

OUR 2008 SECOND QUARTER MARKET SCORECARD

Economy	Negative	The U.S. economy continued at an anemic pace during the first quarter with GDP growth at 1.0% up slightly from 0.6% during the fourth quarter. Early indications were for small positive GDP growth during the second quarter aided by \$120 billion in tax rebates. Concern remained about whether the US was entering a recession once the stimulus ends. ¹
Employment	Negative	Unemployment continued at 5.5% in June with a loss of 62,000 jobs. Employment declined in construction, manufacturing, and business services while health care, leisure, hospitality, and government added jobs. YTD, the economy lost 438,000 jobs. Over the past twelve months, job losses rose by 952,000. ²
Productivity	Positive	Labor productivity improved modestly to 2.4% in the first quarter from 1.9% in the fourth quarter. However, unit labor costs also increased at a 2.3% annual rate in the first quarter. Year-over-year, productivity improved by 3.4%. Year-over-year, unit labor cost rose a modest 0.7% reflecting increases in hourly compensation and benefits. ³
Housing	Negative	The housing market remained in the midst of a substantial market correction where the supply exceeded demand. In May, existing home sales had a modest 2.0% increase from April, but were down -15.9% from May 2007. Existing home inventory totaled 4.49 million units and represented a 10.8 month supply. ⁴
Consumer	Negative	The Consumer Confidence Index declined to 50.4 in May from 64.5 in March and suggested the economy remained stuck in low gear. This was well below the reading of 105.6 in June 2007. Consumers' outlook for business conditions, job market, and income prospects was pessimistic. The Expectations Index reached a new all time low. ⁵
Liquidity	Negative	Banks have tightened credit making borrowing more difficult. Worries have shifted from subprime mortgages to home equity lending. Banks feared that home equity loans became unsecured as homeowners fell into negative equity. Smaller banks that had large exposures to commercial real estate were taking write downs on their loan portfolios. ⁶
Inflation	Negative	Headline inflation (including energy & food) increased 4.9% (annualized) over the past three months ended in May. The volatile energy and food prices caused headline inflation to increase 4.2% over the past twelve months. But, core inflation (excluding energy & food) increased slightly to 1.8% within the Fed's stated target of 1.5% to 2.0%. ⁷
Interest Rates	Positive	During the first quarter, the Fed cut the fed funds rate by another 25 bps to 2.00%. The Fed easy monetary policy caused the yield curve to normalize where yields on short maturities are less than long maturities. Historically, interest rates continued at low to moderate levels with a two year treasury yielding 2.62% and ten year treasury yielding 3.98% at June 30 th . ⁸
Earnings	Negative	S&P 500 operating earnings declined year-over-year by 25.8% primarily due to write downs by financial stocks. Earnings for other companies excluding financials remained in positive territory. While write downs may diminish in the second half of 2008, forward earnings could be limited by the slow economy. ⁹
Valuations	Positive	Stocks appeared undervalued historically and relative to bonds as the S&P 500 earnings yield was 1.3% above the 10 year Treasury yield. The trailing P/E ratio for the S&P 500 was 18.9x and forward P/E ratio was 13.0x. versus a 20 year average of 22.2x. Large caps benefited from global growth. Municipal and high yield bonds appeared undervalued. ¹⁰
Investment Returns	Negative	During the second quarter, domestic growth stocks posted small single digit positive returns while domestic value stocks were negative. Most international stock indices were negative. Many fixed income sectors were slightly negative with High Yield and Munis being slightly positive. YTD 2008, most fixed income sectors had small positive returns while domestic and international equities had larger negative returns. ¹¹

Important disclosures on back page.

Sources:

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| 1 Sources: Bureau of Economic Analysis, J.P. Morgan, & University of Michigan | 2 Sources: Bureau of Labor Statistics |
| 3 Sources: Bureau of Labor Statistics | 4 Sources: National Association of Realtors |
| 5 Sources: The Conference Board | 6 Sources: The Economist |
| 7 Sources: Bureau of Labor Statistics | 8 Sources: J.P. Morgan and Federal Reserve Bank of NY |
| 9 Sources: J.P. Morgan | 10 Sources: J.P. Morgan |
| 11 Sources: J.P. Morgan and Wall Street Journal | |

The prices of small and mid cap company stocks are generally more volatile than large company stocks. Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. High-yield bonds, also known as junk bonds, are subject to greater risk of loss of principal and interest, including default risk, than higher-rated bonds. Past performance is not a guarantee of future results.

The price/earnings (P/E) ratio is the price of a share of a stock divided by earnings per share, usually calculated using the latest year's earnings. The Russell 2000 Index consists of the smallest 2,000 securities in the Russell 3000 Index. This is the Frank Russell Company's small capitalization index that is widely regarded in the industry as the premier measure of small capitalization stocks. The Russell 3000 Index is composed of the 3,000 largest U.S. securities, as determined by total market capitalization. The Russell Midcap™ Index measures the performance of the 800 smallest companies in the Russell 1000® Index. The Russell 3000 Index is composed of the 3,000 largest U.S. securities, as determined by total market capitalization. The S&P 500 (a registered trademark of the McGraw Hill Companies) is an unmanaged, index of common stock. The indices are presented to provide you with an understanding of their historic long-term performance and are not presented to illustrate the performance of any security. Investors cannot directly purchase any index.

The MSCI Emerging Markets Index (EMF) is a free float-adjusted market capitalization index that is designed to measure equity market performance. As of May, 2005, the index consisted of the following 26 developed market country indexes: Argentina, Brazil, Chile, China, Columbia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey, and Venezuela.

The Consumer Confidence Index (CCI) is a unique indicator, formed from survey results of more than 5,000 households and designed to gauge the relative financial health, spending power and confidence of the average consumer. The index started in 1985 at 100 and is normalized based on the Consumer Confidence level when it began.

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