

AKT WEALTH ADVISORS – Quarterly Market Commentary

July 18, 2007

COMMENTARY

GDP growth slowed to a disappointing 0.7% in the first quarter after recording 2.5% growth in the fourth quarter. For the fourth consecutive quarter GDP growth was below the 3.0% level, which is generally considered the long-term sustainable growth rate for the US economy. Economic growth was constrained by a dramatic decline in residential construction, which has yet to show signs of a recovery. Slower growth in manufacturing and reduced business investment also contributed to the slowdown.

Economic data were mixed in the second quarter. Despite rising oil and food prices, core inflation, which strips out volatile energy and food price changes, dropped in the quarter and finished just below the upper end of the Fed's target zone. The manufacturing and services sectors both posted solid gains during the second quarter. Improvement in manufacturing and services led many to believe that GDP growth would improve to approximately 2.5% in the second quarter. Jobless claims and the unemployment rate remained at historically low levels throughout the quarter.

The biggest drag on economic growth was undoubtedly housing. Pending new and existing home sales continued to slide lower during the quarter. The 30 year mortgage rate increased to just under 7.0% in the quarter, which put additional pressure on the struggling housing market. So far, the negative impact of the housing slowdown has been fairly benign. However, with the supply of single family homes jumping from less than 6 months to nearly 9 months over the last 12 months, the impact on future consumer spending could be sizeable. As the year started, it appeared that the housing market was nearing a bottom. However, by the end of the second quarter many moved housing's expected bottom into 2008.

EQUITIES

Despite sluggish performance in June, stocks posted strong returns in the second quarter. First quarter GDP growth was dismal, but corporate earnings growth surprised to the upside. First quarter earnings estimates were pegged at about 5.0%, but they ended up coming in just below 9.0%. A rash of positive surprises combined with almost daily merger and acquisition announcements fueled a strong rally in stock prices through May. Stock prices moderated in June as rising interest rates put a damper on investor enthusiasm and hurt the outlook for interest rate sensitive stocks. Oil prices also rose to over \$70.00 per barrel at the end of June, which dimmed the outlook for consumer spending.

Mid caps were again the best performing stocks in terms of market capitalization. The Russell Midcap Index gained 6.74% in the second quarter. Small cap stocks, as measured by the Russell 2000 Index, gained 4.42%, and large cap stocks, measured by the S&P 500 Index, posted a gain of 6.28%. Growth stocks outperformed value stocks in every asset class. Traditional value sectors, including Utilities, Financials, and Consumer Staples, were the worst performing sectors in the quarter. Financials, the largest sector in the value indices, was hurt by continued problems in the sub prime mortgage market and a meltdown in REIT values. Growth indices were propelled higher by a recovery in the Technology sector. Technology stocks, which have been laggards over the last five years, represented the second best performing sector behind Energy.

As was the case in the first quarter, international stocks were again boosted by strong economic data coming from Europe, heavy merger and acquisition activity, and beneficial currency gains. The MSCI EAFE Index posted a gain of 6.40% in the second quarter. For the second consecutive quarter Germany led European markets higher, jumping over 16.0%. Germany's growth prospects were modest as the year began, but the country has experienced rising production and business sentiment, which has contributed to out-performance. Countries that are large exporters

of oil and gas did well in the second quarter, with Canada, Finland, and Norway all posting double digit returns. The Japanese yen strengthened over 5.0% in the quarter, putting pressure on export stocks in the Consumer Discretionary and Technology sectors. The Yen's appreciation vs. the US dollar contributed to Japan's poor performance versus the rest of the developed markets.

Emerging market stocks were the best performers in the second quarter. Higher commodity prices proved beneficial to resource rich countries in Latin America and the region posted a gain of 19.8%. However, strong performance was not limited to resource-centric regions as emerging Asia posted a gain of 18.4%. Industrial sectors led consumer-related stocks for the quarter as these emerging countries continue to develop their infrastructure. Earlier concerns about whether or not developing economies would be able to decouple from a slowdown in the U.S. and other major developed economies were invalidated. Emerging market countries are more than fully participating in the strong global growth and emerging companies' rapid earnings growth are attracting capital from around the globe at record levels.

FIXED INCOME

After two consecutive quarters of relatively stable bond yields, bond yields rose across the board during the second quarter. In the first quarter, industry experts were focused on predicting when during 2007 the Fed would start dropping the overnight rate. During the second quarter the question became "will the Fed drop or increase rates?" This change in sentiment developed as it became increasingly apparent that the US economy was strengthening after a dismal first quarter and that inflation remained elevated, especially at the headline level (including energy and food).

Longer maturity securities suffered the largest price declines and as a result shorter dated maturities outperformed longer dated bonds. Many investors sold out of their longer maturities and purchased shorter duration bonds in response to rising yields. Consequently, short term bonds, as measured by the ML 1-3 Yr. Government/Credit index, posted a modest gain of 0.7%, while the longer maturity LB Aggregate Bond index posted a loss of -0.5%.

2007 MARKET OUTLOOK

Despite strong performance for the first half of the year, we still believe equities will slightly outperform fixed income instruments for the remainder of 2007. Domestic stocks appear to be reasonably priced as price-earnings ratios have remained fairly stable in response to better than expected earnings. As we stated when the year began, equity returns will likely come from earnings growth rather than expansion in price-earnings multiples. However, a strong merger and acquisition market and record share buybacks have helped also push stock prices higher. If this trend continues, we expect that stocks prices could surprise to the upside and returns would exceed earnings growth. Given these assumptions, we anticipate most of the equity returns for 2007 have already been realized and returns for the second half of the year will drop to the lower single digit range (4.0-6.0%).

Although economic growth in the U.S. slowed over the last four quarters, growth generally increased internationally. During 2006, the Euro zone posted its fastest growth since 2000 and growth was strong during the first six months of the year. So far this year Japan is one of the only developed countries that have failed to participate in the global economy's strong growth. Japan continues to be plagued by low to negative inflation and an aging consumer base that is reluctant to spend. Emerging market countries continue to benefit from strong global growth and burgeoning local consumer markets. This growth has not gone unnoticed as emerging markets stocks have performed very well so far this year. We don't expect this level of out-performance to continue in the second half of 2007, but their growth prospects still look compelling. Overall we believe the growth potential of international stocks looks favorable in comparison to domestic stocks.

With economic growth slowing modestly and inflation holding steady, we anticipate the Fed will remain on hold for the rest of 2007. Interest rates climbed in the second quarter in response to higher global interest rates, a weaker US dollar, increased risk premiums in response to the sub

prime market meltdown, elevated inflation, and an improving economic outlook. It remains feasible that the weak housing market, exacerbated by the sub prime market's problems, 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 at the top of the Fed's stated comfort zone, and there is also some risk that the Fed may actually raise rates if inflation doesn't drop fairly soon. However, we don't think any of the aforementioned scenarios are likely, and therefore we believe interest rates will remain fairly stable. Under this scenario, investors can expect fixed income returns in the low single digit range (2.0-3.0%).

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,

AKT WEALTH ADVISORS, LLC INVESTMENT COMMITTEE

**Darin Richards
Doug Davison**

**Scott Barchus
Julie Robinson**

**Toby Daniels
Erin Maffia**

Charlie Zieky