

★ U.S. Economy

The United States stock market continued to decline in July 2008, as did most of the international stock markets. Performance was generally weak in bond markets with global credit spreads widening and long term yields rising. The U.S. dollar has weakened significantly over the past several months, although there was some strengthening of the dollar in July with respect to major currencies and gold.

The major U.S. economic issues remain with respect to inflation, unemployment, declining housing market, credit issues and high energy costs. However, high energy prices have been declining due to a slowdown in the growth of global energy demand. In three weeks, crude oil futures dropped around 20% or \$30 per barrel from a record high of \$147 on July 11. The unemployment rate jumped to a four year high in July, a rise of 0.2 percentage points to 5.7%. Employment continues to fall in construction, manufacturing and services, while mining and health care are adding jobs. The last time the unemployment rate increased so much was at the end of the last U.S. recession in 2001.

There have been major write-offs of collateralized debt obligations in the financial sector made by firms such as Merrill who will be writing off \$4.4 billion in the 3Q08 as it sells \$30.6 billion of this debt. Investment bank Citigroup saw its shares fall to a 10 year low based on write-downs. California-based Indy-Mac, which specialized in mortgages, became the fifth U.S. bank this year to fail due to the housing bust. Indy-Mac is the third largest banking failure in U.S. history. Indy-Mac trails the failure of Continental Illinois Bank & Trust in 1984 and First Republic Bank Corp in 1988.

During July, the Federal Reserve and U.S. Congress took major steps to bail out Fannie Mae and Freddie Mac. The Fed voted to allow the New York Federal Reserve to lend to these institutions, if lending proved necessary. A few weeks later, the Congress passed a housing bill that gave the Treasury department authorization to inject money into these mortgage giants. Policy makers have justified this action to prevent the collapse of these institutions and to maintain the country's credit worthiness with foreign lenders who are holding around 20% of Fannie and Freddie securities. Fannie Mae is the second largest financial company in the U.S. just behind Citigroup. Fannie Mae has \$923 billion in assets. Together, Fannie and Freddie either guarantee or retain in portfolio over 40% of the U.S. residential mortgage debt.

★ Performance in Recent Market Cycles (Jan 07-July 08)

Although the NASDAQ composite was up 1.42% in July 2008, the broad market indices and the S&P 500 continued to decline. The NASDAQ composite index was down 18.65% over the past 9 months while the broad market indices and the S&P 500 large-cap index were down between 16% and 17%.

Key U.S. Market Performance (Jan 07—Jul 08)

Key U.S. Market Indices	Jan 07-Jul 08			
	Jan 07-Oct 07	2007	Nov 07– Jul 08	Unannualized
NASDAQ Composite	18.35	9.78	(18.65)	(3.72)
MSCI-US Broad	11.21	5.59	(16.05)	(6.64)
Russell 3000	10.77	5.14	(16.24)	(7.22)
PPCA Total	10.23	7.05	(16.13)	(7.55)
Morningstar U.S.	11.50	5.92	(16.04)	(6.38)
S&P 500	10.87	5.49	(16.88)	(7.84)

In July 2008, the major global and international MSCI indices for developed markets have experienced performance somewhat lower than that of the major U.S. indices. The declines in the developed market indices considered here have ranged from (18.04%) to (19.38%) in the past 9 months. The recent declines in the Emerging Markets have been significant with a return of (20.82%) in the past 9 months.

Key Global Market Performance (Jan 07—Jul 08)				Jan 07-Jul 08
Key Global Indices	Jan 07-Oct 07	2007	Nov 07-Jul 08	Unannualized
World Index	15.17	7.09	(18.04)	(5.61)
EAFE	17.60	8.62	(19.38)	(5.19)
G7	13.16	5.51	(17.44)	(6.57)
Emerging Markets	49.50	39.39	(20.82)	18.37

★ Relative Strength of the U.S. Dollar

The U.S. dollar strengthened in July 2008 as the price of gold went down 1.32%. However, on a year-to-date basis, the U.S. dollar weakened as the price of gold went up 9.74%. Over the past 19 months since the beginning of 2007, the U.S. dollar has weakened quite significantly as gold has gone up 41.36%.

Appreciation of Gold Relative to USD	
2007	31.59%
Jan 07—Jul 08 (19 months)	41.36%
YTD 08	9.74%
JUL-08	(1.32%)

The next table provides key spot exchange rates for 1 U.S. dollar versus nine key developed country currencies. During July 2008, the dollar strengthened in eight of the nine currencies considered and stayed at the same exchange level for the Hong Kong dollar. On a year-to-date basis, the dollar strengthened against three of the nine reference currencies: Great Britain, Canada and New Zealand.

The next table translates the changes in spot exchange rates from the first table into FX percent returns. The most significant increase in the U.S. dollar in July 2008 was 3.48% against the New Zealand dollar. On a year-to-date basis, the most significant increase in the U.S. dollar exchange rate was 5.01% against the New Zealand dollar while the most significant decrease was (7.79%) against the Australian dollar.

Exchange Rate Tables 1 USD buying reference currency				
Reference Currency	12/31/06	12/31/07	06/30/08	07/31/08
EUR Europe	0.7579	0.6783	0.6330	0.6417
GBP Great Britain	0.5111	0.5008	0.5011	0.5049
JPY Japan	119.06	112.27	106.07	108.04
CHF Swiss	1.2182	1.1269	1.0180	1.0466
CAD Canada	1.1643	0.9804	1.0101	1.0235
AUD Australia	1.2686	1.1444	1.0400	1.0553
NZD New Zealand	1.4194	1.2942	1.3134	1.3591
HKD Hong Kong	7.7775	7.8046	7.8003	7.8003
SGD Singapore	1.5334	1.4459	1.3624	1.3680

FX Return of \$1 USD Relative to Reference Currency			
Reference Currency	2007	YTD 2008	JUL-08
EUR Europe	(10.50%)	(5.39%)	1.39%
GBP Great Britain	(2.00%)	0.82%	0.75%
JPY Japan	(5.70%)	(3.77%)	1.86%
CHF Swiss	(7.49%)	(7.13%)	2.80%
CAD Canada	(15.79%)	4.40%	1.33%
AUD Australia	(9.78%)	(7.79%)	1.47%
NZD New Zealand	(8.83%)	5.01%	3.48%
HKD Hong Kong	0.35%	(0.05%)	0.00%
SGD Singapore	(5.71%)	(5.39%)	0.41%



U.S. Bond Performance

During July 2008, U.S. Treasury yields declined for issues between 1 month and 5 years maturities and increased for longer issues with 20 year and 30 year maturities. On a year-to-date basis, U.S. Treasury yields declined for issues between 1 month and 10 year matures and increased for 20 year and 30 year maturities.

TREASURY YIELDS							
<u>Maturity</u>	<u>1 Mo</u>	<u>3 Mos</u>	<u>1 Yr</u>	<u>5 Yrs</u>	<u>10 Yrs</u>	<u>20 Yrs</u>	<u>30 Yrs</u>
12/31/2007	2.76	3.36	3.34	3.45	4.04	4.50	4.45
7/31/2008	1.55	1.68	1.27	3.25	3.99	4.63	4.59
Change	(1.21)	(1.68)	(2.07)	(0.20)	(0.05)	0.13	0.14
6/30/2008	1.60	1.90	2.36	3.34	3.99	4.59	4.53
7/31/2008	1.55	1.68	1.27	3.25	3.99	4.63	4.59
Change	(0.05)	(0.22)	(1.09)	(0.09)	0.00	0.04	0.06

In July 2008, the Lehman Global Aggregate and U.S. Aggregate returned 0.14% and (0.08%), respectively. Also in July 2008, the Lehman Municipal Bond and High Yield bond indices returned .38% and (1.33%), respectively. On a year-to-date basis, the Lehman Global Aggregate and U.S. Aggregate returned 3.67% and 1.04% respectively. During this same period, the Lehman Municipal Bond and High Yield bond indices returned 0.40% and (2.62%).

Bond Indices - Total Return		
<u>Index</u>	<u>JUL 2008</u>	<u>YTD08</u>
Lehman Global Aggregate	0.14	3.67
Lehman U. S. Aggregate	(0.08)	1.04
Lehman Municipal Bond	0.38	0.40
Lehman U. S. Treasury 1-3 Year	0.41	2.50
Lehman High Yield Bond	(1.33)	(2.62)



U.S. Stock Market

In July 2008, the NASDAQ posted a positive return of 1.42%. Also during July, the four broad U.S. stock indices fell over a range from (0.79%) to (1.36%). On a year-to-date basis, the NASDAQ fell (12.30%). During this period, the four broad U.S. stock indices fell over a tight range from (11.41%) to (11.76%).

<u>Broad Market Indices & the NASDAQ Comp</u>	<u>JUL 2008</u>	<u>YTD 2008</u>
NASDAQ Comp	1.42	(12.30)
MSCI-U.S. Broad	(0.79)	(11.57)
Russell 3000	(0.80)	(11.76)
PPCA Total	(1.36)	(11.41)
Morningstar	(0.91)	(11.61)

Overall, small-cap led large-cap and mid-cap during July 2008. Market declines were consistent across the large-cap styles in July 2008. Positive returns were earned consistently for all of the small-cap styles. Mid cap issues posted negative returns in the growth and core styles and positive returns in value.

On a year-to-date basis, all style and capitalization ranges posted significantly negative returns. The relative results vary somewhat depending on the index family. For the Morningstar indices, the highest performance was (3.87%) in small-cap core and the lowest performance was (17.49%) in large-cap value. The highest performing year-to-date performance for the PPCA indices was (4.49%) in large-cap core while the lowest performance was (17.11%) in small-cap growth.

S & P 500 Sector Performance		
Price Change %		
<u>Sector</u>	<u>JUL 2008</u>	<u>YTD 2008</u>
Energy	(14.00)	(7.01)
Materials	(4.17)	(3.98)
Industrials	1.75	(13.10)
Consumer Discretionary	0.42	(13.49)
Consumer Staples	3.25	(5.57)
Health Care	4.93	(9.20)
Financials	6.80	(26.19)
Information Technology	(1.27)	(14.52)
Telecommunication Svcs	(6.81)	(24.42)
Utilities	(6.28)	(10.34)
S&P 500	(0.99)	(13.69)

The S&P 500 return based on price change was (0.99%) in July 2008. The top three performing sectors were: Financials 6.80%, Health Care 4.93% and Consumer Staples 3.25%. The bottom three performing sectors were: Energy (14.00%), Telecommunication Services (6.81%) and Utilities (6.28%).

On a year-to-date basis, the S&P 500 return based on price change was (13.69%). The top three performing sectors were: Materials (3.98%), Consumer Staples (5.57%) and Energy (7.01%). The bottom three performing sectors were: Financials (26.19%), Telecommunication Services (24.42%) and Information Technology (14.52%).

Mid-Cap Stocks	JUL 2008	YTD 2008
S & P 400	(1.85)	(5.68)
Morningstar	(2.28)	(9.66)
Growth	(5.22)	(9.93)
Value	0.70	(12.41)
Core	(1.82)	(6.94)
PPCA	(2.64)	(10.69)
Growth	(6.23)	(14.26)
Value	0.38	(10.74)
Core	(2.04)	(4.82)

Small-Cap Stocks	JUL 2008	YTD 2008
S & P 600	2.06	(5.17)
Russell 2000	3.70	(6.02)
Growth	2.33	(6.81)
Value	5.13	(5.22)
Morningstar	2.01	(7.98)
Growth	0.40	(10.59)
Value	4.07	(9.43)
Core	1.85	(3.87)
PPCA	1.97	(9.87)
Growth	0.69	(17.11)
Value	3.44	(5.41)
Core	0.57	(10.19)

Large-Cap Stocks	JUL 2008	YTD 2008
S & P 500	(0.84)	(12.65)
Russell 1000	(1.16)	(12.23)
Growth	(1.90)	(10.79)
Value	(0.36)	(13.88)
Morningstar	(0.80)	(12.45)
Growth	(2.82)	(10.26)
Value	(1.00)	(17.49)
Core	1.20	(10.24)
PPCA	(1.37)	(11.96)
Growth	(3.51)	(13.90)
Value	(0.15)	(13.55)
Core	(0.29)	(4.49)

★ Global Markets

For the month of July 2008, the EAFE index returned (3.21%). The top three EAFE country performers were: New Zealand 1.49%, Finland 1.33% and Greece 0.63%. The bottom three EAFE country performers were: Ireland (19.56%), Norway (10.17%) and Austria (9.44%).

On a year-to-date basis, the EAFE index returned (13.82%). The top three EAFE country performers were: Denmark (3.65%), Switzerland (8.07%) and Norway (8.71%). The bottom three EAFE country performers were: Ireland (34.61%), Belgium (28.50%) and Portugal (27.96%)

The MSCI Emerging Markets index returned (3.77%) during July 2008. The top three country performers were: Turkey 28.28%, Poland 12.62% and Hungary 10.27%. The bottom three country performers were: Argentina (19.31%), Pakistan (18.36%) and Peru (16.30%).

On a year-to-date basis, the MSCI Emerging Markets index returned (15.09%). The top three country performers included: Morocco 26.27%, Argentina 16.78% and Jordan 15.83%. The bottom three country performers were: India (37.44%), Pakistan (33.35%) and Philippines (32.94%).

The MSCI G7 index measures the performance of the world's seven most wealthy countries and includes the following, along with their respective estimated percentage weighting: Canada (15%), U.S. (30%), Japan (20%), Germany (10%), France (10%), Britain (10%) and Italy (5%).

During July 2008, the MSCI G7 index returned (2.27%). The top three G7 performers were: Germany (1.05%), the United States (1.19%) and France (1.98%). The bottom three G7 performers were: Canada (6.99%), Italy (4.53%) and Britain (4.10%).

On a year-to-date basis, the MSCI G7 index returned (12.29%). The top three G7 performers were: Canada 3.08%, Japan (8.75%) and the United States (12.51%). The bottom three G7 performers were: Italy (20.22%), Britain (14.88%) and Germany (14.78%).

Net Total Return of MSCI Indices (U.S. \$)		
Overseas Markets	JUL 2008	YTD 2008
The World Index	(2.44)	(12.75)
The World Index (Ex U.S.)	(3.56)	(12.97)
G7 Index	(2.27)	(12.29)
EAFE	(3.21)	(13.82)
Europe	(2.87)	(14.93)
Far East	(3.11)	(10.25)
Emerging Markets	(3.77)	(15.09)