

June 20, 2008

Dear Valued Investor:

Perhaps the clearest movement over the past quarter has been the movement of the sun higher in the sky as we reach the summer solstice today. Economic climate indicators have been far less resolute, and the stock market has been down, then back up, then back down with each round of news. The media, whose mantra is “bad news sells”, are having a field day. When the economy does not fall into recession, everybody starts worrying about inflation. The Federal Reserve (the Fed) starts hinting that it will raise interest rates, then the bond market tanks and the Fed takes it back. We think the big financial institutions are done with subprime mortgage related write-downs and then we get another round. More CFO’s get replaced. Oil prices start to fall and then go back up again. The dollar exchange rate starts to rise and then swoons. Frankly, for me it feels like being on a cheese grater – and that may be the good news.

It looks like we will be flat to down in U.S. equity markets for the second quarter; still well above the mid-March lows, but down year to date. It is a similar story for bonds, likely down a bit over the second quarter, and not up much year to date. It is a bit unusual to have both stocks and bonds doing poorly at the same time. Safe havens are hard to find. Energy and materials have done okay so far this year, but look risky given sky high product prices, slowing energy demand and rising supply. Large cap foreign and emerging markets are down about as much as U.S. equities year to date.

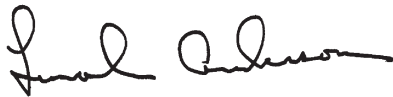
There is some positive news. It does not appear that the economy is falling off a cliff – employment declines have been moderate, it looks like GDP will be up again in the second quarter, and inflation, despite soaring food and energy prices, is still fairly low. The Index of Leading Indicators has been up slightly two months in a row. The Fed is meeting next week to set their interest rate target and I expect they will keep it at 2%. Labor productivity has remained strong – controlling business costs and keeping us competitive in global markets. U.S. exports are booming. And did I mention the sun is high in the sky?

On the negative news side, my expectations and hopes for lower oil prices and a convincing dollar exchange rate rebound have yet to materialize. We are seeing falling demand for energy throughout the developed nations, and a number of developing nations – China, India, Indonesia, Taiwan and Malaysia – have lifted energy price caps; I expect this will further slow demand. And energy supply is rising. The Saudi’s are hosting a big meeting of producer and consumer nations this weekend and have indicated that they will send

more oil to the market, with their oil minister saying that prices are way too high. I rarely find myself in agreement with Saudi oil ministers, but I am with him on this one. The record low dollar is providing U.S. companies and investors with a double advantage. First, it makes U.S. companies very competitive in global markets and second, it makes U.S. assets attractive to international investors. If the dollar would just put in a convincing bottom and begin a slow recovery, I think we would see a return to rising U.S. asset prices, but that has yet to happen.

I think that now is a time for patience. Usually when I have felt the cheese grater it has been around market bottoms. And, while I do not expect a return to a roaring bull market, I do think that there is good value in equities and decent value in bonds at this time. I will be watching the economy and markets closely and will continue to report developments to you. As always, please call your financial advisor with any questions or concerns.

Sincerely,



Lincoln Anderson
Managing Director, Chief Investment Officer

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