ALTER ASSET MANAGEMENT, INC.

August 22, 2007

"We tend not to choose the unknown, which might be a shock or a disappointment or simply a little difficult to cope with. And yet it is the unknown, with all its disappointments and surprises that is the most enriching."
- Anne Morrow Lindbergh-

Dear Friends of AAM,

We are writing to you in the midst of a downturn in the prices of global assets. Over the last two decades, investors have navigated five similar periods of market fear that were followed by recoveries and sustained gains:

- The Crash of 1987
- The S&L Crisis of 1989-1990
- The Global Credit Squeeze of 1998
- The Bursting of the Internet Bubble in 2000
- 9/11

The credit squeeze of 2007 has resulted in a sell-off that is similar to these historic periods. Within one month, the U.S. equity market slipped over 10 % from its July 19th peak as credit-market issues roiled the market. The correction felt more painful because share prices have risen in such a steady fashion since 2003. In fact, the current bull market had gone over four years without a correction of more than 10% — the second-longest such streak since World War II.

Your Advisor is confident that a quality portfolio of U.S. common stocks continues to offer value. The mid-year client 2007 client letter will discuss the following items:

1) <u>What Happened?</u> - A brief history of the causes leading up to the recent correction.

2) <u>What's Next?</u> - The most likely path for a resolution.

3) <u>Where are the Opportunities?</u> - The steps your Advisor is taking to allocate your capital for sustained long-term gains.

WHAT HAPPENED?

Stock prices in the U.S., as measured by the popular averages, experienced mid-single digit gains in the first half of 2007. Equities further advanced in the first two weeks of July before reaching a peak and pulling back by 10% over the last four weeks. The epicenter of current market fears are largely related to two factors:

1. A mispricing of risk due to investor complacency. In our 2006 year-end letter, we observed that: *In a world awash in liquidity, the prices of many assets do not appear to reflect their associated risk. This is demonstrated by compressed risk premiums. As an example, the yields on the lowest rated bonds (CCC) are at spreads of under 5 percentage points over AAA United States Treasuries… This compares with spreads for similar securities that historically provided investors with 7 to 9 percentage points in incremental yield.*

2. Mortgage defaults brought on by risky products, lax underwriting, and exacerbated by the bursting of the residential real estate bubble: We noted in our 2005 mid-year client letter: *Another factor that has eased the affordability of real estate is the popularity of innovative – and potentially risky – mortgage products that allow buyers to stretch for more expensive homes… It appears that many U.S. housing markets have gotten ahead of themselves. These prices may be justified if long-term interest rates continue to fall dramatically in tandem with a strong economic backdrop. In our view this is the lowest probability scenario. When will the music stop? As in every speculative period, it will only be clear in retrospect.*

In short, credit risk had been mispriced in the financial markets. Homeowners are now defaulting at a higher rate on properties than bank models forecasted as home prices decline and interest rates on teaser loans reset at higher levels.

The mortgage originators that sold loans to banks, insurance companies, and hedge funds are finding that these buyers have either gone on vacation or have been bankrupted. Furthermore, many hedge funds bought these securities with borrowed money which was a recipe for what we have now — confusion and some insolvencies.

Despite the near-term pain, stocks have historically provided investors with excess returns over bonds of approximately 4-5 percentage points per year. The trade-off is increased short-term volatility and discomfort. The table below, courtesy of data from Capital Research and Management Company, highlights the frequency and length of market corrections in the U.S. over the last century:

Type of Decline	**Average Frequency**	**Average Length**
Routine (-5%<-10%)	About 3 times a year	47 days
Moderate (-10<-15%)	About once a year	114 days
Severe (-15%<-20%)	About once every 2 years	216 days
Bear Market (-20% or more)	About once every 3-1/2 years	332 days

Historically, the stock market has experienced a pullback of between 10-15 % about once a year. During these periods, it can be hard to stay the course. Jeremy J. Siegel, Professor of Finance at Wharton, observes that although the dominance of stocks is clear in the long run, it is important to note that 2 out of every 5 years a stock investor will fall behind the return on mundane investments like bank CDs (The financial equivalent of losing a footrace to a turtle). The high probability in the short term of underperforming even bank CDs is the reason so many investors have a hard time staying invested.

WHAT WILL CAUSE THE CURRENT FEARS TO SUBSIDE?

"Doubt is uncomfortable, Certainty is ridiculous."
-Voltaire-

Currently, there is not an absence of liquidity (capital) but an absence of confidence (a willingness to allocate that liquidity) which is at the nexus of the current set of circumstances in financial markets. We believe several secular trends and policy initiatives are likely to restore confidence by the end of 2007.

- World economies will grow by 5% in 2007 — a remarkable performance.

- Global inflation, after a brief upswing, is once again in decline. For example, the U.S. Consumer price index, which was trending toward 3% earlier in 2007, is now moving back toward the Federal Reserve's target of 2%.

- Stocks in the S&P 500 trade at fourteen times their anticipated earnings for 2008 – well below the thirty-five times earnings they were valued at the peak of the internet bubble and materially below the average of the past two decades.

- U.S. Corporate earnings, which analysts anticipated would grow by 5% versus the prior year, have generated almost 11% growth.

- The Federal Reserve which has increased interest rates seventeen times between June 2004 and June 2006 is likely to signal a policy shift by the end of the current quarter

Emotion has the power to move markets up and down dramatically over short periods without regard for underlying fundamentals. This said, valuation criteria are material even during periods of market disruption as they provide testimony to the strength and sustainability of an ensuing recovery while providing insight toward the quality of investment opportunities.

INVESTMENT OPPORTUNITIES

“The emotions aren't always immediately subject to reason, but they are always immediately subject to action”
-William James-

Your Advisor seeks to undertake investment programs with a tax-efficient, value-driven bias. We want to own high quality assets when they are inexpensive. They are generally inexpensive when investors are fearful. This is a unique period, as immediately prior to the recent correction in global securities markets, the equity of large capitalization U.S. multinational companies were trading at historically modest valuations. The recent declines increases their attractiveness to levels that give us a high degree of confidence in long-term future returns on capital.

Over the last several years, the debt of most major U.S. Corporations has become expensive relative to risk-free investments such as Treasury Bills and short-term commercial paper. More recently, as the markets reset the relationship between risk and return, corporate bonds have become highly attractive. Your Advisor is increasingly interested in fixed income bonds of major U.S. Corporations.

Highlighted below is a summary of some key themes currently punctuating your Advisor’s capital allocation initiatives:

- We favor the equity securities of large U.S. companies that earn a material portion of their profits from overseas. Stable to growing cash-flows, high returns on capital, and strong balance sheets are representative of the businesses that populate client portfolios.

- Your Advisor has been harvesting profits in small to mid-capitalization companies that have become increasingly expensive while providing liquidity for new investment ideas where pockets of value continue to take shape.

- Intermediate-term corporate debt has become attractive for the fixed income component of portfolios. Yields are up and prices are down. In addition, mortgage portfolios backed by government sponsored agencies Fannie Mae and Freddie Mac (AAA Credit Ratings) now provide yields that are 2.5% above Treasury Securities. We believe the relative valuation of agency paper vs. Treasury debt is actionable for client portfolios.

- The shift toward more liquid and transparent investments will direct capital toward the U.S. markets and improve stability over time. Negative investment flows in real estate, emerging markets, and from leverage hedge fund products are likely to make headlines well into 2008. In the near term, while these shifts are ongoing, we anticipate that volatility will remain high while long-term investment opportunities become more prolific.

IN CONCLUSION

"The pessimist sees difficulty in every opportunity. The optimist sees the opportunity in every difficulty."
-Winston Churchill-

As noted earlier, it has been several years since the equity markets have experienced a "normal" correction of 10% or more. The diminished frequency and severity of price declines has provided investors with all of the benefits of owning common stocks (outsized returns over time) with none of the short-term risks (volatility).

Your Advisor believes common stock price movements will be more in line with their long-term history over the next several years. While we accept volatility as part of investing in common stocks, we guard against a permanent loss of capital.

- U.S. common stocks as an asset class are more attractive than they were before the recent decline, and should remain a key component of most financial plans seeking to fuel the achievement of long-term objectives.

- The timing is highly attractive to increase weightings in both U.S. common stocks and bonds. Such an initiative should be supported by a reduction in future investment flows into real estate, alternative investments, emerging market holdings, and short term cash proxies such as money market accounts and commercial paper. We believe the latter two investment options will earn a reduced return as the Federal Reserve begins to lower short-term interest rates within the next month.

Clients of AAM have dynamic Investment Policies to guide their financial lives and long-term objectives. Our relationship and ongoing communication is the umbrella that shelters us from the occasional financial storm.

There are financial commentators who would have the investment public build an ark every time it rains. We believe that long-term investment horizon remains extremely positive as the impact of global capitalism will bring the sun back out from behind the clouds.

AAM is fortunate to have a stable team of professionals who understand that we act not only as your portfolio manager, but as your Personal CFO and Financial Concierge. As we reflect upon our seventeenth year in this capacity, we are extremely fortunate to partner with such a diverse and interesting group of client families.

This year our assets under management once again reached a record high, a reflection of our energy and expertise, and our clients' acknowledgement of the value of the services we provide.

The investment process is dynamic. Our clients' lives and goals change while the financial markets provide distinct investment opportunities as time passes. We encourage you to review your investment policy statement, tax strategies, financial plan, and retirement goals with us on a regular basis. We look forward to our conversations and face-to-face meetings. Even though it may seem unnecessary, we strongly recommend a regular financial check-up. We strive to personalize our relationships and recognize the unique needs in the financial lives of our clients.

We remain confident in the global economy and our ability to work together with our clients to achieve long-term financial goals. There is a high probability that we will look back at the current period a year from now as a material opportunity to increase investment in common stocks and corporate bonds

The AAM Year-End Client Annual Report will be mailed by early March. If you require tax information from us prior to that date, please let us know and we will accommodate your timetable.

Enjoy the rest of the summer, time with family and friends.

All the best,

Howard Steve George