DEARDEN, MAGUIRE, WEAVER AND BARRETT, LLC

CAPITAL MARKETS OUTLOOK

The Economy ♦ Fixed Income ♦ Equities

THE ECONOMY:

GDP	Actual	Expected
Real GDP (3Q)	4.9%	4.9%
Final Sales	4.0%	
Consumer		
Retail Sales (ex autos) (Nov)	-0.4%	-0.1%
Personal Income (Nov)	0.4%	0.5%
Personal Spending (Nov)	1.1%	0.7%
Other		
Leading Indicators (Nov)	-0.4%	-0.3%
Productivity (3Q)	6.3%	5.9%
Industrial Production (Nov)	0.0%	-0.2%
Trade Balance (Oct)	-63.1B	-59.5B
Prices		
CPI Core (MoM)[1] (Nov)	0.2%	0.2%
PPI Core (MoM)[1] (Nov)	0.2%	0.2%
PCE Core (YoY)[2] (Nov)	2.2%	2.0%
Employment Cost Index (3Q)	0.8%	0.9%
Consumer Confidence		
Univ. of Michigan (Dec)	75.5	74.5
Conference Board (Dec)	88.6	86.5
Employment		
Initial Jobless Claims (Dec 22)	301,000	331,000
Change in Nonfarm Payrolls (Nov)	18,000	70,000
Housing		
Existing Home Sales (MoM)[1] (Nov)	0.4%	0.0%
New Home Sales (MoM)[1] (Nov)	-9.0%	-1.6%
S&P/Case Shiller House Price Index (YoY)[2] (3Q)	-4.5%	-4.1%

With the strong 3rd quarter decidedly in our rear view mirror, the time has come to openly acknowledge what has been transpiring in the 4th quarter. While economists have flip-flopped back and forth with the changing data, several data points indicate that we are decidedly in a slowing phase. Unemployment unexpectedly rose to 5% in December, and many consumers don't have as much free cash to spend, with housing values falling (reducing available equity to tap), and with many prices increasing, particularly within the energy sector, as evidenced in the most recent inflation reports. Consumers do tend to be resilient, however, and we are therefore estimating growth to be slightly positive for the 4th quarter in the .5% - 1% range. We expect the Fed to continue to reduce rates at their upcoming meeting at the end of January, perhaps more aggressively than the rate cuts they enacted in 2007. The Fed worries about inflation and the falling dollar, and therefore does not want to risk creating a problem by cutting rates too much too quickly. While we agree this is a concern, we feel the liquidity problems the markets are facing are a greater threat to the health of the economy. In a perfect world, the Fed will be able to continue to cut rates at a measured pace while inflation remains at least in Fed's targeted range, even if it is at the highest part of that range. Under that scenario, we should experience flattish growth for a few quarters while the credit markets continue to thaw and as we get more transparency regarding the state of the housing market. Growth should improve at a more healthy 2.0-2.5% GDP rate for the economy later this year.

[1] MoM - Month over Month
[2] YoY - Year over Year

FIXED INCOME:

The bond market continues to rally as a significant flight to quality has sent yields down to levels not observed since 2004. We believe that a portion of this rally will unwind as the economy displays greater-than-expected resiliency in the coming weeks. In this environment, we recommend very selective buying of high quality bonds in the three to five year maturity range.

EQUITIES:

While hope existed that the holiday season would spell the market from its recent downturn, investors turned their backs as the indexes continued lower in December. As the chart below details, the fourth quarter was abysmal. The lone bright spot has been in growth investing, with technology shares rising throughout last year, especially from the likes of Apple, Research in Motion, Google, and Nokia. Evidence of this resurgence in technology shares is seen in the returns of the Nasdaq composite for the fourth quarter as well as the full year 2007. Value investing took a tremendous hit last year as financial companies fell apart amid the liquidity problems surrounding mortgage debt, especially sub-prime and Alt-a originations. Returns for various indexes are summarized below.

INDEX	12/31/07 CLOSE	INDEX HIGH	DECEMBER RETURN	QTD RETURN	YTD RETURN	12-MONTH RETURN
S&P 500	1468.36	1555.90	-0.69%	-3.33%	5.46%	5.46%
Equally Weighted	275.19	312.15	-2.09%	-6.62%	-2.69%	-2.69%
S&P/Citigroup Value	760.95	838.49	-1.57%	-5.37%	1.99%	1.99%
S&P/Citigroup Growth	702.66	972.11	0.17%	-1.28%	9.12%	9.12%
DJIA	13264.82	14021.90	-0.66%	-3.91%	8.87%	8.87%
NASDAQ	2652.28	2724.74	-0.27%	1.62%	10.66%	10.66%

Looking back at 2007, we saw the S&P 500 increase, albeit at a lower than average pace. Technology stocks rebounded while energy stocks continued to produce stellar returns. Those are the easy stories to tell, and frankly, the more enjoyable ones. Unfortunately, the most important story of the year, one that keeps on going, is the toughest of all to tell - the demise of the financial sector and its potential impact on the economy and the markets as a whole. Many financial stocks lost between 20%-60% of their value during 2007, and those losses have continued to mount in the early days of 2008. Certainly we would all like to be able to pick the bottom to begin investing more capital. A closer examination of the past and present might present some clues.

We all know by now that the housing boom started soon after the technology burst in 2000. Much of the appeal in housing came from the very low mortgage rates that existed at the time. In large part, that was due to the Fed's monetary policy that pushed the federal funds rate to 1%. The Fed's actions were in response to a slower economy, with housing appeal only a side effect. However, and this is where some of the problems started, the rules on mortgage lending gradually became less stringent. Political motivation played a part, as our government congratulated itself for giving the gift of homeownership to anyone and everyone. This excerpt from a speech Alan Greenspan delivered in 2005 has appeared in this publication before, but we believe it seems appropriate to revisit what the important figures of the time were saying:

"Innovation has brought about a multitude of new products, such as subprime loans and niche credit programs for immigrants. . . . With these advances in technology, lenders have taken advantage of credit-scoring models and other techniques for efficiently extending credit to a broader spectrum of consumers. . . . Where once more-marginal applicants would simply have been denied credit, lenders are now able to quite efficiently judge the risk posed by individual applicants and to price that risk appropriately. These improvements have led to rapid growth in subprime mortgage lending . . . fostering constructive innovation that is both responsive to market demand and beneficial to consumers."

Clearly, we were all excited about the prospects for the future of mortgage lending, especially the beneficiaries of these new policies, the mortgage lenders themselves. They were certainly not inclined to argue for tighter standards because that would equate to lower potential profits. Instead, they were off to the races creating new products and charging almost whatever they wanted to originate them. Obviously, and to make an understatement, it is an extremely bad idea to put new buyers in homes that they really can't afford. Unfortunately, that is just the tip of the iceberg and not the major issue at hand today. At least in direct lending, there is an asset backing the loan to which value can be assigned. Most mortgage originators, especially those originating subprime Alt-a loans, don't keep those loans in their loan portfolios. They normally sell them to a third party who will pool them together with other loans to create marketable securities. The idea is that the mortgage originator does not bear any credit risk associated with the loans. They make the origination fee and move on to the next loan, without exposure, and therefore without risk. There are banks that operated in that fashion and, as a result, those banks have not really felt the pain many others have. Interestingly, Citigroup and Merrill Lynch were two of the biggest packagers of loans, yet they also had some of the largest exposures to those very same securities, and derivatives of the securities. In order to profit even further from the strong housing market and new, higher-rate loans that were being created, some companies decided to set up SIVs, or structured investment vehicles. These would be held off balance sheet in order to avoid regulatory headaches. Of course, this also made these investments somewhat invisible to investors because the investments were much harder to track down and value. These SIVs were purchasing riskier mortgage-related securities, such as CDOs (collateralized debt obligations), and funding the purchases with the issuance of commercial paper. The spread on that arrangement was hefty, creating a windfall of profits for the SIV. Then the problems started in early 2007, when we started to see subprime delinquencies creep higher. All of a sudden, those who owned the commercial paper realized the assets backing their investment were similar to the types of loans that were in the process of going bad. When they decided not to roll over their commercial paper investment, the SIV had to secure other funding, or sell assets. Since large banks and brokers owned many of these SIVs, they had to take the tremendous hit associated with these investments. This is a simplistic review of what has happened to otherwise strong institutions. They, along with many others, made poor mortgage-related bets.

But this doesn't explain why many community banks have also struggled through this period. Some played heavily in the mortgage market, originating a lot of subprime and Alt-a product and selling it off for a fee. As investors soured on the mortgage-related securities, the securitizing firms enacted the put-back provisions on the loans and returned them to the originator. This resulted in losses at certain community banks, but what about the ones who had no subprime exposure at all? Why are their stocks down anywhere from 25-50%? Many community banks have construction loans in their loan portfolios. These loans are certainly considered suspect during a time when homebuilders are feeling a lot of pain, as they are now. Another area of concern is home equity loans, or lines of credit, which show up on most banks balance sheets. Often the home equity loan is the second lien on the home and can run up to 90-100% of the value of the home. If home prices keep falling, some of those loans might not be paid back in full as the LTV(loan to value) on the loans approach 100%. Consumer loans are also concerning to many investors as the economy slows. Specifically, investors are concerned consumers will not be in position to repay, in full, all of their obligations as their home value falls. There is one more issue related to community bank investing. Many people invest in community banks with the hope that someday their bank will get acquired by a larger bank at a premium to current market prices. During times like these when many banks are protecting capital, widespread acquisitions are less likely to occur. Therefore, investors tend to look elsewhere until the landscape returns to normal.

We do believe that the economy is undergoing a major slowdown and that many of the concerns noted above are real. Certainly a slowdown in job creation, if it were to become a long-term trend, creates a challenge for the economy and for the consumers' ability to repay all obligations. But one aspect of this cycle that is similar to almost every other cycle in history is that people overreact to news. We believe that this phenomenon is magnified in today's world because all news is disseminated simultaneously, causing a larger group of investors to react right away.

Our forecast calls for a slow first half of 2008, with flattish growth that could become mildly negative. We also expect most financial institutions affected by poor asset quality to write down or reserve against those assets during the fourth quarter of 2007and perhaps through the first half of 2008. Then, subsequent quarters should be clean and look quite good for comparison purposes versus the year earlier results. A lot of banks with these characteristics currently trade below their tangible book value. During normal bank stock markets, community banks trade, on average, around 150% of book value and subsequently get acquired for more than 200% of book value. Once we see clean quarters from these companies, the valuations will return to those normal levels. Many banks who have been aggressive in reserving against potentially bad loans should see recoveries at some point as credit stabilizes, providing a boost to book value. One reason for that stems from the fact that a lot of mortgage debt is trading at levels that aren't consistent with the underlying value of the asset, thereby creating future value. Mergers and acquisitions should begin to pick up as some banks sell out of frustration, and others out of desire. Either way, patient investors should be rewarded. History has shown that sell-offs in the financial sector, like the one we are in the midst of, have been followed by very powerful recoveries – we believe that will again be the case.

Please refer to the Focus List that follows for all our investment ideas.

FOCUS LIST

GROUP	S&P 500	DMWB	TICKER	RECOMMENDED STOCKS	12/31/07 CLOSE	LIMIT
Financial Banks, Insurance, Saving and Loans	21.2%	25 to 35%	BAC C FHN FRGB IBKC JPM PNC USB WB ZION	Bank of America Citigroup First Horizon Natl First Regl Bancorp Iberiabank Corp J P Morgan Chase PNC Bank US Bancorp Wachovia Zions Bancorporation	41.26 29.44 18.15 18.89 46.75 43.65 65.65 31.74 38.03 46.69	
Health Care Pharmaceuticals, Hospital Supplies, Medical Devices	11.8%	15 to 20%	BMY DNA GSK JNJ MDT PFE UNH	Bristol Myers Squibb Genentech Inc Glaxosmithkline Johnson & Johnson Medtronic Pfizer Inc United Health Group	26.52 67.07 50.39 66.70 50.27 22.73 58.20	
Information Technology	15.2%	17 to 20%	CSCO GLW EBAY INTC MSFT NOK	Cisco Corning Inc Ebay Inc Intel Corp Microsoft Corp Nokia Corp	27.07 23.99 33.19 26.66 35.60 38.39	
Consumer Staples Beverages, Cosmetics, Foods, Soaps, Tobacco	9.3%	8 to 10%	PEP PG UNFI WAG	Pepsico Inc Procter & Gamble United Natural Foods Walgreen Co	75.90 73.42 31.72 38.08	
Industrials Electrical, Machinery. Pollution Control, Airlines, Railroads, Trucking	11.2%	6 to 8%	MMM CAT EMR GE	3M Co Caterpillar Emerson Electric General Electric	84.32 72.56 56.66 37.07	
Consumer Discretionary Broadcasters, Retail, Hotels, Auto, Auto Related, Housing Related, Restaurants	10.3%	7 to 9%	DIS TGT	Disney Walt Co Target Corp	32.28 50.00	
Energy Natural Gas, Oil, Oil Services	10.6%	6 to 8%	BP CVX COP XOM	BP Amoco Chevron Texaco Conocophillips Com Exxon Mobil	73.17 93.33 88.30 93.69	
Telecommunication Services	3.8%	1 to 3%	T	AT&T	41.56	
Utilities	3.6%	0 to 2%				
Materials Chemicals, Paper, Forest Products, Metals	3.1%	0 to 2%	DD	E.I. DuPont De Nemours	44.09	