TALKING POINTS

A Recap of December 2007

The Economy

The Blue Chip Economic Indicators newsletter lowered its consensus forecast for real GDP growth in 2008 from 2.4% in October to 2.1% in December. In December, those economists polled put the odds of a recession in the next 12 months at 40%. Brian Wesbury, Chief Economist at First Trust Advisors L.P., is forecasting 3.0% to 3.5% real GDP for 2008. A weaker than expected jobs report (18,000 added to nonfarm payrolls in Dec. vs. estimate of 70,000) and a drop in the ISM Manufacturing Index (47.7 vs. estimate of 50.5 for Dec.) increases the likelihood of a Fed rate cut on January 31, in our opinion.

Consumer Confidence	**88.6** (Dec)	87.3 (Nov)	⇧
Crude Oil (Mo.-End)	**$95.98** (Dec)	$88.71 (Nov)	⇧
Personal Spending	**1.1%** (Nov)	0.4% (Oct)	⇧
ISM Manufacturing	**47.7** (Dec)	50.8 (Nov)	⇩
ISM Non-Manufacturing	**53.9** (Dec)	54.1 (Nov)	⇩
Gold (Mo.-End)	**$838.00** (Dec)	$782.20 (Nov)	⇧
Natural Gas (Mo.-End)	**$7.48** (Dec)	$7.30 (Nov)	⇧
Construction Spending	**0.1%** (Nov)	-0.8% (Oct)	⇧
New Home Sales	**647,000** (Nov)	728,000 (Oct)	⇩
Existing Home Sales	**5.00M** (Nov)	4.97M (Oct)	⇧

The Stock Market

Index (Source: Bloomberg)	Dec	2007
S&P 500	-0.69%	5.49%
Dow Jones Industrial Avg.	-0.66%	8.88%
Nasdaq 100	-0.15%	19.24%
S&P 400	-0.19%	7.98%
Russell 2000	-0.06%	-1.56%
MSCI World (ex U.S.)	-1.88%	13.04%
MSCI Emerging Markets	0.35%	39.23%
Industries (Source: S&P)	**Dec**	**2007**
Coal & Consumable Fuels	15.0%	84.3%
Fertilizers & Ag. Chemicals	12.4%	112.6%
Homebuilding	10.7%	-59.6%
Building Products	9.8%	-1.6%
Systems Software	6.4%	18.7%

In December, the dividend-payers (390) in the S&P 500 (equal weight) posted a total return of -1.53%, vs. -2.53% for the non-payers (110), according to Standard & Poor's. In 2007, the payers gained 0.73%, vs. -0.77% for the non-payers. The 2007 return for the weighted version of the S&P 500 was 5.49%. The number of dividend increases (S&P 500) totaled 287. That lagged the 299 increases in 2006 and the 306 increases registered in 2005. The Q4'07 edition of the Investment Manager Outlook, a survey of investment managers conducted by Russell Investment Group, says that money managers continue to be most bullish on large-cap growth stocks over all other asset classes. Seventy-five percent of those managers polled are bullish, up from 69% in Q3'07. Non-U.S. developed markets came in second at 61% (57% in Q3) followed by mid-cap growth stocks at 60% (53% in Q3). The sectors that managers are most bullish on are technology at 78% (73% in Q3) and health care at 73% (69% in Q3). Merrill Lynch estimates that between $3.1 trillion and $6 trillion could flow from sovereign wealth funds (SWFs) into world stock markets over the next 5 years, according to MarketWatch.com. SWFs are comprised of assets held by governments in another country's currency.

U.S. Dollar (U.S. Trade-Weighted Basket)	**+0.27%** (Dec); -9.95% (2007)	$ was down 5.25% in '06	⇧
CBOE Total Equity Options (# of contracts in millions)	**37.2** (12/31); 49.2 (11/30)	*October's 51.8 million is the record*	⇩
Short Interest (NYSE)	Dec 14: **12.65B** (+2.1%); Nov 15: 12.39B (+6.4%)	*Short Interest Record 7/07: 12.95B*	⇧
S&P 500 P-E Ratio (Trailing 12-mo. earnings)	**18.65** (12/31); 18.30 (11/30)	*Avg. P-E is 20 over past 25 years*	⇧

The Bond Market

Index (Source: Lehman)	Dec	2007	Yield
U.S. Treasury: Intermediate	0.21%	8.83%	3.37%
GNMA 30 Year	0.07%	6.97%	5.44%
Municipal Bond (22+)	-0.11%	0.46%	4.86%
U.S. Aggregate	0.28%	6.97%	4.90%
Intermediate Corporate	0.14%	5.10%	5.55%
U.S. Corporate High Yield	0.29%	1.87%	9.64%
Global Aggregate	-0.30%	9.48%	4.19%
Global Emerging Markets	0.40%	5.88%	6.51%

The yield on the 10-Yr. T-Note rose 9 basis points in December closing at 4.03% – 67 basis points below the close on December 29, 2006. Due to the decline in rates, several of the bond categories outperformed the S&P 500's 5.49% total return in 2007. Municipal bonds, however, returned a disappointing 0.46%. In addition to another year of heavy issuance – the sixth consecutive year that new supply exceeded $350 billion – demand for tax-frees was tempered by the steep losses that bond insurers sustained from the subprime mortgage market. A little more than 50% of all municipal debt issued over the past five years has been insured, according to Thomson Financial. On a more positive note, defaults in U.S. speculative-grade securities (high yield corporate bonds and senior loans) remained at near-record lows.

Key Rates as of December 31st

Fed Funds	4.25%
2-Yr. T-Note	3.05%
10-Yr. T-Note	4.03%
30-Yr. Mortgage	6.06%
Bond Buyer 40	4.84%

Key Yield Spread

The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 557 basis points on 12/31/07. It was 547 on 11/30/07 and 325 on 12/31/06.

2007 Debt Issuance through November

(Source: Thomson Financial)

Debt Category	$ Amount	% change over '06
Corporate	$1.058 Trillion	+8.2%
Convertible	$63.8 Billion	+25.3%
Asset-Backed	$844.8 Billion	-25.9%
Municipal	$398.3 Billion	+17.4%

The Investment Climate

Net cash outflows from equity funds totaled $10.9 billion in November, vs. inflows of $11.3 billion in October, according to the Investment Company Institute. Bond funds reported inflows totaling $2.4 billion, down from $11.4 billion in October. Money funds reported inflows totaling $101.3 billion, down from $105.8 billion in October. Y-T-D through Nov., inflows to equity funds totaled $92.3 B, vs. $108.5 B for bond funds & $625.1 B for MMFs.