

MARKET COMMENTARY

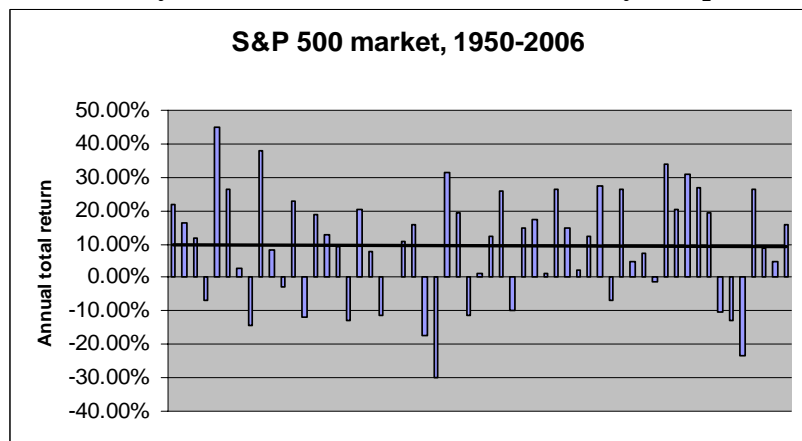
“CREATING EFFICIENT STRATEGIES TO BUILD AND PRESERVE WEALTH”

Dow – 14,000

It’s finally official, last week on the back of stronger than expected earnings news from IBM, Hewlett-Packard and Microsoft, the Dow Jones Industrial average closed above the 14,000 level for the first time ever! Additionally, the Standard and Poor’s 500, which is widely considered a truer barometer of the strength of the overall U.S. economy is now up over 10% for the year and above its 1999 and 2000 record highs. Looking ahead, most economic indicators appear to be pointing toward continued growth in the U.S. and among many of our largest trading partners throughout Europe, Asia and Latin America. Employment continues to rise at a moderate pace, business investment is picking up, and consumer spending which accounts for two thirds of the country’s annual GDP has shown no sign of easing. On balance we continue to feel bullish on the prospects for equities for the remainder of the year. However, there are three concerns that continue to prompt us to advise caution.

First, we are entering what has historically been a weak point in the year for stocks (August – September), and after essentially running non-stop since last summer we could experience some profit taking. Second, though consumers haven’t winced much at the summer’s high gasoline prices (partly due to an offsetting rise in family incomes), we are concerned that if any oil infrastructure in the gulf is damaged during the upcoming hurricane season gasoline prices could reach the tipping point and force consumers to cut spending. Third, elevated inventories of unsold new homes and tighter lending standards for non-prime borrowers continue to put pressure on existing home sales and economic expansion ahead. We expect this cycle to continue bumping along and play out as builders take the necessary steps to slow the pace of new construction and reduce home inventories. If this happens the economy could strengthen next year as housing becomes less of an overall drag.

How likely is it that the markets will finish the year up 10%?



Pacific Asset Management Group



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Pacific Asset Management Group
3130 Crow Canyon Place, Suite 425
San Ramon, California 94583

Phone: 800-344-7060
www.pacificassetmgmt.com

About:**Pacific Asset Management Group**

We are registered investment advisors headquartered in the San Francisco-Silicon Valley, Bay Area. Pacific Asset Management Group develops and manages portfolios for individuals, trusts, estates, and retirement funds. Each portfolio is positioned to take into consideration our clients current needs, long-term goals, risk profile and other more personal issues including economic and social values. Our ongoing reviews and personal meetings help us to make adjustments and take advantage of trends in the financial markets while at the same time striving to keep our clients on a steady, long-term course towards their goals.



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Investors recognize that stocks over the long-term often offer the greatest potential for asset growth especially when allowed to compound year after year. But it may be surprising to investors how infrequently annual returns are ever close to market averages. For example as the chart on page one illustrates over the 57 years since 1950 the Standard and Poor's 500 index has averaged around 9.42% per year however, in only three of those years did the index close up between 9% to 10.9%. (1965 up 9.10%, 1971 up 10.80%, 2004 up 9%)

While volatility is the norm, market fluctuations tend to cancel each other out over the long term. This is why it is so important to invest in a diverse portfolio of stocks and bonds you can maintain over time. While there is no such thing as a guarantee in the financial markets, staying invested over the long run gives you a higher probability of capturing the market's long-term averages, which may help you meet your financial objectives.

The importance of combining Growth and Value in your Portfolio

Average Annual Multi Period Total Returns

(as of 7/20/07, Morningstar.com)	YTD % Ret.	3-Year	5-Year
Morningstar Large Cap Growth	12.74%	9.31%	10.96%
Morningstar Large Cap Value	8.81%	18.10%	16.86%
Morningstar Mid Cap Growth	20.17%	22.24%	20.59%
Morningstar Mid Cap Value	9.84%	18.85%	20.52%
Morningstar Small Cap Growth	14.43%	16.20%	18.67%
Morningstar Small Cap Value	4.60%	15.77%	19.73%
Standard and Poor's 500 Index	10.58%	14.25%	14.94
Lehman Brothers US Agg. Bond	1.10%	3.59%	4.26%

Over the years we have recommended that investors split their equity holdings between more aggressive growth stocks (which provided superior returns in the late 1990's) and value oriented stocks (which did better during the market correction in 2000-2002). Because each sector's performance tends to rotate we feel that owning a combination of growth and value stocks can help to moderate the portfolio's overall volatility and ideally increase performance. In fact, over the last ten years, a hypothetical portfolio that equally split its assets between large cap, mid cap and small cap value and growth outperformed the Standard and Poor's 500 index by over 3.98% on average per year.

(6/30/97-6/30/97, Morningstar Principia)	10-Year Avg. Annualized Return
Blended Multi-Cap Hypo. Portfolio	9.42%
Standard and Poor's 500 Index	5.44%

(Trading costs, taxes and management fees where not included in this analysis.)

(The views expressed are based on financial information available as of 7/25/07)

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