BRIAN D. LOWDER, INC.

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FINANCIAL MARKET OVERVIEW

Calendar year 2007 investment performance was disappointing and below investors' expectations, but ended in positive territory. We expected 2008 to be equally challenging and difficult to achieve target rates of return. Judging by the first three-month performance in 2008 for stocks, bonds and real estate, we are off to one of the worst three-month periods in a decade. Fortunately, our client accounts have suffered far less damage than most investors due to our decision to reduce stocks and increase alternative investments during 2007.

Nearly all stock categories posted negative performance during the first quarter of 2008. The average diversified stock mutual fund lost 10.6% during the first quarter. Among the only positive performing categories were gold, high-quality bonds and several "alternative asset" categories such as currency funds, commodities and managed futures.

During the first quarter of 2008, the Dow Jones Industrial Average was down 7.0% and most of the other stock indexes were down more than 9%. Growth stocks in all categories turned in the worst performance and small-company growth stocks suffered the largest decline. Surprisingly, our economy appears to be headed for a recession yet the U.S. stock market has incurred fewer losses and is performing better than most other countries around the world. Over the past three months, the stock market indexes in Germany, France, and Japan have dropped at least double the amount of the U.S. stock market. Even worse, India and China are down over 20% since the beginning of the year. Below are sample returns of various asset categories during the first quarter of 2008:

2008 1st Quarter	**Index Return (*includes dividends reinvested*)**
(7.0%)	**Dow Jones Industrial Average**
(9.4%)	**Standard & Poor's 500 Index**
(9.5%)	**DJ Wilshire 5000 (Broad Market)**
(11.6%)	**Large-company stock-Growth**
(9.5%)	**Large-company stock-Value**
(12.9%)	**Mid-Size Stocks – Growth**
(9.3%)	**Mid-Size Stocks – Value**
(14.9%)	**Small-company stock- Growth**
(7.0%)	**Small-company stock- Value**
(9.2%)	**International (excludes U.S.)**
(11.7%)	**Emerging Markets**
(1.2%)	**Real Estate Investment Trusts**
	Fixed Income
+ 1.9%	**Short-term U.S. Treasury** ***(includes appreciation)***
+ 4.0%	**Intermediate U.S. Treasury** ***(includes appreciation)***
	Alternative Investment Category
+ 5.2%	**Gold**
+ 9.7%	**Commodities**
+ 6.6%	**Declining U.S. Dollar**
+ 5.6%	**Managed Futures**

FUTURE ECONOMIC OUTLOOK

Where is our economy headed and is there any positive indications or hope for a recovery on the horizon? Recently, several banks and well-known lenders around the globe have disclosed significant losses or write-downs on their mortgage assets while some have filed for bankruptcy protection. Others have been forced to raise capital to avoid bankruptcy. Investment

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banks are disclosing significant losses. Bear Stearns, a major player in underwriting mortgages, fell victim to sub prime mortgage defaults and saw its price drop from $90 per share to $5 per share before the government stepped in to arrange financing for a buyout by J P Morgan. Countrywide Financial, one of the country's largest mortgage lenders, has disclosed steep losses. The stock price has fallen from over $40 per share to $5 per share in less than one year.

Recently, Aloha Airlines, ATA Airlines and last week Skybus Airlines all filed for bankruptcy protection leaving stranded travelers and customers with worthless tickets. The above developments along with the continuing downward adjustment of real estate values and the mortgage/lending crisis are finally taking its toll on the job market and our Gross Domestic Product.

Economic growth during the fourth quarter of 2007 slowed to a crawl at six-tenths of one percent. Estimates of economic growth for the 1st quarter of 2008 are expected to be even lower and higher unemployment claims are mounting with job losses totaling nearly 240,000 during the first quarter of 2008. By the time the labor market begins to unravel, a recession often is already well underway. Now the debate has changed from not expecting a recession to a hopeful consensus for a swift and shallow recession. The recession's length will prove crucial to future investment market performance.

All of the above developments are actually *good news* in our view; we will explain in greater detail in a moment. But first, two additional events must occur before stocks and bonds can return to their normal expected annual return patterns.

Additional reported losses and write-downs of financial assets should be expected over the next several months and downward revisions of corporate earnings are forthcoming due to a slowing economy. Over the next few months, investors should *expect* earnings reports for the first quarter of 2008 and company forecasts for the rest of the year to be disappointing. The economy's slowing and the inability to borrow against inflated real estate values will force people and businesses to hunker down, reduce spending and reduce hiring.

The last shoe to drop sometime this year is commodities prices. Everything from basic materials such as copper, minerals and oil to corn, wheat and other staples has helped push up U.S. commodities prices by 50% over the past twelve months. It is true that rising food prices may partially be explained by the increased use of crops for biofuels. In addition, some countries such as China and India are growing much faster than developed nations and their growth in consumption of basic materials is greater compared to the U.S and Europe. In other words, the increase in commodities prices is demand-driven stemming from growth in the use of biofuels and economic growth in China and India. However, biofuels, China and India are only part of the story.

The rapid appreciation in commodities prices has not gone unnoticed by speculators and now the investing public. Speculators are playing a huge role. There has been a proliferation of mutual funds, hedge funds, and exchange-traded funds tied to commodities indexes. As money flows in, these funds must buy commodities and in the process are lifting prices above fair value as we enter a slowing global economy. Interestingly, the producers such as farmers, food processors, energy producers and others who actually trade daily in the physical commodities are betting on price *declines* as investors are buying in with the expectation that the recent historical and abnormally high returns will continue in the future.

If demand and prices for commodities has increased so rapidly, why hasn't the supply adjusted accordingly? The financial press offers theories of conspiracies, cartels, hedge funds and the greedy profit-seeking mentalities of oil companies. In the case of energy, products or substitutes do not exist, at least not on a macro-level, which would increase supply as quickly as the increases in demand. Secondly, the output of energy resources from America's aging oil fields has peaked and is in a declining stage. Investment in new oil fields is a 20-year or longer capital commitment. Why should American or global oil companies even attempt to deal with governments from resource-rich countries such as Venezuela, Iran, Bolivia, Nigeria etc. who can and do "nationalize" the oil fields once the structure and capital investment have been made? The best potential oil fields at home are located in pristine lands where environmentalists and others don't want to chance another Exxon Valdez accident in these areas.

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The same argument can be made for metal prices. There is little incentive to invest in long-term and extremely expensive mine projects. Do you know of any major new copper mine under construction?

A different kind of incentive structure problem impacts agriculture in both emerging and "rich" nations. The culprit is price controls that governments frequently impose on exports or imports. When a government does not like a trade agreement or desires to protect its producers, they can simply impose tariffs or price controls. The true supply and demand price for any product is altered.

To summarize, these incentive structure problems prevent the supply side of the equation to adjust for increases in the demand side of the equation. Therefore, we can expect long-term inflation in these three crucial markets and periods of rapid price escalation when demand and speculation outstrip supply.

In the short-term, it seems to us that a pricing imbalance exits with several of the commodities contained in the index accompanied by over-speculation by investors. Until this "mini commodities bubble" breaks, the stock market is likely to remain in the same trading range.

Declining real estate values, the mortgage lending crisis, higher unemployment, slower global economic growth, the falling U.S. dollar, recessionary fears and rising commodities prices that do not fairly reflect supply and demand seem to paint a terribly bleak picture (not to mention the psychological impact of election year politics on the financial markets). However, looking *forward*, these developments are actually good news. Before our financial markets can recover, the excesses must be exposed, prices must adjust and the cleansing process must be allowed to take its course.

The Federal Reserve has already acted aggressively by substantially lowering interest rates. When the above problems are cleansed from the economic system, we believe focusing on positioning client portfolios for the opportunity to earn above-average investment gains beginning during the second half of 2008 far exceeds worrying about the near-term downward trend in the financial markets.

Not only will lower U.S. interest rates eventually provide American stocks with an advantage, but the long downturn in the value of the dollar will also improve profits for U.S. multinational companies. Our goods and services become cheaper relative to the same goods in foreign countries. In addition, the superior performance of international stocks compared to the U.S. over the past several years has moved their values up similar to and beyond the valuations of U.S. stocks.

SUMMARY & OBSERVATION

The financial markets are in a state of transition and the cleansing process will likely take longer than most investors are willing to tolerate. However, removing excesses is a necessary step before the economy and the financial markets can resume delivering normal growth and investment performance. During the previous two years, the majority of investors, investment advisory firms and the financial press did not accept or believe that the above problems and consequences would materialize. Since the full extent of the economic problems is known and investor psychology has turned negative, now is the time to begin focusing on where the economy will be one year from today.

The investment markets, especially stocks, will anticipate positive progress and begin the adjustment typically within a nine-to-twelve month lead time. Therefore, our focus is to identify low-risk entry points and begin the transition away from the relatively conservative stock allocation implemented in 2006 and 2007 and move toward our normal allocation to stocks. In addition, we expect to liquidate our client positions in declining dollar funds and gold holdings soon.

INCOME TAX DATA & INCOME TAX RETURNS

Our clients have already received a full accounting of income and capitals gains for the 2007 calendar year. Selected information regarding income that is not taxable on state income tax returns are not included on custodians' 1099 Forms, but are included in our reports. We strongly recommend providing our Income and Realized Gain/Loss Reports to your tax preparer. The most common omission we have found pertains to interest earned on Federal Home Loan Bank Notes.

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Interest earned on these bonds is NOT state taxable, but we often find tax preparers including this income as taxable on state income tax returns.

Please request paper or computer file copies of your 2007 income tax returns be mailed or emailed to our office upon completion. Our investment decisions and income tax management strategies are greatly improved when we have copies of your income tax returns.

COMPANY ANNOUNCEMENTS

Congratulations to financial advisor, Mike Kinnear and wife Bernadette on the birth of their second daughter, Mikala born on January 25, 2008. Mom, Dad and big sister Brooke, age 3, are delighted to expand the family and are excited to move into their new home in Rancho Bernardo.

Thank you for your continued trust and confidence. We will work hard to maintain that trust and confidence throughout your life changes and market transitions.

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Best regards

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