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The U.S. capital markets enjoyed a modest recovery in the second quarter, after experiencing losses over the first three months of the year. The S&P 500 gained 1.4% in the quarter, but is still down 0.8% on the year. The NASDAQ Composite Index rallied 3.1% in the quarter, yet it is still down 5.1% for the year. Foreign stocks funds did not participate in the second quarter rally, in large part because of a rally in the U.S. dollar. The EAFE Index of foreign stocks fell 0.7% in the quarter and is down 0.8% on the year. Bonds rallied along with the stock market as the Lehman Aggregate Bond Index rose 3.0% and is now up 2.5% so far this year

We are pleased with the recent performance of our fund holdings. Among our domestic equity funds, only the Sound Shore fund is lagging behind its peer group by a meaningful margin -- this is of little concern to us given this fund's excellent relative performance over the past five years. Our foreign stock funds continue to perform nicely as well. Our gold and commodity funds lost value in the second quarter, but we continue to believe in the long-term macroeconomic forecast that would support such investments.

Little has happened in the market in recent months to change our outlook. We believe that stocks remain overpriced and will likely deliver mid to high single digit returns over the next ten years. We also expect to see such returns delivered in "roller coaster" fashion. In the short term we expect to see some weakness in the second half of this year as the market digests higher short-term interest rates and high crude oil prices. We will look to such a decline to modestly increase equity exposure in appropriate portfolios. We continue to hold above target fixed income allocations for most clients given the risk-reward for bonds relative to stocks. Our emphasis on quality also remains a major theme in our portfolios. Among our stock funds, there is a clear emphasis on managers that buy large, financially sound companies, and our bond funds own only investment grade debt. We believe that this focus on quality will serve us well in this challenging investment environment.

Sincerely,

A handwritten signature in cursive script, appearing to read "Paul B. Adams". The signature is written in black ink and is positioned below the "Sincerely," text.

David B. Ackerman, CFA, CFP
Partner