

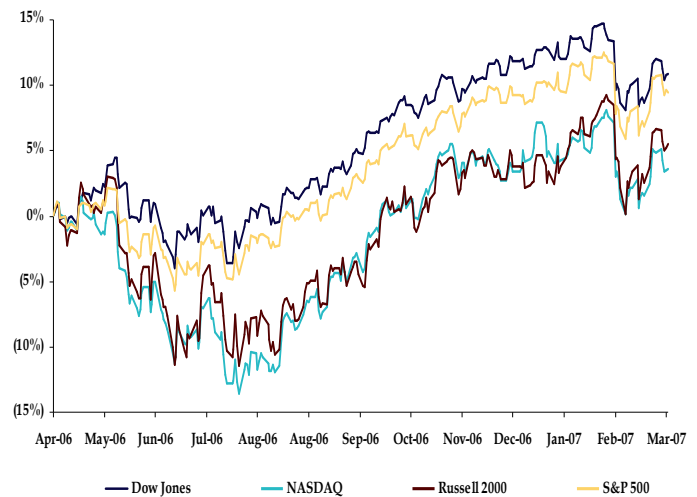
EXPERIENCE
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ECONOMIC COMMENTARY BY A. MARSHALL ACUFF

During the first quarter, stock market volatility increased for the first time in many months. Consequently, returns for the U.S. stock market averages were virtually flat. For the Standard & Poor's 500, the total return was only 0.6%. Despite lackluster results for the market indices, stock pickers performed well with the average stock fund up 2.2%. International stock funds continued to experience strong cash flows from domestic investors. Their returns rose 3.4%. Growth outperformed value and small and mid cap equities outpaced large cap stocks. Subsequent to the end of the first quarter, stock prices have risen 2.9% as mergers have produced increased investor confidence and as early earnings reports were stronger than expected.

Many observers believe that like 2006, the stock market will recover meaningfully as the year goes on. While believing that the market may produce a return of 7-8% for the year, we do not expect a significant rise from year to date results of 5.2% for the S&P 500.

LTM U.S. EQUITY MARKET PERFORMANCE



In our opinion, the short term and intermediate term outlook for stocks and the economy are likely to be influenced by slowing profits growth. While valuations for most equities are not stretched as they were in 2000, profit margins are more stretched than they have been for over 40 years. The rate of profits growth peaked in late 2004 and profit margins topped out more recently and have begun to shrink. For some time, we have warned of this

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shift in the growth of profits and profitability as the consequence of moderating productivity gains and an acceleration of wage costs. Profits from abroad and share buybacks are increasingly providing support to earnings gains for a growing number of companies. As we indicated previously, profits growth could be as high as 7-8% for 2007, but we have become concerned recently that this range could be at the top end of a band whose lower end could be 4-5%. This profits outlook is quite a change from the double digit profits growth of recent years.

Several trends that are either in place or will be in the near future suggest that aggregate economic growth may be 2% in 2007 and 3% in 2008. The housing situation is not likely to stabilize as soon as had been anticipated earlier this year. It is now probable that residential housing may remain weak throughout 2007. Largely responsible for this view is the current tightening of credit conditions beyond the well known problems in the sub-prime market. Moreover, the existing housing inventory is larger than had been expected. This condition together with tighter credit availability from lending institutions suggests that a longer period will be required to rebalance the housing market.

While the consumer has remained surprisingly robust, we believe several factors are falling into place that may slow consumer activity. Employment activity is a lagging economic indicator while profits trends are leading indicators. If profitability is coming under increasing pressure and profits growth remains slower than it has been in recent years, we expect that employment growth will moderate and may even weaken for awhile. Slowing employment growth or weakness in response to profit margins pressures is likely to dampen consumption. Also likely to dampen consumption are upward inflationary pressures. Gasoline prices are currently at their highest levels in eight

months and are expected to move even higher as the summer driving season approaches. While the most recent consumer price index indicates that core inflation is consistent with that desired by economic policy makers, commodity prices, including food, are stronger. Meanwhile capital spending in the U.S. is slowing and is expected to moderate as cash flow growth and profitability gains diminish.

The good news is that foreign economies continue to perform well and U.S. exports remain in strong demand. Assuming a slowdown in U.S. consumption and still attractive export opportunities, the trade deficit should narrow and in turn be a plus for the dollar. A shrinking trade deficit can not come too soon because the trade weighted dollar is nearing its low of recent years. Any breaking of the previous dollar lows could produce increased volatility in markets.

Long term interest rates have backed up recently. If the U.S. economy produces stronger than expected growth in the near to intermediate term, we would expect a further rise in long term interest rates because of growing inflationary pressures. We still do not expect that the Federal Reserve will lower short term rates in the months ahead. It is likely rates may not be lowered before year end. Economic growth would need to falter more than currently projected for the Fed to respond with lower rates. Moreover, increased inflationary pressures are complicating a Fed easing. The financial markets have not yet adjusted to an economy that appears to be heading toward stagflation with slowing profits.

Given the aforementioned setting, we expect more volatility in the U.S. stock market and possibly in other stock markets as well in the months ahead. We do not anticipate

a big upside move. More likely is a further correction in stock prices. Unfortunately, fundamental trends are likely to worsen before they improve. We believe the market will have difficulty looking through changing fundamentals.

Looking ahead, we continue to believe a diversified portfolio, including large cap growth managers; alternatives, including distressed and long/short hedge funds; and international managers in developed and emerging geographies should produce better than average absolute and relative returns.

FINANCIAL PLANNING

GENERATION SKIPPING TRANSFERS - PASSING WEALTH TO GRANDCHILDREN AND BEYOND

When a wealthy client leaves their estate to their children, and the children in turn leave it to their children, the original estate could get taxed by as much as 75% as it is passed from the first to the second and third. Although we cannot avoid estate taxes, there are some strategies that will help reduce them over multiple generations in a meaningful way.

GENERATION SKIPPING TRANSFERS

Estate taxes are levied against assets when they are passed from one generation to another, such as a parent to a child. They also apply to assets passed to "skipped generations" such as a grandchild, grandnephew, grandniece, or unrelated individual who is more than 37½ years younger than the transferor. The Generation-Skipping Transfer (GST) tax, which is a flat 45% (in 2007), is specifically designed to obtain a tax from individuals who leave their estates to someone in the next generation, and not their children.

Although the GST tax is scheduled for a phase-out during the next three years and repealed for one year (2010), as dictated by the enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), in 2011, the estate tax is restored to the pre-EGTRRA rates and structure, and the highest marginal rate is increased. The chart on the following page shows the effect of these changes:

CREDIT AND APPLICABLE EXCLUSION FOR FEDERAL ESTATE, GIFT & GENERATION SKIPPING TRANSFER TAXES

Year	Estate Tax Applicable Exclusion	Unified Credit	GST Tax Exemption	Highest Estate, Gift & GST Rate
2007	\$2,000,000	\$780,800	\$2,000,000	45%
2008	\$2,000,000	\$780,800	\$2,000,000	45%
2009	\$3,500,000	\$1,455,800	\$3,500,000	45%
2010 *	N/A	N/A	N/A	35%**
2011	\$1,000,000	\$345,800	\$1,060,000	55%

*In 2010, the estate tax is scheduled to be repealed, but only for one year. In 2011, the tax laws will revert back to its form prior to the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001, unless a new tax law is enacted.

**Applies to Gift Tax only

TAX SAVINGS FOR MULTIPLE GENERATIONS

By creating a GST Trust, the following savings are created:

- You can preserve your federal generation-skipping exemption (\$2,000,000 in 2007), because once a transfer is designated as exempt, all later appreciation in the value of the exempt property is also exempt. The Trust preserves the exemption, excluding the assets from the child’s estate, for estate tax purposes.
- The Trust allows each generation of beneficiaries to receive income and/or principal from the GST Trust for health, support and education while excluding the value of the trust from their estate for estate tax purposes.
- The trust can be established and funded during the individual’s life or at their death. However, since the goal is to maximize the amount of wealth passing to future generations, while minimizing total transfer taxes, it may make sense to place assets with growth potential into a generation-skipping trust during your lifetime.

- Outright gifts to a “skip” person (e.g. grandchildren) that qualify for the gift tax annual exclusion (\$12,000 in 2007) are not subject to GST tax, nor are any tuition or medical payments made on behalf of a “skip person.”
- Many generations can benefit from the Trust, or until it becomes subject to the “rule against perpetuities,” which limits the life of such a trust to approximately 99 years in most states. Some states, such as Delaware, have abolished the rule, allowing the creation of a “Dynasty” Trust, which has the potential to benefit future generations forever.

HOW TO MAKE THE MOST OF A GST TRUST

As an example of how a GST Trust might work, assume that Mrs. Brown is a wealthy widow who has been making the maximum annual exclusion gifts to her son and his two children, as well as paying the private school tuition for her two grandchildren. Assume also that her son has assets of his own that will generate an estate tax at his death, and would only be increased by inheriting from his mother.

To avoid the additional tax burden in her son’s estate, and provide for her grandchildren (and possibly generations beyond), Mrs. Brown creates a GST Trust, naming her son as Trustee. The Trust will receive an amount equal to the GST exemption at her death. Mrs. Brown’s son is entitled to all the income, and as Trustee can control all the investment decisions. Additionally, her son can spend the entire principal should he need it for his support, medical bills, household expenses, and other necessities of life. Although he will pay the appropriate taxes on any distributions, he will still enjoy the benefit of the income without owning the assets in his estate.

When the son dies, the assets remaining in this GST Trust will go to his two children, without being included in his estate and taxed the second time. If the son invests the \$2,000,000 (assuming 2007) principal wisely, and increased its value, that appreciation will also pass to his two children tax-free (assuming the appreciation remains in the Trust when he dies). Had Mr. Brown been living, he too could have set up a GST Trust to leave his son an amount equal to the exemption amount that would also escape the second death tax at the son's death.

HOW TO PROCEED

In addition to other strategies you may employ to minimize your estate taxes, the GST Trust is a valuable tool that should not be overlooked if you have grandchildren or great-grandchildren when planning the disposition of your estate.

Although the GST tax is complex, if you expect your estate (or, if married, the combined estates of you and your spouse) to exceed the amount of the generation skipping tax exemption at your death (or the estates of any of your children), you should consult with your estate planning professional about the GST Trust, and the benefit to multiple generations.

Domestic Equity Markets

Returns	Q1 2007	LTM
Dow Jones	(0.9%)	11.2%
NASDAQ	0.3%	3.5%
S&P 500	0.2%	9.7%
Russell 2000	1.7%	4.6%

International and Emerging Equity Markets

Returns	Q1 2007	LTM
EAFE (Europe, Australasia, Far East)	3.5%	17.5%
Europe	3.3%	22.2%
Pacific ex Japan	6.7%	29.3%
Japan	3.0%	1.8%
BRIC (Brazil, Russia, India, China)	(0.6%)	24.3%

Hedge Funds

Returns	Q1 2007	LTM
CSFB Tremont Investable Index	2.3%	8.1%
Barclay Global HedgeSource	2.8%	8.9%

Source: Credit Suisse and The Barclay Group.

Interest Rates

	3/31/2007	12/31/2006	3/31/2006
Federal Funds	5.25%	5.25%	4.75%
30 Year Treasury	4.84%	4.81%	4.89%
10 Year Treasury	4.65%	4.70%	4.85%
LIBOR - 6 Month	5.33%	5.37%	5.14%

Source: Bloomberg.

Key Economic Indicators

Unemployment Rate		4.4%
Capacity Utilization		81.4%
	<u>S&P Earnings Growth⁽¹⁾</u>	<u>GDP Outlook⁽¹⁾</u>
Q1 07	8.4%	1.3%
Q2 07	4.8%	2.3%
2006	15.6%	3.3%
2007	4.7%	2.3%
2008	6.4%	3.1%

⁽¹⁾ Statistics represent average of analyst estimates as of 3/31/07 and are derived from various sources. Figures subject to change. Actual figures are in **Bold** and estimates are *italicized*.

Initial Public Offerings

Totals	Q1 2007	Q4 2006	Q1 2006
Number of Deals	42	69	42
Aggregate Volume (\$MM)	\$8,110	\$14,300	\$7,210
Q1 Notable Deals:	Date	Amt (\$MM) ⁽¹⁾	Return ⁽²⁾
Legacy Reserves LP	1/11/2007	\$114	44.2%
Fortress Investment Group	2/8/2007	\$635	55.0%
FCStone Group	3/15/2007	\$122	55.5%
Haynes International	3/19/2007	\$137	12.2%

⁽¹⁾ Excludes underwriter over allotment.

⁽²⁾ Represents performance from IPO date through March 31, 2007.

Venture Capital

Totals	Q1 2007	Q4 2006	Q1 2006
Number of Deals	778	884	853
Aggregate Volume (\$MM)	\$7,056	\$6,218	\$6,333
Q1 Notable Deals:	Date	Amt (\$MM)	Industry
Nimbus Communications	1/24/2007	\$125	Consumer-Media
Imperium Renewables	2/22/2007	\$113	Energy
Amp'd Mobile	3/22/2007	\$107	Wireless

Source: PwC MoneyTree and The VC Deal.

High Yield New Issuances

Totals	Q1 2007	Q4 2006	Q1 2006
Number of Deals	83	88	68
Aggregate Volume (\$MM)	\$38,562	\$58,312	\$28,962

Mergers & Acquisitions

Totals	Q1 2007	Q4 2006	Q1 2006
Number of Deals	2,603	2,646	2,763
Aggregate Volume (\$MM)	\$333,820	\$363,100	\$298,329
Q1 Notable Announced Deals:	Date	Equity Value (\$MM)	
Abbott Labs - Diag. Div. acq. by GE	1/18/2007	\$8,130	
TXU acquired by <i>Investor Group</i>	2/25/2007	\$32,110	
Dollar General acquired by <i>KKR</i>	3/11/2007	\$6,950	
Triad Hospitals acq. By <i>Community Health</i>	3/19/2007	\$4,910	

Source: Mergerstat, The Wall Street Journal, and Thomson Financial.