

CAPITAL MARKETS OUTLOOK

The Economy ♦ Fixed Income ♦ Equities

OVERVIEW

The first quarter of 2008 delivered an onslaught of disappointing and unexpected news on the economy and credit markets. Generally, the surprise in the news was summed up by a recent article in the Wall Street Journal: “The US is at the receiving end of a massive margin call: across the economy, wary lenders are demanding that borrowers put up more collateral or sell assets to reduce debts.”

The stock markets have suffered so far in 2008, but fall shy of the 20% drop reserved for a bear market description. Here is the scoreboard with our major products and their performance as of March 27, 2008:

	March to Date	Year To Date	12-MONTH RETURN
Strategic Growth Portfolio	.84	-9.69	.99
Common Stock Fund	.82	-9.58	1.06
Retirement Common Stock Fund	-.92	-7.57	-.82
Russell 1000 Growth	-.39	-9.98	-.34
Value Stock Fund	-1.07	-7.59	-9.83
Russell 1000 Value	-.55	-8.53	-9.53
S&P 500 Index	-.21	-9.24	-4.62
MSCI EAFE Index	-.50	-8.40	-2.16
Lehman Inter Govt/Credit Index	-.39	2.61	8.38

Comments and Outlook for the Balance of 2008:

The Economy

- Our view is that the economy has entered or will soon enter a recession as is evidenced by the weak showing of the employment and consumer spending data.
- This economic weakness will be contained, and GDP growth for 2008 will be unchanged to + 1% on the heels of the government stimulus package and interest rate cuts.
- Core inflation will remain above the Federal Reserve’s (FED’s) target range of 1-2%, but will not spin out-of-control, because continued weakness in housing will anchor consumer spending and inflation pressures.

The FED

- The FED has implemented two surprise rate cuts and four progressively more aggressive intervention activities designed to maintain liquidity and provide smooth functioning credit markets.
- The persistent problem has been an increase in rates for borrowers, like mortgage rates and most bonds rates, even though the interest rates on fed funds and short-term treasuries are plunging. Bond buyers and other providers of credit are less confident because of housing weakness, skepticism from rating agency turmoil, lack of transparency in reporting, and sudden unexpected failures like Carlyle Group and Bear Stearns.
- The FED is battling a crisis of confidence in the solvency of companies actively involved in the credit bubble of mortgage-backed securities.
- We expect the Fed Funds rate, which is 2.25%, and the 3-month Treasury bill rate, which is .92%, to eventually converge as in other cycles. If the 3-month Treasury bill rate stays near 1% we would

expect the FED to continue to ease. The potential challenge to this process would be accelerating weakness in the dollar.

The Bond Market

- US Treasury bonds offer little value relative to inflation. The increase in their value and subsequent reduction in rates is due to a flight to quality.
- We do not recommend taking much credit risk, even with substantial spreads.
- We recommend purchase of high quality corporate bonds in the 1 to 3 year maturity range and government agency bonds that are callable 12 months and longer.

The Stock Market

- Corporate profits should decline this year with weakness in the financial sector.
- The degree to which the FED is successful in orchestrating a mild recession will be the dominant factor for the outcome for stocks in 2008.
- Stocks will rise moderately from here as multiples expand. Profit margins are key.
- Volatility will be a continuing characteristic of the stock market in 2008. Past periods of volatility have presaged leadership changes in the stock market. We will be alert to new emerging leadership.
- We continue to emphasize large cap over small cap and mid cap stocks; and favor large growth over large value.
- International investments should do well on the back of the declining dollar.

Risks

- Substantial credit failures, rising housing foreclosures, and derivatives problems.

ECONOMIC COMMENT

Although we will not see the evidence until April, it is highly likely that the economy is contracting. Economic growth in the last quarter of 2007 was anemic at best, posting an annual rate of 0.6%, and we would expect this quarter's number to be worse. The employment picture has soured with job losses in both January and February totaling 85,000--the first negative result numbers since August 2003. Also, Leading Economic Indicators posted their fourth consecutive negative in January. There are still, however, some signs of residual strength. Consumer spending grew at a respectable pace of 1.9% in the fourth quarter of last year and even though that level is approximately half of the norm, it was greater than expected. Real final sales expanded at 2.1% during the same period. And recently, the Institute of Supply Management's service activity index staged a rebound from 44.6 in January to 49.3 in February--significant because non-manufacturing activity accounts for 90% of our economy today. The housing sector is a "black hole," with no end in sight, and the industry's statistics are quite depressing. In general, since mid-to-late 2005, existing home sales, building permits, housing starts, and new home sales have all declined between 33% and 58%. Many previous recessions began with a weak housing market so it is not out of the question that we could see economic contractions for several quarters. We do believe that the efforts by the FED Reserve and the government to stimulate the economy both monetarily and fiscally will pay dividends. However, the positive effects may not be realized until 2009 or later.

FIXED INCOME COMMENT

The fixed income market began 2008 as it ended 2007—running for cover. The flight-to-quality mentality has continued unabated. The FED attempted to be the voice of reason but, by all indications, their desire to appease the markets is not yet completed. Their accommodative monetary policy was pursued eagerly into the new year with interest rate cuts totaling 200 basis points (2.00%) since the beginning of the year. The credit market meltdown, which began in the sub-prime mortgage market and continued into high-quality auction rate securities, negatively impacted bonds of all sorts except Treasuries. Adding liquidity became the order of the day, and virtually all avenues were tapped by the FED. This drove credit spreads wider than expected and

caused Treasury securities to rally beyond expectation, making their purchase too expensive for any investor save for the experienced trader. As a result, Treasuries have returned 3.79% so far this year, the best start since 2002. With the volatility in the market, we expect interest rates to test the levels of the prior rate cycle, to a Fed Funds rate of 1%. Until the full impact of the mortgage market implosion is realized (which could stretch from this year into the next) and the effect of the FED's hyper-accommodative monetary policy is felt, we look for a very uncertain bond market. Bond prices will undoubtedly be driven by bad news for the foreseeable future. We recommend a duration neutral position versus benchmarks and a maximum maturity in new, high quality investments no longer than 2-3 years.

EQUITY COMMENT

Large Cap Growth Strategy - Our tactical allocation favors a growth tilt in our large cap holdings. FFA offers a number of investment vehicles to build account exposure in this area including ETF's, index funds, mutual funds, outside overlay, SMA managers and our own proprietary in-house products - the Strategic Growth Portfolio and the Common Stock Fund. Our approach applies a top down sector and industry approach to portfolio construction in concert with a concentrated stock selection process.

Our current sector and industry strategy is greatly shaped by the weakening economic environment, which is being exacerbated by rising food, energy, and commodity costs. The portfolio is overweighted in energy, consumer staples and health care; sectors that are less affected in a slowing economic environment than others like consumer discretionary, materials, and to a lesser degree industrials, which also happen to be our current sector underweights. The selection process is further drilled down to the industry level. The portfolio was recently repositioned to emphasize less recessionary prone industries like big box retailing with the addition of Wal-Mart, and health care equipment manufacturers with additions to our prior holdings of Hologics and Alcon. We continue to be discerning in our other sub sector bets. In no particular order we are emphasizing media, household products, natural gas, asset managers, biotech, machinery, aerospace, data storage, and software. We also have panned such subsectors as specialty retail, banks, health care facilities, and computer hardware. Our discipline has also guided us to selecting larger capitalization companies with greater global economic exposure and the ability, if needed, to more easily tap credit markets. Smaller companies with primarily domestic exposure are most likely to suffer from a contracting bank credit market.

SECTOR COMMENTS

Finance - Unlike previous cycles, financials are reacting poorly negative to rate cuts by the FED. Financials are currently down 33% from their peak in '07 and we believe more surprises are ahead. The current liquidity squeeze and de-leveraging of capital markets arising from increased credit risk, tighter lending standards, increased mortgage delinquency rates, foreclosures, and declining capital ratios are forcing banks to adopt more conservative lending practices. Rate cuts however, will improve profitability over time. We believe a lasting bottom in the banking subsector will occur later this year.

Housing market conditions are still deteriorating with expected foreclosures to reach 1 million this year. Absent aggressive Federal Government intervention, this will continue to weigh on the sector, but we recognize that bank stocks will bottom prior to the housing industry.

We favor asset management and custody banks and insurance sub sectors in the interim. We particularly like Bank of New York Mellon (BK), CME Group (CME), and Metlife (MET).

Healthcare - We continue to overweight healthcare for its growth leadership and defensive characteristics, though political risk and the impact of potential health care reform remain high for the sector in the upcoming election year. We favor biotech relative to its large cap counterpart pharmaceuticals and would also avoid healthcare facilities in favor of healthcare equipment. Concerns over rising medical costs and lower first-quarter 2008 EPS guidance has resulted in our underweight position in the managed healthcare subsector year-to-date, but the recent sell-off may signal an entry point.

Consumer Staples - The sector has performed well lately, as it typically does during times of economic uncertainty, and we continue to recommend an overweight position as the market struggles to gain traction and the economy slows and moves toward a possible recession. We are concerned about valuations in the sector. These companies continue to face profit margin pressure because of rising input prices and intense competition. On a positive note, they tend to be more global in scope and their revenue growth has received a boost from exchange rates. We recommend hypermarket retailer Wal-Mart because it is able to control costs (and thus prices) better than most in an inflationary environment.

Consumer Discretionary - This catchall sector includes nearly 30 unique industries including durables, apparel, retail, leisure, homebuilding, entertainment and media. Earnings expectations have been lowered substantially and the consensus growth rate has dropped from 24% very recently to 8% currently. Despite low interest rates and relatively low unemployment, the consumer is facing a range of well-known headwinds and the expectations for consumers spending are dropping. The sector typically is a strong performer following a series of rate cuts and before economic growth accelerates. We will look to move from an underweight position when valuations become more attractive by historical standards and relative to other sectors.

Technology - Companies with good earnings reports have done poorly this quarter. Nonetheless, we believe that many companies will continue to grow revenue and earnings, have solid balance sheets, and increase market share through this tumultuous time. To augment our core positions, we like MEMC Electronic Materials (WFR), which stands to benefit from the growth in demand for wafer panels for solar power. CIO Surveys suggest that “servers” are the top priority in global corporate technology spending. Data storage and server virtualization (increasing server functionality) are the two prime beneficiaries of server demand and gives us confidence in our positions in EMC (EMC), Vmware (VMW), Intl Business Machines (IBM), and Cisco Systems (CSCO). In addition, Internet video promises to drive more demand for networking and storage.

Energy - With oil hitting record highs and rising natural gas and coal prices, we expect earnings for the sector to be strong. However, with the economy hitting the skids, domestic demand has begun to decline, which will pressure energy stocks in the near term. But worldwide demand will continue to increase and keep a floor under energy prices. We will stay neutral to slightly positive on the sector weight and diversify across all areas of the sector including Chesapeake (CHK) for natural gas exposure and Peabody (BTU) for coal. Other stocks we like are Conoco Phillips (COP) and Transocean Offshore (RIG).

Industrials - Historically, this sector usually underperforms other areas of the market during major economic slowdowns. However, we believe it may be different this time and are keeping our neutral sector weighting. We believe the difference is attributed to the strong overseas business that many industrial companies have developed, especially in the emerging and developing markets. The weakened U.S. dollar has aided in the sale of our goods and services so that for many companies, overseas revenues now exceed domestic. We like the prospects for stocks such as Textron (TXT), ITT Corp (ITT), Fluor (FLR), and aerospace/defense giant, General Dynamics (GD). We may begin buying Deere (DE) for its exposure to the agricultural boom.

Materials and Utilities - In materials, we like the agricultural chemicals theme with Agrium (AGU) and Monsanto (MON). We still believe utilities are over-valued and over-owned.

AS A RESULT OF RECENT “FLIGHTS-TO-QUALITY” COMBINED WITH LIQUIFICATION OF THE CREDIT MARKET BY THE FEDERAL RESERVE TO PRESERVE STABILITY, THE YIELD ON TREASURY SECURITIES HAS FALLEN TO HISTORICAL LOWS. IN FACT, TREASURY BILL YIELDS HAVE EVEN PLUMMETS TO 0%. IN AN EFFORT TO PRESERVE VALUE FOR OUR CLIENTS, FFA SWITCHED THE MONEY MARKET FUND UTILIZED IN MOST ACCOUNTS FROM A PURE TREASURY-BASED VEHICLE (WITH YIELDS BELOW 1%) TO A GOVERNMENT-BASED FUND (UTILIZING TREASURY AND AGENCIES) AND YIELDING ABOVE 2%, WITHOUT COMPROMISING QUALITY OR SECURITY.