MARKET COMMENTARY

April 2008

First Quarter Recap

The financial turmoil that began in the middle of last year reached a crescendo during the first quarter of 2008 as the ramifications of the sub-prime mortgage debacle rippled through the fixed income markets and it became evident that economic growth in the U.S. had ground to a halt. Many large financial institutions around the world took massive write-offs and were forced to raise equity in order to maintain their capital ratios, while hedge funds continued to de-lever. The impairment of bank balance sheets and the threat of additional write-offs, caused a further tightening of credit and made these institutions unwilling to lend to each other. The "flight to quality" into U.S. Treasury securities on the part of investors continued, while selected markets like auction rate securities for example, failed to function because banks and brokers would not provide the necessary liquidity. In mid-March, the turmoil climaxed with the near-collapse of Bear Stearns. In what is best described as a "run on the bank" in which Bear's counterparties refused to provide credit to the brokerage firm, the Federal Reserve was forced to take unparalleled action and assist J.P. Morgan Chase in acquiring Bear at a fire sale price. Although the media reported the transaction as a "bail-out", the purchase was anything but. Shareholders in Bear Stearns initially received $2/share, nearly wiping out their equity stake. (The takeover price was later revised to $10/share, still a huge haircut from the $150/share Bear had traded at last year.) The real reason the Fed chose to rescue Bear was to prevent significant damage to, and potentially a collapse of, global financial markets. In addition to orchestrating the purchase of Bear during the first quarter, the Fed quickly provided liquidity to the markets and aggressively reduced interest rates in order to stabilize the financial system.

Reflecting this difficult series of events, the S&P 500 reached its nadir a few days before the collapse of Bear Stearns, a decline of nearly 19% from the index's October 2007 high. Fortunately, buyers saw value in the market and equities rebounded in the second half of March. Even so, the S&P 500 finished the first quarter down 9.4%, an ugly start to the year. Small and mid cap stock indices also declined about 10% during the same period. Investor uncertainty and short-covering by hedge funds every time there was a favorable development, fueled extreme market volatility. During the January through March period, the S&P 500 moved more than 1% on more than half of the trading days. The financial turmoil was also reflected in international equity markets. The MSCI EAFE fell by 15% measured in local currency during the first quarter, but the continued weakness of the dollar changed the EAFE return measured in dollars to -8.9%. The emerging markets of China and India were especially weak, declining 24% and 27%, respectively, when also measured in U.S. dollars.

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PERFORMANCE MATRIX

Index	2008 1Q
S&P 500	-9.4%
Russell 1000 Growth	-10.2%
Russell 1000 Value	-8.7%
Russell Mid Cap	-10.0%
Russell 2000 (small cap)	-9.9%
Wilshire 5000	-9.6%
MSCI EAFE (international, $, net)	-8.9%
Lehman Municipal Bond	-0.6%
Lehman Aggregate Bond	+2.2%

In contrast to the weak performance of equities, returns in the domestic fixed income market sectors were generally between slightly negative and marginally positive. For example, the Lehman Municipal Bond Index declined by 0.6% during the quarter and the Lehman index that measures the performance of corporate bonds fell by 0.2%. Notable exceptions were the Treasury market and international bonds. Continuing the trend that characterized the second half of 2007, investors fled to the safety of U.S. Treasury obligations during the first quarter of 2008. As a result, Treasury obligations across the yield curve appreciated between 3% and 6% in the first three months of the year and Treasury Inflation Protected Securities (TIPS) benefited from this "flight to quality". The average mutual fund in the TIPS category appreciated about 5% during the first quarter. International bond funds achieved comparable returns during the first three months of the year because of declining interest rates, the flight to quality, and the depreciation of the dollar. Conversely, spreads continued to widen for both high yield corporate and municipal debt, and these sectors of the bond market experienced mid single-digit losses during the first quarter.

Equity Markets

There was no place to hide in the equity markets during the first part of the year. Every one of the ten S&P industry sectors produced a negative return. The worst performing sectors were technology, financials, telecommunications, and health care. All of these industry groups declined by 12% to 15% during the first quarter. Technology stocks performed admirably in 2007, but investor concern that companies in this sector would be adversely impacted by the economic slowdown, combined with the financial problems at banks, which are large IT (information technology) consumers, conspired to undermine the performance of the tech sector. The financial sector was dragged down by the bank and broker write-offs referenced earlier, as well as the expectation that future profits would suffer

from large increases in loan loss provisions. Telecommunications stocks suffered from a correction of excessive valuations and the threat of higher taxes on dividends if the political regime changes in November, while health care faced a number of issues including HMO margin pressure, the potentially negative implications of a Democratic administration, and adverse developments associated with some high profile drugs.

S&P 500 SECTOR PERFORMANCE

S&P 500 Sector	Sector Wt. (3/31/08)	1Q 2008
Energy	13.3%	-7.2%
Materials	3.6%	-3.0%
Industrials	12.2%	-3.9%
Consumer Discretionary	8.6%	-5.9%
Consumer Staples	11.1%	-2.2%
Health Care	11.7%	-11.5%
Financials	16.8%	-14.0%
Information Technology	15.7%	-15.2%
Telecommunications Services	3.4%	-13.7%
Utilities	3.6%	-9.9%
S&P 500	100.0%	-9.4%

Conversely, the three best performing industry sectors, each of which declined 2% to 4% during the quarter, were consumer staples, materials, and industrials. Consumer staples are traditionally a defensive area of the market and the earnings of companies in this sector tend to hold up relatively well in a weak economic environment. Given the current and prospective economic weakness we are facing, it is a little surprising that the materials and industrial sectors performed as well as they did. However, the strong demand from developing countries for materials and the high prices many of these commodities are trading at, have continued to support stocks in this sector. The weak dollar and the increased competitiveness of U.S. manufacturers, plus the strength of global markets, have kept investors interested in industrial stocks.

In sharp contrast to last year, value stocks outperformed growth across the entire market capitalization spectrum. This outperformance was particularly pronounced in small cap value, which had been especially hard hit during the later half of 2007. In fact, small cap value was the best performing domestic sector during the first quarter. This is surprising because the conventional wisdom is that large cap stocks outperform small cap equities during periods of economic uncertainty. We will see if this trend persists during the balance of the year.

Fixed Income

Although not as adversely affected as the equity markets, the fixed income markets experienced considerable dislocation during the first quarter. After reviewing the turmoil in different sectors of the bond market in *his* quarterly market commentary, Dan Fuss, the long tenured portfolio manager of the Loomis Sayles Bond fund said:

> "Why then do we have such apparent 'distress' in much of the bond market? I would argue that the principle reason is that the dealers are not carrying bonds and inventories, resulting in very thin markets. Furthermore, fear is involved. There are outflows from perceived higher risk fixed income mutual funds. The 'safe' funds are taking in money and there is a huge build up in money market funds.
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> The above is all very understandable. The front page of the newspaper scares the bejeebers out of you each day. The banking system is recording record borrowed reserves. *I don't recall anything like this in my half-century of watching markets*. The good news side here is that both the Fed and the U.S. Treasury are actively supporting the banking system and, in a new wrinkle, the major investment banks. In other words, the problem is not being ignored here....
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> In summary, my perception of things is that fear is out of all proportion to the risk we are facing, which is sizeable. The net/net of this is that there are some excellent opportunities in investment grade corporates and a good number in the high yield space."

The dislocations experienced throughout the fixed income markets during the first quarter extended to municipal bonds. Performance was uncharacteristically volatile and lagged Treasuries considerably. After rebounding in January, investment grade municipal bonds were under considerable pressure during February, especially during the second half of the month, because of indiscriminate selling by fixed income hedge funds. Downgrades of the municipal bond insurance companies and the failure of the auction rate securities market were additional factors that pressured municipal bonds. Although crossover buyers (i.e., investors who normally buy only taxable debt) plunged into the municipal market in March because of the relative attractiveness of these issues and helped the sector rebound, the yield of investment grade municipal bonds relative to Treasury yields still remains at record highs. As a result, with nominal investment grade municipal bond yields *exceeding* the yields of taxable bonds, municipals remain very attractive. High yield munis have also continued to face indiscriminate selling that does not reflect the underlying fundamentals of the credits. We continue to believe that the high yield municipal bond sector is attractive and our hope is that this fixed income category will rebound as the year progresses.

Outlook

U.S. equities currently face a laundry list of headwinds that are likely to keep the market under pressure in the near-term. After experiencing almost no growth in the fourth quarter of 2007, the U.S. economy probably tipped into recession during the early part of 2008. The deterioration in the housing market has adversely impacted consumer spending and the loss of about 250,000 jobs during the first quarter, combined with waning consumer confidence and a more restrictive credit environment, will only cause the consumer to pullback even further. Corporations have also become more cautious and capital spending has been reined in. Although corporate America is generally in good financial shape, as demand continues to wane, top-line revenue growth will subside, placing more pressure on corporate profits. After 5 years of strong earnings growth, profit growth began to deteriorate during the second half of 2007. In fact, in the final quarter of last year, earnings for the S&P 500 declined by 25% to 30%, though excluding the financial sector, corporate earnings grew 9%. According to Credit Suisse's quantitative research group, expected year-over-year earnings growth for the S&P 500 is currently forecast to decline 12% in the first quarter of 2008 (+3% excluding financials) with an additional decrease anticipated for the second quarter. The consensus expectation is for a rebound in corporate profit growth in the second half of 2008, though this forecast could prove to be optimistic, especially in light of several recent disappointing high profile first quarter earnings announcements (e.g., GE).

Elevated commodity prices are another issue for the economy and have placed increased pressure on consumers. At this point, the Federal Reserve has focused more on the deteriorating economy, but commodity-driven inflation has become more troublesome. Normally, commodity prices should weaken in this kind of soft economic environment, but the price of oil and other industrial commodities remain stubbornly high fueled by demand from developing countries and financial speculation. Commodities are also viewed by some investors as a hedge on the U.S. dollar and the weaker dollar has, in turn, placed upward pressure on commodities.

Working in the stock market's favor, the Federal Reserve has aggressively lowered interest rates and pumped liquidity into the financial system. Interest rate reductions work with a lag and the Fed's actions should benefit the economy later this year. Congress has also passed a fiscal stimulus package which is expected to have a temporary positive impact during the second half of 2008. The weak dollar has made U.S. manufactured goods more competitive in overseas markets, benefiting the sales of many multinationals. Economic growth outside the U.S., especially in Asia, is reasonably healthy, though it is likely to slow. Finally, although investor pessimism remains very high (usually a positive for the market), as a result of the market pullback, U.S. equity valuations are very reasonable and many of our portfolio managers indicate that selected stocks are beginning to offer terrific values.

While the outlook for the equity markets is quite hazy right now, especially with the presidential election in the fall, at some point this year the market might discount a negative scenario and look forward to the next recovery. *The key question will be the depth and duration of the recession and the market's perception of the magnitude of the potential rebound.* As we have mentioned in the past, the market is a discounting mechanism and often looks ahead, so perhaps by the latter half of 2008 investors will be focusing on an economic recovery in 2009 and the equity markets will perform better. According to a recent analysis from the portfolio strategy team at Credit Suisse:

> “Equities are much more correlated with GDP 6 to 9 months later than with current GDP. The implication is that the market is indeed forward looking and reasonable at forecasting economic slowdowns. On average, the market falls approximately 14% in the 12 months before the first of at least two negative GDP quarters. During the “official” recession, equities consistently rally, gaining about 10%. After the recession has ended, the rally continues, gaining 8% on average in the 6 months following.”

For fixed income markets, economic weakness should be beneficial to returns. We continue to expect mid single-digit *average* gains for calendar 2008. Hopefully, bond investors will benefit from a return to a more rational credit environment.

Other Matters

Mintz Levin Financial Advisors, LLC, a financial planning and investment advisory firm registered with the U.S. Securities and Exchange Commission, updated its Form ADV this year. If you would like to receive our current Part II of Form ADV, please contact Mintz Levin Financial Advisors, LLC in writing, or call us at (617) 348-1737. Further, we have enclosed the Privacy Policy Statement for Mintz Levin Financial Advisors, LLC for your records.

Also, in accordance with SEC regulations, we request that you contact us in the event that there have been any material changes in your financial circumstances or investment objectives, or if you wish to impose any reasonable restrictions on the management of your accounts or modify existing restrictions on the management of your accounts. As always, please call us if you have any questions or concerns.

Sincerely,

Mintz Levin Financial Advisors, LLC

Robert J. Glovsky
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