

Issue Date: October 5, 2007

Author: David J. Campbell, CFA

This report provides a quick overview of basic economic data on our economy and markets.

Statistics - Data as of September 30, 2007

Asset Category	Index	Index - Quarter End	Index - Start of Year	Return - Current Quarter	Return - Year-to-Date	Return - 12 Months	Current Yield
US Stocks	DJ Industrial Avg (excl. Div)	13895.63	12463.15	3.63%	11.49%	18.98%	2.08%
	S&P 500 (excl. Div)	1526.75	1418.3	1.56%	7.65%	14.29%	1.82%
	NASDAQ Composite *	2701.5	2415.29	3.77%	11.85%	19.62%	0.46%
	NAREIT Equity	9373.8	9709.31	2.59%	-3.46%	5.68%	4.12%
	Russell 2000 (excl. Div)	805.45	787.66	-3.39%	2.26%	11.01%	1.45%
Foreign Stocks	MS EAFE (excl. Div)	2300.38	2074.48	1.69%	10.89%	22.02%	NA
Bonds	LB Aggregate Bond Index	1242.2	1191.66	3.15%	4.24%	5.64%	
	10-Yr US T-Notes		4.71%				4.58%
US Dollar	JPMorgan US \$ Index	83.3	88.3	-3.70%	-5.66%	-6.40%	
	Euro (late NY - in US \$)	\$1.426	\$1.320	5.35%	8.01%	12.44%	
	Yen (late NY - per US \$)	114.88	119.01	7.17%	3.60%	2.82%	
Commodities	Gold (Comex spot)	\$742.80	\$635.20	14.61%	16.94%	24.09%	
	Oil (futures)	\$81.66	\$61.05	15.53%	33.76%	29.80%	

* - yield is for the NASDAQ 100 Index.

- Reflecting the fastest growth in over a year, real U.S. Gross Domestic Product (real GDP) increased at a 3.8% annual rate in the 2nd quarter. Exports, helped by a weaker U.S. dollar, rose 7.5%.
- On September 18th, the Federal Reserve dropped the Federal Funds Rate (FFR) by 0.5%, to a 4.75% rate, in order to prevent the housing slowdown and mid-summer credit crunch from driving the economy into a recession. This was the Fed's first drop in the FFR in over 4 years.
- Easing fears of a dramatic economic slowdown, payrolls grew by 110,000 jobs in September and a revised 89,000 in August. The U.S. unemployment rate rose to 4.7% in September despite the increase.
- Inflation (CPI-U) declined 0.1% in August as energy prices declined slightly, and was 2.0% higher than 12 months ago. The Fed's preferred price index (PCE) excluding food and energy was 0.1% higher in August and 1.8% higher from a year ago.
- Reuters announced that 3rd quarter earnings for the S&P 500 companies are currently projected to rise 3.3% year-over-year, compared to an expected 2.5% when the quarter started. The Healthcare and Technology sectors are projected to report the largest gains, 14% and 11% respectively.
- US non-farm worker productivity improved at a 2.6% annual rate in the 2nd quarter, up sharply from the 0.7% rate logged during the 1st quarter. Manufacturing, which includes about 12% of business-sector employment, held relatively steady at a 1.8% productivity change rate.

Looking Ahead

The most recent survey of economists shows an expected 2% growth rate for the U.S. economy for 2007, indicating a slowing of GDP growth during the 2nd half of the year to between 1.5% and 2%. Odds of a recession are placed at about 36%.

Interest rate futures show traders assign about a 76% chance that the Fed will lower the FFR to 4.5% on October 31st, with better than even odds of another 0.25% reduction by year-end.

Data Sources: The Wall Street Journal; US Dept. of Commerce - Bureau of Economic Analysis; US Dept. of Labor; Bloomberg.com; Live.Lehman.com; MSCI.com; NAREIT.com; NYTimes.com; Reuters.com; Vanguard.com.

Offices: 345 California Street, Suite 1100
San Francisco, CA 94104
415.781.8535

1900 University Avenue, Suite 108
East Palo Alto, CA 94303
650.462.8666