Private Wealth Management

Deutsche Bank Alex. Brown

First Quarter 2007 Outlook

- Summary -

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First Quarter Market Outlook
Executive Summary

Economic Growth	Growth to Trough in Near-term, Reaccelerate in 2H07
Federal Reserve	Fed Likely to Cut Rates in 1H07
Inflation	Inflation has Peaked, Decline to Continue
Fixed Income	Yield Curve to Normalize, Fed a Catalyst
US Equities	Expecting New Highs in 2007 (S&P 500)
International Equities	Markets at a Crossroads; Selective Opportunities
Commodities	Soft Commodities Favored; Oil - OPEC in Spotlight
US Dollar	Dollar Weakness To Resume

ISG Model Portfolio Recommended Weightings[1]

Benchmark	Level I	Level II	Level III	
Equities 60%	Equities 62%	Domestic 51%	S&P 500 Growth 23.2% S&P 500 Value 23.8% Russell 2000 Growth 1% Russell 2000 Value 3%	Consumer Discretionary 3.9% Consumer Staples 3.9% Energy 5.2% Financials 12.4% Healthcare 7.2% Industrials 5.6% Information Technology 7.8% Materials 1.5% Telecomm Services 1.8% Utilities 1.7%
		International 11%	Developed 7.5%	Europe 4.5% Japan 3.0% Asian Markets 2.0% Other Emerging 1.5%
			Emerging 3.5%	
Fixed Income 25%	Fixed Income 21%	Fixed Income 21%	Short-Term (1-3yr) 8.8% Inter-Term (3-10yr) 12.2% Long-Term (+10yr) 0%	Core (Treasury/AAA) 17% High Yield 0% International 3% TIPS 1%
Cash 5%	Cash 5%	Cash 5%	Cash 5%	Cash 5%
Alternatives[2] 10%	Alternatives 12%	Low/Mid Volatility 10%	Hedge Fund of Funds [3]	10%
		High Volatility 2%	Commodities [4]	2%

Recommended Weightings as of December 29, 2006

[1] Weightings may vary depending on each client's investment objective, investable assets, time horizon, and risk tolerance.

[2] This portfolio excludes illiquid assets such as private equity and real estate, which may warrant consideration in client portfolios with a long investment time horizon.

[3] A certain level of sophistication, investment experience, and investable assets is required to invest in hedge funds or hedge fund of funds. Not appropriate for all investors.

[4] Only suitable if the investor's investment objectives include speculation, due to the volatility of this asset class.

Economy at a Glance

Outlook	
Outlook	Recent economic data has confirmed that growth in 4Q06 will likely come in below trend, while forward-looking data suggests that the slowdown will continue into the first half of 2007. Furthermore, a cyclical downturn in the housing and auto sectors has just begun to impact economic growth, contributing to risks that the slowdown will spill into other sectors of the economy. As a result of these developments and the growing body of evidence which suggests that inflationary pressures are moderating, we expect the Fed to cut rates as early as the first half of 2007, thereby helping induce a soft landing and not a recession.

Components

Overview	Theme	Factors
Consumer	We expect a slowdown in consumption to have a significant impact on GDP growth. In addition to the facts that income growth is slowing, debt service is high, and the savings rate is close to zero, we think the end of home price inflation represents the removal of an important source of additional equity that has been used to increase the leverage of consumer balance sheets. That said, the start of a fed funds easing cycle in the near term will likely stimulate a reacceleration of spending towards the end of the year, as the burden of 17 rate hikes on interest sensitive spending lessens.	• **Stretched Balance Sheets** • **Negative Savings Rate** • **Home Price Deflation** • **Higher Unemployment** • **Lower Wage Gains** • **Interest Rate Cut?**
Business	The state of US corporations, in contrast to US consumers, is one of healthy balance sheets, record earnings, and robust cash flows. The spending practices of their decision makers, however, has not benefited economic growth as tangibly as in past expansions. Rather than investing in new projects, R&D, and infrastructure, CFO's have increasingly used free cash flow to initiate and expand share buyback programs. We expect business spending to continue to grow modestly, though we do not expect expansion in this sector at a rate sufficient to prevent below trend GDP growth.	• **Record Profit Cycle** • **Conservative Investment Cycle** • **Nonresidential Investment** • **R&D Spending** • **Net Equity Reduction**
Government	We do not expect any significant shift in government spending in 2007, though it does appear likely that some form of a "pay go" legislation will be enacted in the first weeks of the 2007 Congress. Given the fact that the budget deficit continues to reach record levels as a share of GDP and there is potential for some degree of Congressional "gridlock," less spending certainly appears more likely than an increase. That said, rising geopolitical concerns may necessitate a short-term increase in troops abroad.	• **Budget Deficit – Pay go** • **Corporate Taxes** • **Stable Monetary Policy** • **More Troops?** • **Bush Cuts Extended**
Trade	The latter months of 2006 saw a modest improvement in the balance of trade, as rising exports and generally lower import growth narrowed the US trade deficit. The primary driver of the change in imports, however, was a cyclical decline in petroleum prices. Given our expectation of stable oil prices, we expect the primary driver of a narrower trade deficit to come from a weakening of both the Dollar and the consumer, each of which should benefit exports and simultaneously slow demand for imports.	• **Dollar Valuation** • **Current Account Deficit** • **Trade Balance** • **Structural Demand** • **Price Elasticity of Producers**

This summary reflects the current views of the Investment Strategy Group and is subject to change.

Summary—US GDP (2007)

	Downside Scenario	Main Scenario	Upside Scenario
	US GDP: -2.0% to 1.25%	US GDP: 1.25% to 2.75%	US GDP: 2.75% to 4.0%
	34% Probability	50% Probability	16% Probability
Macro Foundation	• Global growth falls to levels below 3.0%. • Heightened inflation restrains the Fed's options in exacting monetary policy. • Housing prices depreciate measurably for an extended period of time, while rates remain at or above present levels. • Productivity gains slow demonstrably. • 10-year Treasury yields trade well above 5.25%; fixed mortgages rise. Significant inverted yield curve would be a concern. • Oil prices rise above $75 per barrel.	• Global growth remains above 3.5%. • Fed orchestrates a soft landing and a mid-cycle slowdown scenario unfolds. • Core inflation continues to decelerate near the Fed's comfort zone. • Productivity gains continue to power efficiency of Corporate America. • 10-year Treasury trends lower to the 4.40% - 4.90% level. • Oil prices are not sustained above $65 per barrel.	• Global growth exceeds 4.0%. • Fed orchestrates soft landing with flexibility thanks to low inflation. • Productivity gains support corporate profit margins, aiding continued double-digit earnings growth. • 10-year Treasury trends lower to the 4.00% - 4.75% level. • Oil prices fall below $55 per barrel.
Consumer	• Consumer spending and credit contract due to housing market collapse and waning consumer confidence. • Core inflation exceeds Fed comfort zone above 2.5%. • Negative housing wealth effect.	• Consumer spending decelerates to low single-digits, but does not go negative. • Unemployment levels rise modestly, helping Fed cut rates. • Housing market stabilizes with a deceleration in price appreciation.	• Spending and credit continue to expand as confidence grows. • Employment gains slow modestly, while wages do not add inflation pressures. • Housing market stabilizes or price appreciation resumes.
Other	• Corporate spending grows less than 5%. • Government spending contracts as budget deficit continues to widen. • Dollar strengthens modestly and negatively impacts exporting activity. • Geopolitical risks rise, with the primary risk coming from Iran/US conflict.	• Corporate spending grows 5% - 10%. • Government spending is flat to slightly positive. • Dollar weakens modestly to support exporting activity. • Status quo is maintained in international relations; no serious deterioration.	• Corporate spending grows 8% - 15%. • Government spending grows. • Dollar weakens modestly to support exporting activity. • Lessening of geopolitical tensions in the Middle East; no further escalation of violence in Iraq.

Scenario probabilities reflect the current views of the Investment Strategy Group and are subject to change.

US Equities
Fundamentals Remain Strong

US Equities at a Glance

Outlook	Our forecast for equity market performance in 2007 is for the current bull market to extend into a fifth year, as the S&P 500 is likely to challenge its all-time closing high of 1527. Within the context of our economic forecast, we expect US equities to outperform international equities in local currency terms after lagging for some time. We believe valuations are supportive of further price gains, while earnings estimates continue to prove too conservative. Though we expect earnings growth to slow to the high single-digits in the coming year, robust cash flow will continue to be supportive of dividend increases, share buybacks, and M&A activity.

Components

Overview	Theme	Factors
Profitability	Corporate profit margins remain at peak levels, and we expect a modest contraction of profit margins in 2007. There is certainly little room for margin expansion, though the benefits of low corporate tax rates, global labor arbitrage, and a moderation in the price of raw materials make the case for a dramatic contraction of profit margins seem unlikely. The impact of slowing top-line growth should challenge the ability of companies to improve margins through cost cutting, which is reflected in our conservative expectations for profitability in the coming year.	• **Peaking Profit Margins** • **Falling Interest Rates** • **Mid-cycle Slowdown** • **Foreign Sourced Profits** • **Slower Domestic Consumption**
Fundamentals	Earnings growth in 2006 was, once again, significantly stronger than expected, resulting in robust cash flows, high returns on equity, and a number of shareholder-friendly actions on the part of corporate decision makers. We have begun to see companies decrease their high cash balances in favor of share buybacks and dividend increases, while the resultant re-leveraging of corporate balance sheets should continue to support equity returns in spite of a modest deterioration in profit margins. Overall, corporate fundamentals remain very supportive of US share prices.	• **Healthy Balance Sheets** • **Low Labor Costs** • **Expanding Profit Margins** • **Stock Buybacks** • **Growing Dividends**
Valuations	The trailing price-to-earnings multiple of the S&P 500 has contracted in each year since 2003, resulting in historically compressed valuation multiples. Though our year-end target for 2007 assumes a stabilization of this trend, a number of macro variables pose upside risk to this assumption. Among these are lower interest rates, contained inflation, earnings growth leadership from high multiple sectors, and net positive fund flows from abroad.	• **Room For Expansion** • **Attractive Yields** • **Limited Downside** • **Global Underweight**
History	Though we expect another positive year from the US equity market, it does face a historical headwind as there have only been three periods in the last 100 years when the S&P 500 has posted five or more consecutive years of positive market performance. That said, the third year of the Presidential election cycle is typically the best of the four, and historic market peaks have typically occurred during the two years after a midterm election.	• **Fifth Year Fear?** • **Pain vs. Gain Years** • **Mid-cycle Slowdown** • **Risk Aversion**

This summary reflects the current views of the Investment Strategy Group and is subject to change.

Investment Stance—US Equities

Underweight	Moderate Underweight	Neutral	Moderate Overweight	Overweight

Investment Stance

- Our outlook for US equities is bullish, as we think that the S&P 500 can post positive gains for a fifth consecutive year. Contrary to prior years, however, we expect the earnings environment to become more difficult, as slowing economic growth should slow top-line growth. Despite slower economic growth, signs that the economy has safely navigated a mid-cycle slowdown and increasing certainty that growth will reaccelerate should be a supportive macro environment for US equities.
- We continue to prefer large cap over small cap stocks for a number of reasons. From an operating perspective, large companies should be less sensitive to a moderation of economic growth, particularly those with significant exposure to foreign sources of demand. In terms of valuations, we continue to believe that the small cap space is relatively overpriced, as the S&P 500 trades at a forward earnings multiple close to half that of small cap stocks. From a macro perspective, we think this valuation disparity is indicative of investor complacency, and as a result we think larger companies represent a better risk adjusted investment opportunity.
- In terms of downside risks, we see a number of positive forces creating a “floor” beneath the market. Among these are historically low valuations, cash rich balance sheets, falling interest rates, and continued M&A and private equity activity. The health of corporate balance sheets puts CFOs in position to continue making shareholder-friendly decisions. As a result, we think the downside to the market is limited, but we do not expect equity prices to continue along the linear path they followed at the end of 2006.

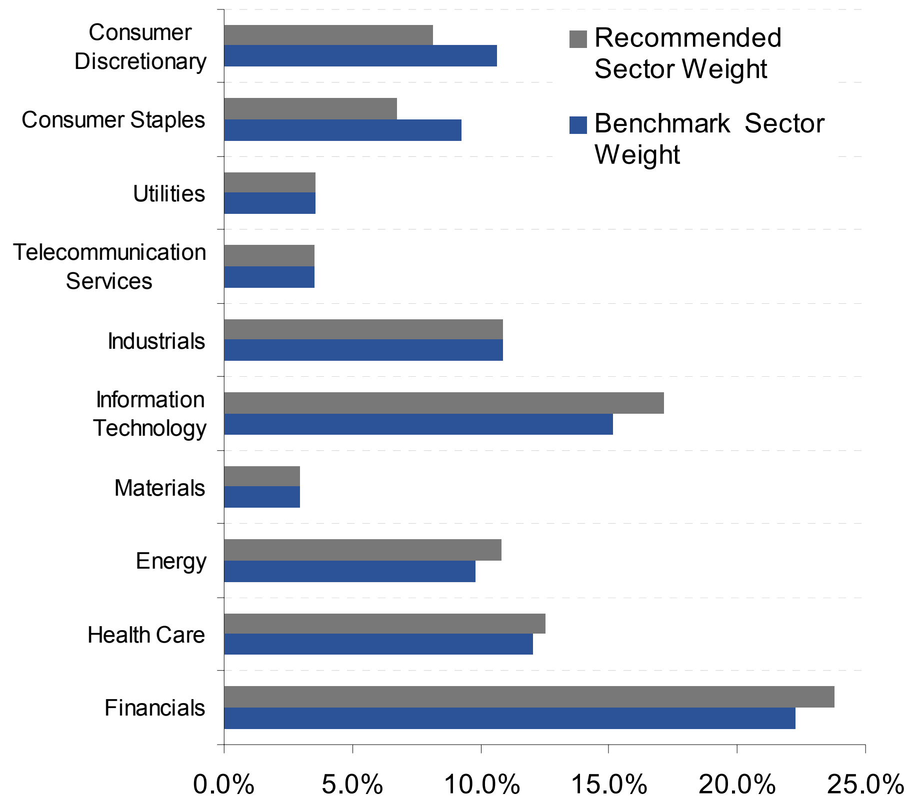
Tactical Implementation

- We are cautious in the near-term, as the strong finish to 2006 and warning signs of investor complacency suggest that there is potential for the development of a buying opportunity in the near-term.
- Recommend overweighting Info Tech, Financials, Energy, and Health Care. Our two underweights are Consumer Discretionary and Consumer Staples, which is indicative of our expectation of increasing strain on the US consumer.
- Prefer companies generating excess cash flow, particularly those increasing dividends and repurchasing shares.

Recommended Sector Weightings vs. Benchmark (S&P 500)

	Benchmark Sector Weight	*Over/Under Weight*	Recommended Sector Weight
Financials	22.3%	*1.5%*	**23.8%**
Health Care	12.0%	*0.5%*	**12.5%**
Energy	9.8%	*1.0%*	**10.8%**
Materials	3.0%	*0.0%*	**3.0%**
Information Technology	15.1%	*2.0%*	**17.1%**
Industrials	10.8%	*0.0%*	**10.8%**
Telecommunication Services	3.5%	*0.0%*	**3.5%**
Utilities	3.6%	*0.0%*	**3.6%**
Consumer Staples	9.3%	*(2.5%)*	**6.8%**
Consumer Discretionary	10.6%	*(2.5%)*	**8.1%**

Data Source: Standard & Poor's



Weightings may not add to 100% due to rounding.

Weightings as of December 29, 2006

Sector Selection Critical

Sector		Forward P/E	Dividend Yield	2007 Expected EPS Growth	3mo% in 2007 EPS Estimates	Investment Strategy View	Favored Sub-Industries
Financials	**Overweight**	12.60x	2.43%	6.86%	0.82%	Historically best performer post-tightening cycle; pricing power; favorable yield	Capital Markets and Diversified Financials
Health Care	**Overweight**	16.60x	1.78%	11.09%	1.38%	Favorable global demographics; reasonable valuations; "defensive" and "offensive"	Biotech and Medical Devices
Energy	**Overweight**	10.59x	1.51%	1.50%	-3.27%	Increased global demand; underpricing by analysts; reasonable valuations; $65 oil target; Heating season to begin	Integrated Oils and Exploration and Production
Materials	**Neutral**	13.71x	2.05%	2.48%	-1.45%	Increased global demand; benefit from weakening Dollar; reasonable valuations; global slowdown a negative	Mining (Particularly gold and titanium), Agricultural
Information Technology	**Overweight**	19.19x	0.82%	18.20%	0.12%	Replacement cycle and reasonable valuations; large cash positions on corporate balance sheets a positive	Wireless, Software, Hardware and Selective Semis
Industrials	**Neutral**	15.64x	2.04%	12.14%	-0.86%	A slowing and decelerating economy is a negative	Aerospace and Defense
Telecomm Services	**Neutral**	15.44x	3.33%	5.32%	-1.04%	Intense price competition and lowest expected growth rates; favorable yield	Diversified Telecom
Utilities	**Neutral**	15.16x	3.09%	12.73%	-0.22%	Low interest rates a positive; trading well above historical P/E	Electric Utilities
Consumer Staples	**Underweight**	17.59x	2.24%	10.86%	-0.09%	Lack of top line growth in aggregate; lack of pricing power and continued high material costs	Household Products
Consumer Discretionary	**Underweight**	18.51x	1.28%	11.16%	-5.30%	Growth in consumer spending questioned; autos a major drag; largest downward revisions	Hotels & Lodging; Gaming; Select Retail
S&P 500		***14.97x***	***1.91%***	***8.92%***	***-0.76%***		

Data Source: FactSet. As of December 29, 2006.

Summary—US Equity Returns (12-Month Outlook)

	Downside Scenario	Main Scenario	Upside Scenario
	US Equities: -8% to 4%	**US Equities: 4% to 10%**	**US Equities: 10% to 20%**
	20% Probability	**60% Probability**	**20% Probability**
Economy	• 10-year Treasury yield rises well above 5.25% over next 12 months. • Fed becomes overly “hawkish,” causing inverted yield curve; no signs of a cut. • Consumer spending and business spending decelerate; housing crash. • Earnings fall precipitously, margins contract, and outlooks become negative. • GDP falls and outlook worsens. • Structural deficits (current account and budget) widen; pension crisis magnifies. • Inflation increases significantly. • Tax increases. • P/E contraction below 13.5x.	• 10-year Treasury yield remains between 4.25% and 5.10% over next 12 months. • Fed does not raise rates above 5.25% and “Goldilocks” economy unfolds; Fed quick to cut if economy weakens. • GDP does not decelerate below 1.25%. • Core inflation is contained. • Consumer spending and business spending remain moderate. • Housing market stabilizes. • Corporate earnings grow approximately 8% - 10%. • Buybacks, M&A, and private equity continue to support market.	• 10-year Treasury yield falls below 4.25% over next 12 months. • Fed orchestrates mid-cycle slowdown • Consumer spending and business spending remain strong. • Corporate earnings grow greater than 10% and estimates continue to rise. • GDP remains above trend. • Core inflation decelerates and remains tame (below 2.0%). • Trailing P/E expansion above 16.5x. • Money flows increase from international funds to US funds.
International	• Global growth slows demonstrably. • US Dollar strengthens significantly or crashes; foreigners do not purchase and/or liquidate US holdings. • Oil prices increase and are sustained above $75 per barrel.	• Global growth continues to remain above 3.5% and resilient to higher global short-term rates and higher energy prices. • US Dollar stabilizes and/or weakens modestly (no crash scenario). • Oil prices stabilize and trend lower toward $60 - $65 per barrel.	• Global growth remains above 4%. • China grows and becomes more of a “consumer” of US goods. • US Dollar weakens modestly. • Oil prices move sharply lower, quicker than we expect.
Exogenous	• Geopolitical situation deteriorates. • US involvement increases in other areas such as Iran and North Korea. • “Major” terrorist attack.	• Geopolitical situation remains in balance. • No “major” terrorist attack.	• Positive Iraq transition. • No “major” terrorist attack.

Scenario probabilities reflect the current views of the Investment Strategy Group and are subject to change.

Fixed Income

US Fixed Income at a Glance

Outlook	We expect the yield curve to continue to be inverted over the near-term, with the catalyst for normalization being a Fed cut in 1Q07. We believe the effects of the economic slowdown, inflation expectations declining, Fed cuts on the horizon and continued structural demand for US securities should keep yields trending lower in the near-term. We have a 3-month forecast of 4.15-4.65%. However, we believe that on a 12-month horizon, Treasuries will weaken and 10-year yields rise (4.40-4.90%) as the Fed cuts rates, refueling the economy and reviving the consumer.

Components

Overview	Theme	Factors
Economy	Recent economic data has shown that growth in 4Q06 will likely come in below trend, while forward-looking data suggests the slowdown may continue into the first half of 2007. Furthermore, a cyclical decline in the housing and auto sectors has just begun to impact economic growth, contributing to risks that the slowdown may spill into other sectors of the economy.	• **Economy in Transition** • **Mid-cycle Slowdown** • **Below-Trend Growth Likely**
Inflation	We believe inflation has peaked and we will continue to see it trend lower with a forecast of 2.5% for 2007. We believe slower economic growth should be accompanied by lower input prices, which would likely mean lower commodity and raw material prices, as well as the cessation of upward wage pressures.	• **Inflation Peaked** • **Traditional Inflation Hedges** • **Economic Slowdown**
Fed	Our forecast of below trend growth, declining inflation and a higher unemployment rate would give the Fed the flexibility to cut rates three times in 2007 to 4.50%. The risk to this forecast would be more aggressive Fed cuts due to a drastic slowdown in housing or inflation remaining elevated which would lead the Fed to keep rates at 5.25% for longer than expected.	• **Rate Cuts Near** • **Housing Slowdown Risks** • **Economy Cooling**
Valuations	The Treasury market has begun to price in a deceleration in the economy. Our 3-month forecast for the 10-year Treasury yield is 4.15-4.65% reflecting lower yields leading up to a Fed cut. However, with our forecast for a rebound in the economy towards 2H07, yields should rise (12-month forecast 4.40-4.90%) leaving the 10-year bond with little to no return above coupon. We would focus on the short-term (1-3 years) and belly (3-7 years) of the curve as that portion of the curve will benefit the most from the normalization of the yield curve.	• **Structural Forces** • **Spread Risk** • **Economic Rebound in 2H07**
Yield Curve	We believe volatility in rates will be felt in the short-term (1-3 years) and belly (3-7 years) of the curve. When the Fed cuts rates this portion of the curve has historically fallen the most, while a rebound in the 2H07 will increase long-term rates, creating a more positive slope. However, we do not expect to see the same dramatic steepness we have experienced in the past due to structural forces keeping long-term rates compressed (e.g. foreign bank, and pension fund demand).	• **Normalization on Horizon** • **Belly of Curve to Flatten** • **Fundamentals Contain Steepness**

This summary reflects the current views of the Investment Strategy Group and is subject to change.

Summary of Investment Stance—US Fixed Income

Underweight	Moderate Underweight	Neutral	Moderate Overweight	Overweight

Investment Stance

- We remain moderately underweight the asset class as we see better value and return opportunities in other asset classes. On a 12-month horizon, with the expectation of higher yields, we believe there is little room for price appreciation in 10-year yields leaving investors with only coupon return.
- The 10-year Treasury yield has experienced quick, dramatic swings as economic data depicts strengths and weaknesses in the US economy. The market has become data dependent creating a range bound environment on 10-year yields, trading between 4.43-4.83% in the 4Q06.
- We believe this volatility will continue in the near-term with a bias towards yields trending lower. We have a 3-month forecast for the 10-year Treasury of 4.15-4.65%.
- We believe the short-term (1-3 years) and belly (3-7 years) of the curve have lagged the 10-year in pricing the potential of a declining Fed Funds rate. This should result in some large movements downwards in these yields to normalize the yield curve in 2H07.
- The anticipated three rate cuts in 2007 to a 4.50% Fed funds rate, are expected to be the appropriate catalyst to refuel the economy. The part of the curve that will suffer the most from the rebound in 2H07 will be the long-end. We have a 12-month view on the 10-year yield of 4.40-4.90%.

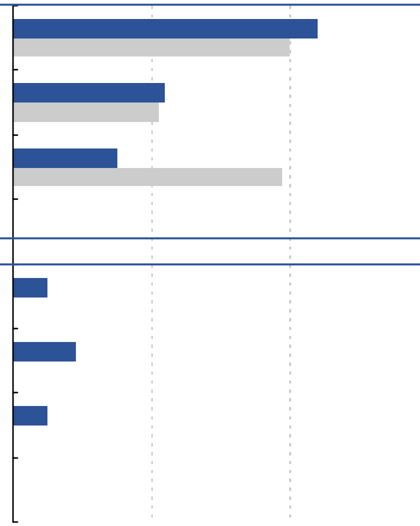
Tactical Implementation

- With our forecast of near-term strength and long-term weakness in Treasury bonds we would recommend a bullet strategy. We are overweight the short-term (1-3 years) and belly (3-7 years) of the curve, as we believe yields will decline the most in these ranges as the curve normalizes. We anticipate that the risks of spread widening will increase as the economy decelerates to a pace that makes the Fed comfortable with cutting rates. We would be cautious about investing in corporate bonds and only recommend high-quality, liquid names and short-duration bonds, which will not be as affected by spread widening.
- We believe inflation has peaked, however, TIPS are a good hedge against unexpected spikes. Short-term TIPS are fair-valued in relation to our 2007 inflation of 2.5%. We would be inclined to increase TIPS exposure if short-term breakevens fall from current levels to 2% or lower.
- We still recommend exposure to sovereign bonds based on our view of continued Dollar weakness as well as Euroland economic growth decelerating in 2007, which may help to rally foreign bond markets.
- Emerging Market internal and external debt continues to be attractive due to possible rating upgrades and positive supply/demand ratios. We also believe that select Emerging Market countries may begin and/or continue to cut rates due to a decline in inflation and improved fiscal policies leading to a rally in bond markets.
- We are still cautious about high yield because we believe the significant rally in 2006 has left valuations rich. We believe this asset class will suffer from an economic slowdown as spreads should widen in the months leading up to the Fed cut.

Recommended Fixed Income Allocation

Recommended Allocation by Sector and Maturity

	Tactical	Benchmark
Treasury/Muni	**44.0%**	40.0%
Agency	**22.0%**	21.0%
Corp. Inv. Grade	**15.0%**	39.0%
TIPS	**5.0%**	0.0%
Sovereign	**9.0%**	0.0%
Emerging Market	**5.0%**	0.0%
High Yield	**0.0%**	0.0%
	100%	**100%**



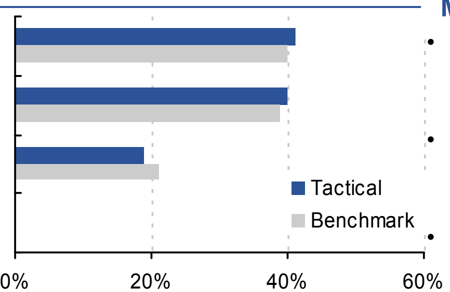
Core Positions: (Treasury/Agency/Corporate)

- Overweight Treasury/Muni positions due to the risk of a sharper economic slowdown and price appreciation as yields decline in 1Q07.
- Slightly overweight Agency bonds due to structural forces in 2007 that could cause spreads to continue to tighten, outperforming Treasuries.
- Underweight credit due to historically tight spreads and the risk of spread widening, especially if the US economy slows more than anticipated.

Opportunistic Positions: (TIPS, Sovereign, EM, High Yield)

- TIPS are fair-valued yet are used as a hedge against spikes in inflation.
- We still recommend exposure to Sovereign bonds based on our view of continued Dollar weakness and decreasing interest rates in 2007.
- Emerging Market valuations remain justified as fundamentals in many economies continue to improve. Selective opportunities could exist in local markets.
- We do not recommend exposure to High Yield because we do not anticipate the rally to continue for the long-term and see the risk of spread widening leading up to rate cuts outweighing the reward potential.

	Tactical	Benchmark
1-3 Years	**41.0%**	40.0%
3-7 Years	**40.0%**	39.0%
7-10 Years	**19.0%**	21.0%
10+	**0.0%**	0.0%
	100%	**100%**



Maturity Strategy

- We believe the Treasury market has begun to price in a deceleration in the economy. Our 3-month forecast for the 10-year Treasury yield is 4.15-4.65%, reflecting lower yields leading up to a Fed cut.
- However, with our forecast for a rebound in the economy towards 2H07, yields should rise (12-month forecast for 10-year yields 4.40-4.90%) leaving the 10-year bond with little to no return above coupon.
- We would recommend a bullet structure favoring the short-term (1-3 years) and belly (3-7 years) of the curve, as we expect yields to fall the most in these portions of the curve as the yield curve normalizes.

As of December 28, 2006. The benchmark used is the Lehman Intermediate Government Credit. We have moved the weighting of some of the benchmark's corporate sector to more opportunistic sectors where we see value, such as Emerging Market, Sovereign debt and TIPS. Compared to the other fixed income holdings shown, the international products referenced herein are less liquid, more volatile, and may contain additional risks. When investing in international bonds, investors should consider the credit quality of the issuer, as well as characteristics such as coupon, maturity, redemption, and call features, if any, and also liquidity and currency risk, which may be subject to greater fluctuations due to foreign, economic, political, monetary, and/or legal factors. Allocations and availability to a client will vary depending on client's investment objectives, time horizon, risk tolerances, sophistication, and other constraints unique to the individual.

Summary—US Fixed Income (12-Month Outlook)

	Downside Scenario	Likely Scenario	Upside Scenario
	Bond Market -2% to 2%	Bond Market 3% to 7%	Bond Market 8% to 12%
	25% Probability	50% Probability	25% Probability
Economy	• 10-year Treasury yield rises well above 5.00% over next 12 months. • Global and US economic growth does not slow, causing inflationary pressures to build. • Potential additional government debt burden (increased supply) leads to higher interest rates. • Interest rates rise due to decrease in demand from international community, and current account deficit is not fully funded by foreign purchases of Treasuries.	• 10-year Treasury yield meets target (4.40 - 4.90%) over next 12 months. • Soft landing materializes, and US GDP grows at approximately 2.0% in 2007. • International community, particularly the Asian region, continues to purchase Treasuries funding the current account deficit. • Demand from pension funds, insurance companies and baby-boomers continues.	• 10-year Treasury falls and remains below 4.15% over the next 12 months. • US GDP grows below 2.0% in 2007. • Consumer and business spending slow more than anticipated. • Dollar weakens and Japan purchases Treasuries to support Dollar, driving yields lower. • Flight to quality (Treasuries) for economic or geopolitical reasons.
Inflation	• Inflation accelerates and remains above 2.0% at the core level and 2.5% at the headline level throughout 2007. • Global growth continues and inflationary pressures rise on demand for commodities.	• Inflation grows at an annualized pace of 1.5% - 2.5% at the headline level. • Inflation remains contained at the core level. • Oil prices trend lower to our target of $65 per barrel by the end of 2007.	• Headline inflation remains below 2.5% and "contained." • Oil prices recede below our $65 per barrel floor, keeping inflationary figures contained.
The Fed	• Federal Reserve Chairman Ben Bernanke becomes dovish on inflation and the economy does not cool as expected, fueling inflationary pressures.	• Federal Reserve remains transparent (no surprises). • Fed orchestrates a soft landing.	• Federal Reserve's previous rate hikes prove to be an overshoot of monetary policy. • Recessionary probability increases and Fed needs to be more aggressive with rate cuts, below our 4.50% forecast.

Scenario probabilities reflect the current views of the Investment Strategy Group and are subject to change.
Bond market returns are modeled after the Lehman Intermediate Govt/Corp. Index

Private Wealth Management

Deutsche Bank Alex. Brown

International Equities

Can the outperformance continue?

International Equities at a Glance

Outlook	
➔	World economic growth is expected to slow from 5% in 2006 to 4% in 2007. While the US economy is likely to lead this slowdown, the emerging markets, especially China and India, should offset weaker growth in the US, Japan and Eurozone. In the developed world, we find Europe more attractive both from a bottom up and top down perspective than Japan in the near-term. However, in the long-term, we favor Japan over Europe. While many of these countries have become more insular to US growth, we cannot ignore the risk of a steeper slowdown in the US, leading to an unexpected recession, which could have a large impact on global growth.

Components

Overview	Theme	Factors
Europe ➔	Globalization (low real wage growth and non-wage labor cost) and strong productivity growth are supportive for continued margin expansion. Record M&A activity should also continue to provide impetus to performance. Looking at fundamentals, despite the recent rally, the European market is still fairly priced, offering some potential upside in 2007. However, on the macro front, we see some potential headwinds in 2007 driven primarily by more restrictive fiscal and monetary policies, and by an appreciation of the trade-weighted Euro exchange rate which may hamper export activity. Economic growth should slow slightly to around 2% in 2007.	• **Country versus Company** • **Favorable but Peaking Valuations** • **Reasonable Growth Rates** • **Macroeconomic Headwinds**
Japan ➔	Mixed economic and earnings reports and domestic investors who continue to be net sellers of Japanese equities will challenge the Japanese equity markets in the near-term. However, we are more bullish in the long-term as fundamentals continue to improve and M&A activity is picking up. We expect appetite for risk to increase in Japan during 2007 if our thesis of a soft landing in the US materializes. Another catalyst could be the potential for positive earnings surprises resulting from the current extreme pessimism by analysts. Last, but not least, Japan should continue to benefit from the high growth of the rest of the region, particularly China and India. A stronger Yen would be beneficial to US investor returns. Japan's economy is expected to grow at a healthy 2.7% pace in 2006, and decelerate to 2% in 2007.	• **Maturing Economic Cycle** • **Extreme Domestic Pessimism** • **Undervalued Currency** • **Attractive Valuations**
Emerging Markets ➔	We believe the extended three-year rally should continue. Continued global growth should benefit commodity producers, while contained crude oil prices should not hamper growth in some of the more energy-intensive economies. In addition, increased regional dependency, and the consumer who is becoming a more important part of the economic growth story, particularly in Asia, should help weather a mild global slowdown. The main risk is the magnitude of the US slowdown. As EM valuations are now closer to those of the developed markets, and earnings growth are expected to decelerate in 2007 with potential for negative growth in some countries, it is important to be selective going forward. For example, we favor China over India based on valuations.	• **Higher Growth Rates** • **Undervalued Currencies** • **Favorable Valuations** • **Fund Flows** • **Magnitude of Global Slowdown**

This summary reflects the current views of the Investment Strategy Group and is subject to change.

Summary of Investment Stance—International Equities

Underweight	Moderate Underweight	Neutral	Moderate Overweight	Overweight

Investment Stance

- Slight overweight international equities. We have reduced our overweight in the asset class from 14 to 11%, based on the better near-term prospects of the US market.
- We expect underperformance versus US equities over the next 12 months for developed markets in local currency terms.
- Emerging Markets should return comparable performance to the US.
- However, our overweight is justified by expectations of a weakening Dollar, particularly versus Asian currencies, which would enhance returns.
- In US Dollar terms, international developed markets have the potential to outperform US equity markets.

Tactical Implementation

- High levels of complacency (low volatility, narrow credit spreads, strong equity markets) enhance the risk for a short-term pull-back. We expect increased volatility in the equity markets in general as they gauge the magnitude and impact of US slowdown.
- In the near-term, we find Europe more attractive both from a bottom up and top down perspective than Japan. Investor sentiment for Japanese equities has been difficult, particularly when compared to US and Europe, and domestic investors continue to be net seller of Japanese equities.
- Over the long-term, we favor Japan over Europe. We expect appetite for risk to increase in Japan during 2007 if our thesis of a soft landing in the US materializes. Also, Japan should also continue to benefit from the high growth of the rest of the region, particularly China and India. Meanwhile, the European economy will confront higher rates (continued tightening bias of the ECB), the fiscal tightening primarily in Germany, and the negative impact of a stronger Euro.
- Emerging markets in general should remain a high beta play on developed equity markets, and correlated to global economic growth and commodity prices, which paints a promising picture for returns in the space.
- Asian emerging equity markets continue to be our favored emerging region, as they benefit from lower commodity prices, large current account surpluses, and are still underweight in global portfolios.
- Regions such as Russia and Brazil benefit the most by the upward shift in the demand curve of commodities driven by fast growing emerging economies.

Summary—International Equities (12-Month Outlook)

	Downside Scenario	Likely Scenario	Upside Scenario
Europe	**-3% to 4%**	**5% to 10%**	**11% to 15%**
	20% Probability	**60% Probability**	**20% Probability**
	• Weaker than expected consumer and business spending. • Strong Euro, in excess of 1.35, reduces attractiveness of exports. • ECB overtightens monetary policy. • Higher oil prices, above $75 per barrel. • Global slowdown, driven by China and US. • Germany's Value added tax (VAT) in 2007 impacts consumption more than anticipated.	• Economy continues to grow at or near trend. • Consumer and business spending increase moderately, productivity increases continue. • Earnings continue to grow at 7-10%. • Euro appreciates slightly versus the Dollar. • The ECB increases the Refinance Rate to 3.75% and then pauses.	• Earnings and margins surprise to the upside and balance sheets continue to improve. • Consumer demand and/or corporate spending increase at a pace greater than expected. • Significant growth in export demand. • Euro stabilizes around current levels or falls slightly; ECB cuts rates. • Europe's P/E ratio continues to expand. • M&A Activity continues to increase.
Japan	**-3% to 4%**	**5% to 10%**	**11% to 15%**
	20% Probability	**60% Probability**	**20% Probability**
	• Consumer and business spending stalls. • Deflationary concerns resurface. • Higher oil prices slow growth. • Strong increase in Yen slows exports. • Earnings revisions decelerate substantially. • Abe's administration unable to follow up with financial reforms.	• Economy continues to grow modestly. • Consumer and business confidence continue strong. • Balanced economic growth (internal growth and exporting). • Yen strengthens to 105 level. • Slight inflation versus deflation. • China drives global growth while the US experiences a soft-landing.	• Restructuring of businesses pays off. • Consumer and business confidence increase. • Profit growth and increasing profitability continues; P/E multiple expansion. • Regional dependency support exports. • Pessimism is washed away and investment demand picks up as does private consumption.
Emerging Mkts	**-5% to 6%**	**7% to 12%**	**13% to 17%**
	20% Probability	**60% Probability**	**20% Probability**
	• US slowdown steeper than expected. • Inflation increases greater than expected. • Commodity prices retreat significantly. • Higher oil prices. • Decreased risk appetite drives capital flows away.	• Inflation continues its decelerating trend. • The BRIC story remains intact. • Dollar depreciates only modestly. • The soft landing in the US does not have major spillover effects onto other economies.	• The rest of the world not as affected by US' soft landing. Strong global growth and demand continues. • Global Inflation remains below 5%. • Improved fiscal picture continues to attract FDI. • Geopolitical conflicts remain subdued.

Scenario probabilities reflect the current views of the Investment Strategy Group and are subject to change. Return based in local currency terms.

Private Wealth Management

Deutsche Bank Alex. Brown

Alternative Investments

Hedge Funds, Commodities, Real Estate, FX

Alternatives at a Glance

Outlook	Alternative Investments can help diversify portfolios during times of uncertainty due to their low to negative correlation with many traditional asset classes. Our global slowdown scenario and shifting of the growth engines of the global economy from the G-3 countries to emerging markets provides an interesting environment for these alternative investments. We suggest investors reduce their oversized positions within Commodities and REITs. Given our scenario of a gradual global slowdown and increased volatility levels, we believe investors should overweight their allocation to hedge funds. However, selectivity in hedge funds remains paramount.

Components

Overview	Theme	Factors
Hedge Funds[1]	Hedge Funds have been less willing to add beta to their exposure after their May/June declines. However, "cheap" leverage costs and reasonable valuations continue to drive corporate M&A activity. That in turn has helped merger arbitrage strategies. We currently favor merger arbitrage, long/short and convertible arbitrage strategies. We also feel that global macro strategy will face a challenging time in the near future. For a majority of investors, an allocation to a Hedge Fund of Funds is more appropriate than individual hedge fund strategies. Access to top quartile managers and being selective is of paramount importance in this space.	• **Low Correlation to Traditional Asset Classes** • **Investment Trends** • **Investment Flows** • **Selectivity** • **Volatility**
Commodities[2]	As expected, energy-heavy indices had a tough 2006. Oil was flat for the year and has declined 30% since its summer highs. Recent announcements by OPEC for two production quota cuts has provided some upward momentum. However, we continue to be more bullish towards the grains complex. Supply side concerns (low inventory levels) and upward revisions to the global (especially China and India) demand makes this segment attractive. Our 12-month gold outlook remains at $720/oz, and we continue to be selective on our basic metals outlook. The key determinant of price movement in the metals complex will be the extent and magnitude of global slowdown.	• **Supply/Demand Constraints** • **Chinese/Indian Economy** • **US Dollar** • **Selectivity** • **Hedge Against Inflation** • **Contango and Backwardation**
Real Estate	We expect the recent softening in the housing market to continue into 2007. Though the recent drop in the 30-year fixed mortgage rate has brought some relief, increased inventories, stricter lending regulations, and a slowing economy will hamper real estate markets at least for the next couple of quarters. However, we do feel that a real estate bottom is near; Commercial real estate still looks moderately attractive.	• **Interest Rates** • **Mortgage Rates and Composition** • **Economy**
Foreign Exchange	Our 12-month targets for the Euro and the Yen are $1.35/Euro and Yen 105/$, respectively, as the US Dollar resumes what is likely its downward trend in 2007. The catalyst for this trend will most likely be the focus on the current account deficit. However, there is a high probability that the Dollar may weaken to 1.40 versus the Euro in the short-run. The seasonal rebalancing of currency exposure by global central banks who may sell Dollars while purchasing Euros is the most likely rationale for this move.	• **Trade Imbalance** • **Interest Rates** • **Widening Spreads** • **Inflation** • **Chinese Revaluation**

This summary reflects the current views of the Investment Strategy Group and is subject to change.
[1]Certain level of sophistication, investment experience, and investable assets are required to invest in hedge funds or hedge fund of funds. Not appropriate for all investors.
[2]Only suitable if the investor's investment objectives include speculation, due to the volatility of this asset class.

Summary of Investment Stance—Alternatives

Underweight	Moderate Underweight	Neutral	Moderate Overweight	Overweight

Investment Stance

- **Hedge Funds** – In the fourth quarter, we increased our exposure to hedge funds. The main reason is that given the increasing volatile environment that we are expecting, the asymmetric risk profile of hedge funds (i.e. low downside with upside participation) should favor investors. More specifically, we continue to favor long/short and merger arbitrage strategies. Relative value strategies, such as convertible arbitrage and fixed income arbitrage, have had a surprising recovery this year due to strong issuance by coupon payers (especially REITs) and the reduction in capacity after many managers closed last year. We are now cautiously optimistic on relative value strategies for 2007. Finally, being selective and having access to top managers is of utmost importance for investing in hedge funds.
- **Commodities—** Precious metals, especially gold, have rallied strongly over the last quarter as seasonal commercial demand has picked up. In addition, Dollar weakness has provided impetus to this gold rally. We continue to remain long term gold bulls as we see a steadily declining Dollar. Our 12-month price forecast for gold is $720/ounce. Oil prices continue to be volatile, however they should stabilize around $60 per barrel in the next 12 months. Contango and negative roll yield remains a significant hindrance to extract positive returns from this complex. OPEC quota reductions will work to defend oil prices as long as global growth remains strong. Grain prices remain significantly below their highs in real terms. Further decline in global inventories and strong demand from China and India should provide upside potential. Grains remain our most favored sector within commodities.
- **Foreign Exchange—**Our 12-month targets for the Euro and the Yen are $1.35/Euro and Yen 105/$, respectively, as the US Dollar resumes a slow and steady depreciation, particularly against the Yen. The catalyst for this trend will most likely be the focus on the current account deficit.

Tactical Implementation

- Allocations to agricultural commodities and precious metals are favored over oil, as commodities do exhibit mean-reverting characteristics. Being selective within the base metals complex is suggested.
- Fund of Funds hedge funds, which have historically demonstrated volatility similar to fixed income instruments, offer investors diversification if interest rates rise and when cash income is not a need. Funds that have more exposure to event-driven, long/short and convertible arbitrage strategies are preferred.

Investment Strategy Group

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