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M&A deal flow slowed in August and September but appears to have stabilized in October.

2007 3rd Quarter Review

As the quarter began in July, the credit market seized up and shoes began to drop quickly in the subprime mortgage area. By early August, the meltdown had claimed not only a number of mortgage companies, but also a few hedge funds that either failed completely or halted customer redemptions and were bailed out. The uncertainty in the credit markets also got the attention of the Federal Reserve as it added liquidity and ultimately lowered interest rates by .50%.

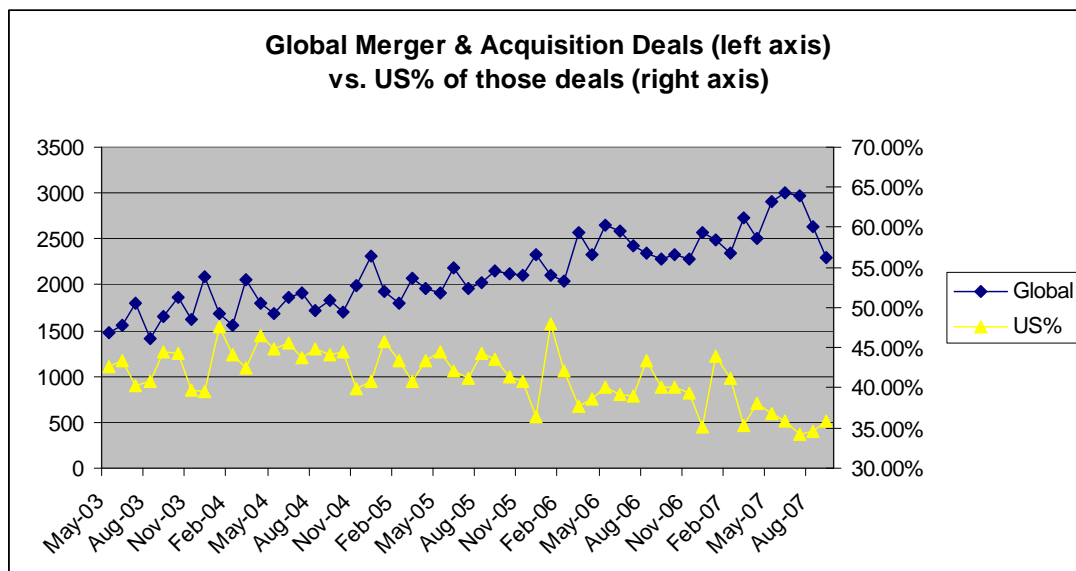
The MSAM Growth Composite produced reasonable results in the 3rd Quarter. Updated performance numbers are available on the MSAM website:

<http://www.msam.net/products.htm>.

During this period of uncertainty and heightened volatility, a lot of companies offered value as market participants were indiscriminate in their selling. In some cases, companies experienced steep stock price declines even though they had very limited credit exposure. We used this opportunity to put money to work in select financial companies and merger and acquisition deals we determined were mispriced. In addition, we continued to find value in technology and in companies with exposure to international growth.

Current Observations

1: Uncertain credit markets caused a great deal of concern that merger and acquisition deals would not get done. Slower deal flow in August and September can be noted in the chart below. However, thus far in October, deal flow appears to

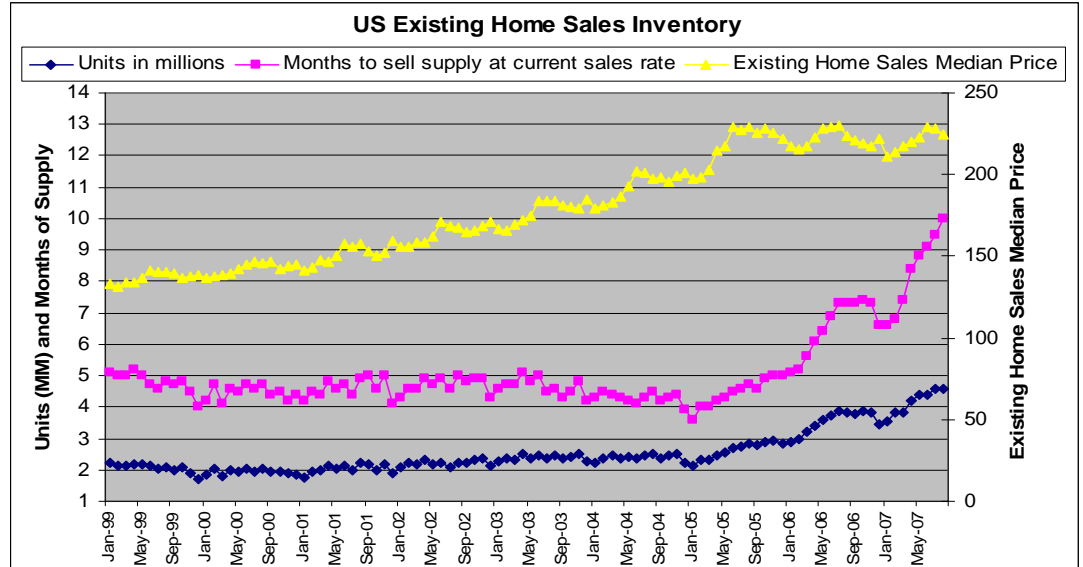


Source: Bloomberg

Real Estate continues to threaten economic growth.

have stabilized. Through October 18th, 1,515 deals have been announced globally. With the recent Fed rate cut to aid financing, corporate balance sheets flush with cash, and a considerable amount of private equity activity, it appears that the deal flow slowdown in August and September may represent a simple pause and re-rating of risk.

2: Nationwide median home sale prices have yet to respond materially to the increase in the supply of homes for sale as shown in the chart below for data through August 2007. Increased mortgage defaults reported recently certainly won't

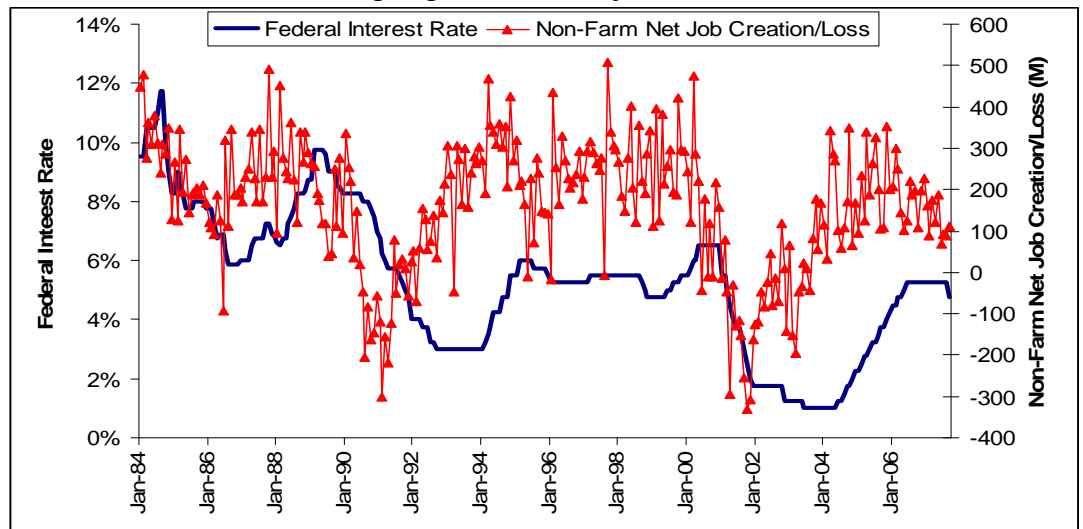


Source: Bloomberg

help the supply data. Real Estate continues to act as a weight on growth in the rest of the economy. The question of whether real estate difficulties can remain isolated, rather than creating a larger negative effect on the economy, continues to be of great concern.

3: In addition to credit market concerns, employment data also reinforced the Fed decision to lower the fed funds rate by .50% on September 18th. Job creation has slowed over the past few months, but it has continued to remain positive. The chart below offers some historical perspective on net job creation vs. the Fed funds rate.

Net job creation vs. Fed Funds Rate.



Source: Bloomberg

Year over year estimated Earnings Growth %'s for the S&P 500 reflect a higher trend of growth in 2008.

4: Earnings growth in 2008 is currently forecast to improve on 2007 numbers for S&P 500 companies as noted in the table below.

Expected quarterly and annual Year over year earnings growth %:	Q3/07	Q4/07	Q1/08	Q2/08	2007	2008
S&P 500 Index	0.7%	10.9%	9.4%	7.1%	8.0%	11.7%
Consumer Discretionary	-7.1%	17.4%	27.7%	12.3%	-0.4%	16.0%
Consumer Staples	8.5%	10.1%	11.8%	10.6%	15.0%	10.6%
Energy	-6.6%	11.4%	15.0%	-4.5%	2.5%	4.0%
Financials	-8.9%	1.6%	0.1%	0.4%	5.7%	9.8%
Health Care	11.4%	16.1%	5.8%	13.2%	16.1%	11.3%
Industrials	7.7%	7.6%	10.2%	13.8%	6.7%	14.1%
Information Technology	9.0%	20.2%	14.5%	21.0%	10.8%	23.0%
Materials	6.0%	10.4%	8.4%	10.4%	12.8%	9.3%
Telecommunication						
Services	30.8%	33.0%	15.8%	13.1%	28.5%	13.7%
Utilities	-0.7%	14.6%	8.7%	8.1%	5.1%	9.3%

Source: Thomson Financial, Bloomberg

The market will likely need to reconcile this outlook with the below potential economic growth forecast of around ~2.5% for 2008. The ripple effects on economic growth from the real estate market and the ensuing credit market issues will become clearer as we move through the 3rd quarter earnings season.

2007 4th Quarter Preview

With employment growth slower, but stable, and consumer spending in turn, the economy has a means to support itself. While it would be easy to extrapolate weakening employment and economic growth trends in the U.S., and expect things to get worse, leading domestic indicators and a global perspective do not agree with that view.

Global growth is expected to remain robust in 2008 at a growth rate of almost 5%. In the near term, given current valuation levels and the availability of cash and financing, we expect deal flow and world economic growth to continue to drive the market. This environment continues to allow us to sift for value in the U.S. equity markets and beyond.

Looking to 2008, signs of stabilization or lack thereof in the housing market will offer perspective on the magnitude and persistence of the U.S. slowdown.

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