Headwater Investment Consulting, Inc.

Quarterly Review & Outlook

3rd Quarter 2007

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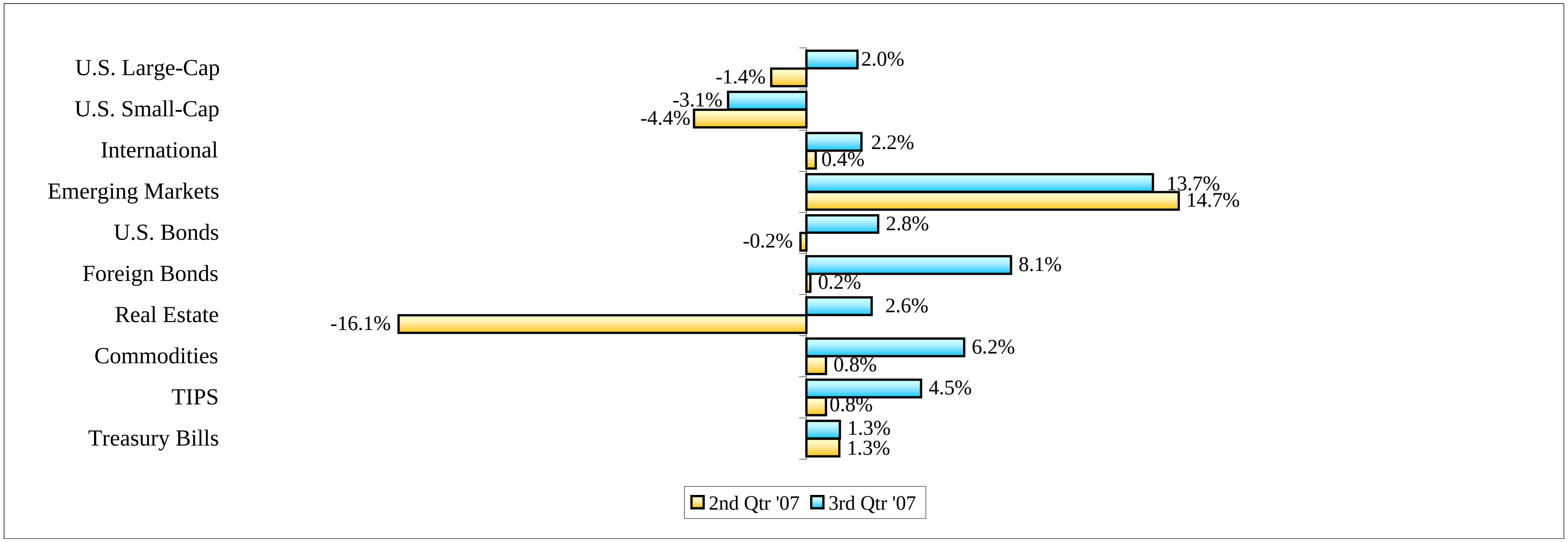
MARKET UP-DATE

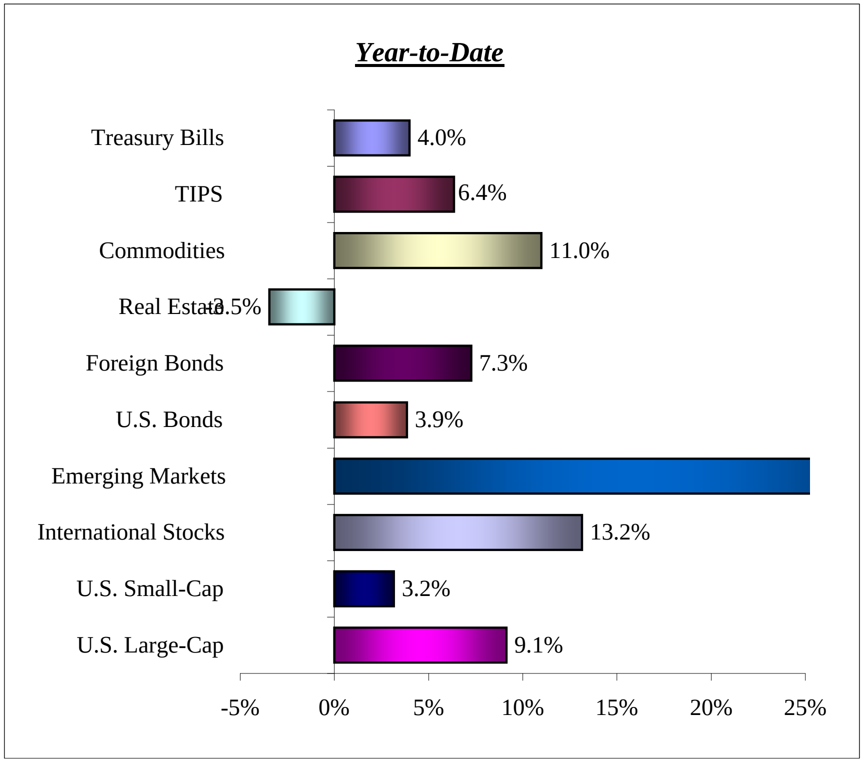
We all experienced a rocky ride in securities markets this summer. Throughout July, August, and September worldwide stocks markets were subject to wild swings. In August, with newspaper headlines focused on sub-prime mortgages and other credit market woes, the stock market dropped close to 9%, only to recover when the Fed cut its target short term lending rate from 5.25% to 4.75%. Despite this turbulence, the 3rd quarter finished with a smooth landing. U.S. stocks, as measured by the S&P 500, were up 2%. Bonds, as measured by the Lehman Brothers aggregate, were up 2.8%.

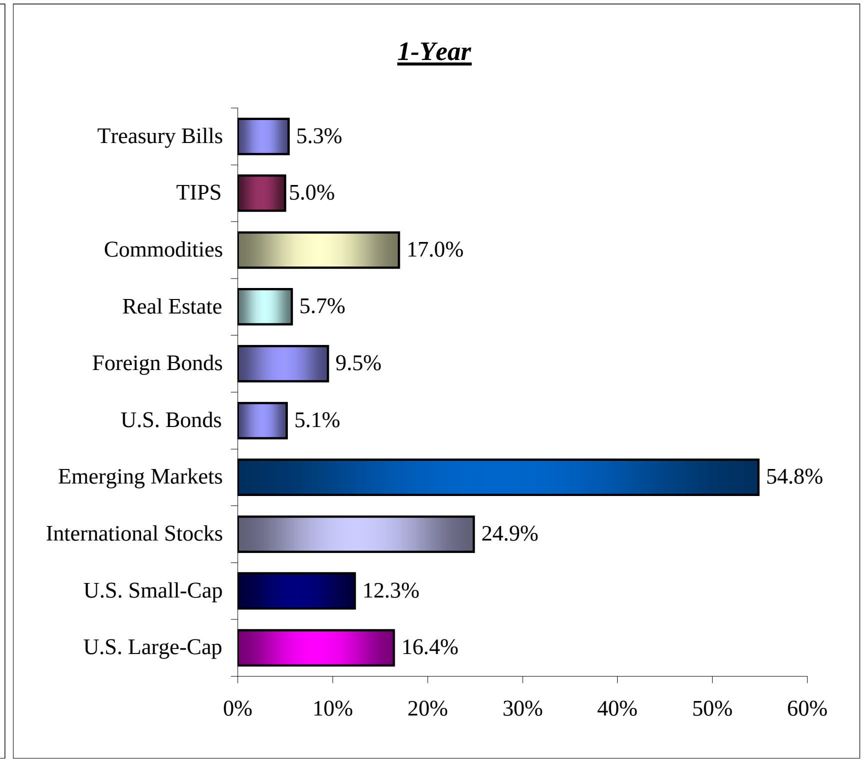
Looking forward, several risks to stable U.S. economic growth seem apparent. Recent reports indicate that new home sales fell to their slowest pace in seven years and inventories of existing homes for sale are up significantly. While housing represents a relatively small part of the overall economy, homes often represent the biggest asset on a consumer's balance sheet. Thus changes in home values have historically influenced consumer confidence in the overall economy, causing consumers to alter their spending accordingly.

The Fed rate cut may have spurred additional risks: the U.S. dollar has been dropping and inflation protected bond prices have been increasing – moves that indicate inflation could be a problem in the future. While short-term risks clearly exist, it has never paid to bet against the US economy in the long run. Thus, international diversification and inflation protecting assets will continue to be important components to our well-balanced portfolios.



ASSET CLASS PERFORMANCE





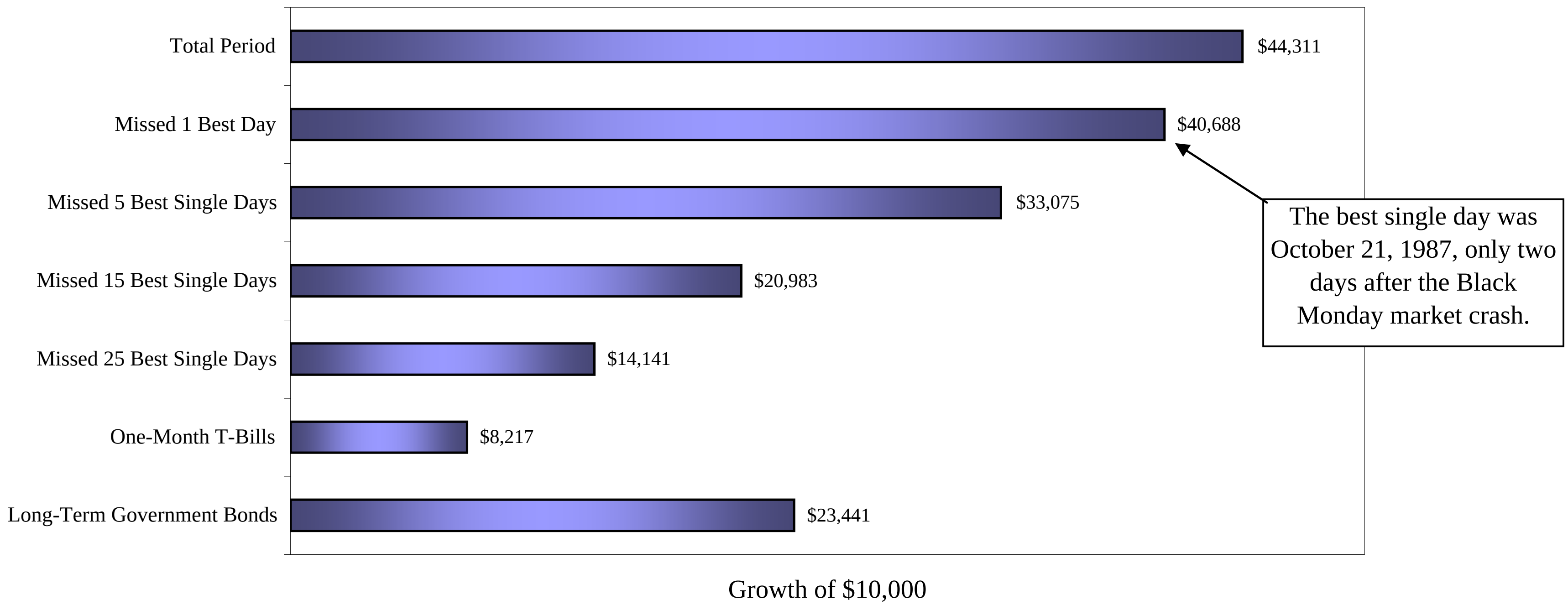
Index Performance as of: 9/30/2007

	YTD	1 Mo	3 Mo	1-yr	3-yr	5-yr	10-yr
U.S. Large-Cap	9.1%	3.7%	2.0%	16.4%	13.1%	15.5%	6.6%
U.S. Small-Cap	3.2%	1.7%	-3.1%	12.3%	13.4%	18.8%	7.2%
International Stocks	13.2%	5.4%	2.2%	24.9%	23.2%	23.6%	8.0%
Emerging Markets	32.0%	10.9%	13.7%	54.8%	37.4%	35.3%	9.2%
U.S. Bonds	3.9%	0.8%	2.8%	5.1%	3.9%	4.1%	6.0%
Foreign Bonds	7.3%	3.0%	8.1%	9.5%	4.8%	8.0%	5.8%
Real Estate	-3.5%	4.4%	2.6%	5.7%	19.0%	21.5%	12.2%
Commodities	11.0%	8.0%	6.2%	17.0%	9.5%	14.1%	7.6%
TIPS	6.4%	1.3%	4.5%	5.0%	4.0%	5.4%	7.1%
Treasury Bills	4.0%	0.4%	1.3%	5.3%	4.4%	3.1%	3.9%

THE RISK OF MARKET TIMING

Performance of the S&P 500 Index

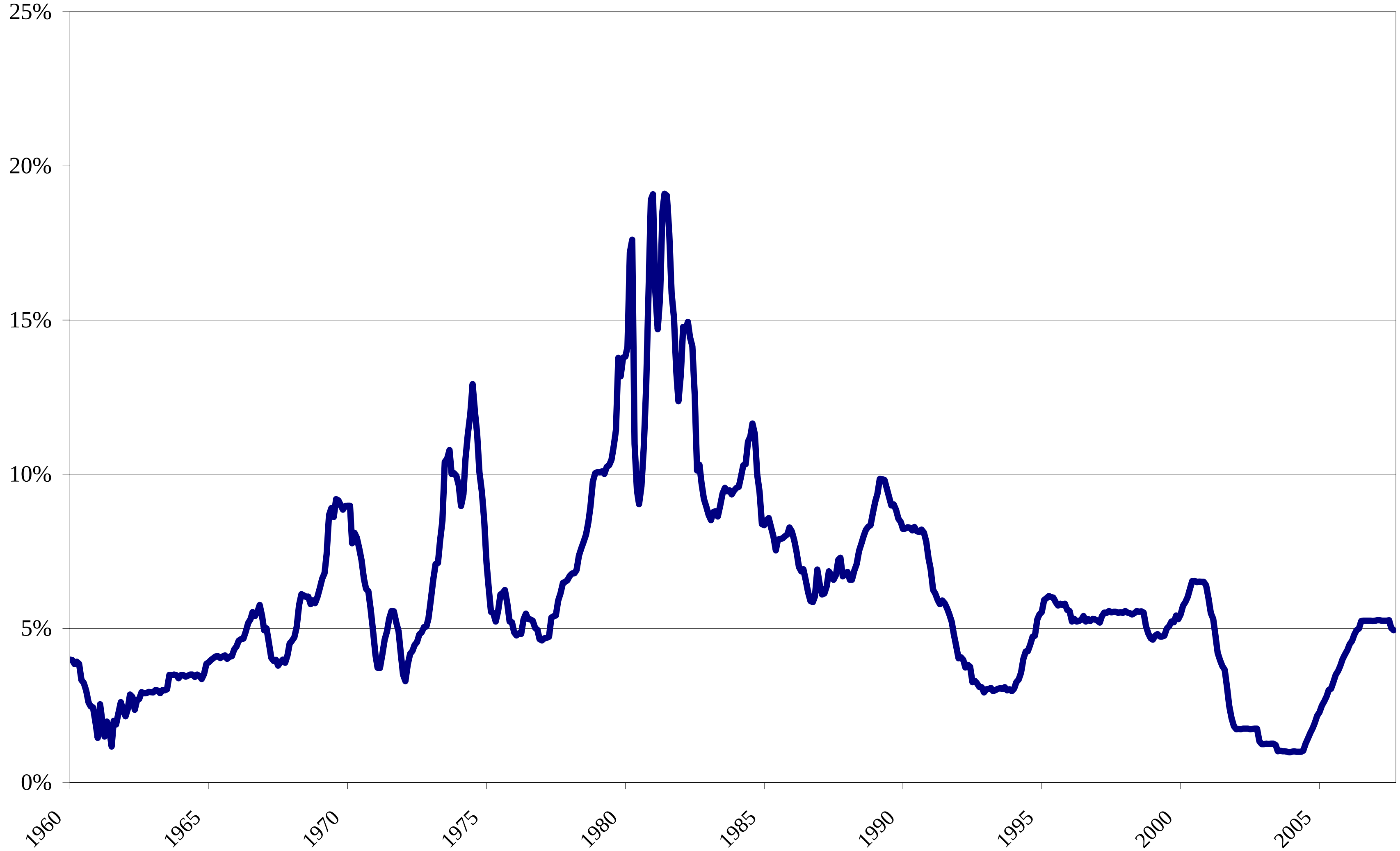
January 1970 - December 2005 (9,122 Total Days)



* The best one-month return, October 1974, happened immediately after the worst one-year period.
* The occurrence of strong positive returns has been especially unpredictable. Investors attempting to wait out an apparent downturn ran a high risk of missing these best periods.

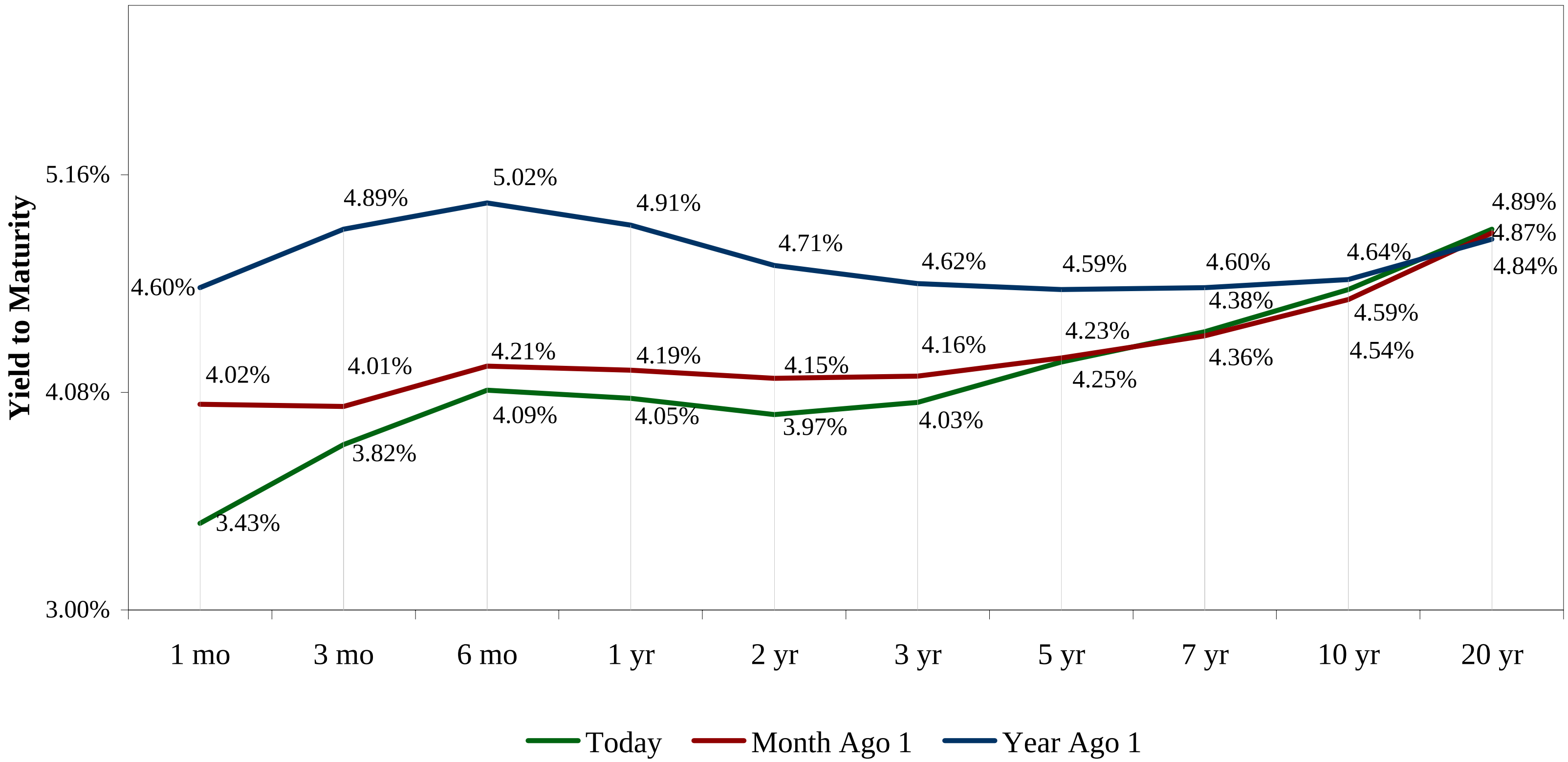
	Total Period	Missed 1 Best Day	Missed 5 Best Single Days	Missed 15 Best Single Days	Missed 25 Best Single Days	One-Month T-Bills	Long-Term Gov't Bonds
Annualized Compound Return	11.1%	10.8%	10.2%	8.8%	7.6%	6.0%	9.2%
% Differential to Total Period	0.0%	-0.3%	-0.9%	-2.3%	-3.5%	-5.1%	-2.0%

FEDERAL FUNDS RATE: JANUARY 1960 - SEPTEMBER 2007



Treasury Yield Curves

	1 mo	3 mo	6 mo	1 yr	2 yr	3 yr	5 yr	7 yr	10 yr	20 yr
September 30, 2007	3.43%	3.82%	4.09%	4.05%	3.97%	4.03%	4.23%	4.38%	4.59%	4.89%
August 31, 2007	4.02%	4.01%	4.21%	4.19%	4.15%	4.16%	4.25%	4.36%	4.54%	4.87%
September 30, 2006	4.60%	4.89%	5.02%	4.91%	4.71%	4.62%	4.59%	4.60%	4.64%	4.84%



CAPITAL MARKET HISTORY: OVER 10 YEARS OF RETURNS BY ASSET CLASS

These are Annual Returns

Year	Inflation	Money Market	Large Co. Stocks	Small Co. Stocks	International Stocks	Emerging Markets	Total Bond Market	Foreign Bonds	Real Estate	TIPS
9/30/2007	2.4	4.0	9.1	3.2	13.2	32.0	3.9	7.3	-3.5	6.4
2006	2.6	5.1	15.8	18.4	26.3	29.2	4.3	6.9	36.1	0.4
2005	3.4	3.3	4.9	4.6	13.5	30.3	2.4	-9.2	14.0	2.8
2004	3.3	1.4	10.9	18.3	20.3	22.5	4.3	12.1	3.1	8.5
2003	1.9	1.1	28.7	47.3	38.6	51.6	4.1	18.5	36.1	8.4
2002	2.4	1.7	-22.1	-20.5	-15.9	-8.0	10.3	22.0	3.6	16.6
2001	1.6	3.7	-11.9	2.5	-21.4	-4.7	8.4	-3.5	12.4	7.9
2000	3.4	6.3	-9.1	-3.0	-14.2	-31.9	11.6	-2.6	31.0	13.2
1999	2.7	4.9	21.0	21.3	27.0	64.1	-0.8	-5.1	-2.6	2.4
1998	1.6	5.0	28.6	-2.6	19.9	-27.7	8.7	17.8	-17.0	4.0
1997	1.7	5.3	33.4	22.4	1.8	-14.0	9.7	-4.3	19.7	- - -
1996	3.4	5.3	23.0	16.5	6.1	-3.9	3.6	4.1	37.0	- - -
1995	2.5	5.8	37.6	28.5	11.2	-6.9	18.5	19.6	12.2	- - -
1994	2.6	4.5	1.3	-1.8	7.8	-8.7	-2.9	6.0	2.7	- - -
Average	2.5	4.1	12.2	11.1	9.6	8.9	6.2	6.4	13.2	7.0
Risk	0.7	1.7	18.0	16.9	17.4	29.3	5.5	10.4	16.9	5.0

DISCLOSURES & DEFINITIONS

* Statistical data is gathered from Morningstar Principia and/or the fund manager's web site. All information contained in this document is compiled from sources believed to be reliable and current.
* Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of a portfolio.
* As with any investment, the holder of each fund is subject to various risk factors. These factors can be explained on a fund by fund basis.

* The performance data shown represents past performance, which is not a guarantee of future results. Current performance may be lower or higher than the data cited.

Large-Cap Stocks - A U.S. large company stock index measured by the S&P 500. It is made up of a group of 500 of the most widely traded stocks in the U.S., as chosen by Standard & Poor's.

Small-Cap Stocks- Measured by the Russell 2000 which is the dominant small-cap index in the U.S. The index is comprised of the smallest 2000 stocks in the Russell 3000 Market Index.

International Stocks- An international stock index measured by the MSCI EAFE. It is comprised of stocks from developed markets in Europe, Australia, Asia, and the Far East.

Emerging Markets - An international stock index that tracks non-developed markets throughout the world. It is measured by the MSCI Emerging Markets Index.

U.S. Bonds - A measure of the Total U.S. Bond Market by the Lehman Aggregate Bond Index. It takes into account corporate, government, mortgage and asset backed securities.

Foreign Bonds - Measured by the Citi World Gov't Bond Index. The fund is comprised of primarily investment grade bonds from around the world.

Real Estate - Measured by the Wiltshire REIT Index which is a composite of Real Estate Investment Trusts traded on U.S. exchanges.

Commodities - Performance is represented by the PIMCO Commodity Real Return Strategy Fund, which uses the DJ AIG Commodity Index as a benchmark.

TIPS - Performance is represented by the Lehman Brothers US Treasury Inflation Protected Securities Index Fund. TIPS are government bonds that have adjustable coupon payments based on the rate of inflation (as measured by the CPI).

Treasury Bills - Short-term government issued securities with maturities less than 90 days. Because they are government issued, T-Bills are free from default risk.