FMG Economic and Investment Outlook
Second Quarter 2007

We continue to remain cautious about the expected performance of equity investments worldwide in 2007 for the following reasons, which have remained essentially unchanged since our previous Economic and Investment Outlook.

- The full market cycle for U.S. stocks is in the late stages of advancement (i.e. near the top) as is evident by risky investor speculation and media hype without concern for underlying deteriorating economic fundamentals. Our assessment is that the U.S. economy will face mounting challenges in 2007 caused by the high domestic Federal debt level, the record international trade deficit, the diminished consumer spending capability, and the expected leveling off of corporate profits and spending. Accordingly, we foresee a more volatile investment environment occurring throughout 2007 and a recession as probable within the next twelve to eighteen months.

- The weakening currency exchange rate for the U.S. dollar makes it less attractive for foreign governments and investors to continue holding U.S. dollars because the conversion back to their own currency becomes increasingly less beneficial. Eventually, this could make it necessary for the Federal Reserve Bank to raise interest rates in order to provide foreign holders of dollars a yield that helps offset the decline in the dollar's currency value. The dollar's continued weakness against foreign currencies means that U.S. exported products and services are less costly for foreigners while foreign imports cost the U.S. consumer more and can increase the rate of inflation. We believe that not enough attention is being paid to intelligently managing the dollar's exchange rate, the trade deficit, and the national debt level. This makes the case for interest rates being forced higher, which in turn will slow economic growth as well as cause equity performance to be more volatile and less rewarding. There are similarities for this scenario with other economies through the world.

- Significant money inflows into the emerging markets for the past several years reached record levels in 2006, and have produced unsustainable investment gains. As a result, in 2007 we expect these markets to be very volatile with the smaller economies being most impacted by geopolitical strife and global economic slowdowns. Foreign stock markets that could be exposed to excessive volatility in 2007 include all the Latin American markets (due to the region's increasingly leftist stance), South Korea (due to North Korean uncertainty), Israel (due to regional instability), and Russia (due to its susceptibility to drastic market swings).

Our economic-driven assessments determine when and how we strategically adjust globally dispersed asset class weightings, which is the ***most important investment decision***. In light of the economic factors outlined above, and in anticipation of increased investment volatility during the next twelve months, we have structured client investment portfolios to be more defensively positioned as a buffer against downside risk. This is consistent with our "win by not losing" philosophy.