

INVESTING WITH DISCIPLINE

NEWSLETTER

NOVEMBER 2007

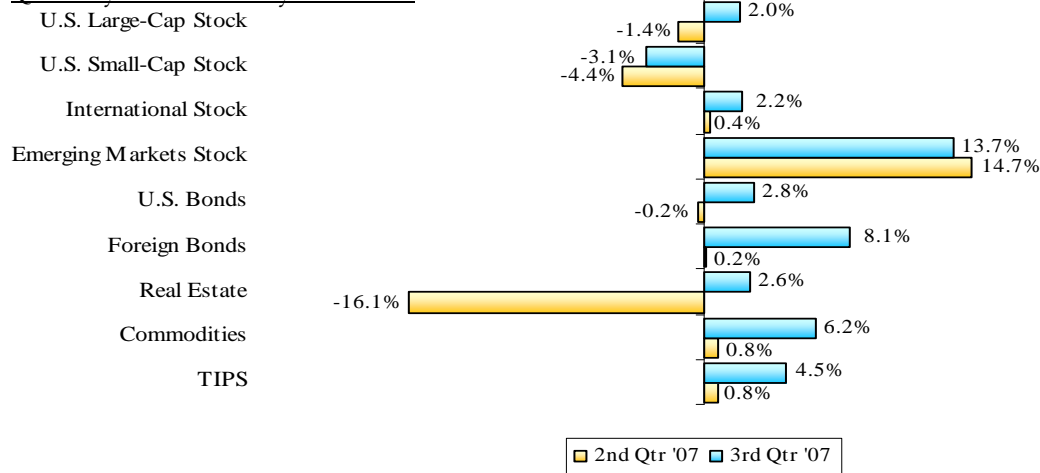
MARKET UP-DATE

Stock market volatility and bad news from the housing market have headlined through-out the fall, stirring up worry amongst investors, consumers, and government officials. The situation right now is like a multi-act play with a mysterious plot. We have seen the first few acts, enough to give us a sense of foreboding. Banks are announcing huge write-offs and people are losing their houses. The Federal Reserve has lowered interest rates in an effort to stave off recession. Treasury Secretary Henry Paulson has prodded large banks into cooperating with the goal of restoring order in the credit markets. These actions highlight risks in the U.S. economy and signal a likely path to slower growth.

How will investment portfolios respond to the current situation and possible future scenarios? So far, while stock values have given us whiplash, other investments have quietly gained in value. Foreign bonds benefited from the falling U.S. dollar. Inflation linked assets also rose. High grade corporate and government bond prices climbed as investors fled to safety. And emerging market stocks continued an unprecedented winning streak. Portfolios with these assets rode through the high drama with relative ease. Headwater portfolios generally have these investments. In fact, we recently published an article in the *Almanac of Indexing* (December edition) evaluating various real return investments.

To read our research article, *Real Return Strategy Using ETFs*, and see additional charts and information about the previous quarter in our Quarterly Review & Outlook, please visit the Archive section of our website.

Quarterly Performance by Asset Class



INDEX SCORE-CARD

QUARTERLY RETURNS

	3 RD	4 TH
S&P 500:	2.03%	-2.66%
Russell 2000:	-3.09%	-4.52%
Lehman Aggr.:	2.84%	2.71%
MSCI EAFE:	2.18%	.51%
FTSE NAREIT:	2.59%	-8.05%
Commodities:	6.24%	.09%

3RD Quarter for the period ending 9/30/07

4TH Quarter-to-date for period ending 11/30/07

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