

It is our opinion that the stress our economy is going through as a result of the excesses of imprudent lending, borrowing, and poor risk management will be resolved favorably. However, it is not a solution that will come about quickly. Once our economy is refocused on capital growth and has overcome some of the excesses from borrowing for current consumption, it will be in a better position to foster a longer term approach to prosperity and wealth creation.

than they are with expansion and inflation. We also are of the opinion that the expectations of slow growth or recession will ultimately put downward pressure on prices and will dampen some of the inflationary signs we have recently seen. However, we should not totally discount that inflation could be a significant problem in 2009 and beyond once the financial markets stabilize and the credit markets begin to work efficiently again.

While the Federal Reserve has been busy lowering short-term interest rates they have also been very active since December 2007 providing more than \$500 Billion in liquidity programs to banks and now brokers (primary dealers) in exchange for qualified collateral. These programs are designed to keep the banking system functioning properly in the face of tighter credit availability between banks and brokers. It has become fairly evident that the banks and brokers are not lending each other money in the normal course of business, at least not the way they traditionally have. The biggest factor limiting the normal course of business between banks and brokers is their inability to take much more risk without raising more capital or selling some of their riskier assets. So, the Federal Reserve acting as the lender of last resort has creatively been able to keep the liquidity going for the capital markets by taking on the risk themselves. Let's be clear about the risk they are taking: it's not a great amount of risk. Also, to be clear, the Federal Reserve is not buying securities but rather lending more liquid securities for less liquid ones or cash for liquid securities. It is in essence taking on the role of the banks while the banks continue to clean up their balance sheets and raise more capital.

While this period we are currently going through will undoubtedly be considered one of the worst financial/banking crises ever, we are hopeful and optimistic that the appropriate measures and longer term solutions are being discussed and will be implemented in the near term. The capital markets need trust and confidence in order to work properly. Right now the element of trust is missing and until we can regain that trust we expect that the markets will continue to be volatile. The longer it takes to regain trust in our capital markets the longer we would expect the economy to remain weak.

Is Housing really at the heart of our economic problems?

It's a question that has been repeatedly coming to mind over the last 12 months. As hard as it is to believe, new home construction and all of the ancillary products that have benefited from the housing boom over the last 5 years have shown us how dependent our economy has become to consumerism. The definition of consumerism that we are referring to has to do with the theory that increasing consumption of goods is economically desirable. Make no mistake: it is. However, consumption without real capital growth cannot be sustained indefinitely, a hard lesson that our "collective" economy is coming to learn right now.

As we have said before, the housing boom and subsequent price inflation in housing resulted from the consumers' ability to borrow at low interest rates. Interest rates that remained low for quite some time between 2003 and the first half of 2004. Remember, we had just gone through a recession in 2001 brought about by another asset bubble which resulted in the "dot com" crash. Then, as now, the Federal Reserve Bank employed monetary policy to stimulate economic growth to bring our economy out of recession and fight the deflationary forces that were keeping businesses and consumers from spending. Well, it worked and it will most likely work again this time. The question now is what asset class is inflating too much that will sow the seeds of the next bubble: commodities like gold or oil? Or will it be a speculative bubble in agricultural commodities like corn or wheat? Or could it be the equity markets of developing economies like China, India or other Southeast Asian markets? One cannot be sure until after it happens, just like the bubbles in Tech stocks or Housing. However, we all know that history does tend to repeat itself.

So, why does the Federal Reserve continue to reduce short-term interest rates if it could lead to another bubble? Is the Federal Reserve's monetary policy at the heart of our economic problems? Quite simply, the Federal Reserve is not at fault for creating bubbles nor is it the reason we are going through economic difficulties right now; we are (the consumers and market participants).

The Federal Reserve Bank is fulfilling its dual mandate of balancing economic growth with price stability by keeping inflation in check. At the moment the risks are skewed more toward slower growth and the potential for far greater damage to our economy from the systemic risk posed by a weakened banking and financial sector. The popular belief is that the Federal Reserve is aiding a bailout of the banks and the brokers. I would argue that they are really bailing out our economy. The Federal Reserve is part of the solution, not the problem. However, it cannot single-handedly solve the underlying issues that have negatively affected the economy. It will need help from regulatory agencies and the Federal government itself to restore confidence in the capital markets. Monetary policy is just one tool in supporting real economic growth. Our economy needs to have in place the appropriate regulatory and fiscal policies that will enhance real capital growth that will ultimately make it stronger and better able to compete globally.

It is our opinion that the stress our economy is going through as a result of the excesses of imprudent lending, borrowing, and poor risk management will be resolved favorably. However, it is not a solution that will come about quickly. Once our economy is refocused on capital growth and has overcome some of the excesses from borrowing for current consumption, it will be in a better position to foster a longer term approach to prosperity and wealth creation.



HOWE & RUSLING

INVESTMENT STRATEGY NEWS

APRIL 2008

1st Quarter 2008 Stock Market Overview

In the understatement of the year, the First Quarter of 2008 was quite eventful and we are not sorry to be done with it. The events read like an investment horror movie---a near collapse of a storied investment bank, a looming (or already present depending on who you read) recession combined with inflation fears and a declining stock market.

Many pundits are saying that the U.S. financial system stared into the abyss a few weeks ago as Bear Stearns teetered on the brink of extinction only to be purchased by JP Morgan in a lightening quick action coordinated by the Fed to prevent disaster. Stocks completed the worst quarter since the corporate fraud scandals of 2002 as the media banged the recession drum and the context of the recession question seemed to change from "if we are headed into recession" to "how deep the recession would be and how long it would last." Even the normally staid bond market was not immune as the credit rating agencies struggled and many bond market sectors roiled with stock-like volatility.

No question that the events of the day are deeply concerning. We are troubled especially by the very loose underwriting standards which led banks to lend money to borrowers who could ill afford it and caused many of the problems of the day. Certainly the financial sector will need some time to repair itself and the repercussions still resonate as growth slows domestically and overseas. We remain cautious for the time being, maintaining our underweighting in equities because the economic data has only started slowing. However, we are not in the camp holding signs on street corners that "The End is Near." We see too many reasons to remain optimistic and we know that we will get through this crisis just like the many crises we have weathered in the past.

The Good, The Bad and The Ugly

We will start with the Ugly—the financial crisis. As we have discussed in previous newsletters, the market for mortgages came to a screeching halt. The impact was sudden and dramatic. For an investment bank, like Bear Stearns, whose largest business was dealing in mortgages, the markets sudden stop proved devastating. What are they to do when their primary business involves assets that everyone wanted six months ago that suddenly no one wants? The value of the business has to be written down and it becomes impossible to

raise additional money. That Bear Stearns was in trouble caused panic, especially in the financial sector.

We have been saying for some time now that we believe the Fed and the Federal Government will do what it takes to restore confidence in the financial system. Herbert Hoover's reaction (or lack thereof) to the events leading up to the depression in the 1930's was just as important as the events themselves in causing the depression and we believe the Fed understands this. We support the Fed's temporary involvement in the crisis and believe it is necessary and critical to helping markets work properly again. As we stated in our client letter a few weeks ago, the economic and banking system is built on confidence. Confidence is like respect—it takes a long time and can be difficult to earn, but does not take much to lose it very quickly. Bear Stearns is a large, established investment banking icon; and the repercussions would have proved dramatic if the uncertainty over Bear's failure would have been allowed to continue without any intervention from the government.

We are not saying that the financial crisis is completely over; there may be a surprise or two left. The banks are starting down the road to repair and the Fed will do everything within its power (and some things that have not historically been in its power) to ensure that this happens.

Moving onto the bad—the economy and stock market. Inevitably a financial crisis causes an economic slowdown. This slowdown should not have surprised anybody. By the end of the year economists agreed that there was going to be a slowdown and were left to argue over the extent. Investors in the stock market, however, have reacted violently to bad economic news by acting shocked and responding by driving all stocks down concurrently.

It reminds us of our teacher in 11th grade who is unable to find the culprits who set fire to his trash can and punishes the whole class. There were many companies who performed well in this quarter, especially companies with a large portion of their business overseas. However, the sentiment during the quarter was so bad that if a company missed its expected earnings number but proclaimed the outlook good, or a company hit its expected earnings number but thought the outlook was going to be tougher, the stock and those in the same sector were pounded similarly.

Providing professional investment management to individuals, retirement plans, and charitable organizations since 1930.

AT A GLANCE

PAGE 1

1st Quarter 2008
Stock Market Overview

PAGE 3

1st Quarter 2008
Bond Market Overview



H&R Client Survey 2007 Results

We would like to sincerely thank all clients who participated in the 2007 client survey. We received 118 responses. We were very pleased with your assessment of H&R (see graph below).

Additionally, at Howe & Rusling, we spend most of our time and effort managing client portfolios and making sure our clients remain happy. However, the health of Howe & Rusling depends on continuous growth, and growth comes primarily from referrals of existing clients. Most of you answered the question, "If asked, how likely would you be to recommend Howe & Rusling as an investment manager?" in a positive manner.

We would like to remind you we have a Referral Reward program in place for thanking clients who trust us enough to refer acquaintances who might benefit from our services. Please talk to your portfolio manager for more information. If you're happy with H&R, please pass along our name to your network.

The quarter just ended was the worst for the stock market since the third quarter of 2002 when the market was down 18% as Worldcom went out of business and marked the first time the market was down in consecutive quarters since 2002. The financial sector was down for the third consecutive quarter for the first time since records began being kept in 1989. While we held up quite well during the quarter, our stock portfolio certainly was not immune.

No question the economy has slowed (although it is arguable whether we are currently in or will actually reach recession) and it can be dangerous to assume that two recessions are exactly alike, but looking at history is useful to stave off despair. If the economy does hit recession levels, the one certainty is that it will come out again. According to research from Merrill Lynch, the average recession lasts ten months and the stock market starts performing better four months before the end of the recession. If an investor misses the early stages of the stock market recovery then they will miss much of the upside.

That is why it is important to maintain some stock market exposure. When the stock market turns, it turns abruptly. In periods of distress like now, the exposure to stocks can be reduced, and indeed we have been underweight stocks for our clients this year, but we do not think all stocks should be sold.

Saving the best for last, it is appropriate to look at the good or at least (with a bow toward the negative media) the not so bad. The economic assistance the Fed has provided will work. Fed funds rates are down 3% since September to 2.25%. This will slowly start to have an impact on bank lending and mortgage rates. President Bush's tax rebates are mailed out in May and, according to economic research firm ISI, tax refunds in general are on pace to increase 6%. Additionally a number of states are considering sales tax holidays as an

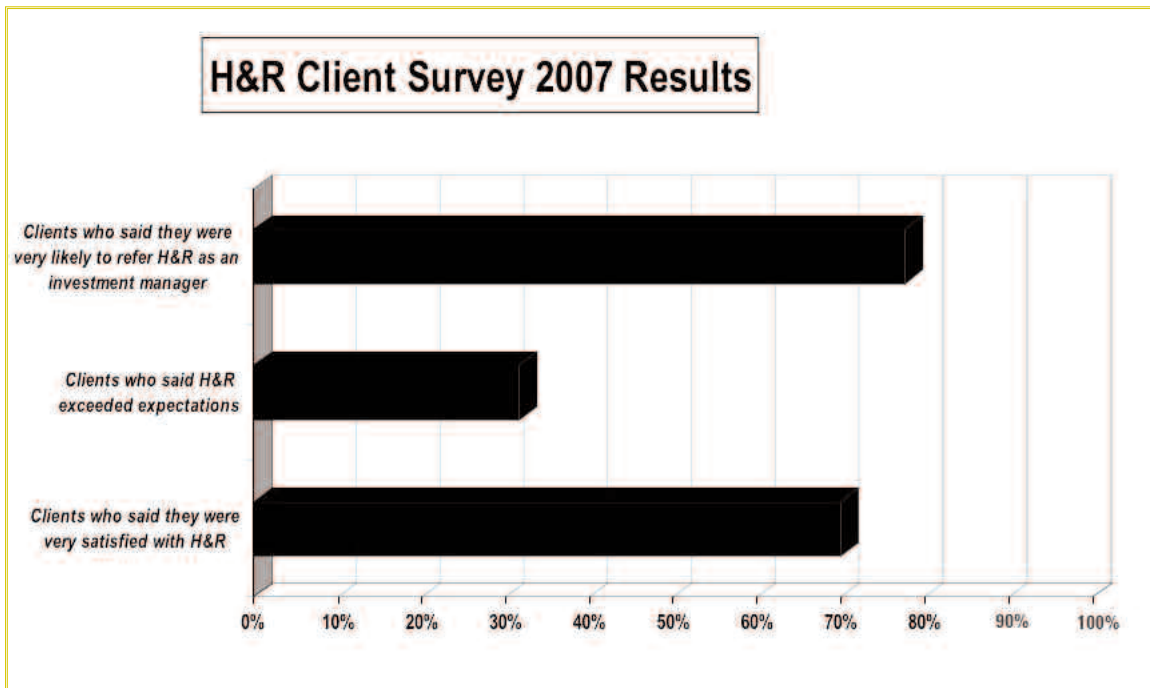
incentive for consumers to spend their rebates. As economic growth slows, this should have the effect of dampening prices including oil prices providing relief from inflation worries.

The recession may yet prove to be severe. However, current indications are that it will prove mild, if it happens at all. Again from ISI, layoff announcements are currently running around 6,000 per week and during the last recession in 2001-2002 they ran around 42,000 per week. Housing prices are expected to continue to drop and maybe for the next several years. There is precedent for falling housing prices when they dropped for four consecutive years in the early 1990's playing a role in the recession during that time period. The stock market posted a small loss in 1989 and then posted a gain for each year from 1990 to 1993 and GDP growth had recovered by 1993.

Finally, stock valuations are slightly below to slightly above historic averages depending on the researcher providing the information. No matter whom you read it is indisputable that stock valuations are well below the point they reached heading into the last major stock downturn beginning in 2000.

We discuss everyday whether the stock and bond portfolio is positioned properly in this environment. While we have not been perfect, we have avoided much of the current mess that caused disastrous performance results at many investment firms. We sold out of banking stocks early, avoided the brokerage companies except for the biggest and best positioned, reduced our allocation to equities at the end of 2007 and expertly navigated the troubled bond market.

We are still very cautious in this environment and think that it will take time to get the economy hitting on all cylinders again. We believe in the system, however, and we are certain that it will come to pass.



1st Quarter 2008-Bond Market Overview

And the Beat goes on – Treasury bonds rally in the face of Financial/Economic uncertainties

At the risk of sounding like a “broken record,” once again this quarter’s bond performance was led by the flight to safety in government bonds, specifically Treasury Notes. This makes the 3rd consecutive quarter that Treasury securities have outperformed all other fixed income sectors. The anticipation of further economic weakness as well as uncertainty over the financial health of our banks and brokers has continued to “stoke” the fires of fear.

Some of the same sectors that we have been reporting having the weakest performance once again led the pack. The worst performing sectors included: Asset-Backed securities, Commercial Mortgage-Backed securities, and Long Financial Corporate bonds.

Start Date: 12/31/2007 End Date: 3/20/2008

Index	Return for Period	Annualized Return
Intermediate U.S. Government / Credit	3.23%	15.61%
U.S Treasury: Intermediate	4.93%	24.53%
U.S. Agency: Intermediate	3.22%	15.53%
Intermediate: Corporate	.99%	4.61%
Invest. Grade: Industrial - Intermediate	1.62%	7.61%
Invest Grade: Financial Institutions - Intermediate	0.12%	0.54%
Intermediate Utility	2.19%	10.39%
Municipal Bond: 1-10 Yr Blend (1-12)	1.76%	8.26%

Source: Lehman Brothers, 2008

Worst Performing Sectors

Index	Return for Period	Annualized Return
ABS Home Equity	-8.64%	-33.79%
CMBS: Erisa Eligible	-5.19%	-21.59%
Invest. Grade: Financial Institutions - Long	-3.07%	-13.26%
Long U.S. Corporate	-1.50%	-6.67%
Invest. Grade: Industrial - Long	-1.38%	-6.14%

Source: Lehman Brothers, 2008

Best Performing Sectors

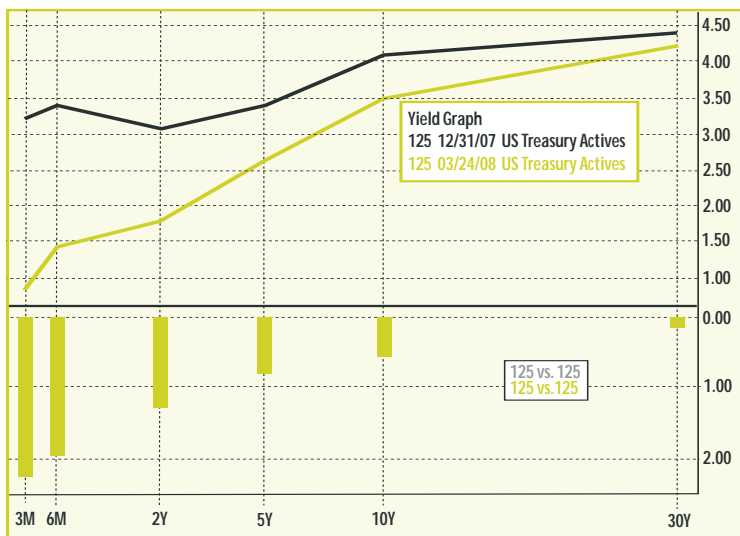
Index	Return for Period	Annualized Return
Supranational Long	5.87%	29.70%
U.S. Treasury: 20+ Year	5.79%	29.29%
U.S. Treasury: Long	5.69%	28.74%
U.S. Government: Long	5.35%	26.87%
U.S. Treasury	5.09%	25.41%

Source: Lehman Brothers, 2008

To address the weakening economic outlook the FOMC (Federal Open Market Committee of the Federal Reserve Bank) lowered the Federal Funds rate a full 2.00% in three separate actions during the quarter. At year end 2007 the Federal Funds rate stood at 4.25%, while as of this writing it is 2.25%.

One of the monetary policy actions occurred on January 22nd in an inter-meeting rate cut of 0.75%. Inter-meeting policy actions are unusual and one of this magnitude is highly unusual. It was the first inter-meeting rate cut since September 2001 (terrorist attack on Twin Towers) and one would have to go back to 1984 to find one of at least this amount.

YIELD CURVE GRAPH



Source: Bloomberg, 2008

As the Federal Reserve continues to cut the Fed funds and discount rate, short-term Treasury bill yields have kept pace declining by at least 2% or more indicating that market expectations are for further interest rate cuts. Longer term maturities have also declined, but not as much as short rates. A steepening of the Treasury yield curve typically signals the future expectation of an expanding economy along with the side-effect of higher inflation. The key here is not if our economy will expand, but rather when. At the moment it may be too early to heed the signal being “transmitted” by the Treasury yield curve as investors are more concerned with slower growth