In the Eye of the Storm

Market Summary

October 2007

Financial markets have taken investors on a wild ride during the second half of 2007. Problems in the sub-prime mortgage market acted as the catalyst for a brief correction, with most major equity indexes turning in double-digit losses between mid-July and mid-August. The Fed responded quickly with a 0.50% discount rate cut on August 17 and a 0.50% Fed Funds rate cut on September 18, and the S&P 500 Index rebounded to reach new record highs in October.

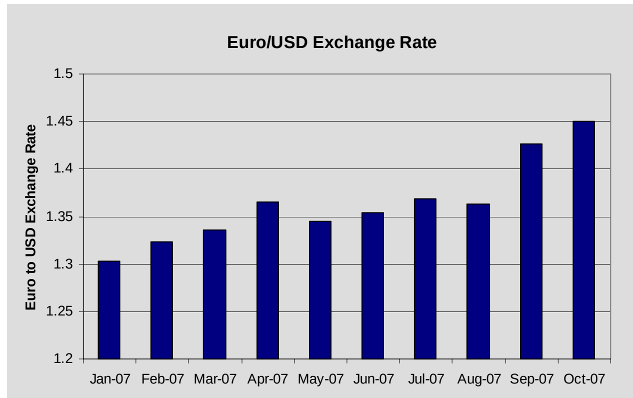
	Oct	YTD	1 Yr	3 Yrs	5 Yrs
Domestic Equities/Fixed					
S&P 500	1.6	10.9	14.6	13.2	13.9
Russell 2000	2.9	6.1	9.3	13.7	18.7
Russell 1000 Growth	3.4	16.5	19.2	12.9	12.6
Russell 1000 Value	0.0	6.0	10.8	14.6	16.4
Dow Jones Wilshire REIT	1.1	(3.5)	(1.2)	17.9	23.5
Lehman Aggregate Bond	0.9	4.8	5.4	3.9	4.4
International Equities					
MSCI EAFE	3.9	17.6	24.9	23.4	23.2
S&P/Citigroup EMI-EPAC	5.1	17.1	27.3	28.3	30.2
MSCI Emerging Markets	11.2	49.5	67.8	44.7	39.9
Alternative Assets					
GS Natural Resources	4.3	34.0	40.5	30.7	30.3
DJ AIG Commodity	3.3	14.7	15.4	10.1	15.1
HFR Fund of Funds	2.7	11.0	15.1	11.1	9.8

Domestic Markets

The S&P 500 Index increased another 1.6% in October and is up 10.9% year-to-date. As they have all year, growth stocks led the way. The Russell 1000 Growth Index rose 3.4% in the month and 16.5% since the beginning of the year. The Russell 1000 Value Index was flat in October and has returned just 6.0% year-to-date. Small caps nearly doubled large caps in the month, with the Russell 2000 Index earning 2.9% to reach a 6.1% return since January 1. Fixed income securities turned in another solid month. The Lehman Aggregate Bond Index was up 0.9% in October and 4.8% year-to-date.

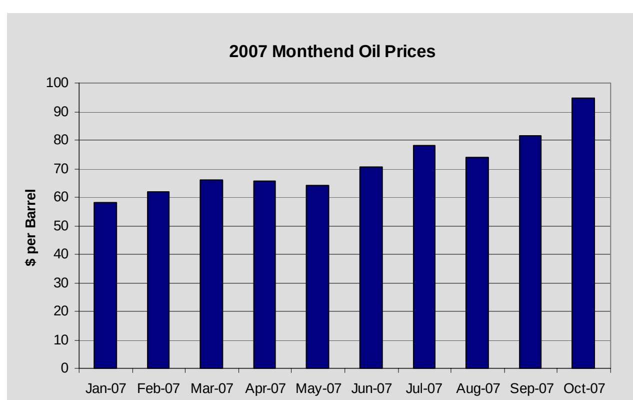
International Equities

International stocks performed even better than their U.S. counterparts as the dollar continued to weaken (see chart near top of next column). The MSCI EAFE Index, representing international large cap equities, increased 3.9% in October and 17.6% since the beginning of 2007. The S&P/Citigroup EMI-EPAC Index, an international small cap stock benchmark, tracked the larger companies closely, earning 5.1% in the month and 17.1% year-to-date. Emerging market equities continued their stellar performance, jumping 11.2% in October and 49.5% since January 1.



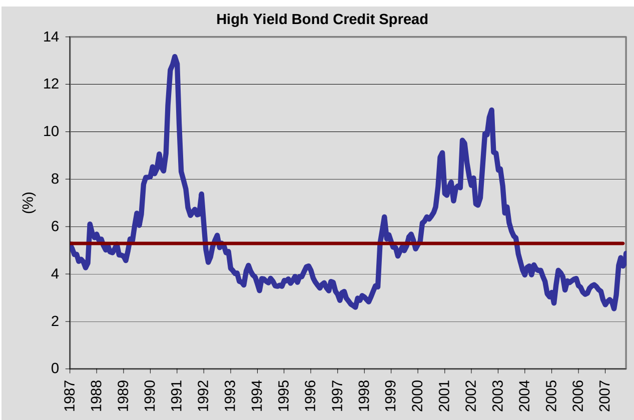
Alternative Investments

Alternative investments were positive in October as well. The Dow Jones Wilshire Real Estate Investment Trust Index eked out a 1.1% return in the month, but remains down 3.5% year-to-date. The Goldman Sachs Natural Resource Index increased another 4.3% in October as oil continued rising toward $100 per barrel (see chart at bottom of this column). Since the beginning of the year, the Index's 34.0% return trails only emerging markets among major asset classes. Incorporating a broader range of commodities, the DJ-AIG Commodity Index earned 3.3% in the month and 14.7% year-to-date. Following a difficult August, hedge fund returns were above 2.0% for the second straight month. The HFR Fund of Funds Index earned 2.7% in October and 11.0% since January 1.



Looking Ahead

Despite another 0.25% cut in the Fed Funds rate on the last day of the month, October appears to have been only a momentary calm in the middle of the storm. In the first week and a half of November, U.S. equities dropped 6% while international stocks, with ongoing support from the declining dollar, fell 4%. The high yield bond credit spread widened from 4.50% to 4.87% (see chart below), just below the long-term historical average. It will be interesting to see whether equity markets can muster their typical yearend rally in the face of the declining dollar, oil approaching $100 per barrel, and the continuing turmoil in the credit markets.



Paul Wilkin, CFA, CAIA, CFP
Senior Consultant
Hammond Associates
101 S. Hanley Rd, 3rd Floor
St. Louis, MO 63105
314-746-1600
www.hammondassociates.com