

AKT WEALTH ADVISORS - Quarterly Market Commentary

April 17, 2007

COMMENTARY

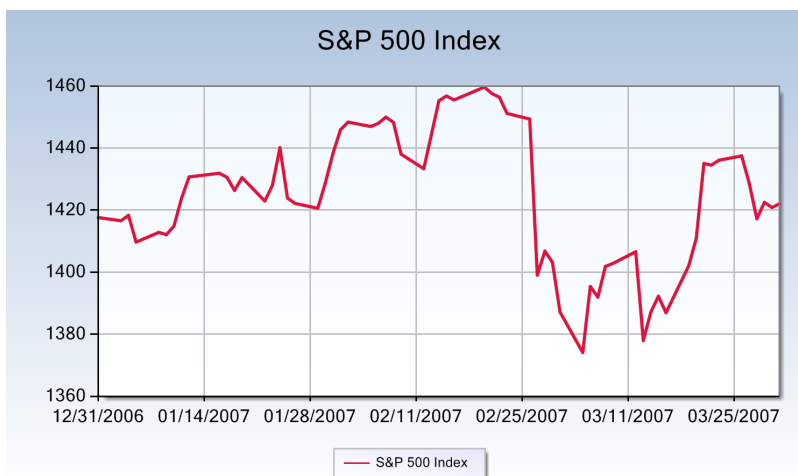
Fourth quarter GDP growth of 2.5% was substantially below the original estimate of 3.5% despite an upward revision in March. Fourth quarter marked the third quarter in a row that GDP growth came in below 3.0%. U.S. growth was constrained by a dramatic decline in residential construction, slower manufacturing growth, and a decline in worker productivity. Slower growth is also causing corporate America to reduce business investment, which is contributing to moderating growth. Orders for durable goods, considered a leading indicator of corporate spending, fell over 9.0% in January, the largest decline in over six years.

Economic and market data arguably deteriorated in the first quarter. The price of oil spiked in March and ended the quarter about \$5.00 per barrel above where it started. As the first quarter started, many were forecasting that housing's downslide had bottomed. However, a complete meltdown in the subprime mortgage market in February quickly changed sentiment from neutral to negative. New Century, the second largest publicly traded subprime underwriter, declared bankruptcy in March and several other private firms shut their doors in the second half of the quarter. Both pending new and existing home sales declined in March, indicating that the downturn in housing was not necessarily over. Difficulties in the housing market put pressure on consumer confidence and the index declined in March after advancing in each of the prior three months.

Despite several negative economic data points, jobless claims and the unemployment rate remained at historically low levels throughout the quarter. If consumers are secure in their employment prospects they tend to spend fairly freely, which was the case in the quarter. Some of the employment strength was associated with a declining workforce due to the baby boomers retiring. In addition, productivity growth slowed, forcing companies to hire additional workers to keep up with demand.

EQUITIES

Stock price volatility returned with a vengeance in the first quarter. Stocks posted solid gains in January as fourth quarter's positive momentum continued. Stocks rose modestly throughout February before a sudden sell at month's end. The S&P 500 dropped more than 50 points, nearly 3.5%, on February 27th. The decline was fueled by a combination of things, primarily a 9.0% sell off in Chinese stocks the day before, recent comments by former Federal Reserve Chairman Alan Greenspan that a recession was possible late in 2007, and a dramatic and unexpected decline in durable goods orders. The market struggled for the next two weeks as nervous equity investors' reevaluated risks. Investors began buying stocks again in the second half of March following perceived dovish comments by Chairman Bernanke. However, Bernanke's comments became more hawkish as the month progressed and stock prices retrenched as a result. After a volatile quarter, most equity indices ended March in slightly positive territory.



Mid cap were the best performing stocks in terms of market capitalization. The Russell Midcap Index gained 3.96% in the first quarter. Small cap stocks, as measured by the Russell 2000 Index, gained 1.95%, and large cap stocks, measured by the Russell 1000 Index, posted a gain of 1.21%. Mid cap stocks were favored in the first quarter as investors preferred their combination of faster expected earnings growth vis-à-vis large cap stocks and lower price volatility compared to small cap stocks. Every sector of the Russell Midcap Index posted a positive return, with Materials, Energy, and Consumer Staples leading the way. There was little performance difference between value and growth stocks in the quarter. Although the top performing sectors had a value bias, poor performance among Financials, the largest sector in the value indices, muted index performance. A blow up in the subprime mortgage market put downward pressure on financial stocks.

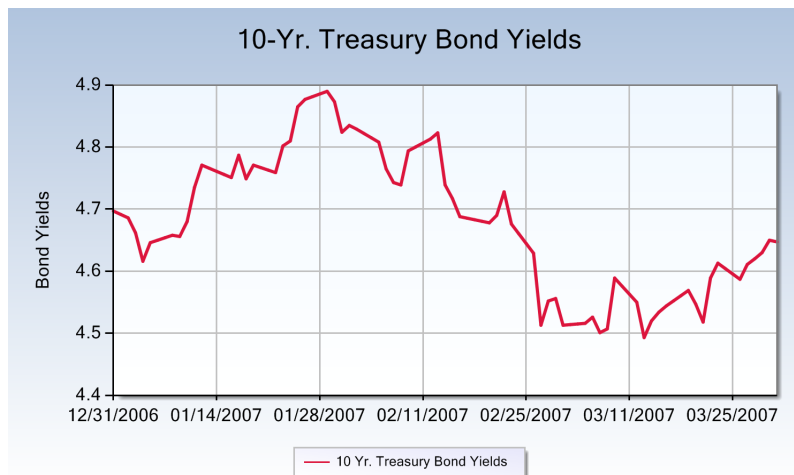
Although international equity markets were shaken by February's sell off, they recovered quickly in March. International stocks were boosted by strong economic data coming from Europe, heavy merger and acquisition activity, and notable currency gains. The MSCI EAFE Index posted a gain of 4.1% in the first quarter with Ireland the only country failing to post positive performance. Germany led European markets higher with a gain of 6.8%. Germany's growth prospects were revised higher in the first quarter due to rising production and business sentiment. Japanese equities experienced high volatility as the market sell off in February caused investors to reduce the yen carry trade. For several years investors have been borrowing yen at low interest rates and reinvesting in higher yielding securities. As investors' unwound positions and repaid obligations, the yen strengthened, putting pressure on export stocks in the Consumer Discretionary and Technology sectors. Despite heightened volatility in Japanese stocks, the index rose 3.5% in the quarter as better-than expected GDP growth helped push stock prices higher.

Emerging market stocks went on a roller coaster ride in the first quarter. Emerging market stocks stumbled out of the blocks in the first week of January, dropping about 5.0%. Stocks rebounded over the next two weeks to recoup earlier losses. Emerging market stocks posted solid gains throughout February before crashing over 8.0% on February 27th. The decline was in response to a 9.0% fall in Chinese stocks that kicked off a global re-pricing of risk. Fortunately, investors focused on fundamentals in March and strong earnings growth prospects and relatively low stock valuations supported a rally that allowed emerging market stocks to post a modest gain of 2.3% in the quarter.

FIXED INCOME

The Federal Reserve remained on hold again during the quarter and left the Fed Funds rate at 5.25%. In March the Fed Open Market Committee noted that inflation pressures remained elevated while economic data were somewhat mixed. The combination of slower growth and above-target inflation made it very difficult to predict future interest rate movements.

For the second consecutive quarter, interest rates ended the quarter about where they began. However, rates fluctuated during the quarter. Interest rates moved up on perceptions of a stronger economy and down on opposite news. The 10-yr. treasury yield peaked near 4.90% in late January before concerns about the subprime mortgages, rising stock market volatility, and slower economic growth pushed the 10-yr. treasury yield down to 4.50% in early March. However, renewed inflation concerns pushed the yield back up to 4.65% at quarter end. The modest price appreciation in first quarter added a small boost to interest earnings and the LB Aggregate returned 1.50% and the shorter duration ML 1-3 Government/Credit index gained 1.44%.



2007 MARKET OUTLOOK

Following the first quarter, we still believe equities will slightly outperform fixed income instruments in 2007. Domestic stocks appear to be fairly priced as price-earnings ratios recently stabilized and interest rates are expected to remain fairly constant. Therefore, equity returns will likely come from earnings growth rather than expansion in price-earnings multiples. We expect earnings growth to slow from the double-digit levels seen over the last few years and anticipate a modest decline to somewhere in the mid to high single digit zone. Given these assumptions, we anticipate mid to high single-digit equity returns. If interest rates decline, either in response to a Fed easing or lower perceived inflation, price earnings multiples will likely expand, pushing returns higher.

Although economic growth in the U.S. slowed over the last three quarters, growth generally increased internationally. During 2006, the Euro zone posted its fastest growth since 2000 and currently it looks like growth will continue unabated in 2007. The Japanese economy showed signs of strength in the fourth quarter, and the economy seems poised for positive growth in 2007. Emerging market countries continue to benefit from strong global growth and burgeoning local consumer markets. Overall we believe the growth potential of international stocks is compelling in comparison to domestic stocks. The incremental expected return of international stocks is the primary reason we have not chosen to underweight equities in relation to fixed income securities.

With economic growth slowing modestly and inflation holding steady, we anticipate the Fed will be on hold for some time. During the first quarter Fed funds futures expectations indicated that the market pushed out its expectations that the Fed would be reducing rates in the near term. Consequently, interest rates will likely trade in a fairly narrow range. It is feasible that the weak housing market will negatively impact economic growth and force the Fed to cut rates to fuel growth. However, strong corporate profitability and low unemployment provide a solid backstop that should keep economic growth from falling too far. Inflation remains above the Fed's stated comfort zone, and there is also some risk that the Fed may actually raise rates if inflation doesn't drop to within their comfort zone fairly soon. However, we don't think either of the

aforementioned scenarios is likely, and therefore we believe interest rates will remain fairly stable.

We continue to work diligently to help you achieve your investment goals. Please call us if you have any questions about your investment portfolio.

Very truly yours,

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