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Business capital spending appears to be slowing.

2007 1st Quarter Review

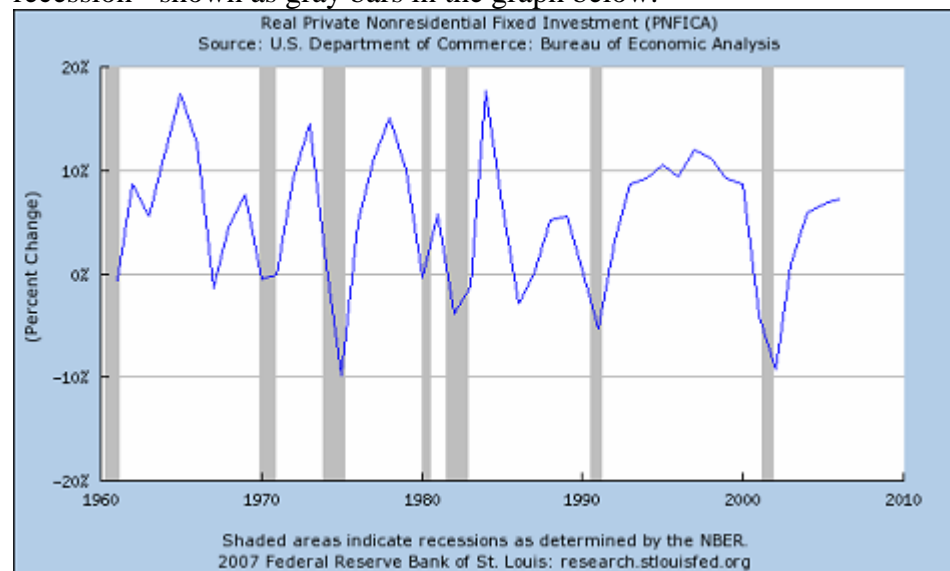
The equity markets continued to adjust to the reality of slower U.S. growth in the 1st Quarter of 2007. Although the major market indexes appeared to be trading water in a volatile environment, two things appear to have helped contain market risk: 1) Unlike the last business cycle downturn in 2000-2001, equity valuations were nowhere near as stretched as they were going into that prior period; 2) The consensus view that the economic slowdown's magnitude will be a "soft landing" continued to persist.

The MSAM Growth Composite produced reasonable results in the 1st Quarter. Refer to updated performance numbers on the MSAM website: <http://www.msam.net/products.htm>. While there are many ways to generate returns, we continued to take a conservative approach to allocating investment dollars, in lieu of the softer economic environment. This was evidenced by the higher level of cash we maintained and looked to opportunistically put to work.

Current Observations

Here are some items we are monitoring that affect our investment thinking in the current environment:

1: Business capital spending appears to be slowing. Historically, this has at times been followed by a sharp decline in capital spending growth, and periods of recession - shown as gray bars in the graph below.

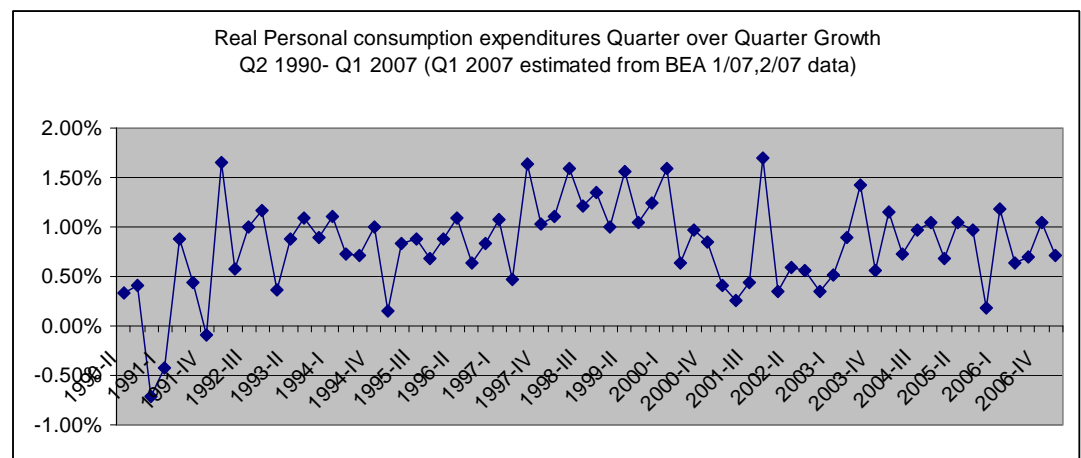


However, corporate profits are strong, and interest rates fairly low. Businesses may be taking a wait and see approach currently as opposed to canceling investment

spending plans. Additionally, these domestic investment indicators may be reflecting that corporations are increasingly directing their investment abroad. Recent data compiled by BusinessWeek (4/30/07 issue) revealed that government reported, US based business expenditures were up 8.9% year over year in Q4 2006, while global capital expenditures by the S&P 1500, per each respective company's financial reports, were up 18.1% year over year for 4Q 2006.

2: Consumer spending drives approximately 70% of the economy. Its health could mean the difference between a soft landing and a sharp downswing. We have had 61 straight quarters of positive consumer spending growth, starting from the early 90's recession. That trend appears to have held into the first quarter of 2007. With near full employment and moderate inflation, consumer spending may continue to help provide a soft landing, even with weakening domestic business capital spending. However, should consumer spending decline meaningfully, the soft landing scenario many are predicting will likely be in jeopardy of becoming a deeper slowdown.

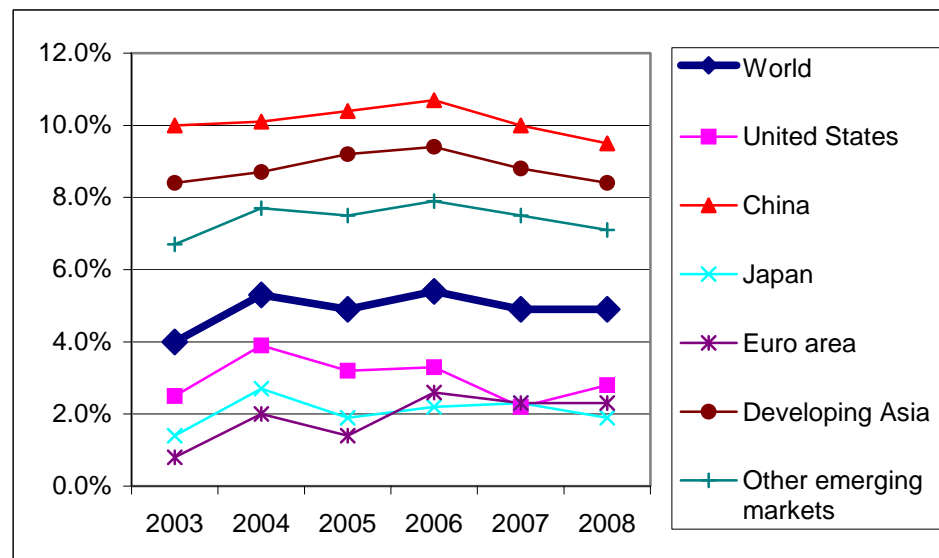
Consumer spending remains steady.



Source: Bureau of Economic Analysis

3: World GDP growth looks strong and could further support a soft landing domestically, especially for large cap stocks with significant foreign exposure. Japan and Europe look to be maintaining strong growth rates while China and other emerging economies continue blazing their path near double digit growth.

World GDP growth is robust.



Source: International Monetary Fund (2007 & 2008 are IMF estimates)

Year over year estimated Earnings growth %'s continue to look for a better 2007 second half & beyond

4: Analysts' expected earnings growth also continues to discount the economic soft landing scenario as is evidenced by higher earnings growth assumptions for the second half of 2007 and beyond:

Expected quarterly and annual Year over year earnings growth %:	Q1/07	Q2/07	Q3/07	Q4/07	2007	2008
S&P 500 Index	3.09	2.65	5.01	11.45	6.25	10.91
Consumer Discretionary	-12.38	-4.46	6.38	26.04	5.99	16.64
Consumer Staples	5.39	3.99	5.76	4.00	7.11	10.66
Energy	-2.31	-9.26	-6.81	10.97	-3.52	3.16
Financials	9.64	4.43	5.25	5.40	7.47	9.23
Health Care	1.37	6.68	12.89	17.94	11.42	11.80
Industrials	4.05	10.82	10.84	10.58	9.15	13.23
Information Technology	5.81	9.90	10.37	19.79	10.92	19.52
Materials	5.59	2.16	2.32	4.03	4.92	3.18
Telecommunication						
Services	-3.49	-1.92	0.77	2.45	-1.50	13.50
Utilities	4.43	6.93	1.60	14.71	6.11	7.39

Source: Thomson Financial, Bloomberg

2007 2nd Quarter Preview

With expected year over year estimated earnings growth indicating a better second half in 2007, the 2nd quarter will be pivotal in assessing whether companies will be able to deliver against those expectations. Implicit in those better second half expectations are not only that the magnitude of the economic slowdown is a soft landing, but further, that the 2nd quarter is the bottom of the slower period. A continued slowdown in housing & slower business capital spending, whatever its magnitude, may be at odds with that expectation.

As the earnings reporting season unfolds & companies reveal their outlooks for the 2nd quarter & beyond, the truth should begin to come to light. Thus far in the 2nd quarter, companies have generally reported results better than the recently lowered analyst expectations, and offered earnings guidance supporting the soft landing scenario. While the results thus far appear reassuring, we will continue to opt for a conservative approach in putting money to work, avoiding areas that are susceptible to the slowdown and seeking opportunities in areas that are beneficiaries of international growth.

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