

★ U.S. Economy

Economic conditions in the United States have continued to decline due to multiple causes including: rising unemployment, high energy costs, continued unrest in the mid-East, serious credit issues and a declining U.S. dollar. Energy costs are driven high by uncertainty in the Mid-East and increases in demand from major developing countries such as China, India and Malaysia. The U.S. dollar has declined due in part to the Iraq war effort and the dollar supply increase efforts of the Fed as they trade off credit availability versus inflation. As shown in the tables in a following section, the U.S. dollar continues to weaken with respect to gold and major foreign currencies.

The economic issues are widely recognized by business and government and there are serious steps being taken to avoid recession. The Federal Reserve open market committee has implemented major reductions in the federal funds rate with goals of attaining long-term price stability and sustainable economic growth. On January 22, as the U.S. stock market was declining, the Fed made a surprise announcement reducing the fed funds rate by 75 basis points to 3.50%. Although market declines still occurred, it is generally believed that this Fed action dampened the market drop. In addition, on January 30 at a scheduled meeting to review rates, the Fed reduced the fed funds rate by another 50 basis points, down to 3.00%. The last time the rate was at 3.00% was on May 3, 2005. Currently, George Bush and the U.S. Congress are working toward an agreement on a massive stimulus package involving taxpayer rebates and other incentives.

One of the most important signs of recession has been asset write-offs by major financial institutions due to sub-prime lending. A near term recovery in the housing market is currently difficult as prices fall, insurance costs increase and credit becomes more restricted. Slow construction and laid-off workers have a negative impact on the economy. Local governments will be eventually impacted by declining property assessments and reduced developer fees. We have recently seen in the press how increased loss assumptions can generate potential downgrades in the ratings of mortgage insurance companies.

★ Impact of Recent Domestic and Global Market Decline

The gains that were made in the first ten months of 2007 in the U.S. stock market have been completely eroded by declines in the last three months. The following table shows how key U.S. Market indices were showing significant positive returns in the first ten months of 2007, and now have negative returns in the 13 months from Jan 2007 through Jan 2008.

Impact of Three Month US Stock Market Decline							Jan07-Jan 08
Key US Market Indices	Jan 07-Oct 07	Nov-07	Dec-07	2007	Jan-08	Nov-07-Jan 08	Unannualized
NASDAQ Composite	18.35	(6.93)	(0.33)	9.78	(9.89)	(16.41)	(1.07)
MSCI-US Broad	11.21	(4.47)	(0.62)	5.59	(6.07)	(10.83)	(0.83)
Russell 3000	10.77	(4.50)	(0.61)	5.14	(6.06)	(10.83)	(1.23)
PPCA Total	10.23	(4.96)	(0.38)	7.05	(6.32)	(11.30)	(2.23)
Morningstar U.S.	11.50	(4.41)	(0.62)	5.92	(6.09)	(10.79)	(0.53)
S&P 500	10.87	(4.18)	(0.69)	5.49	(6.00)	(10.55)	(0.83)

The same impact has been felt in the developed global markets of the strongest economies, as measured by the G7 index. For the first ten months of 2007, the G7 returned 13.16% and then declined 12.19% in the next three months resulting in a 13 month return of (.64%). While the emerging markets are still generating strong returns on a 13 month basis, these returns have been eroded by (18.40%) in the past three months.

Impact of Three Month Global Stock Market Decline

Key Global Indices	Jan 07-Oct 07	Nov-07	Dec-07	2007	Jan-08	Nov-07-Jan 08	Jan07-Jan 08
							Unannualized
World Index	15.17	(4.24)	(1.37)	7.09	(7.64)	(12.77)	0.47
EAFE	17.60	(3.45)	(2.30)	8.62	(9.24)	(14.39)	0.68
G7	13.16	(4.27)	(1.17)	5.51	(7.19)	(12.19)	(0.64)
Emerging Markets	49.50	(7.09)	0.35	39.39	(12.48)	(18.40)	21.99

★ Relative Strength of the U.S. Dollar

The U.S. dollar continues to significantly weaken in January 2008 with respect to purchasing gold. The following table shows that the London spot price of gold in the U.S. market has appreciated 10.37%.

Appreciation of Gold Relative to USD	
2007	31.59%
1/1/2008	10.37%

The table to the right provides key spot exchange rates for 1 U.S. dollar versus several developed country reference currencies. In seven of the nine major reference currencies considered during January 2008, the U.S. dollar weakened as one U.S. dollar could purchase less of the reference currency over the past month. The U.S. dollar strengthened relative to the British pound and Canadian dollar during the month.

Exchange Rate Tables 1 USD buying reference currency				
Reference Currency		12/31/06	12/31/07	1/31/08
EUR	Europe	0.7579	0.6783	0.6765
GBP	Great Britain	0.5111	0.5008	0.5026
JPY	Japan	119.06	112.27	106.98
CHF	Swiss	1.2182	1.1269	1.0923
CAD	Canada	1.1643	0.9804	0.9970
AUD	Australia	1.2686	1.1444	1.1254
NZD	New Zealand	1.4194	1.2942	1.2842
HKD	Hong Kong	7.7775	7.8046	7.8035
SGD	Singapore	1.5334	1.4459	1.4205

FX Return of \$1 USD Relative to Reference Currency

Reference Currency	2007	JAN 2008
EUR Europe	(10.50%)	(0.26%)
GBP Great Britain	(2.00%)	0.35%
JPY Japan	(5.70%)	(4.71%)
CHF Swiss	(7.49%)	(3.07%)
CAD Canada	(15.79%)	1.69%
AUD Australia	(9.78%)	(1.66%)
NZD New Zealand	(8.83%)	(0.77%)
HKD Hong Kong	0.35%	(0.01%)
SGD Singapore	(5.71%)	(1.76%)

The table to the left translates the changes in spot exchange rates from the first table into FX percent returns. The most extreme U.S. dollar decline in January 2008 was a decline of (4.71%) against the Japanese yen.

★ U.S. Bond Performance

During January 2008, the U.S. Treasury curve declined across the maturity spectrum with the most significant declines at the short end where 1 month, 3 month and 1 year issues fell (1.12%), (1.40%) and (1.23%), respectively.

In January 2008, the Lehman U.S. Aggregate and Lehman Global Aggregate returned 1.68% and 2.78%, respectively. Also in January, the Lehman Municipal Bond index and the Lehman High Yield Bond index returned 1.26% and (1.33%), respectively.

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
1/31/2008	1.64	1.96	2.11	2.82	3.67	4.35	4.35
Change	(1.12)	(1.40)	(1.23)	(0.63)	(0.37)	(0.15)	(0.10)
12/29/2006	4.75	5.02	5.00	4.70	4.71	4.91	4.81
12/31/2007	2.76	3.36	3.34	3.45	4.04	4.50	4.45
Change	(1.99)	(1.66)	(1.66)	(1.25)	(0.67)	(0.41)	(0.36)

Bond Indices (Total Return		
<u>Index</u>	<u>JAN 2008</u>	<u>2007</u>
Lehman Global Aggregate	2.78	9.48
Lehman U. S. Aggregate	1.68	6.97
Lehman Municipal Bond	1.26	3.36
Lehman U. S. Treasury 1-3 Year	1.74	7.31
Lehman High Yield Bond	(1.33)	1.87

★ U.S. Stock Market

In January 2008, the technology-heavy NASDAQ Composite index had its most significant monthly decline since 2002, with a loss of (9.89%). The four major broad U.S. stock indices considered posted returns in a tight range between (6.06%) and (6.32%).

The S&P 500 return, based on price change, was (6.12%) during January 2008. The top three performing S&P 500 sectors, based on price change during the month, were: Financials (0.61%), Consumer Discretionary (1.31%) and Materials (4.03%). The bottom three performing sectors in the month were: Information Technology (12.51%), Energy (10.93%) and Telecommunication Services (9.88%).

<u>Broad Market Indices & the NASDAQ Comp</u>	<u>JAN 2008</u>	<u>2007</u>
NASDAQ Comp	(9.89)	9.78
MSCI-U.S. Broad	(6.07)	5.59
Russell 3000	(6.06)	5.14
PPCA Total	(6.32)	7.05
Morningstar	(6.09)	5.92

S & P 500 Sector Performance		
	Price Change %	
<u>Sector</u>	<u>JAN 2008</u>	<u>2007</u>
Energy	(10.93)	32.38
Materials	(4.03)	19.98
Industrials	(4.46)	9.83
Consumer Discretionary	(1.31)	(14.32)
Consumer Staples	(5.34)	11.60
Health Care	(4.91)	5.39
Financials	(0.61)	(20.84)
Information Technology	(12.51)	15.54
Telecommunication Srvcs	(9.88)	8.45
Utilities	(6.96)	15.81
S&P 500	(6.12)	3.53

There were no safe equity investment styles in January 2008. All of the styles considered in this report for four major index families had negative performance. The relatively strongest performance was from small and mid-cap value, while the weakest was from growth stocks across the cap range.

Large-Cap Stocks	JAN 2008	2007
S & P 500	(6.00)	5.49
Russell 1000	(5.99)	5.77
Growth	(7.80)	11.81
Value	(4.01)	(0.17)
Morningstar	(6.14)	6.69
Growth	(9.43)	12.34
Value	(3.02)	(0.43)
Core	(5.92)	8.64
PPCA	(6.65)	8.71
Growth	(10.58)	13.60
Value	(4.05)	4.31
Core	(5.65)	12.40

Mid-Cap Stocks	JAN 2008	2007
S & P 400	(6.16)	7.98
Morningstar	(5.93)	5.23
Growth	(9.40)	19.70
Value	(1.83)	(5.52)
Core	(6.02)	1.95
PPCA	(5.56)	7.19
Growth	(8.03)	14.54
Value	(3.03)	1.28
Core	(5.84)	6.11

Small-Cap Stocks	JAN 2008	2007
S & P 600	(4.89)	(0.30)
Russell 2000	(6.82)	(1.57)
Growth	(9.17)	7.05
Value	(4.10)	(9.78)
Morningstar	(5.97)	(0.66)
Growth	(10.52)	11.07
Value	(1.50)	(8.15)
Core	(5.24)	(5.43)
PPCA	(6.05)	(4.03)
Growth	(9.53)	(7.39)
Value	(2.40)	(6.73)
Core	(8.91)	4.84

★ Global Markets

For the month of January 2008, the EAFE index returned (9.24%). All EAFE countries posted negative performance. The top three EAFE country performers were: Ireland (1.33%), Japan (4.57%) and Switzerland (5.61%). The bottom three country performers were: Norway (21.07%), Greece (14.05%) and Germany (13.84%).

The MSCI Emerging Markets index returned (12.48%) during January 2008 with only two countries posting positive returns. The top three country performers were: Morocco 13.41%, Jordan 1.86% and Malaysia (0.85%). The bottom three country performers were: Turkey (23.58%), China (21.56%) and Russia (16.13%).

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 January of 2008, the G7 index returned (7.19%). The top three country performers were: Japan (4.57%), the United States (6.10%) and Canada (6.39%). The bottom three country performers were: Germany (13.84%), France (12.06%) and Italy (9.72%).

G7-Developed Country Performance (U.S. \$) MSCI Indices		
Index	JAN 2008	2007
G7 Index	(7.19)	5.51
Britain	(8.93)	4.72
Canada	(6.39)	27.57
France	(12.06)	10.90
Germany	(13.84)	32.52
Italy	(9.72)	2.67
Japan	(4.57)	(5.42)
United States	(6.10)	4.09

Net Total Return of MSCI Indices (U.S. \$)		
Overseas Markets	JAN 2008	2007
The World Index	(7.64)	7.09
The World Index (Ex U.S.)	(9.02)	9.92
EAFE	(9.24)	8.62
Europe	(10.43)	10.96
Far East	(5.68)	(1.24)
Emerging Markets	(12.48)	39.39