

INVESTMENT MANAGEMENT UPDATE

Mark Knackendoffel - President & Senior Trust Officer
October 8, 2007

MARKET UPDATE

<u>Market Index Returns</u>	<u>3rd Qtr</u>	<u>1-Year</u>	<u>5-Year</u>
S&P 500 Index	2.0%	16.4%	15.5%
Russell 2000 Small Cap	-3.1%	12.3%	18.8%
Foreign Stock Index - EAFE	1.7%	22.0%	20.7%
Taxable Bond Index	2.8%	5.1%	4.1%
Municipal Bond Index	1.8%	3.1%	4.0%

MARKET OUTLOOK

The 3rd Quarter threw a little of everything at us in terms of financial and economic stimuli, forecasts of doom and positive trends, including:

- Volatile intra-day movements in stock and bond prices.
- A quick sell-off in stocks, followed by a sharp rally.
- Persistent weakening of the U.S. dollar against other foreign currencies, triggering both criticism of the Fed for allowing this decline and endorsement of the weak dollar as a stimulant of U.S. exports.
- Dire economic forecasts due to credit shortages & sub-prime loans; then stability in credit markets and the return of the traditional, upward slope of the yield curve.
- The Fed lowered short-term rates, partly to save homeowners (or their lenders?) who bought too much house with too little income to make their payments when interest rates rose to more normal levels after their 50-year low in 2003. (Do you all recall the chorus of cheers three years ago when we were celebrating record homeownership and strong housing markets?) What goes around, comes around!

I just celebrated, or surpassed, my 25th anniversary in this business. (However, I still think of us as fairly young.) But when I observe the panic of short-term investors and the shorter-term media, I am disappointed by their lack of understanding of investment markets, risks and instruments, and their roles in the creation of long-term wealth.

It is during these times that I have an even greater appreciation for historical perspective. This perspective affirms that portfolios never appreciate in a straight line. But they will eventually appreciate, provided they are appropriately-balanced and diversified portfolios. At least that's how we do it at The Trust Company of Manhattan.

MODEL PORTFOLIO FUND PERFORMANCE:

Our portfolios continue to show solid relative performance, but a few funds have lagged their sectors recently, particularly Legg Mason Value, Ariel Appreciation, Dodge & Cox, and Goldman Sachs Large Value. Despite this, they're all outstanding long-term performers managed by seasoned veterans. Patience should have its rewards.

We have listed below the 1-year & 5-year returns for our model portfolio funds, along with quintile performance "grades" assigned by the Wall Street Journal within each asset class. (They are sorted by 1-year performance.)

<u>TCM's Model Funds - Equity</u>	<u>1-Year</u>	<u>5-Year</u>
Templeton Institutional Foreign Equity	34.4% - B	26.0% - B
Capital World Growth & Income	27.9% - B	24.7% - A
Growth Fund of America	21.4% - C	18.1% - B
Vanguard Growth Index – Signal/Admiral	19.3% - C	13.4% - B
Fidelity Low-Priced Stock Fund	16.7% - C	19.9% - B
Vanguard Index 500 – Signal/Admiral	16.4% - A	15.4% - A
Buffalo Small Cap Fund	16.0% - B	21.0% - A
Mutual Beacon Fund – Z shares	15.1% - D	16.4% - C
Legg Mason Institutional Value Fund	14.1% - E	17.1% - C
Ariel Appreciation Fund	12.1% - E	13.3% - E
Dodge & Cox Stock Fund	12.0% - E	18.4% - A
Goldman Sachs Structured Large Value	9.2% - E	16.9% - D
<u>TCM's Model Funds – Fixed Income</u>	<u>1-Year</u>	<u>5-Year</u>
PIMCO High Yield – Institutional	6.7% - C	11.8% - B
PIMCO Total Return – Institutional	5.5% - A	4.9% - A
Vanguard GNMA – Admiral	4.8% - A	3.9% - A
Vanguard Muni Intermediate - Admiral	2.7% - B	3.2% - A
Vanguard Muni High Yield - Admiral	2.0% - C	4.4% - A

<u>MODEL PORTFOLIOS</u>	<u>3rd Qtr</u>	<u>1Year</u>	<u>5 Years</u>
Aggressive Growth	0.4%	16.9%	16.5%
Aggressive Growth/Tax-Ltd	0.3%	16.6%	N/A
Growth	0.7%	15.0%	14.7%
Growth/Tax-Limited	0.4%	14.3%	13.9%
Balanced Growth	0.9%	13.4%	12.8%
Balanced Growth/Tax-Ltd	0.5%	12.3%	11.8%
Balanced Income	1.4%	11.0%	10.0%
Balanced Income/Tax-Ltd	0.7%	9.3%	8.8%
Conservative Income	1.7%	9.0%	7.6%
Conservative Inc/Tax-Ltd	0.8%	7.2%	N/A