First Trust

Quarterly Market Overview

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Mr. Carey has over 22 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.

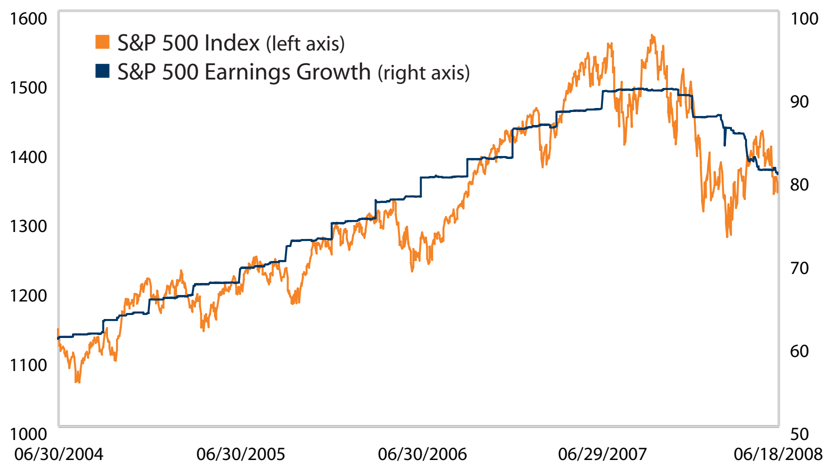
Mr. Carey has appeared throughout the United States and Canada as a guest on television and radio programs. These programs include: Bloomberg TV, CNBC and Canada's Business News Network and on Chicago's WBBM Newsradio 780's Noon Business Hour. He has been quoted by several publications, including *The Wall Street Journal, The Wall Street Reporter, Bloomberg News Service, and Registered Rep.*

You have to earn your keep

Today, thanks to the Internet, investors have access to more financial data and insight than ever before. We at First Trust Advisors L.P. do our very best to streamline our message so that everyone from investment professionals to novices can easily discern our stand on the economy and markets. For example, in the July 2007 issue we discussed the influence that central banks, such as our own Federal Reserve, have on the commodities markets. The more accommodating central bankers are the greater the potential for cheap money to find its way into commodities.

Brian Wesbury, Chief Economist at First Trust Advisors L.P., was as vocal as anyone in the industry last fall in opposing the Fed's decision to aggressively cut the federal funds target rate. He warned of its negative impact on the dollar and inflation, two of the bigger concerns in the economy today. Despite the fact that commodity prices were already approaching nose-bleed levels heading into the fall, the rate cuts totaling 3.25 percentage points ignited a rally in commodities that pushed prices higher by 38.7% from 9/18/07-6/30/08, as measured by the Reuters/Jefferies CRB Index. The S&P 500 declined by 14.8% over that same span. The fact that the broader market did not respond favorably to the monetary stimulus, as it is apt to do, is validation that Wesbury's assessment of the climate was accurate.

At this stage of the process, it is our hope that the Fed rate cuts will assist the financial sector to its feet in short order so the Fed can turn its attention back to stabilizing prices. We believe that rate hikes would lead to a stronger dollar, lower commodity prices, and higher stock prices. While we acknowledge the capital strains currently plaguing some of our more prominent financial institutions are serious, we have always contended that there is no liquidity shortage in the economy. You need look no further than the inflows to Money Market funds in '07. These interest-bearing vehicles took in a net $660.1billion last year, well above the previous calendar year high of $375.3 billion in 2001, according to the ICI. And this all transpired while rates were plummeting.



Hang your hat on corporate earnings

Today, information is flying fast and furious on the Web. Message boards are riddled with rumors and innuendos. Articles are slanted in one direction or another because it is an election year. Bubble-like markets, such as oil and commodities, remain tempting even though investors know better having been burned before. The fear of missing out could trump common sense one more time.

The interesting thing about today's climate is it has much in common with the investment climate in 2000. The observations mentioned above were all alive and kicking back then. We have even managed to dredge up some new scandals to help rattle our confidence. But the single most common thread connecting today to the days of "irrational exuberance" is that chasing returns is a losing proposition for those who are built to invest over the long haul. It is a game better suited for traders and it doesn't matter what type of asset you are trading. As it turns out, you can lose just as much money in real estate as owning an interest in a dot-com bomb.

So what does work for the long-term investor? Earnings. Over time, stock prices are driven by earnings growth. Here is a recent example: The S&P 500 posted a price-appreciation-only cumulative return of 87% from the low of the previous bear market (10/9/02) to the peak in the bull market (10/9/07), according to Bloomberg. Over that span, earnings for the index grew by 79%, according to Thomson First Call.

Continued

"And the game never ends when your whole world depends on the turn of a friendly card." Alan Parsons Project

Investing in a bubble market late in the game is high stakes...you need to be dealt the perfect hand.

Sector	Index or Futures	Stage	Period	Gross Return or Price Change
Technology	S&P Info Tech	Bubble	04/94-03/00	+1,015%
Technology	S&P Info Tech	Bubble Burst	03/00-06/08	-60%
REITs	S&P REIT	Bubble	03/00-02/07	+333%
REITs	S&P REIT	Bubble Burst?	02/07-06/08	-25%
Commodities	Reuters/Jefferies CRB	Bubble?	10/01-06/08	+149%
Crude Oil	Futures	Bubble?	11/01-06/08	+620%
Gold	Futures	Bubble?	02/01-06/08	+246%

Source: Bloomberg

Recovery in the cards for '08?

The table shows each of the 9 previous periods where the S&P 500 declined 20% and the 1, 3, 6, & 12 month index price change that followed. As you can see, the index rebounded to record positive performance in all but 7 of 36 periods.

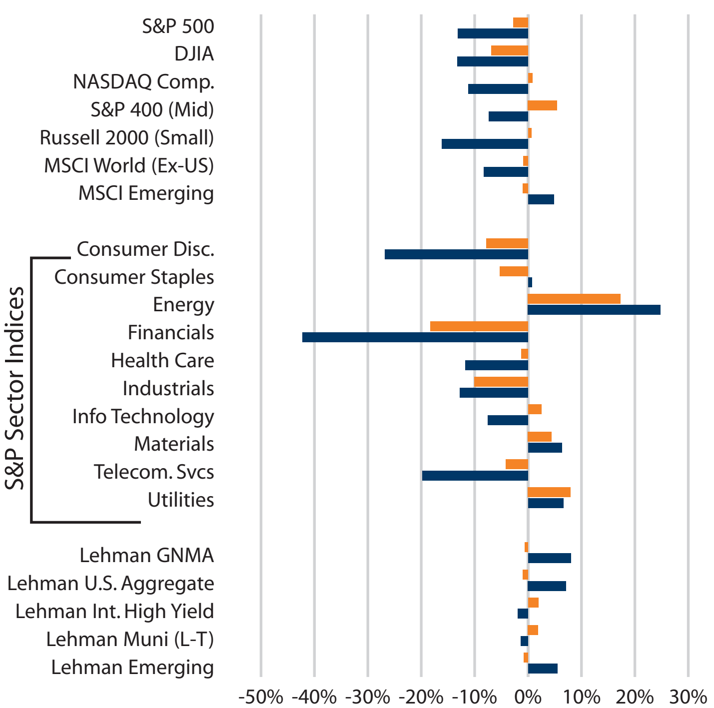
Since 1940, 81% of presidential election years have seen gains in the S&P 500, according to Jim Stack, president of InvesTech Research. The S&P 500 has registered greater than a 3% loss in only one election year (2000) since 1940.

Previous 20% Declines		S&P 500 Index Price Change (%) After 20% Decline			
Date of Market High	Date of 20% Decline	1 Month	3 Months	6 Months	12 Months
08/02/56	10/21/57	3.4	5.5	9.7	31.0
12/12/61	05/28/62	-2.0	5.9	11.9	26.1
02/09/66	08/29/66	2.4	7.9	16.4	24.6
11/29/68	01/29/70	4.4	-4.5	-8.9	11.8
01/11/73	11/27/73	2.1	0.7	-7.7	-26.9
11/28/80	02/22/82	1.1	3.0	4.1	30.4
08/25/87	10/19/87	6.8	10.9	14.7	23.2
07/16/90	10/11/90	8.1	6.7	27.8	29.1
03/24/00	03/12/01	0.3	6.4	-7.4	-1.2
10/09/07	07/07/08	???	???	???	???
Average		3.0	4.7	6.7	16.5

Source: Standard & Poor's Equity Research. The historical performance figures for the S&P 500 Index are for illustrative purposes only and are not intended to imply or guarantee future performance. These returns were the result of certain market factors and events which may not be repeated in the future.

The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. The index cannot be purchased directly by investors.

Total returns for *Q2* and past *12 months* (6/30/08)



A Look Ahead:

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

	Q3'08E	Q4'08E	2008E
Financials	-14.5%	470.0%	-27.9%
Technology	**8.5%**	**9.60%**	**8.7%**
Health Care	5.2%	8.9%	5.9%
Consumer Staples	**11.3%**	**10.0%**	**9.9%**
Consumer Discretionary	15.1%	9.8%	-6.3%
Industrials	**7.6%**	**8.5%**	**8.0%**
Telecommunications Services	-5.7%	-2.5%	-1.6%
Energy	**55.4%**	**35.5%**	**33.2%**
Utilities	8.4%	8.0%	6.0%
Materials	**13.2%**	**34.7%**	**14.4%**
S&P 500 Index	**7.9%**	**19.7%**	**9.3%**
S&P 400 Index (Mid-Cap)	**12.9%**	**21.2%**	**10.8%**
S&P 600 Index (Small-Cap)	**9.7%**	**24.0%**	**6.6%**

Source: Thomson First Call/Baseline (7/3/08)