



Market Update

Asset Consulting Group, Inc.

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Monthly Indices Report
(January 31, 2007)

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Monthly Report

January 2007

THE U.S. ECONOMY

The fastest pace of economic growth in a year prompted the Federal Reserve to hold its benchmark Fed funds rate steady at 5.25% for the fifth straight time during its January 31st meeting, setting aside any hope for interest rate easing for some time to come. Meanwhile, other economic reports indicated strong consumer spending fundamentals and a moderation of inflation. Housing and manufacturing sectors also showed signs of stabilization.

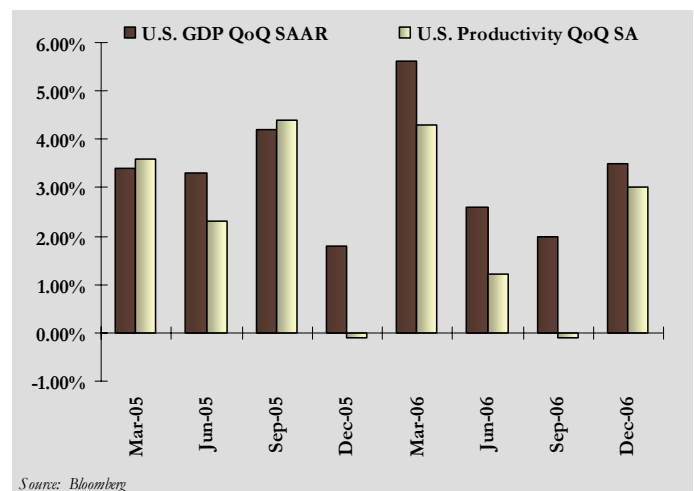
The strongest economic growth since early 2006...

In its initial estimate of gross domestic product, the government reported the U.S. economy grew at an annual pace of 3.5% in Q406, representing the fastest pace of growth since Q106 and well above the annual rate of 2.0% reported for Q306. Growth was spurred by declining energy costs, which allowed consumers to spend more on goods and services. As gasoline prices plummeted 25% from their August 2006 peak, consumers used the resulting savings to propel spending to an annual rate of 4.4% last quarter. Lower energy costs helped contain inflation in Q406 as the headline GDP's measure for prices paid, the Personal Consumption Expenditures (PCE) index, had its first quarterly decline since 1961, dropping at a 0.8% annual rate. The core PCE index, excluding food and energy, the Fed's preferred measure, rose at an annual rate of 2.1% in the same period, slightly above the Fed's preferred range of 1% to 2%.

Home construction drags down growth...

Home construction continued to weigh negatively on economic growth as it fell at an annual rate of 19.2% in Q406, the fifth quarterly decline in a row and the biggest decrease since 1991. The decline subtracted 1.2% points from Q406 GDP growth. Home construction peaked in 2Q05 as home prices began declining, creating supply-demand imbalances that analysts believe may

still continue for much of 2007. Nonetheless, other sectors within the U.S. housing market appear to be stabilizing. Declining mortgage rates in the second half of 2006 along with builder price cuts and incentives improved housing affordability and helped stabilize demand. Both new and existing home sales rose in three out of the past four months through December. This eased the glut of unsold homes, with existing and new home inventories down 8% and 18%, respectively, from peaks reached in the middle of 2006.



U.S. manufacturers trim production, but rising orders could ramp it back up...

The Institute for Supply Management's gauge of the nation's manufacturers fell below 50 in January, signaling contraction, and reaching the lowest level since April 2003. Over the past five months U.S. manufacturers have continued to reign in orders and reduce production runs in an effort to work off excess inventory. Inventories declined for six consecutive months, and with leaner stockpiles the sector could now be poised for growth. A sign that better times might lie ahead came from the December durable-goods report showing orders for equipment and machinery increased 2.3%, the biggest gain since March 2006. This report may be a positive sign that the manufacturing slump is temporary and not recessionary and that the increase in customer orders is setting the stage for more production in coming months.

Current economic fundamentals suggest firmer economic growth than previously believed, with strong labor markets providing income growth that enables consumers to weather the slump in

Economy at a Glance

Recent growth indicators	October	November	December	January
ISM manufacturing	51.2	49.5	51.4	49.3
ISM non-manufacturing	57.1	58.9	57.1	59
U. of Michigan Consumer Confidence	92.3	92.1	96	96.9
Change in Payrolls (m-o-m, 000)	92	132	167	111
Personal Income (% m-o-m)	0.4	0.3	0.5	
Personal Spending (% m-o-m)	0.2	0.5	0.7	

Source: Bureau of Labor Statistics, ISM, Bloomberg

housing. U.S. worker productivity grew 3% in Q406, the fastest quarterly pace since Q106, while the employment cost index rose 0.8% after a 1% increase in Q306. This improved productivity could alleviate pressure on corporate profit margins as businesses face the headwinds of a slower pace of economic activity.

GLOBAL EQUITIES

U.S. Equities

U.S. stocks surged to record highs in January on increased optimism that the U. S. economy can support future growth of corporate profits. The Dow Jones Industrials hit an all time record high as it rallied for the seventh consecutive month in January, advancing 1.40%. The S&P 500 rallied for the eighth consecutive month, advancing 1.51% for the month to a six-year high. Eight out of the ten S&P sectors were higher, led by the cyclical Materials sector (+4.47%), while falling oil prices continued to weigh negatively on the Energy sector (-1.85%), which lost ground for the second consecutive month. Meanwhile, mid-cap stocks mounted the largest gains, as the Russell Midcap index rose 3.38% for the month. Small-caps set records as well, with the Russell 2000 closing January at an all time high, gaining 1.67%. The 2006 momentum in value stocks lost ground to growth stocks in January as growth outpaced value across all three tiers of capitalization. The Russell 1000 Growth (+2.57%), MidCap Growth (+3.64%) and 2000 Growth (+1.86%) gained ground over their value counterparts, Russell 1000 Value (+1.28%), Mid-Cap Value (+3.08%) and 2000 Value (+1.50%), respectively.

International Markets

Higher yields relative to U.S. global counterparts, signs of moderating inflation, and the Federal Reserve's decision to keep interest rates steady, lead to a stronger dollar in January. The dollar gained 1.26% against the euro and 1.36% against the yen. Over the past 12 months ended January 31st, the dollar still lost 7.21% against the euro, but gained 2.98% against the yen.

The momentum that lifted European stocks to new highs at the end of 2006 carried over into January, with several indices closing at record levels. European stocks rallied on the heels of a record mergers and acquisitions activity and strong corporate profit growth. According to Bloomberg data, announced takeover deals involving European companies jumped 47% in 2006 to a record \$1.48 trillion. In addition, estimated European economic growth for all of 2006 reflects the fastest pace in six years. The MSCI EAFE index closed January at an all time high, advancing 1.86% in local currency and up 0.68% on a USD basis, with the recent dollar strength significantly weighing on USD returns.

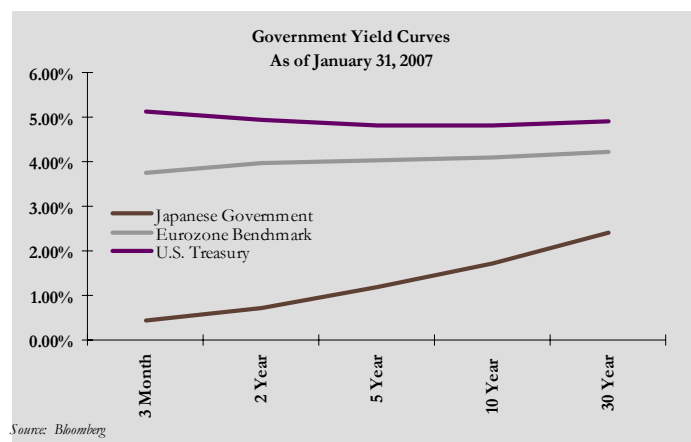
Japanese equities experienced nine-month highs in January on bolstered investor optimism, after economists estimated the nation's GDP expanded 3.7% in the fourth quarter. However, the dollar appreciation against the yen over the month reduced returns on a USD basis. The Nikkei 225 index gained 0.92% in yen for the month, but had a slight loss of 0.61% on a USD basis.

Chinese stocks recorded their biggest one-day decline in six months on January 12th after the chief of China's top planning economic agency stated that Chinese GDP was expanding too quickly. The benchmark Shanghai Composite index slipped 3.7%, the largest single day drop since a 4.8% slump on July 13,

2006. Some analysts viewed the decline as a natural pause in momentum as investors looked to lock in profits after the index more than doubled in 2006. On a USD basis, the Shanghai index still managed to gain 4.57% for the month, helped by a 0.55% increase in the Chinese renminbi against the dollar. Overall, emerging market stocks took a breather in January after their impressive pace in 2006, which marked their fourth consecutive year of outperformance over all other equity classes. The MSCI Emerging Markets index closed down 1.04% for the month on a USD basis.

GLOBAL FIXED INCOME ¹

Stable credit conditions seen in 2006 spilled over into January, as low interest rate volatility and abundant liquidity had investors seeking riskier assets offering more attractive yields. The yield on the Lehman High Yield Corporate bond index declined to 7.61% at the end of January versus December's 7.70%. Meanwhile, credit spreads in this sector declined to 258 bps at the end of January against a reading of 329 bps the year before. High-yield default rates hit a 12-month low of 1.26% in December, down from 1.95% and 2.47% at year-ends in 2005 and 2004, respectively. After the impressive performance in 2006, the Lehman High Yield Corporate Bond index gained 1.12% again in January. The Treasury and U.S. investment grade corporate bond sectors were lackluster performers last month. Although the continued inflow of global funds into the U.S. high grade fixed income led to compressed long-term yields throughout 2006, there was a slight upward parallel shift in the yield curve in January as a result of the perceived lower probability of the Fed lowering interest rates in 2007. Yields on both the two-year and 10-year Treasury rose 11 bps, closing at 4.92% and 4.81%, respectively. The rising yields sent Treasuries lower and resulted in a 0.153% decline in the Merrill Lynch U.S. Treasury Master index in January. U.S. investment grade corporate yields rose moderately to 5.75% from December's 5.66%, contributing to a 0.04% decline in the Lehman Aggregate bond index in January.



Global central bankers kept January interest rates steady in both Japan and the Eurozone resulting in a steepening of their respective yield curves. The European Central Bank maintained its benchmark rate at 3.50% on January 11th, while indicating further hikes may be forthcoming due to continued perceptions of upside risks in price stability. The yield on 10-year German bonds

rose to 4.10%, its highest level in six months, sending two-year to 10-year spreads up to 13 bps, 8 bps higher than in December. The Bank of Japan held rates steady at 0.25% on January 17th, citing a further need to examine prices and consumer spending patterns before engaging into further interest rate tightening.

Japanese 10-year government yields rose 2 bps to 1.71% last month. The JP Morgan Global Govt. bond index lost 1.28% in January.

Footnotes:

All data from Bloomberg except:

1- Lehman Brothers

Indices Report

Asset Consulting Group, Inc.

Monthly Indices Report

Periods Ending January 31, 2007

Index Name	Style	Returns							
		Month	Qtr*	YTD	2 Qtrs	1 Year	3 Years	5 Years	10 Years
<u>Domestic Equity Indices</u>									
S&P 500	Large Cap Core	1.51%	4.89%	1.51%	13.74%	14.51%	10.32%	6.83%	7.93 %
S&P Equal Weighted	Large Cap Core	2.38%	5.72%	2.38%	15.63%	13.97%	13.56%	11.69%	11.42 %
Russell 1000	Large Cap Core	1.93%	5.43%	1.93%	14.28%	14.48%	10.99%	7.51%	8.23 %
Russell 1000 Growth	Large Cap Growth	2.57%	4.96%	2.57%	15.12%	9.96%	7.06%	3.58%	5.00 %
Russell 1000 Value	Large Cap Value	1.28%	5.91%	1.28%	13.41%	19.15%	14.90%	11.31%	10.61 %
Russell Mid Cap	Mid Cap Core	3.38%	7.09%	3.38%	16.20%	13.34%	16.19 %	13.77%	12.10 %
Russell 2000	Small Cap Core	1.67%	4.69%	1.67%	14.94%	10.42%	12.57%	11.99 %	9.40 %
Russell 2000 Growth	Small Cap Growth	1.86%	4.04%	1.86%	14.81%	5.30%	9.30%	8.10%	4.81 %
Russell 2000 Value	Small Cap Value	1.50%	5.30%	1.50%	15.09%	15.76%	15.74 %	15.41 %	13.26 %
Wilshire 5000	Broad Equities	1.90%	5.42%	1.90%	14.27%	13.92%	11.36%	8.29%	8.29 %
HFRI Equity Hedge	Long Short Equity	1.71%	5.12%	1.71%	8.37%	9.29%	9.90%	9.17%	13.08 %
<u>International Equity Indices</u>									
MSCI World	Broad Global	1.20%	5.87%	1.20%	14.06%	16.86%	15.07%	11.45%	8.06%
MSCI EAFE	Developed Markets Intl	0.68%	6.99%	0.68%	14.45%	20.34%	20.12%	16.85%	8.52%
MSCI EAFE Growth	Developed Markets Intl Growth	0.81%	6.68%	0.81%	12.38%	16.50%	17.10%	14.07%	5.88%
MSCI EAFE Value	Developed Markets Intl Value	0.56%	7.28%	0.56%	16.48%	24.19%	23.12%	19.60%	11.00%
MSCI Emerging Markets Free	Emerging Market	(1.04)%	11.13%	(1.04)%	20.44%	17.96%	29.01%	25.87%	N/A
<u>Domestic Fixed Income Indices</u>									
Treasury Bills	Cash	0.41%	1.29%	0.41%	2.59%	4.95%	3.18%	2.48%	3.80%
Merrill Lynch 1-3 Yr Treasuries	Treasuries	0.14%	0.60%	0.14%	2.46%	3.88%	2.11%	3.16%	4.94%
Lehman Muni 5 Yr	5 Yr Municipal Bonds	(0.21)%	(0.00)%	(0.21)%	2.05%	2.88%	2.09%	3.66%	4.63%
Merrill Lynch High Yield	High Yield Bonds	1.05%	3.77%	1.05%	8.37%	11.04%	8.16%	9.95%	6.89%
Lehman Aggregate	Core Bonds	(0.04)%	0.53%	(0.04)%	3.65%	4.28%	3.41%	4.88%	6.20%
Lehman Government	Government Bonds	(0.12)%	0.19%	(0.12)%	3.04%	3.52%	2.87%	4.47%	5.98%
Lehman U.S. Credit Index	Corporate Bonds	(0.02)%	0.52%	(0.02)%	4.35%	4.45%	3.46%	5.71%	6.54%
Lehman Muni 10 Yr	10 Yr Municipal Bonds	(0.45)%	(0.14)%	(0.45)%	2.93%	3.88%	3.56%	4.97%	5.61%
HFRI FOF Conservative	Low Volatility	1.13%	3.83%	1.13%	5.41%	8.14%	6.61%	6.61%	N/A
<u>Real Estate Indices</u>									
NCREIF Property**	Real Estate	N/A	4.51%	0.00%	8.18%	16.59%	17.02%	13.16%	12.59%
NCREIF Classic Property**	Real Estate	N/A	3.51%	0.00%	7.14%	15.48%	16.51%	12.13%	12.39%
NAREIT Equity	Real Estate	8.42%	11.69%	8.42%	25.45%	36.44%	27.47%	25.15%	15.28%

*Rolling 3 months ending January 31, 2007

**For comparison purposes, prior quarter returns are used.

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