

WORLD MARKET SURVEY

Negative Investor Sentiment

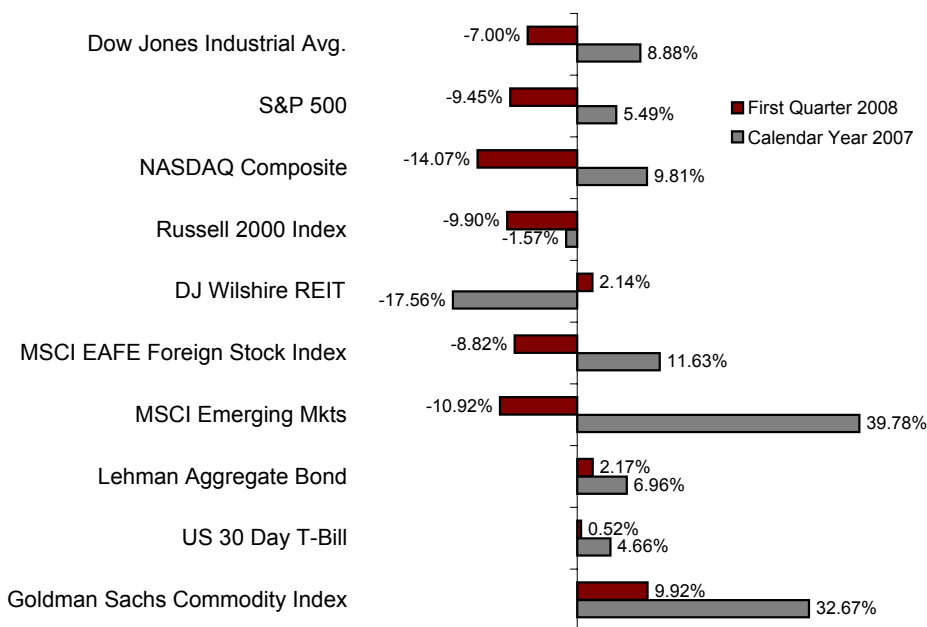
Persistently distressing economic and financial news during the year's first quarter left investors reeling from the barrage of negative developments. The U.S. stock market suffered a broad sell-off, with the Dow Jones Industrial Average falling more than 1,000 points in the first three months. The Dow dropped 7% for the quarter and 13% from the record set last October. The S&P 500 Stock index fell 9.5% for the quarter, and is down 16% from its October high. The tech heavy NASDAQ Composite Index lost 14% for the quarter, and 20% from last year's peak. Shares of smaller companies generally fell slightly more than large company stocks. The Russell 2000 Index is off 10% for the first three months, and 20% from last year's high.

The January Effect?

Roughly two-thirds of the quarter's US stock market losses occurred during January. Some prognosticators argue that January returns

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Returns from Market Indices: First Quarter 2008 & Trailing 12 Months



SAFETY FIRST: PROTECTED INVESTMENT PRODUCTS

One of the most basic rules of investing is "Buy low, sell high." Yet despite the obvious wisdom of this rule, declining stock prices cause many investors to question their commitment to equity markets – falling prices spark a desire to "sell low." Given human nature, this sentiment is completely understandable – investors may be academically comfortable with the risk they have assumed, but market losses make risk real, triggering an urge to sell before portfolio losses become extreme. Our desire to sell into market weakness is akin to the body's genetically programmed "fight or flight" response to physical threats. Intellectually, we may understand that a contrarian response to market turmoil holds the greatest probability of long-term success (indeed, Baron Nathan Rothschild, who became the wealthiest man in the world during the 19th century, is famously quoted: "The time to buy is when

blood is running in the streets."). Nonetheless, when faced with falling prices, we seek out "safer" options. Ideally, investors seek to participate in stock price appreciation during good markets, while protecting themselves against downside price movements during bear markets. Although many investors pursue relative investment safety by allocating wealth across both growth investments (stocks) and lower-risk investments (bonds), nevertheless sudden decreases in portfolio value can be disconcerting. Even prudent, balanced and diversified allocations are subject to bear market forces.

Risk Tolerance and Portfolio Design

The prudent investor, knowing that uncertain future returns are a function of portfolio risk, seeks a return distribution that matches his or her personal risk tolerance.

For each investor the optimal distribution of expected investment returns is different. The prudent investor avoids distributions with a material probability of catastrophic financial results. But catastrophe is defined differently for different investors. For one investor, a catastrophe might be a loss of wealth sufficient to cause a permanent decrease in his or her current standard of living; for another, a catastrophe might be a wealth loss that impairs the ability to sustain bequest or gifting objectives; for a third, a catastrophe might jeopardize a threshold subsistence level.

In uncertain environments, investors always endure tradeoffs between the return required to achieve financial objectives and the risk that is concomitant thereto. The theoretical underpinning of an asset management strategy based on prudent asset

... it is also an unavoidable truism that, for risk averse investors, the pain of a loss will always be greater than the satisfaction of a gain.

All else equal, the more risk averse the investor, the greater the financial "haircut" she should be willing to endure. Insurers and salespeople profit from this fact, through this premium pricing mechanism.

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allocation is that the selected distribution of expected returns (the "shape of risk"), although having both positive and negative returns, creates an expectation of a favorable long-term financial outcome and mitigates the probability of unacceptable results defined in terms of "dollar shortfall" or "portfolio insufficiency."

This said, it is also an unavoidable truism that, for risk averse investors, the pain of a loss will always be greater than the satisfaction of a gain. Few investors have "linear" risk tolerance functions; and, consequently, most investors are particularly interested in strategies for protecting wealth during bear markets. Of course, just as the best time to build a fort is during a period of peace and prosperity, not after the enemy appears at the city gates, so too, the best time to protect the portfolio is when the asset allocation (shape of risk) decision is made: it's too late to consider precipitous actions under conditions of financial stress after stock prices have dropped.

Although market-timing programs are often touted during periods of market stress, these strategies have been so thoroughly discredited by academic studies that this article will not spend further time on the subject. Readers interested in market timing systems can review our June 2003 Fiduciary Forum article, "Is This A Good Time to be in the Market?" (www.schultzcollins.com/files/FF17.pdf) which summarizes many of these studies.

Managing Risk With EIA Contracts

An alternative, product-based solution is currently becoming popular. Generically known as Protected Investment Products [PIP] these arrangements are most commonly marketed as "Equity Indexed Annuity" [EIA] contracts. EIAs are offered primarily through banks, insurance agents, and financial planners. Generally, an investor pays a single premium to purchase the EIA contract in exchange for a promise of an eventual payout from the insurer based on the greater of a minimum guaranteed floor value and the performance of a reference equity index. Most EIA contracts are written for periods between seven and fifteen years, and use the S&P 500 as the reference index. If the index gains during the period, the contract owner participates in the price increase; if the index does poorly, the contract floor protects against equity losses.

Interestingly, when acquiring an EIA contract, neither the investor nor the insurer purchases stocks. The investor buys an insurance contract that is guaranteed by the general assets of the underwriting company. The insurance company, in turn, uses the investor's premium for three purposes:

1. To pay commissions, administrative costs, taxes, and other fees associated with implementation and ongoing administration of the contract;
2. To purchase a fixed income instrument (usually a zero-coupon bond) sufficient to fund the minimum guaranteed return; and,
3. To purchase derivative financial contracts (usually call options) sufficient to fund the promised upside participation in the growth of the index.

In many respects, EIAs are similar to derivative financial instruments, and consequently, adopt a financial engineering approach to asset management. Controlling risk through financial engineering differs significantly from traditional investment strategies based on asset allocation and diversification. However, the first thing that can be said about EIA contracts is that they are fiendishly difficult to understand. We will have more to say about this shortly.

A second point is that, unlike a life insurance contract which makes money for an insurer if actual investment and mortality experience are better than the assumptions embedded in the product's actuarial reserve account, an EIA provides the insurance company with limited opportunities for either actuarial or investment gains. The insurer must commit sufficient funds to the contract to guarantee that the minimum guarantee can be met in the event of poor market performance, and that the company can pay out the promised growth to the investor under favorable market conditions. This leaves the fee portion of the premium as the primary source for the insurer's profits (and commission payouts). Investors must pay an aggregate premium greater than the contract's economic value to secure its benefits of upside participation/downside guarantee. All else equal, the more risk averse the investor, the greater the financial "haircut" she should be willing to endure. Insurers and salespeople profit from this fact, through this premium pricing mechanism.

EIA contracts first appeared in the U.S. in 1995 when Keyport Life Insurance Company (part of the Sun Life Group) began selling its "Key Index" product. Over the past decade, they have grown increasingly popular. According to industry resource annuitiespecs.com, EIA sales exceeded \$25 billion in 2007. This suggests that many retail customers (defined as small investors unable to access the customized derivatives markets required to hedge longer-term equity exposures) are paying a lot of money to acquire these products. How do EIAs work?

Unfortunately, this is a simple question with a complicated answer. In fact, there is no way to judge ahead of time how an EIA contract will perform either on an absolute or a relative basis! This is not merely a statement about the uncertainty of investment outcomes, but, an acknowledgement that each EIA contract has so many moving parts that are controlled by the issuing insurer, that it is impossible to predict

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whether company A's EIA structure is better or worse than company B's. To understand this, we must peel the EIA onion.

Typical EIA Provisions

Minimum Guarantee or "Floor" Value: Each EIA has a minimum guaranteed value to which the investor is entitled. The minimum floor level required by new nonforfeiture reserving regulations promulgated by the National Association of Insurance Commissioners is 87.5% of the initial contract premium. Most commonly, EIAs provide a minimum floor equal to 90% of the initial premium with a modest 2% to 3% annual interest credit. Given a reasonable factor for the time value of money, this provision suggests that the investor's downside risk is limited to approximately a 10% principal loss .

Index Participation Rate: Each EIA declares a rate at which the investor shares in the price growth of the reference index (generally, the S&P 500). This participation rate varies from 50% to 100% of the index's price appreciation. No EIA contract currently credits the investor with dividends paid by the index. If the S&P 500 index increases by 10% and pays an additional 2% dividend yield, the index's total return is 12%. An EIA contract with a participation rate of 80%, however, would calculate the investor's share as 80% of 10%, or 8%. Many EIAs permit the insurer to reset the participation rate periodically during the term of the contract.

Yield Spread Cost Factor: After calculating the investor's share of index growth, many EIA contracts apply an additional adjustment known as a Yield Spread Cost Factor. Yield spread costs are fees paid to the insurer; reducing the investor's return. Although they are not directly analogous to a mutual fund's expense ratio, they have a similar effect on investment returns. These annual costs typically range between 1% and 4.5%. Typically, the insurer can reset yield spread cost factors from time to time.

The Growth Rate Cap: After applying the participation rate and yield spread factor adjustments, a typical EIA will also apply a growth rate cap. The cap sets a maximum crediting rate for the applicable period. Caps may be applied to periodic returns (e.g., monthly increases in the reference index), to annual returns, or, on a one-time basis, to the aggregate investor net gain over the entire measurement period. If, for example, the investor's share of index growth is calculated at 75%, an EIA with an annual cap of 6.5% puts a ceiling on the amount of growth credited to the contract owner. Typically, the insurer can reset the growth rate cap periodically.

Surrender Charges: A surrender charge represents the cost of getting out of the contract before its maturity date. Since EIA's almost always have surrender charges, they cannot be characterized as

liquid investments. Shorter term EIAs typically have surrender charges starting at 7% to 10%, and grading down over the life of the contract. Longer term EIAs may have graded surrender charges with the initial penalty as high as 20%. Application of a surrender charge, however, cannot reduce an investor's return to less than the minimum guaranteed value. Generally, a surrender charge is in force for the life of the contract, and can be avoided only if the investor keeps the EIA in force until maturity. Contracts with high surrender charges often offer high participation rates, more favorable growth rate caps, and lower yield spread costs. However, to protect the solvency/profitability of the insurer, most EIAs permit the insurer to reset these critical moving parts.

Market Value Adjustment: Additionally, many EIAs impose a Market Value Adjustment [MVA] if the investor surrenders the contract prior to the end of its term. An MVA can work in an investor's favor if the contract is surrendered in a low interest rate environment; or, to his detriment if the contract is surrendered in a high interest rate environment. A cynical reader may point out that market value adjustments are the very thing that the EIA contract holder seeks to avoid; but, nevertheless, there they are — Caveat Emptor.

Regulatory Environment for EIAs

Most EIAs are not registered with the Securities and Exchange Commission because they are deemed to be insurance contracts and not securities. As a consequence, many EIA salesmen do not have a securities license, nor, in some cases, do they have any training or background in security analysis. The sales agents face considerable challenges, however, because they must present a complex product to the public; and, furthermore, must avoid comparing the insurance product to securities-based investment alternatives such as mutual funds. Most sales presentations compare an EIA to a bank CD or money market fund. Regulators have raised a host of suitability issues, especially for retirees who are considering moving funds from bank CDs to EIAs.

Different EIA Product Structures

Having outlined typical EIA provisions, we now turn to a description of the current EIA product menu. What kinds of products can you buy and what kind of payoffs can you expect to receive? This section is intended to help you determine if an EIA contract is appropriate for you. However, we know of no "no-load" EIA contract; and, therefore, if you are thinking of buying an EIA please contact your bank or insurance agent — not us.

Although the moving parts allow for significant variation in contract offerings, most EIA contracts can be slotted into six general categories:

... many EIA salesmen do not have a securities license, nor, in some cases, do they have any training or background in security analysis.

... we know of no "no-load" EIA contract; and, therefore, if you are thinking of buying an EIA please contact your bank or insurance agent — not us.

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Although there are several metrics by which an EIA contract may be valued, there is no perfect method for determining the “best” contract.

1. **Multiyear Point-to-Point Contracts** calculate the payoff based on the difference between the reference index’s value at the date of contract purchase and on the date of contract maturity. If the index has increased, the EIA owner receives interest credits according to the terms of the contract; if the index has decreased, the EIA owner receives the guaranteed minimum value. No interest is credited until the end of the contract’s term.
2. **Multiyear Point-to-Point Averaged Contracts** calculate the payoff based on the difference between the reference index’s value at the date of contract purchase and the average of the sum of the final twelve months index prices. By averaging the last twelve monthly prices, the contract cushions investors against a calamitous decline in value towards the end of the contract’s term. No interest is credited until the end of the contract’s term.
3. **High Water Mark Contracts** utilize more than two reference points (ending value – beginning value) to determine the amount of gain upon which the EIA owner’s interest credit is calculated. Typically, over a seven to ten year period, a High Water Mark EIA samples the index value at the purchase date annual anniversary. A seven-year contract would, therefore, have seven index value reference points; and, as the name implies, the highest reference point value would be designated as the contract’s “ending” value for interest calculation purposes. No interest is credited until the end of the contract’s term.
4. **Annual Reset Contracts** are single year Point-to-Point contracts that reset the interest crediting rate formula each year. If the index experiences negative price appreciation for any contract year, the credited interest rate is zero. Annual Reset Contracts calculate and credit interest each year. Once interest is credited to the accumulation value, it is locked in irrespective of the index’s future performance. Of course, any nonguaranteed elements such as the participation rate, yield spread cost, and interest rate cap are also periodically reset by the insurer throughout the contract’s term.
5. **Annual Reset Averaged Contracts** use an averaging method, as opposed to an annual beginning and ending price difference, to calculate interest credits. The average becomes the “ending” value upon which index gain is determined. Averaging smoothes price volatility; and, therefore, further dampens index gains and losses. Interest is calculated and credited each year.
6. **Annual Reset Monthly Cap on Gain Contracts** are monthly Point-to-Point contracts that calculate interest crediting using adjusted monthly changes in the index’s share price. They credit interest at the end of each contract year. Typically, monthly index gains are capped at 2% to 3%, with no cap on monthly index price declines. The sum of the capped monthly gains and the uncapped monthly losses equals the index’s annual gain for the year. If the annual “gain” is negative, the EIA credits the index with zero gain. Interest is calculated and credited each year. There is anecdotal evidence that the Annual Reset Monthly Cap on Gains contract generally pays the highest sales commission; it is the most widely sold EIA.

Evaluating EIA Performance

Although there are several metrics by which an EIA contract may be valued, there is no perfect method for determining the “best” contract. This said, we evaluate the merits of the various contract types by comparing EIA payoffs with returns from the S&P 500 stock index, decremented by a reasonable factor for investment fees and trading expenses.

The initial graph assumes a \$100,000 investment in a seven-year Point-to-Point contract with a 90% of initial premium / 3% interest credit minimum guarantee; a \$5,000 bonus credit; a 75% index price appreciation participation rate / 1% yield spread fee; and, an 8% cap on yearly gain. S&P 500 returns reflect price appreciation only (no dividend yield), with no expense adjustment. The analysis assumes that the investor holds the contract for the full seven-year term. If this were not the case, surrender fees would reduce returns.

Payoff Structures

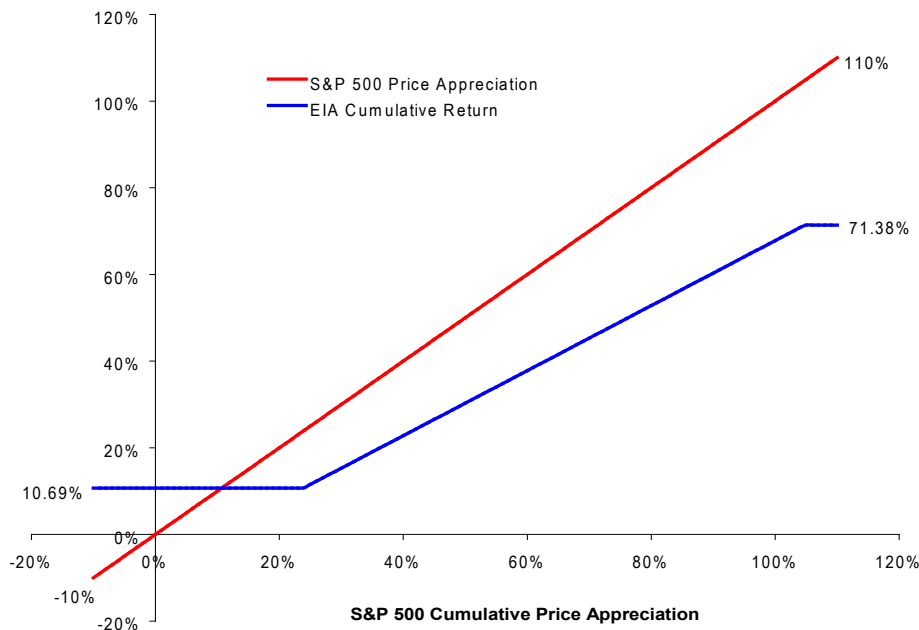
Chart 1 considers a range of possible ending values for the S&P 500 index’s cumulative price appreciation over the seven-year period – 10% through +110%. The red line represents the stock index; and, not surprisingly, shows that the investor participates dollar-for-dollar in gains and losses. By contrast, the EIA contract (blue line) puts both a cap and a floor on gains. The EIA may be attractive for the investor wishing to trade some of the potential upside gain in return for minimum guaranteed returns.

Chart 2 shows how an investor might have fared historically with a representative Point-to-Point contract payoff structure. It compares, over a monthly series of rolling 7-year (84 month) periods beginning in December 1996 through December 2007 (total of 216 months of S&P 500 return data), the payoff on the index (including both appreciation and dividend yield, and decremented by 0.8% annually for trading

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CHART 1

**Hypothetical 7 Year Cumulative Returns
S&P 500 vs Multiyear Point-to-point EIA**



and management expenses) with the payoff on the EIA contract (using the same terms described above).

This chart nicely illustrates the floor/cap payoff structure offered by the 7-Year Point-to-Point EIA. A hypothetical investor beginning the contract in the early 1990s might conclude that the EIA was a poor investment, since the EIA's earnings cap eliminated much of the upside earned by the S&P 500. EIA contracts maturing between mid-2001 and early 2005 generally earned the scheduled portion of the S&P 500's return. But EIA investors with contracts maturing after January 2005 benefited from the floor guarantee. If nothing else, Chart 2 demonstrates that evaluations based on historical results are highly sensitive to beginning and ending dates; and, therefore, although interesting, should be viewed skeptically. Although Chart 2 suggests that the EIA contract holder incurred, on average, an enormous opportunity cost during the period under evaluation, there is nothing to suggest that the EIA will underperform in future periods. Keep this chart in mind the next time someone calls your attention to an investment with a great 'track record.'

Simulation Analysis of EIA Payoffs

Fortunately, we have other techniques for evaluating the EIA payoff structure. Given the time series of returns on the reference index, a model of future return evolutions is available through simulation analysis. No one knows what the actual future vector of seven-year returns will look like. However, by simulating thousands of such vectors based on historical data, a rich set

of probable future results can be made available for inspection. The investor can determine the probability that the EIA's guaranteed minimum return will generate a positive payoff; and, conversely, the likelihood that the EIA will impose an opportunity cost because it lags the reference index.

Presenting complete results from our simulation analysis is beyond the scope of this brief overview. Readers interested in them can review our complete working paper at www.schultzcollins.com. Very briefly, the simulation analysis concludes that EIAs generate financial results inferior to those of directly owned portfolios most of the time. Relative to owning an S&P 500 index portfolio directly, the seven - year Point-to-Point EIA benefits the investor just 11.9% of the time. More conservatively positioned investors benefit even less frequently. An investor comparing the EIA to a portfolio with a 50% allocation to the S&P 500 index and 50% to a one year constant maturity T-bill would benefit from the EIA just 3.8% of the time.

Who should purchase an EIA? Theory vs. Reality

So who should purchase an EIA? Many investors might conclude that the opportunity costs of the annuity outweigh its downside benefits. Other factors reinforce this conclusion. An EIA is a highly illiquid investment. Formidable surrender penalties prevent it from serving well as a short-term savings vehicle. This implies that prospective EIA purchasers should fund the contracts from longer-term investable funds. But at the same time, much of the EIA's appeal

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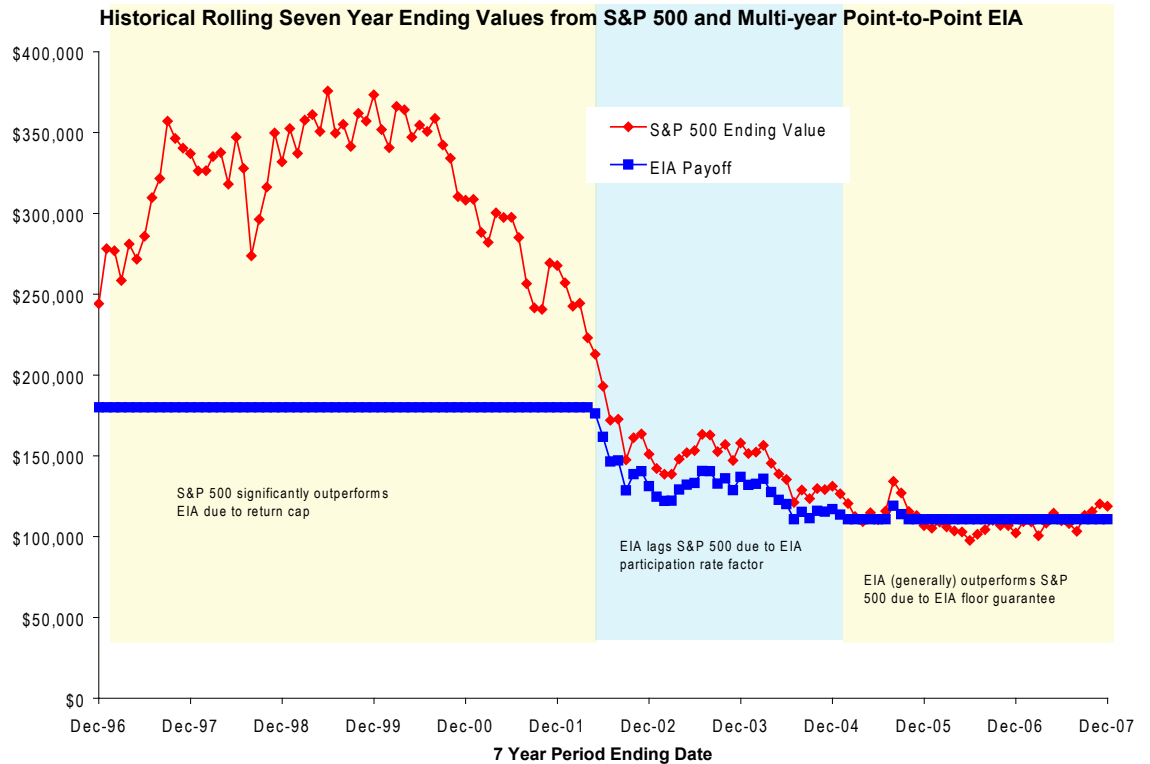
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The upshot of these observations is that the potential customer base for EIA contracts appears limited. The illiquidity of the contracts makes them generally unsuitable for individuals with little wealth.

While rigorous analytics may determine that EIAs represent an inefficient solution to the risk/return problem, the emotional appeal of the accounts is undeniable.

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CHART 2



stems from its floor value guarantee. This characteristic will be valued most highly by investors with such limited wealth, that they cannot stomach even a minor downturn in portfolio value.

The upshot of these observations is that the potential customer base for EIA contracts appears limited. The illiquidity of the contracts makes them generally unsuitable for individuals with little wealth. The potential buyer of an EIA must have sufficient discretionary long-term wealth to purchase the contract; yet feel a great aversion. However, the greater the investor's discretionary wealth, or the greater the investor's ability to tolerate long-term illiquidity, the more likely it is that the investor can survive a portfolio downturn. In this case, the investor would enhance utility by selecting the investment portfolio alternative. So theory suggests that investor demand for EIAs should be limited.

How well does investment theory match reality? The answer to date is 'not well.' The boom in EIA sales indicates a steep demand for this product. Demand may be due to several factors, such as:

- Consumer willingness to pay a premium for a 'pre-fabricated' product that provides downside protection without the hassle of investment portfolio management;

- Lack of awareness of the potential costs of acquiring downside protection through an annuity-based solution;
- Tax-deferral benefits of the annuity contract structure; or
- Effective product marketing by EIA manufacturers and salespeople.

Whatever the factor or factors determining EIA sales growth, the discrepancy between theory and reality remains puzzling. The answer may lie in our visceral, yet irrational reaction to market volatility, as evidenced by the extended 2000-2002 bear market, and by recent significant downdrafts. We know we need the higher returns only available through the stock market, but we desire the safety inherent in a guaranteed rate of return. EIAs appear to offer the best of both worlds—upside potential offered by the stock market, with floor values guaranteed by an insurer. While rigorous analytics may determine that EIAs represent an inefficient solution to the risk/return problem, the emotional appeal of the accounts is undeniable.

SURVEY OF INDICES & FUND AVERAGES
PERIOD AND ANNUALIZED COMPOUND RETURNS IN PERCENT

	First Quarter 2008	12 Month Ending 03/31/08	3 Years Ending 03/31/08	5 Years Ending 03/31/08	10 Years Ending 03/31/08
Inflation Index & Risk Free Rate					
Consumer Price Index	0.93	4.20	3.42	3.00	2.75
U.S. 3-Month Treasury Bills	0.71	4.19	4.21	3.03	3.56
U.S. Stock Market (Large Companies)					
Standard & Poor's (S & P) 500 Index	-9.45	-5.08	5.85	11.32	3.50
S & P/Citigroup Large Cap Growth Index	-9.92	-1.61	4.59	8.74	1.79
S & P/Citigroup Large Cap Value Index	-8.95	-8.36	7.11	14.04	4.53
Average Large Cap Blend Fund ‡	-9.73	-5.13	5.69	11.15	3.60
U.S. Stock Market (Small Companies)					
Russell 2000 Index	-9.90	-13.00	5.06	14.90	4.96
Dimensional US Micro Cap Fund	-10.27	-16.34	3.72	15.65	8.26
Russell 2000 Growth Index	-12.83	-8.94	5.74	14.24	1.75
Russell 2000 Value Index	-6.53	-16.88	4.33	15.45	7.46
Average Small Cap Blend Fund ‡	-9.83	-13.29	4.47	14.63	6.21
Real Estate					
DJ Wilshire REIT Index	2.14	-18.83	12.03	18.47	11.40
Fixed Income (Bond) Markets					
Lehman Government Bond Index	4.05	11.45	6.44	4.71	6.18
Average Intermediate Gov't Bond Fund ‡	1.98	6.80	4.62	3.53	5.00
Lehman Municipal Bond Index	-0.61	1.90	3.70	3.92	4.99
Avg. California Intermed/Short Muni Bond ‡	-0.12	1.67	2.86	2.71	3.94
Credit Suisse High Yield Bond Index	-2.90	-3.23	4.89	8.86	5.47
Citigroup World Gov't Bond Index	9.66	20.29	7.27	8.14	7.22
Average World Bond Fund ‡	5.20	11.44	5.45	6.77	5.91
International Stocks					
MSCI EAFE Foreign Stock Index	-8.91	-2.70	13.32	21.40	6.19
Average Foreign Large Blend Stock Fund ‡	-9.27	-1.20	13.73	20.17	5.51
MSCI Europe Stock Index	-8.62	0.18	14.86	22.94	6.58
MSCI Pacific Stock Index	-9.57	-8.93	10.03	18.01	5.43
MSCI Emerging Mkt Index (excl. dividends)	-11.32	18.90	26.27	32.33	9.74
Average Emerging Markets Fund ‡	-11.32	17.92	27.48	33.73	11.98

‡ Source: Morningstar Principia 03/31/2008

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(continued from page 1)

predict the market's direction for the rest of the year. For instance, Yale Hirsch of the The Stock Traders Almanac asserts that since 1950, every down January for the S&P 500 preceded either a flat market or extended bear market. We find this assertion overly simplistic, and comparable to the Mark Twain effect, which is based on the observation that October stock returns tend to be lower than other months. Mr. Twain famously noted: "October. This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February."

Volatility the Order of the Day

In addition to the unnerving broad market value declines during the quarter, markets also experienced unusually sharp day-to-day price swings. The Wall Street Journal reports that the S&P 500 moved more than 1% on more than half of the trading days in the first quarter, a level of volatility not seen since 1929 and 1934, at the onset of and midway through the Great Depression.

Foreign Markets in Sync with the U.S.

International equity markets, which have generally outperformed the U.S. market for the past five years, took a dive last quarter as well. A quick glance at first quarter individual country stock market returns (reported in local currency in the adjacent table) reveals double digit losses in Europe and most of Asia. The

blow was cushioned somewhat for U.S. investors due to the dollar's continuing decline. Measured in dollar terms, the MSCI Europe Stock Index was off 8.6% for the quarter, while the MSCI Pacific Index dropped 9.6%. Emerging markets, which enjoyed stellar returns in recent years, finally suffered a setback, with the dollar valued MSCI Emerging Markets Index down 11.3% for the year-to-date.

Real Estate and Fixed Income Provide Relief, Up to a Point

Securitized Real Estate, which had a dismal year in 2007, managed to buck the overall market trend in the first quarter. The Dow Jones Wilshire REIT Index gained 2%. Bonds also provided something of a haven from the stock market, although much depended on the entity backing the issue. With high investor demand for the safest (i.e., government guaranteed) securities, total return for the Lehman Brothers U.S. Government Bond Index was 5.2% for the quarter, while the Lehman Credit (i.e., corporate bond) Index managed a miniscule total return of 0.4%. A sell-off in the municipal bond market, apparently triggered by several large hedge funds, pushed total return on the Lehman Municipal Bond Index into negative territory, at -0.6%. Investors in foreign bond funds, particularly those that do not hedge currency exposure, enjoyed a big quarter. The Citigroup World Government Bond Index soared 9.7% for the first three months.

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QUALIFIED RETIREMENT PLANS
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Individual Country Returns First Quarter 2008

	US Dollar	Local Currency
North America		
United States	-10.0%	-10.0%
Canada	-7.8	-4.2
Latin America		
Argentina	-6.4	-5.9
Brazil	-5.7	-7.3
Chile	8.3	-4.9
Mexico	8.3	5.9
Africa		
South Africa	-17.7	-2.1
Europe		
Austria	-8.6	-15.7
Belgium	-3.0	-10.5
Denmark	-2.3	-9.9
Finland	-10.1	-17.0
France	-8.5	-15.6
Germany	-11.6	-18.4
Great Britain	-11.2	-11.1
Ireland	-3.7	-11.1
Italy	-11.5	-18.4
Netherlands	-5.7	-12.9
Norway	-10.2	-15.9
Portugal	-12.7	-19.5
Spain	-5.4	-12.7
Sweden	-2.4	-10.5
Switzerland	-2.2	-14.6
Asia		
Australia	-12.8	-16.2
Hong Kong	-20.1	-20.3
Indonesia	-8.3	-10.1
Japan	-7.7	-17.8
New Zealand	-14.8	-16.6
Philippines	-19.2	-18.2
Singapore	-10.4	-14.2
South Korea	-14.7	-9.7
Taiwan	8.0	1.2
Thailand	1.6	-5.1

Source: Dow Jones Global Indexes