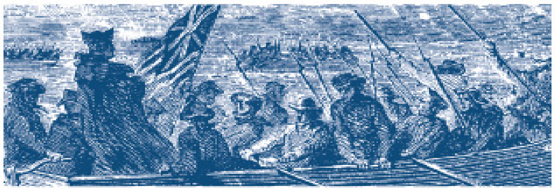

WASHINGTON CROSSING ADVISORS

September 25, 2007

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After The Rate Cut

When the Federal Reserve moved to cut short-term rates last week, they signaled to the markets that investors need not worry about tight monetary policy compounding difficulties in credit markets. Reducing this uncertainty is by no means a cure-all for what ails the economy, but it did provide some welcome relief to credit markets and kept alive the possibility that profit growth could be sustained despite declining domestic consumption and employment growth. We believe that we have reached an important inflection point for the economy and markets and that the critical issue is how well the economy and profits hold up once the excitement over rate cuts fade.

We outline below three scenarios that could unfold from here. Of the three, the rate cut diminishes the potential for the worst outcome in our view. With downside risk somewhat improved, we are modestly raising our equity allocations as we await more economic data to a more neutral posture from a more defensive one with an emphasis on large-cap growth and foreign equities.

Scenario 1: (Most Bullish For Equities, 45% Probability Estimate)
Easy Money & Economic Rebound Following Mid-Cycle Slowdown

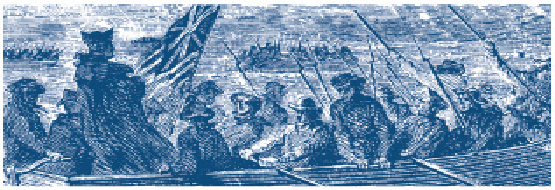
The Fed will succeed in averting recession as the economy re-accelerates from yet another mid-cycle slowdown head-fake. Experience suggests that this would likely extend the equity bull market, put downward pressure on bonds, further tighten global capacity and raise inflation. In this scenario, equities outperform both in the initial period following rate cuts and continue to perform well after the initial "surprise factor" wears off (See Tables A1 & A2 at the end of this comment). This scenario could produce markets like those seen following rate cuts in 1995 and 1998.

Scenario 2: (Less Bullish For Equities, 45% Probability Estimate)
Easy Money & Economic Slump Spreads

The Fed has been persuaded to ease money in response to a greater than expected deterioration in the economy and credit markets. However, as has been the case in four out of five rate-cutting events since the 1920s, these rate cuts fail to keep the economy out of recession and after an initial rally, equities begin to lag the bond market (See Tables A1 & A2 at the end of this comment).

Scenario 3: (Least Bullish For Equities, 10% Probability Estimate)
"Tough Love" and Economic Slump

The Fed could choose to demonstrate "tough love" by engaging in a fight against possible inflation while the economy falters. This scenario played out under Federal Reserve Chairman Paul Volker during the late 1970s.



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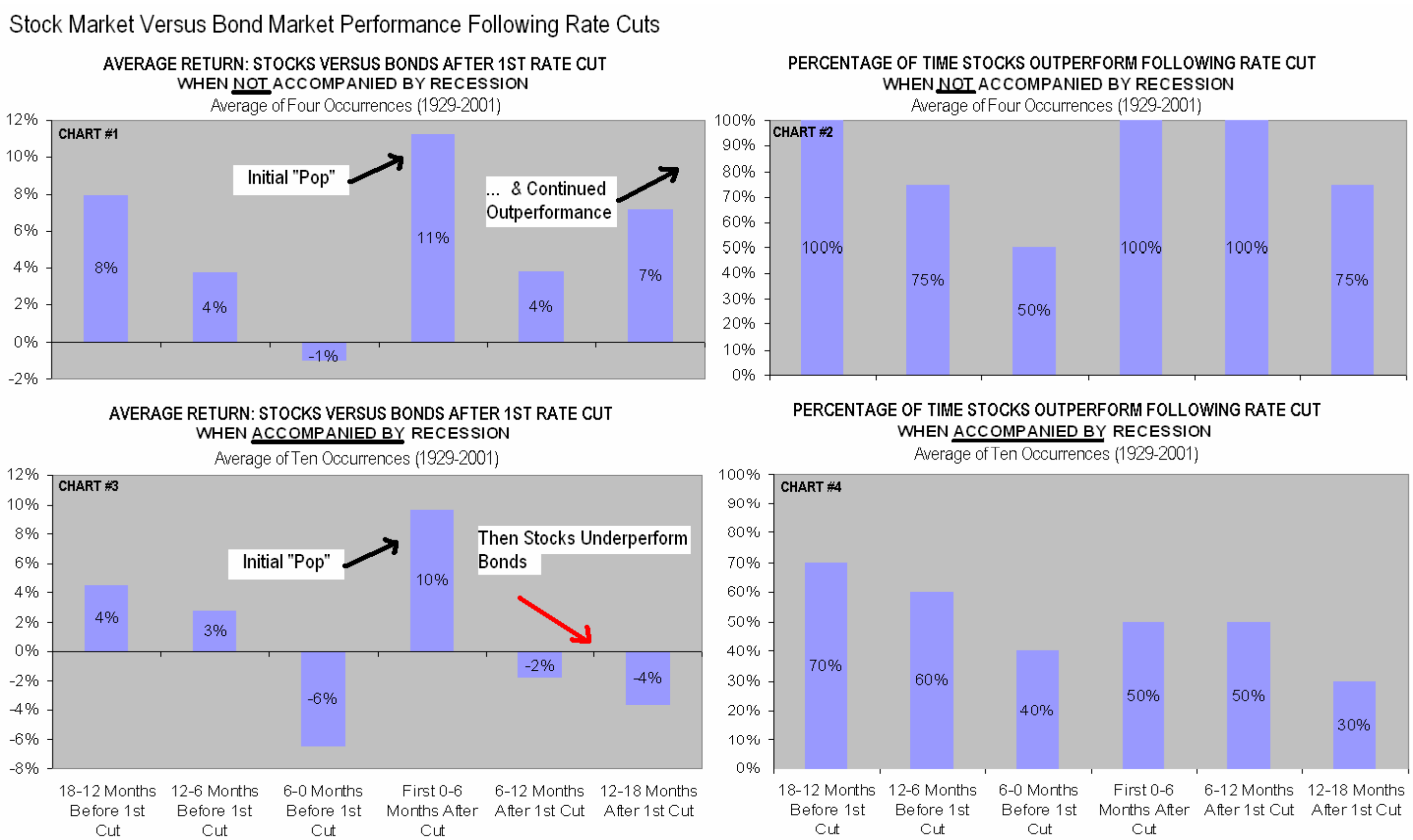
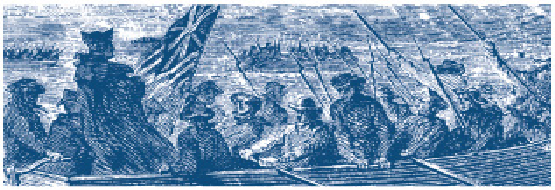
History's Lessons Regarding Rate Cuts & Markets

There is ample historical evidence that rate cuts tend to benefit equities over bonds — at least for the first few months following the start of rate cuts (see uppermost charts #1 and #3, below). This is where the "Don't fight the Fed" credo comes from. However, it must be noted that most of the time, the Federal Reserve fails to head off recessions by cutting interest rates as there has only been four times when rate cuts were <u>not</u> accompanied by recession versus ten times when rate cuts <u>were</u> accompanied by recession. It is also interesting to point out that of the four times when rate cuts happened independent of recessions two of those cuts were in response to market events (1987, 1998) and another cut was accompanied by a sharp drop in manufacturing output (1967) which came close to qualifying as a recession. We also note that, on average, when rate cuts fail to stave off recession and the initial euphoria over lower rates wears off, the more difficult realities of a slowing economy tend to catch up with the equity market and result in a period of underperformance of equities compared with bonds (charts 3 & 4 at bottom, below) — particularly as earnings forecasts are called into question.



Sources: Morningstar (data on Large Cap Stock Total Return & Long Term Government Bond Return), National Bureau Of Economic Research (recession dates),



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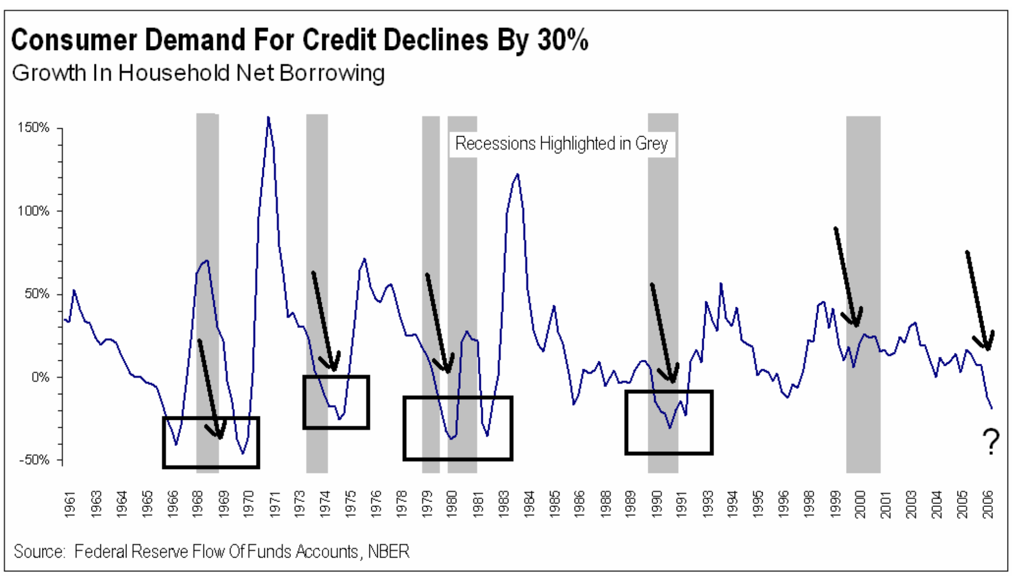
Clues to What Comes Next – What We Are Watching

At this point, it remains unclear whether the economy will or will not suffer an actual recession or not, but we remain cautious in our outlook. Over the next six months, we will continue to focus carefully on three key areas for evaluating the direction of the economy: 1) demand for and supply of credit to households (see chart #5 below); 2) growth in private sector employment (see chart #6 next page); and 3) non-financial corporate profit growth. In the meantime, we are raising our exposure to equities from a more defensive to a more neutral position. Our current allocations to equities are 75% for growth portfolios, 50% for balanced portfolios and 25% for conservative portfolios. ***This allocation places equal weight on Scenarios 1 & 2 outlined above. SHOULD THE WEIGHT OF EVIDENCE SUGGEST THAT FURTHER DETERIORATION IS OCCURING IN THE ECONOMY WE WILL REVISIT THESE ALLOCATIONS WITH THE INTENT TO ADOPT A MORE DEFENSIVE POSTURE. IF, HOWEVER, THE EVIDENCE SUGGESTS IMPROVEMENT, WE WOULD BE INCLINED TO MAINTAIN OR RAISE OUR EQUITY EXPOSURE.***

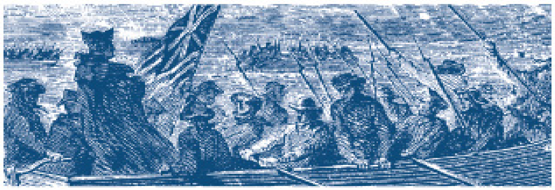
Our complete table of our currently recommended tactical asset allocation can be found at the end of this commentary.

Chart #5



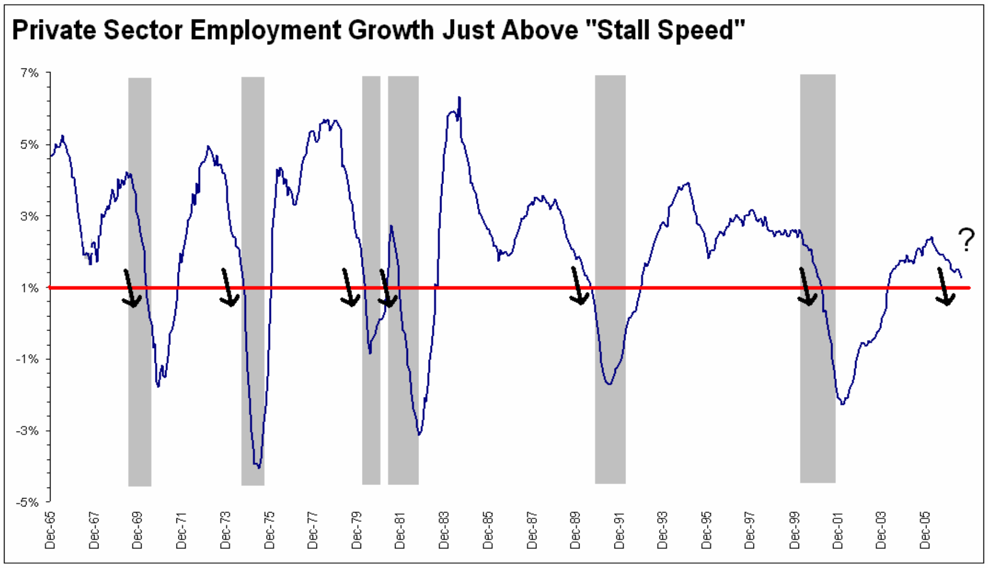
Sharp drops in household demand for credit are often preludes to recessions. Currently, demand for credit is running near $925 billion as of the second quarter - down almost 30% from peak levels of $1.3 trillion in first quarter, 2006. In past cycles, trough levels in demand were reached when net borrowing declined by roughly 2/3rds.

For more on the topic of consumer credit formation and the economy, see our *March 19, 2007 Strategy Comment*.



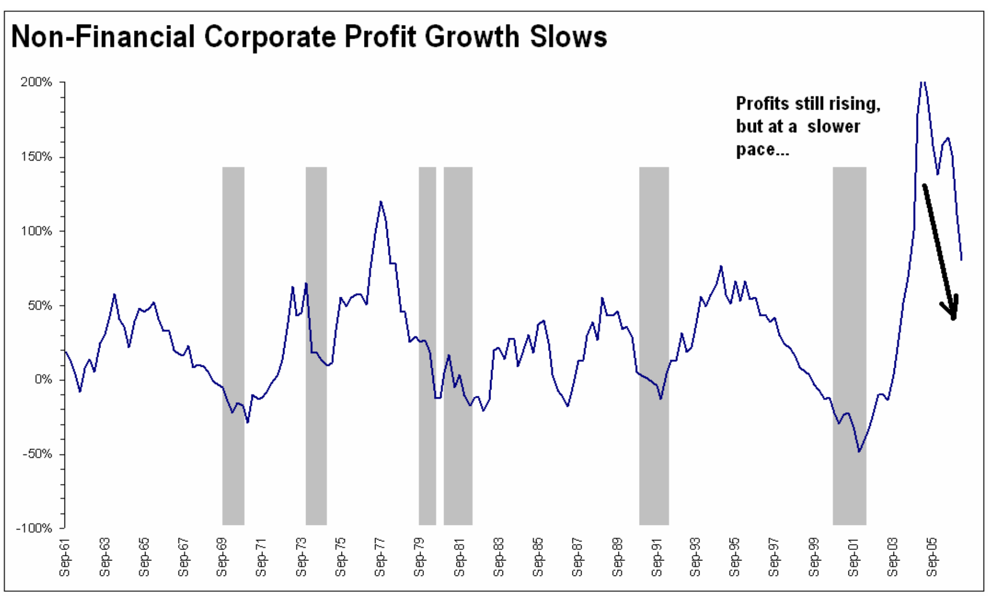
Clues to What Comes Next – What We Are Watching (continued)

Chart #6



Although "mid-cycle" slowdowns usually see a drop in year-over-year growth rates for private sector employment, each of the last six recessions were accompanied by or led by a drop in employment growth below 1%. We are now only slightly above these levels and heading lower. A drop below these levels would raise recession risks further, in our view.

Chart #7



Profits tend to be sensitive to the economic cycle. Today, the level of corporate profits is very high, but growth in non-financial profits seems to have peaked. Pressure to maintain margins could cut into expansion plans via hiring and capital budgets going into 2008.

Expectations for the next several quarters are still double digit and may need to be revised lower should the economy fail to respond to rate cuts...

Source: Bloomberg, National Association of Economic Research (NBER)

Implications for Tactical Asset Allocation

We are rebalancing our recommended tactical asset allocation models to reflect the points made above. Accordingly, we recommend:

- Equity exposure should be raised to 75% for growth investors, 50% for balanced investors and 25% for conservative investors.

- Favored domestic equity sectors remain the less-economically sensitive sectors including healthcare, technology, consumer staples and telecommunication. We have de-emphasized commodity sensitive areas including energy and materials. Favored countries include Brazil, Germany, and South Korea and commodity-sensitive emerging markets have been eliminated from portfolios.

- By style, we prefer growth over value since we believe that a change in leadership is underway following a long period of value-style leadership since 2000.

- We also see some modest potential among high-yield bonds and are establishing an initial position following this summer's pullback.

- We are reinstating gold as a diversifying position in portfolios and as an offset to the possibility of a weakening dollar and re-accelerating inflation.

- Since long-term Treasury yields are near our target level of 4 3/8% and because of the potential longer-term inflationary impact that could arise from lower rates and a weaker dollar, we are reducing our exposure to the longer end of the yield curve.

- We continue to believe that smaller and micro capitalization stocks are riskier and are, therefore, too rich at this point in the cycle.

What follows is a detailed presentation of our Tactical Asset Allocation recommendations by investor type.

Again, we believe that we are at an important juncture that will require ongoing monitoring in the months ahead. The model portfolios may be changed at any time as facts are presented and as circumstances warrant.

Washington Crossing Advisors

TACTICAL ASSET ALLOCATION RECOMMENDATIONS: 9/25/2007

	CORE PORTFOLIOS					SECTOR ENHANCED PORTFOLIOS			
	Aggressive	Growth	Balanced (Tax Free)	Balanced	Conservative Growth & Income	Aggressive	Growth	Balanced (Tax Free)	Balanced
INCOME & DEFENSIVE	**1%**	**25%**	**50%**	**50%**	**75%**	**1%**	**25%**	**50%**	**50%**
Bonds & Cash Equivalents	**1%**	**23%**	**45%**	**45%**	**68%**	**1%**	**23%**	**45%**	**45%**
Money Market Fund	1.0%	1.0%	2.0%	2.0%	3.0%	1.0%	1.0%	2.0%	2.0%
Short-Term Treasuries		5.0%		10.0%	15.0%		5.0%		10.0%
Intermediate Term Treasuries		2.5%		5.0%	7.5%		2.5%		5.0%
Long-Term Treasuries		2.0%		4.0%	6.0%		2.0%		4.0%
Inflation Protected Treasuries		2.5%		5.0%	7.5%		2.5%		5.0%
Investment Grade Corp Bonds		8.0%		16.0%	24.0%		8.0%		16.0%
High Yield Corporate Bonds		1.5%		3.0%	4.5%		1.5%		3.0%
Short-Term Municipals			33.9%					33.9%	
Long-Term Municipals			9.1%					9.1%	
REITs	**0.0%**	**0.0%**	**0.0%**	0.0%	**0.0%**		**0.0%**	**0.0%**	**0.0%**
GOLD	**0.0%**	**2.5%**	**5.0%**	5.0%	**7.5%**	**0.0%**	**2.5%**	**5.0%**	**5.0%**
EQUITIES & GROWTH	**99%**	**75%**	**50%**	**50%**	**25%**	**99%**	**75%**	**50%**	**50%**
U.S. Equities	**71%**	**54%**	**36%**	**36%**	**18%**	**71%**	**54%**	**36%**	**36%**
Large Cap Growth	35.6%	27.0%	18.0%	18.0%	9.0%				
Large Cap Value	15.8%	12.0%	8.0%	8.0%	4.0%				
Mid Cap Growth	11.9%	9.0%	6.0%	6.0%	3.0%	11.9%	9.0%	6.0%	6.0%
Mid Cap Value	7.9%	6.0%	4.0%	4.0%	2.0%	7.9%	6.0%	4.0%	4.0%
Small Cap Growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Small Cap Value	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Micro Cap	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
U.S. Equity Sectors						**51%**	**39%**	**26%**	**26%**
Energy						2.5%	1.9%	1.3%	1.3%
Technology						8.8%	6.6%	4.4%	4.4%
Materials						1.5%	1.1%	0.8%	0.8%
Industrials						4.0%	3.1%	2.0%	2.0%
Consumer Discretionary						3.0%	2.3%	1.5%	1.5%
Health Care						12.1%	9.2%	6.1%	6.1%
Utilities						1.5%	1.1%	0.8%	0.8%
Consumer Staples						6.6%	5.0%	3.3%	3.3%
Telecommunications						4.1%	3.1%	2.1%	2.1%
Financials						7.6%	5.7%	3.8%	3.8%
Foreign Equities	**28%**	**21%**	**14%**	14%	**7%**	**28%**	**21%**	**14%**	**14%**
Brazil	5.9%	4.5%	3.0%	3.0%	1.5%	5.8%	4.4%	3.0%	3.0%
Germany	4.0%	3.0%	2.0%	2.0%	1.0%	3.9%	2.9%	2.0%	2.0%
South Korea	4.0%	3.0%	2.0%	2.0%	1.0%	3.9%	2.9%	2.0%	2.0%
Taiwan	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Mexico	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EAFE Growth	13.9%	10.5%	7.0%	7.0%	3.5%	13.6%	10.3%	7.0%	7.0%
EAFE Value	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Emerging Markets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL PORTFOLIO	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**