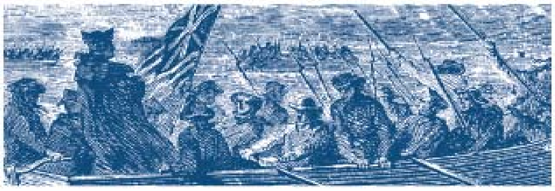

WASHINGTON CROSSING ADVISORS

November 28, 2007

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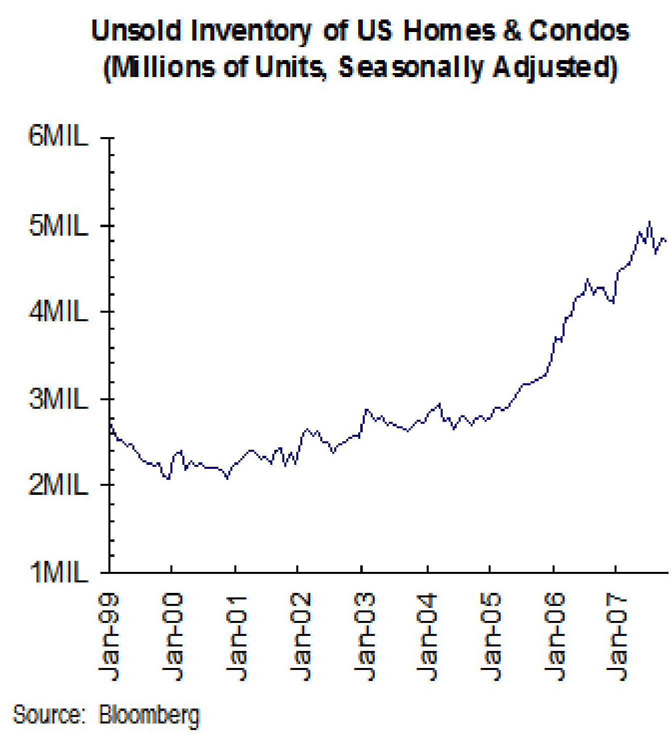
Equity Risk Heightened – Asset Allocation Remains Defensive

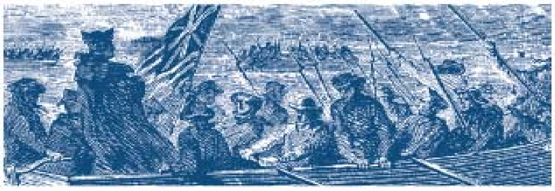
In our last update, we said there was an equal probability of easy money Fed policies re-accelerating the economy out of a "mid-cycle slowdown" and a less bullish outlook where rate cuts failed to contain a spreading credit crunch and consumer-led slowdown. To date, we have yet to see improvement in any of our previously identified areas of concern that would lead us to conclude that there is a turn for the better in the economy. By way of reminder, the most important areas to watch as leading indicators of the economy at this time are:

- The level of housing units for sale;
- Demand for credit;
- Trends in corporate profit growth;
- Year-over-year growth in private sector employment; and
- The relative performance of stocks and bonds.

Housing Units for Sale

Central to the economy's troubles today is the inventory of unsold homes at a national level. With an estimated market value of over $23 trillion, according to the Federal Reserve, this asset is the largest U.S. balance sheet item owned by households and represents over 40% of net worth. Seven years ago, this ratio reached a low point of 28% when real estate values declined in value relative to stock portfolios. The chart to the right shows the level of inventory after adjusting for seasonality. Through September, the level of unsold inventory was just under 5 million units, or 80% above average levels. The rate of growth in inventory, however, slowed somewhat to a 13% year-over-year pace compared with near 40% growth seen in 2006. Needless to say, we would like to see this rate of growth turn negative. However, the continuing inventory overhang suggests further corrections in asset valuation lie ahead — a troubling signal for investors in mortgages.





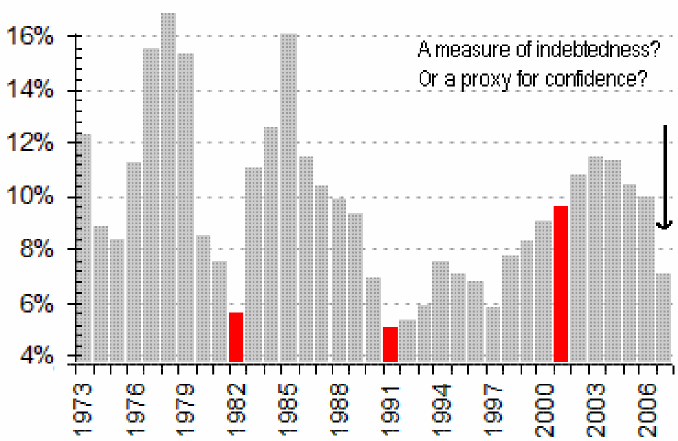
Demand for Credit

As this process unfolds, we expect household demand for credit to remain lackluster and savings rates to rise. This combination of falling demand for credit and rising savings has now been joined by a tightening of credit standards by banks that are now refusing a greater number of loans, requiring greater capital commitments on the part of borrowers and charging more for credit than before. We do not believe that this process is complete, either. Together, the combination of falling demand for, and supply of, credit is not consistent with the notion that prices for the nation's largest asset will level off soon. Hence, we continue to look for growth in net borrowings to be minimal and below the cost of interest as households seek to reduce the level of debt (debt is now 130% of household net worth vs. 80% in 1990). This process could take some time, and the emphasis on savings (and, unfortunately, defaults) will eventually help to unwind some of the U.S. household excesses seen in recent years.

We recognize that credit is not merely a household-related phenomenon. Businesses also borrow and spend — often through direct investments which can have a multiplier effect on growth in the economy. Therefore, we will be watching business habits in the private sector to see how they react to a slowdown in demand or a falloff in profit growth. A rise in risk aversion in the business community risk would intensify a downturn in final demand by domestic purchasers within the economy and result in rising layoffs and unemployment, budget cuts, and falling capital expenditures.

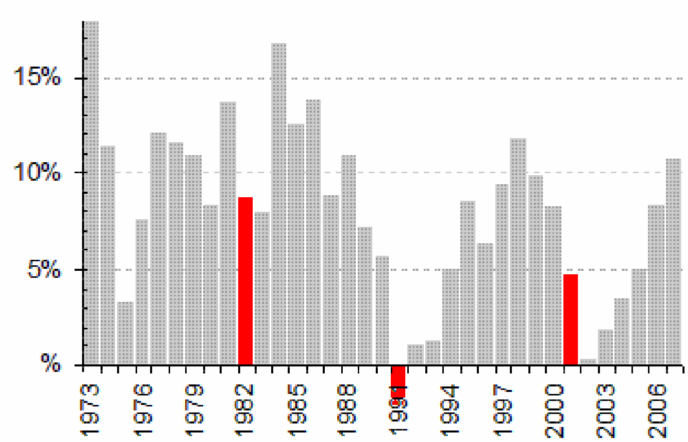
The charts below show how recessions (highlighted in red) tend to coincide with levels where net-borrowings fall below the approximate cost of money. The reason for this is because when net borrowing levels do not expand by the cost of credit, it implies that consumers and/or businesses are choosing to forego purchases to rebuild savings to a level that provide them sufficient levels of liquidity. Specifically, consumer-led recessions tend to emerge when growth by households falls below 6% and business recessions tend to emerge when levels of corporate debt growth fall below 5%, which makes sense since businesses borrow at a somewhat lower cost than individuals.

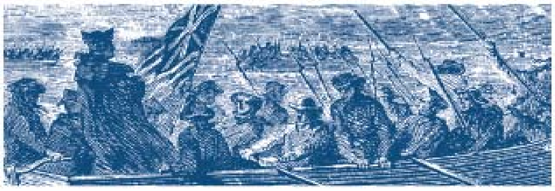
US Domestic Household Debt Growth



Source: Federal Reserve Flow of Funds Accounts, September 2007

US Domestic Corporate Debt Growth





Profit Growth and Sector Focus

Profit growth for the overall economy and the S&P 500 has been getting harder to come by. Last quarter, the profits from non-financial companies included in the national income and product tables (NIPA tables) declined modestly. It is now expected that S&P 500 profits will also decline for the third quarter by more than -4%, according to Thomson Financial. These facts stand in sharp contrast to analysts' existing S&P 500 profit forecast for next year. This forecast is currently looking for greater than 14% growth in S&P 500 profits in '08. Not surprisingly, the growth rate assumptions are very heavily dependent on robust earnings growth in the back half of the year (a worrisome sign). The S&P 500 bottom-up profit forecasts by quarter are for 7.9% in Q1; 7.2% in Q2; 27% in Q3, and 22% in Q4.

With demand slack in the economy, margins near peak levels, tax rates near historic low levels, and credit markets less supportive of buybacks and leveraged buyouts, we believe that there is reason to be cautious when looking at forward-looking expectations at this late stage in the profit cycle. We estimate that normalized profits — profits adjusted for cyclicality — could be meaningfully lower than current estimates and closer to $70-80 than current levels near $90 (see July 12, 2007 comment). Therefore, we have focused our attention away from the more economically sensitive and cyclical segments of the market and are focusing instead on segments that are more tied to sustainable and secular growth trends, are more defensive and consistent in nature, possess a global customer base, or have underperformed and now present a compelling value with an attendant margin of safety. Such sectors include technology, healthcare, consumer staples, and telecommunication services.

S&P 500 Sectors

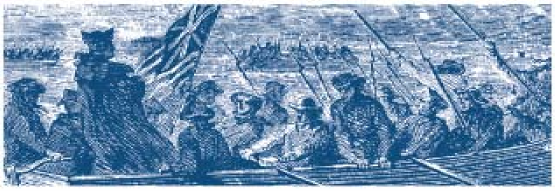
Sector	Historic S&P 500 Weighting ('85-'07)	Current S&P 500 Weighting	5-Year Performance vs. S&P 500	Year / Year Earnings Growth ** (Q3'07 vs Q3'06)
FINANCIALS	7-18%	17.8%	-20%	-15%
TECHNOLOGY	7-30%	16.5%	1%	31%
HEALTHCARE	7-15%	12.3%	-16%	17%
ENERGY	5-12%	12.1%	99%	-9%
INDUSTRIAL*	7-12%	11.6%	13%	21%
CONSUMER STAPLES	9-19%	10.4%	-5%	13%
CONSUMER DISCRETIONARY	8-14%	8.8%	-15%	-11%
UTILITIES	2-7%	3.7%	47%	9%
TELECOMMUNICATIONS	4-11%	3.5%	-10%	12%
MATERIALS	2-9%	3.3%	30%	12%

* INCLUDES TRANSPORTATION AND CAPITAL GOODS

** MARKET CAP WEIGHTED EPS GROWTH

Sources: Bloomberg, Standard & Poors.

Illustrative purposes only. Past performance not a guarantee of future results.



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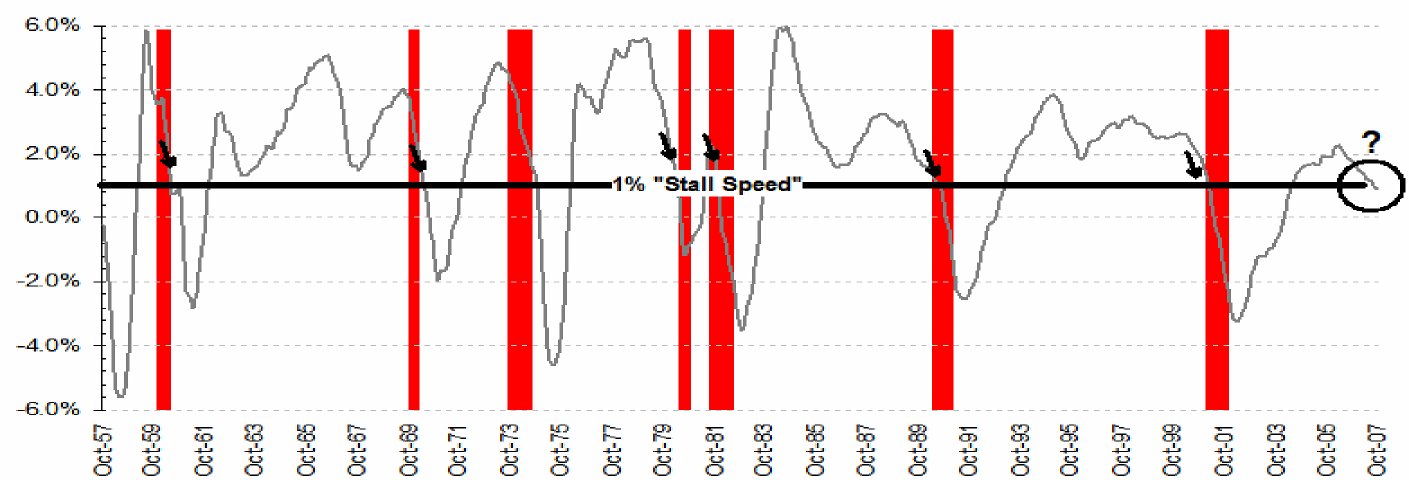
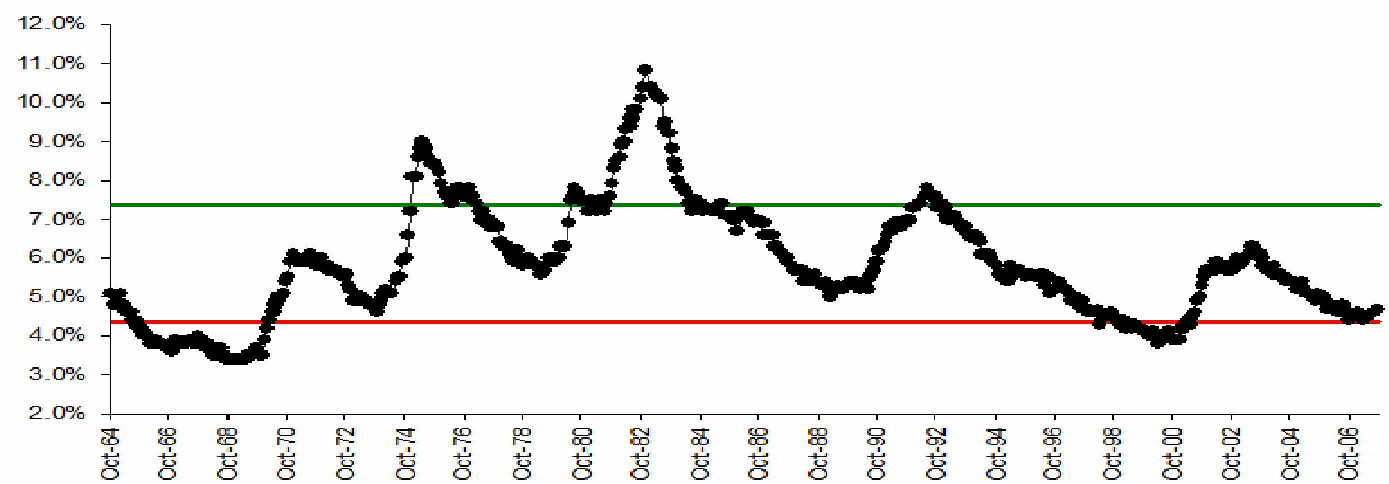
Growth in Private Sector Employment

In the past, when growth in private sector employment has slowed to a growth rate below 1%, recessions typically followed. The reason that we do not include government payrolls is because we are trying to identify the trends in business decision-making that drive investment and the economy. The first of the two charts below shows this graphically. Notice that when the year-over-year growth rate (the thin line) moves below 1% (the thick line), recessions were declared (the red shaded areas). Today, we are again at that 1% "stall speed." Thus far, there has been little improvement in this measure, and the unemployment rate continues to move higher relative to the 4.5% low watermark booked in October 2006. The rest is yet to be seen, but this is very important to watch.

Change in Private Sector Employment Nears Economy's "Stall Speed"



The Unemployment Rate Has Begun to Adjust Higher From Very Low Levels



Source: Bloomberg

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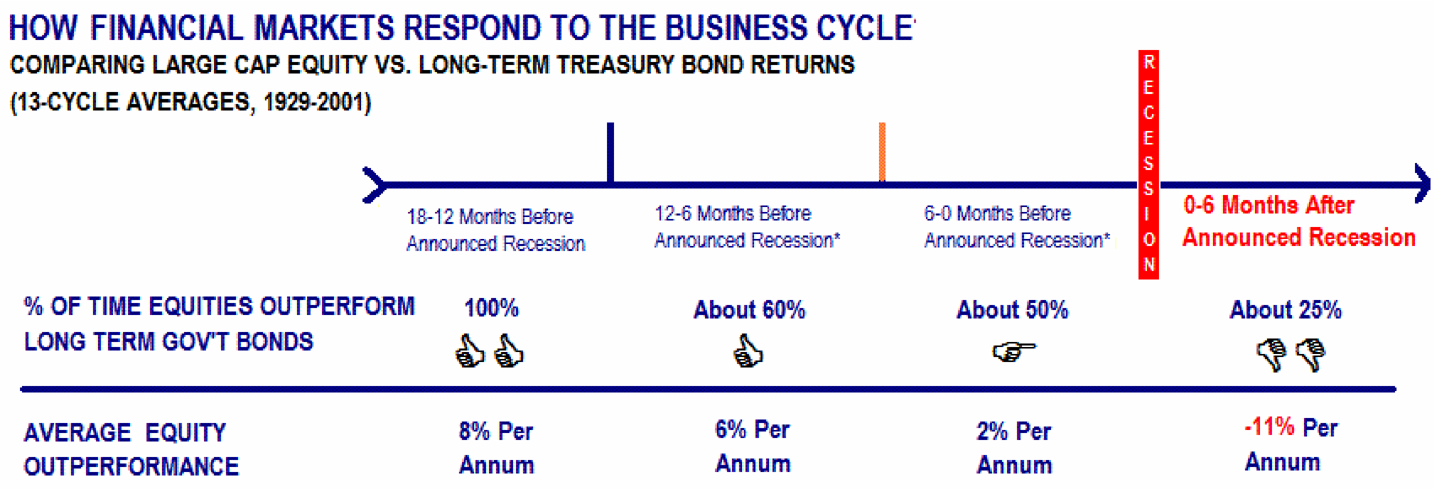
Relative Performance of Stocks vs. Bonds

Investors should care about the implications of this type of data, because it says a lot about where we are in the economy's cycle and there is ample historic evidence that there is a connection between financial markets and economic growth. In the example presented below, we see that investors tend to seek safety in assets less directly tied to the economy (like bonds) when there is a business downturn and tend to seek riskier assets (like stocks) when the economy is on a growth path. We can measure this in terms of both the percentage of times that equities outperform longer-dated government bonds and by measuring the average annual excess return generated by stocks at different stages of past cycles.



Data: Morningstar (return data), National Bureau of Economic Research (business cycle dates), calculations by Stifel Nicolaus Private Client Group strategy team.

CONCLUSION:

We have had a defensive allocation for quite some time and see no reasons to change that point of view currently. We are also reaffirming our year-end index target of 1,430, which we put forth March 19 when credit conditions in the economy first began to materialize. The issues that we have discussed all year are, unfortunately, still with us. Until we see some signs of improvement on the issues outlined above, we will be inclined to remain in a more defensive mode with portfolios.

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TACTICAL ASSET ALLOCATION RECOMMENDATIONS: 11/28/2007

	CORE PORTFOLIOS					SECTOR ENHANCED PORTFOLIOS			
	Aggressive	Growth	Balanced (Tax Free)	Balanced	Conservative Growth & Income	Aggressive	Growth	Balanced (Tax Free)	Balanced
INCOME & DEFENSIVE	**1%**	**25%**	**50%**	**50%**	**75%**	**1%**	**25%**	**50%**	**50%**
Bonds & Cash Equivalents	**1%**	**23%**	**45%**	**45%**	**68%**	**1%**	**23%**	**45%**	**45%**
Money Market Fund	1.0%	1.0%	2.0%	2.0%	3.0%	1.0%	1.0%	2.0%	2.0%
Short-Term Treasuries		5.0%		10.0%	15.0%		5.0%		10.0%
Intermediate Term Treasuries		2.5%		5.0%	7.5%		2.5%		5.0%
Long-Term Treasuries		2.0%		4.0%	6.0%		2.0%		4.0%
Inflation Protected Treasuries		2.5%		5.0%	7.5%		2.5%		5.0%
Investment Grade Corp Bonds		8.0%		16.0%	24.0%		8.0%		16.0%
High Yield Corporate Bonds		1.5%		3.0%	4.5%		1.5%		3.0%
Short-Term Municipals			33.9%					33.9%	
Long-Term Municipals			9.1%					9.1%	
REITs	**0.0%**	**0.0%**	**0.0%**	0.0%	**0.0%**		**0.0%**	**0.0%**	**0.0%**
GOLD	**0.0%**	**2.5%**	**5.0%**	5.0%	**7.5%**	**0.0%**	**2.5%**	**5.0%**	**5.0%**
EQUITIES & GROWTH	**99%**	**75%**	**50%**	**50%**	**25%**	**99%**	**75%**	**50%**	**50%**
U.S. Equities	**71%**	**54%**	**36%**	**36%**	**18%**	**71%**	**54%**	**36%**	**36%**
Large Cap Growth	35.6%	27.0%	18.0%	18.0%	9.0%				
Large Cap Value	15.8%	12.0%	8.0%	8.0%	4.0%				
Mid Cap Growth	11.9%	9.0%	6.0%	6.0%	3.0%	11.9%	9.0%	6.0%	6.0%
Mid Cap Value	7.9%	6.0%	4.0%	4.0%	2.0%	7.9%	6.0%	4.0%	4.0%
Small Cap Growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Small Cap Value	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Micro Cap	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
U.S. Equity Sectors						**51%**	**39%**	**26%**	**26%**
Energy						2.5%	1.9%	1.3%	1.3%
Technology						8.8%	6.6%	4.4%	4.4%
Materials						1.5%	1.1%	0.8%	0.8%
Industrials						4.0%	3.1%	2.0%	2.0%
Consumer Discretionary						3.0%	2.3%	1.5%	1.5%
Health Care						12.1%	9.2%	6.1%	6.1%
Utilities						1.5%	1.1%	0.8%	0.8%
Consumer Staples						6.6%	5.0%	3.3%	3.3%
Telecommunications						4.1%	3.1%	2.1%	2.1%
Financials						7.6%	5.7%	3.8%	3.8%
Foreign Equities	**28%**	**21%**	**14%**	14%	**7%**	**28%**	**21%**	**14%**	**14%**
Brazil	5.9%	4.5%	3.0%	3.0%	1.5%	5.8%	4.4%	3.0%	3.0%
Germany	4.0%	3.0%	2.0%	2.0%	1.0%	3.9%	2.9%	2.0%	2.0%
South Korea	4.0%	3.0%	2.0%	2.0%	1.0%	3.9%	2.9%	2.0%	2.0%
Taiwan	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Mexico	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EAFE Growth	13.9%	10.5%	7.0%	7.0%	3.5%	13.6%	10.3%	7.0%	7.0%
EAFE Value	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Emerging Markets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deleloped Markets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL PORTFOLIO	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**