



INVESTMENT MANAGEMENT UPDATE

Mark Knackendoffel - President & Senior Trust Officer

July 10, 2008

MARKET UPDATE & OBSERVATIONS

<u>Market Index Returns</u>	<u>2nd Qtr</u>	<u>1-Year</u>	<u>5-Year</u>
S&P 500 Index	-2.7%	-13.1%	7.6%
Russell 2000 Small Cap	0.6%	-16.2%	10.3%
Foreign Stock Index - EAFE	-3.5%	13.0%	13.9%
Taxable Bond Index	-1.0%	7.1%	3.9%
Municipal Bond Index	0.6%	3.2%	3.5%

It sounds like a broken record, but volatility again dominated the investment markets during the 2nd quarter of 2008. Both domestic and foreign equity funds started by recovering some of the declines of the 1st quarter; however, during June, most of these funds gave back most of those gains.

The 2nd Quarter returns in the chart above don't reflect the extreme short-term volatility faced by investors. However, that is one of the key principles of long-term investing – the tendency for all trends to return to average, or at least level out the extremes. As investment managers, that gives us comfort during these nervous times – eventually, the trends and valuations will reverse and return to historical norms. Of course, we don't expect the timeframe of a calendar quarter to illustrate that long-term investing principle.

The other key principle is that the timing of these trends is unpredictable. I have had several clients recently proclaim that “the Dow is going to drop to/below \$10,000! What are you doing about it?” My response included:

- First, it might.
- Second, it might not.
- Third, we can't predict if it will or won't . . . and we don't try. Making market predictions is not part of our strategy or skill sets, nor anyone else's.
- So, fourth, let's instead stick to your long-term plan!

This may sound a little flippant, but it truly reflects our philosophy of managing risk rather than return and focusing on a long term strategy based on suitable asset allocations tied to clients' personal financial and investment objectives.

EXPANDED INVESTMENT MANAGEMENT UPDATE

Due to a host of current investment topics, this Quarter's Update has been expanded and includes the following topics:

- Mutual Fund & Asset Allocation Update
- Current Model Portfolio Fund Allocations
- Current Model Portfolio Largest Equity Holdings
- Guest Commentary on the Municipal Bond Market

MUTUAL FUND & ASSET ALLOCATION UPDATE

On April 24, 2008, we realigned our Mutual Fund Asset Allocation Models, which included both strategic and structural fund changes to our models.

Funds Eliminated from our Model Portfolios

- **Legg Mason Value Fund.** After holding a key allocation within our models for 11 years, we sold this fund. The fund had a stellar, long-term record as buyer of cheap, contrarian, large-growth stocks. However, it has displayed a significant lack of discipline the past few years with huge bets on devastated financial stocks, such as Bear Stearns and Countrywide.
- **Vanguard 500 Index Fund.** Our decision to swap out of this S&P 500 Index Fund was based on portfolio structure. We have used both the **Vanguard 500** and **Growth Index Funds** for many years, but recently concluded that the growth stocks in each fund were redundant. To overcome this redundancy, we swapped into the **Vanguard Value Index Fund.** Rebalancing between these Growth & Value funds will allow us to take advantage of cyclical swings between these two styles.

Funds Added to our Model Portfolios

- **Mairs & Power Growth Fund** and **Davis New York Venture Fund.** We replaced Legg Mason Value with these two large-cap, blend funds. Although they're invested within the same style box, they execute their strategies quite differently, which further enhances our portfolio diversification. **Mairs & Power Growth** holds only 45 stocks, so it's highly concentrated. Its greatest exposure is in industrial companies. While this concentration would normally increase volatility, they have managed it well. This 50-year-old fund is in the top 1% of its peers the past 15 years and has Morningstar's lowest risk rating. **Davis New York Venture** has 33% invested in financial stocks, which has hurt the fund the past year, but its long-term record is very solid. This 30-year-old fund is in the top 7% of its peers the past 15 years.
- **Vanguard Value Index.** (See Comments Above.) Note that we were able to buy the **Institutional** Class of shares, which has an even cheaper expense ratio than their Admiral or Signal shares (0.07%).

PERFORMANCE ASSESSMENT

- Over the past year, our equity funds have lagged the S&P. Much of the dismal performance occurred late in 2007. We suffered from poor performance in several of our equity funds, namely the value-oriented funds, including Legg Mason Value, Dodge & Cox Stock, Goldman Sachs Structured Large Value, Mutual Beacon, and Buffalo Small Cap. Again, these funds suffered from exposure to financial stocks and related industries. But all of these funds have solid long-term records, and we are confident that they will again regain their market leadership.
- The bright spot has been our fixed income funds and individual bond holdings. These investments have managed to provide some stabilization for portfolio values and also funded income streams for those clients withdrawing retirement income. Also, PIMCO Total Return, with a return of 10.8% the past year, again demonstrated why Bill Gross continues to be one of the best fund managers in the world.

- FINALLY**, during these times of declining asset values and waves of dismal economic news, we again emphasize these unchanging principles:
 - Be patient – Cycles run their course and excesses will eventually return to historical norms.
 - Ensure that you are well-diversified.
 - Don't panic – Stick to your plan based on an asset allocation that reflects your overall objectives.

CHAD CHASE HIRED AS NEW TRUST OFFICER

We are pleased to announce that Chad Chase has joined The Trust Company as a new Trust Officer. Chad received a B.S. in Business & Finance from KSU and is also a graduate of the University of Nebraska Law School. He was formerly a commercial banker in Derby, Kansas and Kansas City and most recently was an attorney with the Manhattan law firm of Knopp & Bannister. Please welcome Chad, and his wife, Segen Smith Chase, as new members of The Trust Company family.

Chad replaces Ms. Jodi Kaus, our former Vice President, who recently "retired" to spend more time with her young sons, Ethan & Adrian, and her husband, Blake. We appreciate her 13 years of service with The Trust Company and wish her well.

The Trust Company's Current Model Portfolio Asset Allocation Ratios

	Aggressive Growth	Aggressive Growth T/L	Growth	Growth T/L	Balanced Growth	Balanced Growth T/L	Balanced Income	Balanced Income T/L	Conserv Income	Conserv Inc T/L
MONEY MARKET FUND	4%	4%	9%	9%	11%	11%	13%	13%	20%	20%
FIXED INCOME FUNDS										
Vanguard GNMA – Admiral	-	-	-	-	-	-	-	-	-	-
PIMCO Total Return – Instl	-	-	5%	-	10%	-	14%	-	14%	-
PIMCO High Yield – Instl	3%	-	8%	-	10%	-	16%	-	16%	-
Vanguard Intermediate Tax-Free – Adm	-	-	-	6%	-	10%	-	19%	-	25%
Vanguard Hi-Yield Tax-Exempt – Adm	-	3%	-	7%	-	12%	-	21%	-	21%
Total Fixed Income Funds	3%	3%	13%	13%	22%	22%	40%	40%	46%	46%
EQUITY FUNDS										
Dodge & Cox Stock	7%	7%	6%	6%	5%	5%	4%	4%	4%	4%
Goldman Sachs Struct'd Lg Value	5%	5%	5%	5%	5%	5%	4%	4%	4%	4%
Mutual Beacon – Z	8%	8%	7%	7%	6%	6%	4%	4%	4%	4%
Vanguard Value Index - Inst'l	8%	8%	7%	7%	7%	7%	6%	6%	5%	5%
Davis New York Venture	5%	5%	5%	5%	4%	4%	3%	3%	2%	2%
Mairs & Power Growth	3%	3%	3%	3%	3%	3%	3%	3%	2%	2%
Growth Fund of America – F	8%	8%	7%	7%	6%	6%	4%	4%	3%	3%
Vanguard Growth Index – Signal	8%	8%	6%	6%	6%	6%	4%	4%	3%	3%
Ariel Appreciation	8%	8%	6%	6%	5%	5%	3%	3%	-	-
Fidelity Low-Priced Stock	8%	8%	7%	7%	6%	6%	4%	4%	3%	3%
Buffalo Small Cap	8%	8%	6%	6%	4%	4%	2%	2%	-	-
Capital World G&I – F	10%	10%	8%	8%	6%	6%	4%	4%	3%	3%
Templeton Instl Foreign Equity	7%	7%	5%	5%	4%	4%	2%	2%	1%	1%
Total Equity Funds	93%	93%	78%	78%	67%	67%	47%	47%	34%	34%

LARGEST STOCK HOLDINGS IN THE TRUST COMPANY'S MODEL PORTFOLIOS

<u>Aggressive Growth</u>		<u>Growth</u>		<u>Balanced Growth</u>		<u>Balanced Income</u>		<u>Conservative Income</u>	
General Electric Co	1.2%	General Electric Co	1.1%	General Electric Co	1.0%	General Electric Co	0.8%	General Electric Co	0.7%
ExxonMobil Corp	1.0%	ExxonMobil Corp	0.9%	ExxonMobil Corp	0.9%	ExxonMobil Corp	0.7%	ExxonMobil Corp	0.6%
Microsoft Corp	1.0%	Microsoft Corp	0.8%	Microsoft Corp	0.7%	Pfizer Inc.	0.5%	Pfizer Inc.	0.4%
Pfizer Inc.	0.7%	Pfizer Inc.	0.6%	Pfizer Inc.	0.7%	Microsoft Corp	0.5%	Microsoft Corp	0.4%
Chevron Corp	0.6%	Chevron Corp	0.5%	Chevron Corp	0.5%	Chevron Corp	0.4%	Chevron Corp	0.3%
News Corp, Ltd. A	0.6%	Amer Int'l Group	0.5%	Bank America Corp	0.4%	Wells Fargo Co	0.4%	Bank America Corp	0.3%
Amer Int'l Group	0.6%	News Corp, Ltd. A	0.5%	AT&T, Inc.	0.4%	Bank America Corp	0.4%	Time Warner, Inc.	0.3%
Time Warner, Inc.	0.5%	ConocoPhillips	0.5%	Amer Int'l Group	0.4%	AT&T, Inc.	0.4%	AT&T, Inc.	0.3%
ConocoPhillips	0.5%	J.P. Morgan Ch	0.5%	J.P. Morgan Ch.	0.4%	J.P. Morgan Ch.	0.3%	Wells Fargo Co	0.3%
AT&T, Inc.	0.5%	Time Warner, Inc.	0.5%	Time Warner, Inc.	0.4%	Amer Int'l Group	0.3%	Amer Int'l Group	0.3%
Total Stocks	93%		78%		67%		47%		34%

Trust Company Mutual Fund Model Performance					Market Index & Sector Performance				
Returns to June 30, 2008	2nd Qtr	1-Year	3-Year	5-Year	Stock Market	2nd Qtr	1-Year	3-Year	5-Year
Aggressive Growth	-2.4%	-14.0%	4.4%	8.9%	S&P 500 Index	-2.7%	-13.1%	4.4%	7.6%
Aggressive Growth / Tax-Ltd	-2.4%	-14.5%	N/A	N/A	Dow Jones Indust.Avg	-6.9%	-13.3%	N/A	7.2%
Growth	-2.1%	-11.5%	4.3%	8.0%	Russell 2000 Small Cap	0.6%	-16.2%	N/A	10.3%
Growth / Tax-Limited	-1.9%	-11.9%	4.0%	7.7%	Foreign Stock Index	-1.4%	-8.0%	N/A	18.8%
Balanced Growth	-2.0%	-9.0%	4.2%	7.1%	Science & Tech Funds	3.2%	-12.0%	N/A	8.4%
Balanced Growth / Tax-Ltd	-1.7%	-9.9%	3.7%	6.6%	Bond Market				
Balanced Income	-1.7%	-4.7%	4.1%	5.9%	Govt / Corp 5-Year	-1.3%	3.5%	2.6%	2.7%
Balanced Income / Tax-Ltd	-1.1%	-6.2%	3.3%	5.2%	Mortgage Bond Index	-0.8%	4.8%	N/A	3.2%
Conservative Income	-1.5%	-1.6%	4.0%	4.8%	5-Year Muni Index	-0.1%	3.1%	2.2%	2.3%
Conservative Income / Tax-Ltd	-0.8%	-3.5%	N/A	N/A	T-Bill Index	0.4%	3.1%	4.2%	3.2%

Trust Company Fund Performance & Comparative Rankings (A = Best; E = Worst)

STOCK FUNDS	2nd Qtr	1-Year	3-Year	5-Year	10-Year	Expense Ratio
Dodge & Cox Stock Fund	-4.5%	-21.4% - D	2.8%	9.3% - B	8.6%	0.5%
Goldman-Sachs Structured Large-Value - Inst'l	-3.5%	-21.4% - D	2.3%	8.5% - C	N/A	0.6%
Mutual Beacon Fund - Z	-6.2%	-19.9% - E	4.1%	9.2% - B	7.3%	0.8%
Vanguard Value Index- Inst'l	-6.2%	-19.8% - D	3.5%	8.6% - B	3.9%	0.1%
Davis New York Venture	-2.8%	-13.7% - D	5.3%	9.7% - A	5.9%	0.6%
Mairs & Power Growth	-5.8%	-14.5% - D	2.4%	7.5% - D	7.9%	0.7%
Growth Fund of America - F	1.3%	-5.2% - C	8.9%	11.3% - B	9.2%	0.6%
Vanguard Growth Index - Signal	2.4%	-3.8% - B	6.5%	7.7% - B	2.1%	0.1%
Ariel Appreciation	-3.0%	-21.1% - E	-0.3%	5.3% - E	6.5%	1.1%
Fidelity Low-Priced Stock	-0.7%	-13.3% - B	5.8%	12.8% - B	11.2%	1.0%
Buffalo Small Cap	-0.6%	-24.0% - E	-0.2%	9.6% - D	13.2%	1.0%
Capital World Growth & Income - A	-2.5%	-5.2% - A	13.8%	17.2% - A	11.2%	0.7%
Templeton Institutional Foreign Equity	-4.3%	-10.4% - C	14.1%	18.4% - B	8.3%	0.8%
BOND FUNDS	2nd Qtr	1-Year	3-Year	5-Year	10-Year	Expense Ratio
PIMCO High Yield - Institutional	0.0%	-0.4% - A	4.5%	6.5% - B	5.5%	0.5%
PIMCO Total Return - Institutional	-1.3%	10.8% - A	5.0%	4.7% - A	6.5%	0.4%
Vanguard GNMA Fund - Admiral Shares	-0.8%	8.0% - A	4.7%	4.2% - A	5.6%	0.1%
Vanguard Intermediate Tax-Exempt - Admiral	0.4%	3.8% - B	2.9%	3.1% - A	4.4%	0.1%
Vanguard High-Yield Tax-Exempt - Admiral	1.0%	1.0% - C	2.7%	3.7% - A	4.6%	0.1%

Explanatory Notes: This chart reports independent, comparative performance data and rankings assembled by the Investment Staff of The Trust Company of Manhattan. Sources for this information include: Morningstar, Lipper and the Wall Street Journal. The fund performance figures are provided by Morningstar and Lipper. The letter rankings or "grades" for 1-Year and 5-Year Performance are assigned by the Wall Street Journal. These rankings are based on the WSJ-assigned sector for the fund, which may not correspond to the fund's objective as defined by its own prospectus, or the sector to which we have assigned the fund within The Trust Company's Model Portfolios. However, we believe this format provides the fairest and most effective method of displaying fund performance comparisons.

NOTE TO OUR READERS: We are pleased to share with you the following guest commentary from Mr. Rush Harding, CEO of Crews & Associates, an institutional fixed income broker, dealer and underwriter based in Little Rock, Arkansas. The Trust Company of Manhattan has used the professional services of Crews for over twenty years and we have a great deal of respect for their prudent understanding and strategies within the fixed income markets. These comments were sent to their institutional clients in May, 2008. mk

CEO'S PERSPECTIVE

**Rush Harding, CEO
Crews & Associates, Inc.**

May 2008

The first quarter of 2008 was a wild time for the normally tranquil world of municipal bonds. The bubbling undercurrent ignited by the late summer credit crunch erupted in February and March of '08 in unprecedented fashion. What fueled the chaos was the decline of the large bond insurers coupled with the failure of the Auction Rate Securities Market, a 350 billion dollar synthetic market. Combine those two never-before experienced events on top of the Wall Street credit crunch and continued sub-prime dilemma, and you have one colossal mess.

The result: for the first time in history, solid tax free bonds with good fundamentals saw yields soar to levels 100 basis points, in some cases 250 basis points, cheaper than taxable Treasuries and government agencies. Many bonds, issued only 12 to 18 months ago, lost 15% to 20% of their value simply because there was little liquidity. Large bond funds were forced to sell to fund redemptions. Leveraged hedge funds had their loans called with no option except to sell into an already battered market.

It appears the worst may be over. The two year Treasury bond has risen in yield the last two weeks, the most since 1982, as cash that once fled the markets is willing to vacate this ultra safe haven and look for more attractive values.

The fact that the municipal bond market took this flurry of punches and is not only still standing, but standing strong, is remarkable! Pricing is firming up as liquidity comes back into the markets. Traditional municipal finance is getting done at efficient levels despite the disorder of the major bond insurers. It is back to the basics in fixed income. Lessons learned suggest that one doesn't automatically depend upon credit enhancement, always study the underlying fundamentals of your purchase, and diversify thoroughly, especially in non-rated and less-than-investment-grade bonds.

You have probably noticed the fluctuations of the pricing of your bonds on your statement. These are computer driven evaluations that, while useful, are only approximations of value at any given time. Another measurement tool is to check your holdings on <http://emma.msrb.org/> to see where bonds are actually trading or call your Crews representative for an indicative price. Additionally, the markets have never been so regionalized. For example, a "BBB" rated bond in Texas may trade much cheaper than a similarly rated bond in Arkansas or West Virginia, specialty states that have limited issuance. Evaluations should normalize as liquidity returns to the market and prices stabilize. In the meantime, consider taking advantage of a great opportunity to identify investment values.

Please call if you have any questions or concerns. We appreciate the opportunity to earn your business and look forward to hearing from you!

Respectfully,

Rush Harding, CEO
Crews & Associates, Inc.