

First Quarter 2008 Investment Summary

Trinity Wealth Advisors

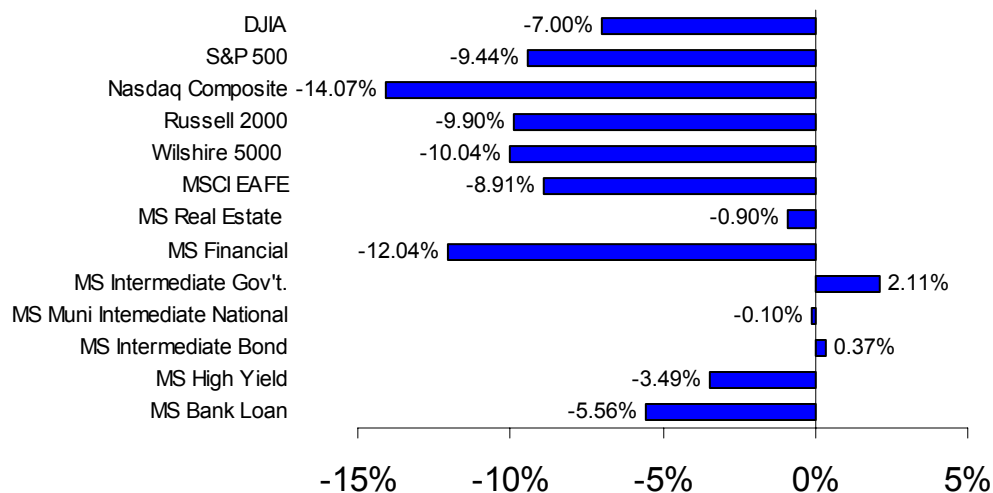
Values and Performance as of 3/31/08

Market Update

In the first quarter the financial markets struggled with a continuing credit crisis that brought comparisons to the savings and loan debacle of the early 1990s. Financial stocks continued to suffer problems related to the subprime crisis. These problems culminated in the dramatic collapse of Bear Stearns, one of Wall Streets larger investment brokerage firms, and forced unparalleled actions from the Federal Reserve in order to shore up confidence in the financial system. As a result of this uncertainty and continued slowing economic data, broad equity markets were down 9-10% both in the U.S. and overseas. Smaller stocks, technology stocks and financials suffered even more as the financial sector overall was down 12% and Nasdaq declined 14%.

Besides encouraging the buyout of Bear Stearns, the Federal Reserve lowered the federal funds rate from 4.25% to 2.25%, lowered the discount rate (the rate at which a limited number of institutions can borrow directly from the Fed) from 4.75% to 2.5%, opened the discount window to investment banks, and reduced the capital holding requirements for Fannie Mae and Freddie Mac. The Fed's rate cuts had a positive effect on higher quality bond prices which were up more than 2% for the quarter. By contrast, high yield bonds and bank loan instruments declined 3.5%-5.5% during the quarter as the spread between high-quality and low-quality bonds continued to increase. It was a major adjustment period for bonds as insurance concerns continued with mortgage bonds and spilled over to insurance backing municipal bonds. As a result we saw significant adjustments in prices with municipal bonds during the quarter. Liquidity conditions have also forced hedge funds, along with other leveraged vehicles, to deleverage, sending spreads wider across many bond markets.

1st Qtr 2008 Market Returns



Sources: Frank Russell Company, Standard & Poors, Wilshire Associates, Morningstar, Lipper, Wall Street Journal
 Past performance is no guarantee of future results

It will take quite some time before Wall Street and others get a handle on the true cost of the U.S. subprime meltdown and the global credit crunch. While the scope of the subprime crisis was once

thought to be manageable from within Wall Street, the Federal Reserve has had to step in to assist in unclogging the financial arteries of the United States. The ongoing credit squeeze has affected many aspects of U.S. finance. For a credit-driven economy like the United States, it has become paramount for confidence to be restored in our financial system.

The Federal Reserve's actions to help investment banks and commercial banks restore their liquidity appear to be improving the situation in the credit markets. The Fed has taken unprecedented action this past quarter by providing a \$236 billion liquidity injection and a host of aggressive moves aimed at providing greater assurance to banks and securities firms that they will have access to credit funding. The Fed's actions this past quarter were welcome, and a big step up in its efforts thus far. Without stabilizing the credit markets, all the interest-rate cuts in the world would have likely made little difference. There are signs that the Fed's aggressive efforts are working, and this has investors hoping that the bottoming process in the equity markets has begun.

Expectations are that the Federal Reserve will continue drive down interest rates in order to stimulate the economy. Meanwhile, most other countries are maintaining their interest rates or have been increasing their rates. This divergence in monetary policies is one factor that has caused the dollar to decline further in 2008, which has been a major factor in stimulating export growth. U.S. exports grew 12% in 2007, while import growth slowed to around 6%.

Encouraging Signs

Soaring U.S. corporate profits from overseas, which posted their sixth consecutive annual increase to hit a record \$491 billion last year, were a key factor that offset weak domestic profits in 2007. Weak domestic profits, down 3% for the year, were offset by the 17% jump in sales from the rest of the world. In the final quarter of 2007, domestic profits declined by 6.5%, one of the steepest declines since 2001. Global profits, however, rose by nearly 20% from the same period a year ago. That marks 22 consecutive quarters of double-digit global earnings increases.



While overseas economies should continue to grow at a healthy rate, U.S. corporate profits from overseas sales are expected to decelerate from the torrid pace of the past few years to between 7%-9% in 2008.. Furthermore, the U.S. economy is expected to grow in 2008,. although not an accelerated rate. U.S. GDP forecasts have been ranging from 1.5% to 2.25%.

Earnings forecasts continue to indicate significant improvement to the U.S. economy in the second half of the year. In 2007 the financials were responsible for almost 40% of all the earnings disappointments, now they make up 15% of the positive surprises. Despite all of the bad news that has been seen in the financial sector, overall earnings surprises remain positive more than 2:1. If these trends were to continue, the S&P, led by the financial and technology sectors, is expected to grow between 14-15% this year in total net income.

Personal income advanced during the quarter, but remains under stress with rising gasoline and food prices. Recent inflation news probably provided some comfort to the Fed, which has driven down interest rates a full three percentage points during the past six months. Although the overall consumer price index (CPI) was up 3.4% from the prior year, the core index was up just 2%, compared with its December peak of 2.2%. While consumers are becoming more worried about debt, the Fed's lowering of interest rates have eliminated about two-thirds of the ARM Mortgage reset amounts that were expected this year. Additionally, with rebate checks coming in early summer, people will have some money to spend. The current rebates are larger than in 2001, and are being distributed lower on the income scale.

Business capital spending suggest that companies have become more cautious as they become increasingly concerned about possible declines in consumer spending. This trend has been evident in recent years and as a result corporate balance sheets remain strong overall and are not under strong pressure to retrench. Liquidity remains plentiful for healthy borrowers. Many can borrow at rates lower than they could a year ago.

Investor pessimism is showing some extreme trends in confidence levels and selling patterns not seen since 2001 or 1990. At the same time U.S. corporate insiders have stepped up buying, suggesting they see value in their shares and do not expect a wrenching recession. U.S. money markets funds reached a record size and investors flocked to commodities as the dollar declined to a series of all-time lows. There is a lot of anxiety today. Normally this is a bullish signal to the markets as the consensus is notoriously poor at predicting the tops and bottoms of market cycles.

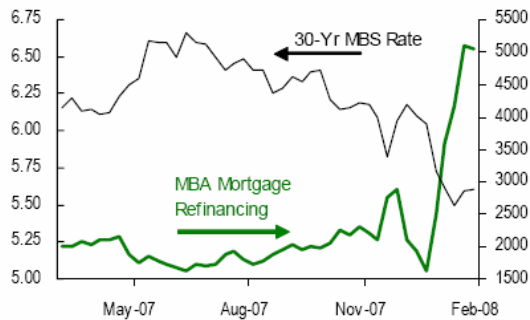
Mortgages finally found a solid foundation to build off of late in the month of March as stability is starting to appear in the mortgage bond markets. After two years of underperformance compared to Treasuries, investors responded to recent Fed actions and cheap relative values not seen in more than 20 years. Mortgage bonds managed to earn a solid return in March and outperformed Treasuries.

Concerns for 2008

Housing Market – The housing market continues to falter. Home prices declined 9% in 2007 according to the Standard & Poor's/Case-Shiller Index. The problems are more regional than consistent throughout the country. Two regions, the Great Lakes and the Sunbelt, have special problems. In the Great Lakes region, especially Detroit, the problem is primarily a lack of jobs due to layoffs particularly within the U.S. automobile industry. The remaining weakest cities are concentrated in the Sunbelt, where high percentages of second homes, retirement housing and investment properties are depressing prices. The bubble in these cities was based on increased speculation driven by easing credit standards and creative "subprime" lending solutions. On the positive side, housing starts and sales have been stronger than expected over the past few months, but few expect a quick turnaround. Mortgage loans are still available for those with a reasonable down payment of 10% or more. The fiscal stimulus package also increases the maximums at which Fannie Mae and Freddie Mac can lend, which will help in some of the higher-priced markets such as California and the Northeast. Recent reductions in short term interest rates have made it a smoother transition for ARM resets this year and we have seen recent increases in refinancing as homeowners are taking advantage of continued low interest rates.

Chart 1: Lower mortgage rates have initiated a surge in the refinancing index...

30Y Rate (left axis, %) and Mortgage Refinancing (right, level)



Source: Mortgage Bankers Association

The Drop in Home Prices

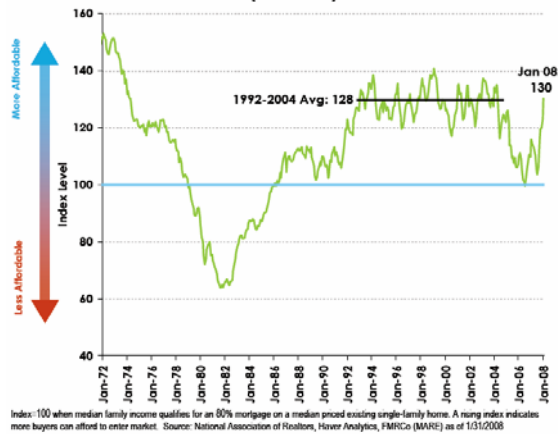
(S&P/Case-Shiller Index, December/December)

	DEC-07 (12-MONTH % CHANGE)	2002-2005 AVERAGE (12-MONTH % CHANGE)	FORECLOSURE RATE (%)
Top five			
Charlotte	2.3	4.1	1.4
Portland, OR	1.2	13.1	0.6
Seattle	0.5	12.2	0.5
Dallas	-2.4	2.7	1.7
Atlanta	-3.4	4.3	2.5
National average			
	-9.1	14.3	1.0
Bottom five			
Miami	-17.5	19.9	2.7
Phoenix	-15.3	20.6	1.9
Las Vegas	-15.3	17.5	4.2
San Diego	-15.0	17.2	1.8
Detroit	-13.6	3.1	4.9

Sources: Standard & Poor's; Foreclosure data from RealtyTrac.

Houses have become more affordable, with prices at the best levels in four years. Yet buyers expect that home prices will continue to drop, and the presence of so much distressed housing on the market as the result of foreclosures and forced sales has put an enormous inventory of unsold homes on the market. There is currently a 10 months supply of existing homes on the market and 9.7 months of new homes.

Housing Affordability Index (1996-2007)



Index = 100 when median family income qualifies for an 80% mortgage on a median priced existing single-family home. A rising index indicates more buyers can afford to enter market. Source: National Association of Realtors, Haver Analytics, FMRCo (MARE) as of 1/31/2008

Inventory of Mortgages in Foreclosure (1996-2007)



"Inventory of Mortgages in Foreclosure" refers to the total number of loans in the legal process of foreclosure as a percentage of the total number of mortgages in the pool during a quarter. The number of loans in the process of foreclosure during a quarter means that some foreclosures may have started in other quarters but have yet to be resolved. Source: Mortgage Bankers Association, Haver Analytics, FMRCo (MARE) as of 1/31/2007

Consumer spending and inflation - The consumer has been squeezed recently with rising gasoline prices and higher food costs. While oil still captures most of the headlines, up nearly 60% over the past year, we've also experienced a near tripling in wheat prices over the same period. Food producers are enjoying their best pricing power in 27 years and shipments of agricultural equipment are up 24% over the last year. The decline in the U.S. dollar is aiding this strength, along with emerging economies' demand, limited supply and also much rampant speculation.

Fortunately the inflation trends today are not similar to the patterns we witnessed in the 70's. Global factors continue to put downward pressure on costs, and capacity levels are below where we would expect to see pressure for higher prices. Most important, wage inflation remains low and is the biggest determinate of overall inflation within corporate america.

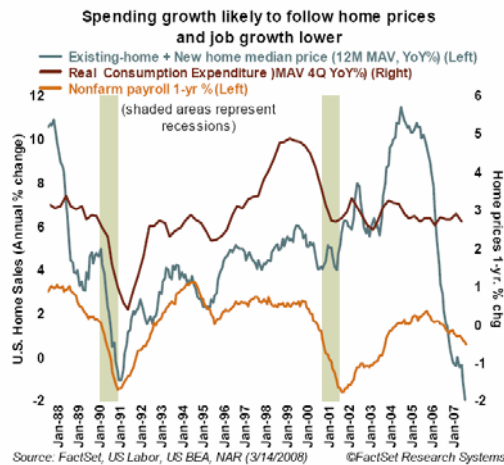
Consumer spending remains weak with an essentially flat trend during the past three months. Despite all the worries about the housing market, consumer spending was holding up fairly well until late 2007. While income trends remain positive, employment trends have weakened. Job creation has declined over

the past three months which has increased the unemployment rate up slightly to 5.1%. This is raising fears of a more serious decline in spending trends by the consumer.

Earnings Forecasts - With all of the write downs in the financial sector, total net income for the S&P declined last quarter and will report further declines this quarter. Confidence in earnings forecasts have turned from neutral to negative during the past few months and could be a prelude to a further decrease in those projections later this year. Business spending has stalled recently as well due to increased uncertainty related to the overall economy.

Summary:

The consumer remains the linchpin for our economy. If consumers continue to spend, it may be possible to avoid a lingering slowdown or recession. However, if they stop going to the malls and refuse to spend their tax rebates, this slowdown could be longer and deeper than expected.



Recent stock market movements have already priced in an economic slowdown similar to the recession of 1990. Thus there is the possibility that the worst is mostly behind us and we could see a rebound later this year. Yet if the consumer disappoints, the negative sentiment would bring the markets down further. The overall economy still points to continued growth both here and abroad and we are hopeful for that trend to continue this year.

Jim Evens
Investment Director