



First Quarter 2007

From December 31, 2006 through March 31, 2007, the S & P 500 Index, Dow Jones Industrial Average and Nasdaq Composite Index all moved less than 1%. These results would lead one to believe that we had an uneventful, calm quarter. Anyone who paid the slightest attention to the market this quarter, however, knows this was not the case. The market actually experienced its biggest increase in volatility for the first time since the fourth quarter of 2002 when the current bull market began. The volatility index increased 27% during the quarter, led by a sharp decline in the Chinese stock market and worries about the subprime lending market. Since March 31, the index has come back down and is now only 3.5% higher than at year-end.

To put this in perspective, the VIX index, which is a measure of market volatility, was approximately 12 at year-end, increased to 20 during the volatile period in late February and early March and ended the quarter around 15. As of mid-April, it is now back down to 12. This index peaked at 45 in August 2002 during the severe market decline and hovered in the high 20s through 30s range from that time until the invasion of Iraq in March 2003. Since then the index has hovered in the 10 to 20 range.

What does all of this mean? When there is greater uncertainty about future events, there is greater volatility. Investors do not like uncertainty. They prefer to have certainty about the course of future events regardless of whether the future events are expected to be positive or negative. This is why volatility tends to increase if there is a threat of war or before elections and then decreases once the war has started or the election is over. Right now investors are uncertain about whether or not the Fed will cut rates, the extent of the subprime lending downturn, and the future of oil prices. Factor these issues in with the Chinese stock market tumble, and it made for a volatile couple of months even though if looking from just beginning to end, things appeared relatively calm. Despite the volatility, the market was up slightly for the quarter, with small caps and international equities once again beating the domestic large cap market.

We completed a rebalancing of the accounts this quarter. The duration of the fixed income investments was lengthened to a fifty-fifty split between short and intermediate. We shifted some assets on the domestic side into large growth equities while still maintaining a slight value tilt. We eliminated some of the bond funds and introduced some new funds as we now have access to a greater variety of funds through Fidelity. More changes were made in the nontaxable accounts than in the taxable accounts in order to minimize capital gains.

I am enclosing your investment report for the quarter ended March 31, 2007. In addition to the Consolidated Portfolio Summary and Asset Allocation reports you received last quarter, I have now included a Portfolio Performance Summary. This report shows the beginning and ending values of the accounts along with contributions and withdrawals. The return is computed net of investment management fees. This is a change for those of you who came over from PMA as their reports showed returns on a gross basis before fees.

Throughout the volatile market we just experienced, the best strategy is to once again remind yourself that these are long term investments and you chose a risk level that is appropriate to meet your goals and risk tolerance over a certain time period. Selling low and buying high in a panic is not a successful way to invest. Your portfolios are all well diversified in a broad range of market sectors. Over time, those that buy low and sell high and stay the course in between should be pleased with their results.

As always, please feel free to call if you have any questions regarding investment strategy, funds or planning issues. If spring ever arrives, I hope you enjoy it!

A handwritten signature in black ink, appearing to be 'Jill', is located at the bottom right of the page.