



BROADWAY INVESTMENT MANAGEMENT GROUP

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REVIEW AND OUTLOOK *First Quarter 2008*

Market Overview

The first quarter of 2008 was fraught with activity highlighted by historical events such as the demise of an 85 year old Wall Street investment bank and creative actions by the Federal Reserve to provide liquidity in order to help the credit markets function. The equity markets continued to be spooked as the price of oil spiked to all time highs and the banking sector continued to warn about having to further write down the value of assets backed by real estate.

According to a report by MarketWatch.com, during the three months from November '07 through January '08, the Dow Jones Industrial Average rose or fell by at least 1% on almost 50% of the trading days. This compares to year 2006, when there were only 25 days total in which the Dow moved up or down by 1%. For reference the approximate value of the Dow at the end of the quarter was 12,300. A 1% move at this level would amount to approximately 123 points. As for equity performance in the first quarter, the Dow Jones Industrials declined 7.00% while the broader S&P 500 index fell 9.45% for the quarter. International equities once again outperformed the broad domestic market as the EAFE index declined 8.75%.

Bonds outperformed both domestic and international equities this quarter with the Lehman Intermediate Gov't/Credit index posting a 3.00% gain for the quarter. The yield on the 10-year Treasury note declined from 4.03% to 3.42% as the desire to hold less risky investments such as government debt increased while investment banks deleveraged their balance sheets and strong volatility continued in the equity markets.

The most highly debated event during the 1st quarter was the takeover of the investment bank Bear Stearns Cos. There had been rumors on Wall Street for weeks about liquidity concerns at the 85 year-old company which was the second largest underwriter of mortgage bonds. Then on March 14, the company announced it would receive a 28-day loan from the Federal Reserve in order to meet its

daily obligations. Over the following weekend it became evident that Bear Stearns would no longer be able operate as a stand alone business. It was announced the next Monday that J.P. Morgan Chase would purchase Bear Stearns.

The Federal Reserve was involved in the negotiations of the sale of Bear Stearns to J.P. Morgan because of the potential negative ramifications for the broader financial markets if the company had filed for bankruptcy. Under bankruptcy Bear's assets would have been sold at deep discounts (potentially less than \$0.50 on the dollar) and would have caused a ripple effect through other investment and commercial banks that would have also been required to lower the value of mortgage and other asset-backed securities on their balance sheets, potentially causing a breakdown in the U.S. financial markets.

While Bear Stearns' demise was primarily attributed to the declining housing market and the fall out from the sub-prime mortgage crisis, the company had also done a poor job of diversifying their operations over time. While its peers had diversified revenues in the international markets and between equity, fixed income and alternative market revenues, Bear continued to generate the majority of revenues from the fixed income markets and more specifically mortgage bonds. Bear Stearns' struggles serve as a great reminder of the importance of diversification not only for a business, but also as a part of investment portfolios.

We stress the importance of diversification in both equity and fixed income portfolios for our clients. In our equity portfolios we invest broadly across all 10 industry sectors of the S&P 500, making certain there are no over-concentrations in any one stock. Likewise in our taxable bond portfolios we purchase high quality bonds diversified among U.S. Treasury, U.S. Agency and corporate bonds.

Investments are not FDIC insured • Not guaranteed by the bank • Not a deposit • Not insured by a federal government agency • May lose value



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Economic Review

The Federal Reserve was very busy during the first quarter of 2008. Not only did they lower the federal funds rate three times from 4.25% to 2.25%, but they also created new lending facilities in order to infuse further liquidity into the financial markets to keep them functioning properly.

The Fed's most aggressive action was announced in the second half of March when they agreed to open up a lending facility to investment banks. In response to the liquidity problems of Bear Stearns the Federal Reserve agreed to lend short-term funds directly to investment banks in an attempt to quell concerns and rumors that another Wall Street bank might go out of business as they continued to report losses and write-downs related to asset-backed investments on their balance sheets. Under the terms of the agreement, the Fed will accept asset-backed securities as collateral for short-term loans if needed by investment banks to shore up capital and perform daily operations.

In other economic news, the housing market continued to detract from economic growth in the first quarter as housing related transactions fell 46% year-over-year and home prices have now dropped over 10%. In addition, interest rates on adjustable-rate mortgages continue to reset at higher levels leading to a higher cost of living and a reduction in consumer spending needed to stimulate the economy. Employment news was also negative in the quarter as non-farm payrolls decreased in each of the three months of the quarter and the unemployment rate increased slightly from 4.9% to 5.1%. A boom in exports has been the lone bright spot helping to buoy the economy this year—increasing 20.8% versus a year ago. As the value of the U.S. dollar has fallen, foreign consumers are purchasing more American products including industrial supplies, food and beverages and services.

As in most times of market disruptions, the ability of an investment portfolio to weather the market turmoil largely depends on the overall quality of one's investments and whether the portfolio is sufficiently diversified according to the needs of the investor. We continue to monitor the ever-changing financial markets to insure that our client portfolios are properly positioned to meet their long-term goals and objectives.

Index	YTD	1 Year	3 Years
Dow Jones Industrials	-7.00%	1.58%	7.76%
S&P 500 Index	-9.45%	-5.08%	5.84%
EAFE*	-8.75%	-2.09%	13.91%

*EAFE = Europe, Australia, & Far East International Index

2 Year Treasury Bond Yield as of 3/31/08	1.59%
2 Year Muni Bond (AAA) Yield as of 3/31/08	2.22%