



April 2007

INVESTMENT COMMENTARY

Market Review

Despite a modest setback for the equity markets in late February, the first quarter continued the steady advances in both the stock and bond markets. The Federal Reserve Board held short-term interest rates at 5¼% and the yield curve remained flat with the 10-year U.S. Treasury bond starting and ending the quarter at 4.7%¹. In this relatively stable economic environment, the riskier asset classes, e.g. foreign stocks, small cap stocks, growth style, etc., continued to perform better than their less risky counterparts. The advantage of a globally diversified portfolio is evident from the data presented below.

Comparative Performance Indices		Quarter	Year	5-Year Average Annual Return
Total Return for periods ending March 31, 2007 ²				
U.S. Large Stocks	Standard & Poor's 500 Index	+0.6%	+11.8%	+6.3%
U.S. Small Stocks	Russell 2000 Index	+1.9%	+5.9%	+10.9%
Foreign Stocks	MSCI EAFE Index	+3.5%	+17.5%	+13.2%
Taxable Bonds	Lehman Brothers Aggregate Bond Index	+1.5%	+6.6%	+5.4%
Municipal Bonds	Lehman Brothers Municipal Bond Index	+0.8%	+5.4%	+5.5%

The indices above are representative of investment asset classes. The Standard & Poor's 500 Index is composed of 500 large company stocks chosen to represent the broad U.S. equity market. The Russell 2000 Index is composed of U.S. companies ranked from 1001 to 3000 based on total market capitalization, representing smaller company stocks with market capitalizations typically below \$1.5 billion. The Morgan Stanley Capital International (MSCI) Europe, Australia and the Far East (EAFE) Index is comprised of a widely followed group of stocks from 20 countries, excluding the U.S. The Lehman Brothers Aggregate Bond Index is composed of U.S. Treasury, U.S. government agency, corporate bond, and mortgage-backed securities. It is not possible to invest directly in an index.

The Fundamentals of Stock Valuation

When you buy a stock, you are buying a share of a company's future earnings. Whether those future earnings are returned to you as cash in the form of a dividend or reinvested to produce future earnings is a valuation concern only as related to timing and certainty. Cash dividends come sooner and with greater certainty than the future dividends which may result from reinvested earnings. Buying a stock also involves purchasing a share of a company's net worth (assets – liabilities). A company's net worth consists of cash and earnings generating business assets. You should not purchase a stock to own a share of the company's cash – you can do better by investing in a money market fund. You should only purchase a stock to own a share of its earnings generating assets – back to earnings again. Therefore, the price of a stock in relation to its future earnings becomes of paramount importance. Analysts have quantified this relationship to form the forward P/E ratio, defined as the ratio of current stock price P to future earnings E. In selecting stocks for our portfolios, we expend a great deal of time and effort assessing the relationship between stock price and earnings potential. In the long-run, stock prices are driven by earnings potential.

¹ Yahoo Finance

² Data from Lipper and WSJ Market Data Group as published in the Wall Street Journal, April 3, 2007.



FUHRMAN MANAGEMENT ASSOCIATES, INC.

602 Office Center Drive, Suite 115

Fort Washington, PA 19034

www.investab.com 215.619.4000

Market Outlook

Corporate earnings are also vitally important in the aggregate. In our opinion, the mostly steady stock market advance since October 2002 has been driven by an extraordinary string of 18 consecutive quarters of double digit growth in operating earnings per share³. Year-over-year increases were as high as 31% in Q2 2004. This double digit growth string was broken in the last quarter of 2006 as growth in operating earnings per share was slightly below 9%. Standard & Poor's estimates that earnings growth for the S&P 500 Index will slow further to 5% in the first quarter of 2007. While slowing earnings growth may limit further stock market advances, the price side of the forward P/E ratio may already have adjusted. Standard & Poor's projects operating earnings of \$95.11 per share for the next four quarters, implying a forward P/E below 15, which is significantly below the 10-year average. In fact, the P/E multiple of the S&P 500 Index of mostly domestic, large cap stocks, has steadily declined from more than 46 at the end of 2001. These data suggest the possibility of further stock market advances as long as corporate earnings do not decline, such as could occur in a recession. Moreover, the inverse of the forward P/E ratio provides an earnings yield of 6.7%, which compares favorably to expected returns from bonds, real estate, and most other asset classes.

Although US large cap equity markets, as represented by the S&P 500 and based on the above analysis, still appear to be attractively valued both with respect to projected earnings and by comparison to expected returns from fixed income and other asset classes, we believe that gains over the next several months will be tempered by rising inflation and slowing economic growth. The spread between the 5-year US Treasury bond and the 5-year Inflation Indexed Treasury bond, an indicator of inflation expectations, has risen to 2.5%⁴, well above the comfort zone of the Federal Reserve Board. Prices of energy, imported consumer goods, and food are all rising rapidly, a consequence of several years of accommodative monetary policy. Central banks in Europe and Asia continue to raise interest rates. These observations together with the decline of the U.S. Dollar⁵ relative to most major currencies have led us to conclude that reductions in U.S. interest rates are unlikely in the near future.

Over the next few months, equity market gains are likely to be constrained by rising interest rates and uncertainties regarding the extent and impact of the housing market slowdown, credit events, and geopolitical problems, both domestic and foreign. We remain cautiously optimistic, as always, vigilant for investment opportunities.

The information provided in this newsletter from third parties is obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. It is given for informational purposes only and is not a solicitation. The views and opinions expressed herein are those of Fuhrman Management Associates, Inc. and do not necessarily reflect those of Oberlin Financial Corp., any regulatory body or other entities mentioned. Past performance is no guarantee of future results. This newsletter is intended to provide authoritative information on the subjects covered. It is not, however, intended to provide specific legal, tax, or other professional advice. For specific professional assistance, the services of an appropriate professional should be sought.

³ Standard & Poor's

⁴ Bloomberg

⁵ The US Dollar has declined 8% against the Euro during the past 12 months.