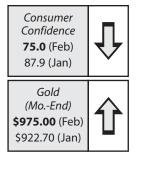


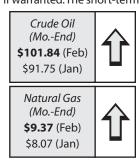
TALKING POINTS

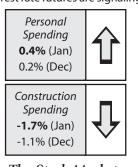
A Recap of February 2008

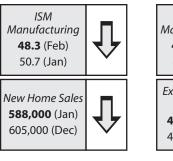
The Economy

The consensus forecast from the Blue Chip Economic Indicators newsletter released in February '08 called for 1.7% real GDP growth for the U.S. in 2008, down from 2.2% the previous month. Those same economists put the odds of a recession in the next 12 months at 50%. The weakness in the dollar pushed commodity prices up significantly in February (see below). The dollar fell 2.2%. Fed Chairman Ben Bernanke testified to Congress that the Fed is prepared to cut rates further if warranted. The short-term interest rate futures are signaling at least a 50 basis point cut at the March 18 FOMC meeting.











The Stock Market

Y-T-D U.S. stocks experienced another down month, while foreign stocks posted nice gains. In the U.S., Index (Source: Bloomberg) Feb S&P 500 -3.25% -9.05% only 36 out of the 130 industries that comprise the S&P 500 posted gains, up one from the 35 DJIA -2.75% -7.11% registered last month. The top sector was Energy up 6.7%. Earnings growth (y-o-y) for the S&P Nasdaq 100 -5.13% -16.20% 500 is expected to decline by 1.4% in Q1 and 0.7% in Q2 due to severe weakness in financials, S&P 400 -1.86% -7.91% according to SeekingAlpha.com. Earnings growth for the financial sector is expected to fall Russell 2000 -3.71% -10.27% 24.1% in Q1 and 22.3% in Q2. Earnings growth for the S&P 500 is expected to rebound strong MSCI World (ex U.S.) 1.87% -7.28% (+16.1%) in Q3. Technology, Energy, Industrials and Consumer Staples currently have the best MSCI Emerging Markets 7.30% -6.14% growth prospects for Q2. In February, the dividend-payers (388) in the S&P 500 (equal weight) **Industries (Source: S&P)** Y-T-D Feb posted a total return of -3.12%, vs. -2.42% for the non-payers (112), according to Standard & Oil & Gas Exploration 12.4% 19.4% Poor's. Year-to-date, the payers declined 7.06%, vs. a loss of 8.25% for the non-payers. For the 12--1.9% 14.8% Oil & Gas Drilling month period ended February '08, payers fell 8.32%, vs. a decline of 10.53% for the non-payers. Diversified Metals & Mining -2.7% 12.3% The number of dividend increases (S&P 500) year-to-date totaled 77. That lagged the 81 Trucking 22.5% 10.7% -5.3% increases over the same period in 2007 and the 91 increases registered in 2006. **Health Care Facilities** 8.6%







Short Interest (NYSE) Feb 15: **14.40B** (+4.0%) Jan 15: 13.85B (+2.1%) Record 2/08: 14.40 billion



The yield on the 10-Yr. T-Note fell 9 basis points in February closing at 3.51% - 106 basis

points below the close on February 28, 2007. In our last issue we noted the two areas of

greatest concern in the bond market were municipals and high yield corporates. Both

S&P 500 P-E Ratio (Trailing 12-mo. earnings) 18.56 (2/29) 16.93 (1/31) Avg. P-E is 20 over past 25 years



The Bond Market

Index (Source: Lehman) Y-T-D Yield Feb U.S. Treasury: Intermediate 1.33% 3.87% 2.26% GNMA 30 Year 0.45% 2.16% 5.20% Municipal Bond (22+) -7.66% -7.75% 5.63% U.S. Aggregate 0.14% 1.82% 4.49% Intermediate Corporate 0.46% 2.10% 5.12% U.S. Corporate High Yield -1.36% -2.68% 10.58% Global Aggregate 1.67% 4.50% 3.79% Global Emerging Markets 0.35% 1.13% 6.53%

3.00%

1.63%

3.51%

6.19%

5.42%

Key Rates as of February 29

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 10Yr. T-Note was 696 basis points on
2/29/08. It was 313 on 2/28/07 and
644 on 1/31/08.

succumbed to strong selling pressure due to mounting losses associated with subprime mortgages (munis) and an overall aversion to credit risk (high yield). Municipals were down big on accelerated write-downs of subprime losses. We still do not have a definitive answer on whether or not MBIA and AMBAC, which insure subprime securities, will retain their AAA-ratings. Roughly 50% of all municipals brought to market over the past 5 years were insured.

2008 Debt Issuance through January

(Source: Thomson Financial)

	2008 Debt Issuance through January (Source:Thomson Financial)		
	Debt Category	\$ Amount	% change over '07
1	Corporate	\$98.3 Billion	+15.0%
1	Convertible	\$2.7 Billion	-57.8%
-	Asset-Backed	\$25.9 Billion	-57.0%
ı	Municipal	\$19.6 Billion	-37.2%

The Investment Climate

Net cash outflows from equity funds totaled \$44.8 billion in January, vs. inflows totaling \$2.2 billion in December, according to the Investment Company Institute. Bond funds reported inflows totaling \$24.3 billion, up from inflows of \$47.5 million in Dec. Money funds reported inflows totaling \$162.3 billion, up from \$36.3 billion in December.