



Second Quarter 2007

I hope this letter finds you well and enjoying a relaxing summer. Despite a weak June, the market experienced a strong second quarter lifting year-to-date returns for the S & P 500 to 7%. Over the past 12 months, most equity categories have returned in the high teens to twenty percent. This is twice the average long-term annual equity return of approximately 10%. Large cap equities started to outperform small caps and growth started to edge out value. International markets continue to be strong. In contrast, bonds have been relatively flat so far in 2007.

I am sure you are thinking, "Where do we go from here?" This is the age old question and the debate is as strong as ever in the financial press. Pick up any publication and you will see some experts predicting a 14,000 Dow, steady economic growth, a fairly valued equity market, and better than expected consumer confidence and employment. On the other hand, some predict a worsening of the housing market and higher gas prices which will ultimately hurt consumer spending, and express concerns over inflation and an abundance of leveraged vehicles in the marketplace. The bottom line is that either alternative for equities seems possible and the outlook for interest rates remains unclear.

If we could accurately and consistently predict the direction of various market indicators, future market performance would be clearer. Such a scenario would also eliminate much of the risk (and some of the fun!) of the equity market. When the forecast becomes clearer, the information is not as helpful as the expectations are already priced into the market. When economic and political factors are not compelling one way or another, many bright people are ultimately correct but just as many are incorrect.

As a famous economist once said "one of the greatest pieces of economic wisdom is to know what you do not know." The best way to deal with the inability to forecast macroeconomic and political factors is to spread your assets over many baskets. Diversification allows you to lower the risk of your portfolio over the long term. Some sectors will go up and some will go down each year. Your portfolio will have a smoother steadier ride rather than behaving like it is on a roller coaster. While you can earn extremely high returns in the short term with one sector investing, you can also lose a significant portion of your portfolio trying to time the effects of various market factors. Over long periods of time, slow but steady wins the race. Have patience!

I have enclosed your June 30, 2006 report. You will see that the performance report now shows a year-to-date figure at the top of the page and the current quarter information at the bottom. As always, please feel free to call me if you have any questions.

Enjoy the rest of your summer.

A handwritten signature in black ink, appearing to read 'jill'.