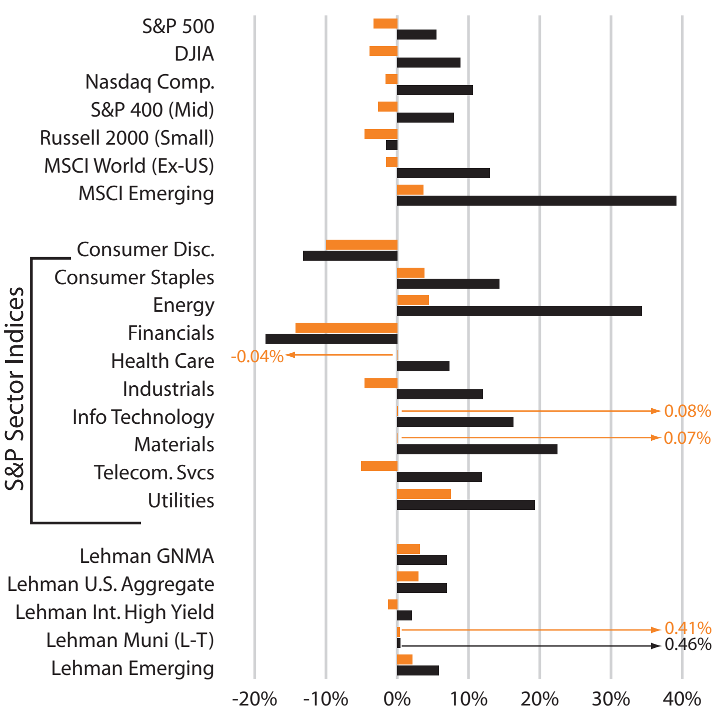
% index is below its 10-yr. high (1/15/08)

S&P Semiconductors	-73.4%
Nasdaq 100	-59.7%
S&P Telecomm	-54.3%
S&P Computers/Per.	-45.6%
S&P Systems Software	-41.5%
S&P Banks	-39.8%
S&P Citi Growth	-30.8%
S&P Pharmaceutical	-30.0%
S&P Consumer Disc.	-26.0%
S&P 100 (Mega-Cap)	-22.3%
S&P Biotechnology	-15.1%



We introduced the economic cycle model above in our January 2007 edition. While subject to outside influences, such as legislative changes or geopolitical events, it does tend to be relatively accurate over time. You will notice that we have switched the positioning of the information technology sector with the energy sector. Both of their respective cycles were disrupted by external influences. First, the information technology sector experienced explosive growth in the late 1990s due to the buildout of the Internet and Y2K event. Demand for tech products was so strong it would take years before a new cycle would begin. That cycle did begin in ernest in 2006. We see the greatest demand for tech products and services coming from overseas, particularly from the emerging markets. As of today, the global growth story remains intact. As you can see above, technology stocks are still trading well below their respective highs set in early 2000. Second, the energy sector got jumpstarted early as a result of the war in Iraq. The conflict in the Middle East has helped send oil prices to record levels, even on an inflation-adjusted basis. Energy stocks represented just 6% of the S&P 500 when the war began, but carry a weighting of approximately 13% today. We expect the cycle above to continue on its normal path despite the well-documented concerns over the weakness in housing and losses associated with subprime mortgages. Though it may be hard to believe, we still favor industrials, technology, and health care heading into 2008. Consumer staples warrants an overweight position if the U.S. slides into a recession.

Total returns for *Q4* and past *12 months* (12/31/07)



A Look Ahead:

The outlook for earnings (year-over-year)...

	Q1'08E	Q2'08E	2008E
Financials	**-13.2**%	**-13.3**%	20.6%
Technology	**15.5%**	**21.9%**	**22.4%**
Health Care	5.9%	12.7%	10.7%
Consumer Staples	**9.3%**	**9.9%**	**11.2%**
Consumer Discretionary	4.7%	8.2%	19.2%
Industrials	**12.2%**	**12.0%**	**12.8%**
Telecommunications Services	11.6%	8.1%	12.1%
Energy	**25.4%**	**7.7%**	**11.5%**
Utilities	5.6%	4.7%	8.2%
Materials	**6.0%**	**13.6%**	**10.7%**
S&P 500 Index	**6.8%**	**6.4%**	**7.2%**
S&P 400 Index (Mid-Cap)	**8.8%**	**8.7%**	**14.2%**
S&P 600 Index (Small-Cap)	**8.3%**	**7.0%**	**18.0%**

Source: Thomson First Call/Baseline (12/31/07)