CEDAR HILL
WEALTH MANAGEMENT

Quarterly Investment Review

March 31, 2007

Financial Review

Equity markets began 2007 with modest gains, as mergers and buyouts provided support to a market otherwise concerned with slowing global economic growth, rising energy prices, and mounting tensions in the Middle East. Large-cap stocks, as represented by the S&P 500 Index, increased 0.6% for the quarter. The benchmark index for small-cap stocks, the Russell 2000 Index, advanced 1.9%. International stocks continued their relative out-performance, with the benchmark EAFE index up over 4% for the quarter.

The sustainability of U.S. economic growth was questioned as broad indicators generally deteriorated, due in large part to declining housing related activity. Applications for building permits, as well as actual housing starts, are lower by about 20% compared with last year, reflecting a surplus of inventory on the market. Additionally, many current homeowners are facing a more difficult financial picture as rates on their adjustable mortgages are adjusted higher. Delinquencies and foreclosures are also on the rise, particularly in the "sub-prime" demographic. The list of sub-prime lenders operating in or near bankruptcy seems to grow by the day.

Many market observers are questioning whether the problems seen in housing and sub-prime lending will spread to other parts of the economy – perhaps eventually leading to a recession.

We believe that although housing related activity will likely deteriorate in the months ahead, the domestic economy has two powerful sources of strength to counter the housing tumult. First, the global economy remains in solid condition with high-growth developing markets (i.e., India and China) contributing a proportionately greater influence toward global economic expansion. Second, as the following chart indicates, the strong domestic employment picture should also serve the economy well.

US Unemployment Rate (%)

The unemployment rate in the U.S. fell to 4.4%, which is the lowest level since early 2001. It was not long ago that many economists considered full employment to be equated with an unemployment rate of 5%. It is quite evident that labor markets, particularly for skilled labor, remain quite tight. An obvious consequence is that a vibrant workforce contributes to the economy both through their ability to consume as well as their ability to generate sufficient income to service debt, whether on homes, autos or credit cards. Consequently, although the sub-prime market has suffered as of late, a primary reason for a more stable environment in the "prime" lending arena is the robust labor market.

The strength in employment should provide enough support to the domestic economy to prevent a more serious financial calamity from spreading from the housing mess. As a result, we expect companies in most sectors of the economy to produce decent earnings results for 2007. Coupled with merger/buyout activity, the backdrop for 2007 equity investing remains attractive.

Core Equity Portfolio

During the quarter we initiated new positions in BEA Systems, Corning, and UnitedHealth Group.

BEA Systems is a leading provider of e-commerce and enterprise infrastructure software. Operationally, BEA is attractive as they are on the cusp of a new product cycle for their server-oriented architecture. Recently, however, their stock has been mired in controversy related to the pricing of stock option grants to the CEO, which resulted in a decline of 25% in the stock price. In our view, the current stock price level does not adequately reflect the growth prospects for its product portfolio. Despite the potential for further near-term "headline" risk, the share price is quite attractive on a risk-adjusted basis.

Our purchase of Corning might prompt fond memories for many long-time clients, as we owned the stock from 1998 to 2000. Our interest in Corning then was primarily related to the company's exposure to fiber-optic cables. Although still in the fiber-optics business, our primary reason for purchase now is the company's leading position in manufacturing glass for Liquid Crystal Displays (LCD). This accounts for 40% of sales and is expected to grow 30% annually for the next few years. We perceive the recent valuation – about 17 times its 2007 earnings - as compelling, especially in view of an above average projected earnings growth rate.

UnitedHealth Group owns and manages organized health systems primarily in the United States. Recently, the stock has been hurt due, in large part, to their prior practice of pricing executive options at favorable (for the executives) levels. Despite the risk of restatements for historical financial results, the company is positioned to generate earnings growth of 15% for the next few years, as pricing of contracts increases and market penetration advances. Despite the above average growth profile, the stock is trading at a discount to the market, making the stock attractive in our valuation framework.

We sold our positions in Hershey, Kimberly Clark, Liberty Capital, and Sony.

Hershey was purchased last year with the expectation that streamlining their product portfolio and targeting new distribution channels would produce attractive sales growth. Hershey subsequently reported several quarters of disappointing sales attributed to increasing competition from Mars Inc (maker of M&Ms, 3 Musketeer's and other popular brands). A recently announced restructuring program, in our view, does not adequately address the competitive environment. As such, we did not see sufficient reward in holding the security to justify the continued risk of disappointment, and sold our position (at a modest gain) for more attractive growth opportunities.

Kimberly Clark, a leading manufacturer of health and hygiene products, was originally purchased in portfolios in 1998, primarily due to its attractive valuation and dividend yield. Over the course of the last nine years, Kimberly has enjoyed decent earnings and dividend growth as reflected in the company's stock price. The recent price for Kimberly met our price target, resulting in our exiting the position.

Liberty Capital is the tracking stock issued by Liberty Media that monitors the performance of Liberty's interests in a variety of entertainment and broadcasting holdings. Our initial investment in Liberty Media in 2003 was based on the premise that the price for the stock did not properly reflect the value of the variety of businesses contained within John Malone's complicated empire. Over the last four years, Liberty has spun off several publicly traded companies (Liberty Media International, Discovery Holdings, Liberty Media Interactive, and Liberty Capital), in order to allow the markets to properly value each business. Since spinning off Liberty Capital last year, the stock price advanced 25% to a level meeting our price objective.

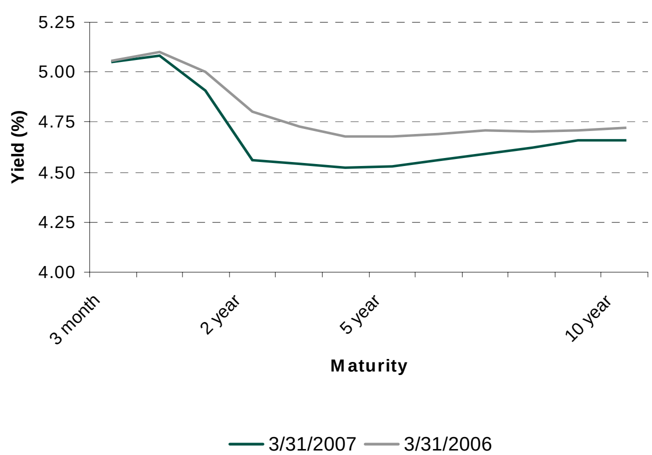
We sold our position in Sony as the stock price met our price target. The company suffered several setbacks in 2006, primarily due to battery recalls (for laptop computers) and delays in production for their Playstation 3 game console. The stock rebounded sharply over the last three months to a level that properly discounts the potential success of the company.

Our sector exposure continues to favor energy and health care companies. We expect oil and natural gas prices to trend higher over the coming year due to tight supply, particularly in oil. Our health care investments are based on company specific opportunities, rather than a macro call on the group. We remain underweight in Financials, in light of the deteriorating credit experience in sub-prime lending related securities.

Fixed Income Markets

Interest rates fell slightly lower in the First Quarter, as the market reacted to concerns that the economy might be at further risk of slowing due to the continued slump in housing related activity. Despite the worries over economic growth, we do not anticipate the Federal Reserve will move to ease monetary policy anytime soon, as they remain more focused on potential inflationary pressures.

Treasury Yield Curve



In client portfolios, we are allowing duration to fall shorter than benchmark maturities, as we view future market moves, particularly in the five to ten year maturity range, to be biased more toward higher rates. Callable agency bonds continue to be relatively more attractive than corporate and treasury securities.

Alternative Investments

Alternative investments outperformed most traditional indices in the first quarter, with many strategies generating returns of between 2-4%.

Equity Long/Short managers as a group did substantially better than the S&P500, benefiting from the increased volatility in the quarter. **Merger Arbitrage** funds earned approximately 5% for the quarter on the continued strength of both private and public buyout activity. Competitive bidding situations have fueled excess returns, and it is difficult to lose money in an environment where even cancelled deals have not led to a sell-off in the shares of the targeted company.

New opportunities within **Distressed Securities** remain scarce. Auto and auto supply companies have been the two main areas of focus for investors. Select pockets of sub-prime lending attracted some investment, but many lenders faced unknown, contingent liabilities. The inability to quantify the downside risk kept most investors on the sidelines.

With corporate default rates remaining near historical lows, **Specialty Finance** continues to provide the level and consistency of returns anticipated from the strategy. The recent turmoil in sub-prime lending had nominal impact on performance. Spreads for new transactions remain at attractive levels, and further dislocation in public markets should increase these opportunities.

New Investments

Real Estate
Qualified clients invested in M&J Marketfair Investors LLC. Marketfair is a 137,000 square foot multi-tenant shopping center situated in an excellent retail location in Clay, New York. This income producing property has historically produced stable cash flow from rental income, and is being purchased at a price significantly below replacement cost.

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One Year Economic Overview

		Mar 2007	Mar 2006
Stock Market			
S&P 500 Index	▲	1,420.86	1,294.83
Russell 2000 Index	▲	800.71	765.14
Fixed Income Yields			
3-Month Treasuries	▲	5.05%	4.62%
5-Year Treasuries	▼	4.53	4.83
10-Year Treasuries	▼	4.66	4.89
30-Year Treasuries	▼	4.83	4.90
Inflation Monitor			
CPI-Trailing 12-Month Growth	▼	2.4%	3.4%
CPI-(Excluding Food/Energy)	▲	2.7	2.1
Market Expectations*		2.3	2.3
Gold (per ounce)	▲	$663.79	$583.65
Crude Oil (per barrel)	▼	65.87	66.63

*Comparison of yields for 10-Year Treasury and 10-Year TIPs