HAMRICK INVESTMENT COUNSEL LLC

POLITICAL, ECONOMIC AND CAPITAL MARKETS REVIEW & OUTLOOK FOR 2007

Summary

- Globalization remains the primary underlying political and economic trend.
- Ongoing tensions, particularly in the Middle East, as well as initial phases of change in U.S. leadership, increase political risks in 2007.
- Global economic growth will moderate but remain solid as rapidly growing emerging markets contribute an increasing share of overall economic production.
- Long term outlook for global equity markets is favorable, yet markets are likely to encounter increased volatility and are subject to shocks in 2007.
- Outlook for fixed income markets in 2007 is unfavorable with modest yields and risk of widening credit spreads.
- Going into 2007, we intend to adopt a cautious investment strategy; over the course of the year we look to be opportunistic and take advantage of prospective market volatility.

Political Commentary

For many years now, the primary underlying political and economic trend has been that of globalization. We expect this trend will continue throughout 2007 and into the years beyond.

In the global political arena, much of the focus has been on various military conflicts in the Middle East: the U.S. led occupation in Iraq, the recent war in Lebanon, and the ongoing Israeli/Palestinian conflict. Most recently we see the outbreak of hostilities in Somalia.

As we head into 2007, these political tensions appear to be escalating. These conflicts are not so severe as to derail the global economy, but they act as a drain on U.S. government resources and as a distraction from global economic development. They also act to undermine the political leadership of the U.S. as the world's primary superpower. We see no resolution to the conflict in Iraq in 2007.

Within the U.S., we currently see the beginnings of change in political leadership. Mostly due to the problems that have arisen following the invasion of Iraq, the Bush Administration has lost much of its control on power. In November, Democratic candidates won majority seats in both houses of Congress. In addition, attention is starting to focus on the 2008 U.S. presidential election. There is no clear candidate for either party. Major issues concerning the war in Iraq, as well as Social Security, Medicare and Medicaid reform, loom before us. We believe that the political rhetoric will heat up early in 2007 and will continue throughout the year. We hear much discussion about bipartisanship, but we see no will on the part of either political party – or even within the parties themselves – towards compromise. We anticipate that 2007 will be politically divisive.

Other global political issues that concern us: ongoing terrorist threats; high energy prices and potential disruptions to global energy supplies; rising authoritarianism in Russia; and prospective internal social conflicts in China and other developing economies.

We are optimistic about the underlying long term trends around the world: increasing global trade and economic interdependence, rising standards of living, and efforts to strengthen democratic government. We are also encouraged by strong economic leaders currently in place at the Treasury Department and Federal Reserve Bank. As we head into the new year, however, we see 2007 as a time of ongoing global political tensions and as an early stage in change of U.S. political leadership with uncertain outcome. We believe these factors will lead towards increased volatility in the global financial markets in the coming year.

Economic Review and Outlook

Global economic strength continued in 2006 with growth of nearly 4% for the year. While U.S. GDP grew an estimated 3.3%, economies of developing nations made solid contributions with growth of almost 7%. Moreover, economic strength was widespread, with countries in Asia, the Middle East and South America participating.

In 2007, we anticipate global economic growth of around 3.5%, a slower pace but still relatively strong. The economies of developing countries will once again play a leading role while economies of developed countries will have solid but slower growth. Ongoing economic expansion outside the U.S. will help offset economic weakness within the U.S.

We expect that U.S. economic growth will slow to a range of 2.0% to 2.5% in 2007. While exports are robust, wage growth is strong and government spending on goods and services is stable, the U.S. is grappling with the impacts of a housing slowdown. We anticipate that declining house prices, greater mortgage debt payments and higher energy prices will slow consumer spending in 2007.

A major long-term trend that we see is the diminishing role of the U.S. in driving global economic growth as trade amongst countries expands and internal demand within individual countries increases. Developing countries are contributing a growing share of the world's economic production, with the output of the U.S. now matched by that of China and India combined. Even so, the contributions of these economies plus that of the European Union represent only 60% of total world output. Sources of global economic growth are becoming much more numerous and diverse. Wealth created from this expansion of trade fuels demand for goods and services globally, leading to a rise in purchasing power and standards of living worldwide.

In 2007, we think that burgeoning world economic activity, particularly in developing countries, will make up for some of the slack in U.S. economic weakness. We think this will create a favorable economic climate for investments.

Capital Markets Outlook

Equity Markets

In 2006, global equity market returns were strong. At the end of 2002, following the bursting of the dot com bubble and the trauma of the 9/11 terrorist incidents, the equity markets bottomed out. Since that time, we have witnessed a remarkable rebound. Returns on the Standard & Poor's 500 stock index have been up in each of the past four years at an average annual rate of nearly 15%. Returns on international stock markets over the past four years have been higher, at an average of approximately 25% per year for the MSCI EAFE index, with even higher performance for emerging markets.

In contrast to the extraordinary market valuations at the end of the 1990's, we think the current economic and financial results support the recent stock market gains. Economic growth has been strong on a global basis. Corporate profits have been high. Financial accounting standards and regulatory controls have been considerably strengthened. At the end of 2006, equity market valuations look generous, yet reasonable.

Furthermore, in addition to strong global economic conditions, these higher than average stock valuations are bolstered by low interest rates and moderate inflation. In this context, and with the prospect of moderating yet ongoing solid global economic growth, we believe that the long term outlook for equity markets remains favorable.

However, as we head into the new year, we have some hesitation. As mentioned above, we note the risks of terrorism and political conflicts that may disrupt the economy and financial markets. Although we think the probability of a major long term disruption is low, we believe the equity markets are vulnerable in the near-term to unexpected political developments. Such political factors are also a drain on long term economic growth.

Our primary concerns for the markets in 2007, however, relate to global financial structures. While core markets appear reasonably valued, we are aware of the highly favorable conditions that currently support those markets: high levels of liquidity, low interest rates, relatively low inflation. In particular, we are concerned about the extensive use of financial engineering, leverage and derivative securities that are currently deployed in the financial markets. Many of these instruments are new and untested in stressful market conditions. Currently global financial markets look to be performing exceedingly well. In the event of some significant disruption to these highly favorable conditions, such as a blow up at a major hedge fund or escalating default rates in the mortgage securities markets, we are concerned about the reaction that may spread into the securities markets in general.

Therefore, while we view the long term outlook for global equity markets as favorable, we see moderately heightened risks in the current environment. In 2007 we think the equity markets will fare reasonably well, but are vulnerable to shocks, and volatility will likely increase.

Fixed Income Markets

In 2006, total returns in the bond market were modest. Higher quality bonds returned between 4.0% and 5.0%, while lower quality bonds provided better returns. We note that at year-end, the yield curve was inverted with money market fund rates higher than intermediate-term Treasuries.

We expect the yield curve to remain inverted in the first half of 2007 with perhaps a small increase in the yield on longer-term bonds in the second half of the year. Given the Fed's vigilance on inflation and our expectations of a modest slowing in U.S. economic growth, we believe that the Fed will remain reluctant to reduce interest rates. We anticipate that the Fed Funds rate will remain in the range of 5.00% to 5.25%. Longer-term interest rates will likely remain modest. Foreign interest rates may rise somewhat as countries adopt more restrictive monetary policies to deter economic overheating.

We think these modest yields do not appropriately compensate bond investors. In addition, lower quality bonds face the risk of widening credit spreads in relation to Treasury rates. Finally, current leveraged company buyout and other business combination activity may significantly reduce credit quality for existing bond holders.

Strategy for 2007

In response to the political, economic and capital market expectations outlined above, our initial investment strategy in 2007 is to take a cautious approach. Our underlying strategy is to remain invested in global securities to benefit from our outlook for long term economic growth. We believe investors can profit from the increasingly diverse and expanding world economy by investing in companies with global operations and markets for their goods and services. Furthermore, investments in global capital markets provide some protection from economic slowdowns in any particular country.

Our investment style is characterized by low turnover, and we do not attempt to time the markets. Nonetheless, we take a dynamic approach in managing risks for our clients. At the start of 2007, despite the backdrop of strong economic growth, we see heightened political risks and the likelihood of shocks and volatility in the financial markets. Therefore, we choose to slightly underweight equities going into the new year. This will provide some downside protection as well as cash available for investment in the event of market volatility. Prospective areas for equity investments with favorable long term growth prospects that we are investigating include:

(1) Energy related investments that will help the world meet burgeoning demand for energy and become less vulnerable to supply disruptions; and

(2) Technologies and services that restore and preserve the environment.

With regard to fixed income investments, we currently see limited value due to low interest rates, tight yield spreads, and little expectation of further declines in intermediate and long term rates. We intend to maintain short to intermediate term bond positions for cash flow, current income, portfolio stability and diversification. In general, however, we expect to underweight our fixed income allocations relative to our long term targets.

On the other hand, with the inverted yield curve and high yields on money market funds at present, we believe that investors are well compensated for balances held in cash. Therefore, we are comfortable starting the year with generous cash holdings, particularly in view of the low risk this entails. Over the course of 2007, then, we will be looking for opportunities to take advantage of market declines and invest cash for the advantage of our clients.

With regard to foreign versus U.S. investments, we believe that this distinction is becoming increasingly less relevant. We also believe it important to maintain good diversification with regard to non-dollar-denominated assets. Therefore, we intend to maintain portfolios of stocks and bonds that are well diversified on a global basis.

Summary

At the start of 2007, we think the global equity markets are reasonably valued, and we believe in their long-term growth prospects. In the near term, however, we think the markets are subject to some political risks and volatility. Therefore, our strategy is initially to take a cautious stance. Due to the current low level of interest rates, we plan to downplay fixed income investments for now. On the other hand, we believe investors are currently well compensated on cash holdings. Therefore, we expect to initially underweight equities and fixed income investments, and hold cash positions slightly above our long term target asset allocations. Over the course of the year, we will be looking to take advantage of market volatility to make equity investments, particularly in the areas of energy and environment, that we believe will provide favorable long term growth opportunities for the benefit of our clients.

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