Riverplace Capital Management, Inc.

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PERSPECTIVES

JANUARY 2008

NUMBER 38

Year 2007

What a year! It started out great, but turned down by summer. At first the cause was housing, then subprime loans. Next it was an increasing array of exotic financial instruments traded by financial institutions that began losing value and now a full blown credit crunch.

At first the Federal Reserve provided liquidity to ease inter-bank lending, then interest rates were lowered to help cushion the economy from the fallout of tighter credit. The fear was that what started as a financial industry problem would bleed over into the rest of the economy. During the fourth quarter, we began to see some signs that these fears were being realized. Restaurants and retailers today complain of sluggish activity.

The stock market suffered two corrections. The first was in July and was about an 8% sell-off. The second was in November and resulted in a 10% decline. The good news was that stocks recovered after both and are still showing good gains for the year. How can this be? We wrote earlier in the year that it is hard to get hurt falling out of a basement window. Stock values are not in the basement, but they are far from expensive.

Most of the real turmoil was in the credit markets. There were ugly surprises throughout the financial sector and as a result, many institutions have taken huge write-offs. Investors lost money and some executives lost their jobs. There may be more surprises yet. It will take time to repair this damage.

At the beginning of the year, Riverplace Capital predicted a better than average year. This was based upon reasonable valuations and continuing profit growth. However, with the impact from the credit crisis, that will not happen for the broad market. Sectors like mid-caps and growth are clearly posting better than average results. International has also done very well, especially in dollar terms. (The weak dollar enhanced returns for dollar based investors.) So the result is a mixed bag. We will take it and as it has so many times in the past, Riverplace Capital exceeded benchmarks for most of its investment strategies. We expect to do well next year as well; see how.

Talk With Us

Are you living your plan? This is a question once poised to me by a colleague at Riverplace Capital. To some of us the answer is “no” because (1) we don’t have a plan or (2) because even some of us who do have a financial plan have put it in a drawer for safe keeping and forget to visit it from time to time. Regardless of which category you fall into, the financial planning process is just that — a process. Its success starts with defining your financial goals – whether it is retirement, a college education for a child, or a major purchase. Getting everything down on paper is the first step. However, without careful implementation and monitoring the best laid “plan” can be unsuccessful. Riverplace Capital is offering to help you develop your plan and monitor its implementation.

So what is the process? The financial planning process includes five stages. It begins with defining the client/planner relationship. Once you have decided to take stock of your financial picture, we will help you define your goals, prioritize your goals, and establish the basis of your financial plan.

The next step involves gathering information. This may sound painful, but we have tried to make it as easy as possible. We use the information you have already provided us, plus additional asset information, if any, to try to get a complete picture of you financially. ***The quality of the plan is directly related to the quality of the information provided.***

After you have provided us with your information, we will analyze and evaluate where you are financially. This involves taking the information you have provided and seeing if you are on target to meet your goals. Our plans include your cur-

(continued)

Forecast

Economy

This is an economy of haves and have-nots. Although, we previously made this observation; it is becoming even more so as some sectors are slowing and competition heats up. In the U.S., we predicted slowing economic activity. This took a while to come about, but in the fourth quarter, slowing is apparent in many more sectors. At first it was housing, then financials as the credit crunch took hold, and now we see restaurants and retailers slowing as well.

Thankfully, other sectors are still quite strong. So far they have kept the economy from dipping into recession. Agriculture, industrials associated with exporting, technology, health care, communications, utilities are all strong. Trying to view the economy as either good or bad today is just not helpful to the investing process. It is far more important to find the strength and avoid the weakness.

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MAJOR INDICES AS OF 12/31/2007

Index	Return
Large Cap Stocks (S&P 500)	3.53%
Dow Jones Industrial Average	6.43%
Mid Cap Stocks (S&P 400)	6.69%
NASDAQ Composite	9.81%
Small Cap Stocks (Russell 2000)	-2.75%
MSCI EAFE	8.60%
Lehman Corp. Bond Index	7.96%
Inflation	3.6%

(EQUITY INDICES ARE TWELVE-MONTH RETURNS EXCLUDING DIVIDENDS)

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Forecast *(continued)*

Equities

The strong companies are getting stronger and the weak, weaker. Competition is global and few sectors are immune. For the great companies the opportunities are enormous and horizons are wider than ever.

In 2008, we believe markets will make even greater distinction between successful and growing companies and those that are floundering. Valuation premiums for the strong are likely to get wider as investment capital seeks these out. Opportunities for investment performance will therefore be narrow and confined to these winners.

What most likely won't work, are turnarounds, value plays, and second tier catch-up candidates. What will work is growth; growth in sales and earnings.

Fixed Income

Inflation is still a concern of ours. We believe that generally recognized measures of inflation understate the true rate, which now seems to be accelerating. Additionally, the inflation rate is increasing in other parts of the world too, indicating a more generalized problem. Therefore we predict that interest rates will rise once the current turmoil in the credit markets subsides. Interest rates are currently depressed as more and more capital has been parked in high quality instruments seeking safety.

Inflation is one of two major risks to fixed rate investments. The inflation rate erodes the return you receive and may actually result in receiving back less value than originally lent.

Credit quality is the other risk. Every day there is news of another institution writing down the value of fixed income instruments that are turning out to be of less quality than they thought. It is so important to understand to whom you are lending money and your likelihood of being paid back in full.

Talk With Us cont'd

rent asset allocation information and will forecast future returns based on the historical returns of each asset class. If your current allocation is not meeting your financial goals, Riverplace Capital will offer suggestions on how to more efficiently employ your current assets.

This leads us to the next part of the process. After Riverplace Capital has developed your financial plan, we will meet with you to discuss the results. Many times we will be presenting several different scenarios because there is no one solution for everyone. This part of the plan helps us to make sure that your current allocations are helping you attain your financial goals. By looking at your entire financial picture, we can determine if your assets are properly diversified.

The final part of the process involves implementation and monitoring. This will help ensure you are ***living your plan***. Riverplace Capital will be able to implement changes or keep the status quo. Continuous monitoring will help meet your goals. No plan is set in stone and all plans need to be monitored and adjusted, as necessary, to make sure your assets continue to work for you to meet your goals. To get started,

Talk with Us.

Investment Strategy

Equities

Riverplace Capital is mixing best of breed (the strong get stronger) growth stocks in high growth areas with those in sectors that are more insulated from economic cycles. This approach acknowledges that there are opportunities, but that they are selective and not widespread. We also want some cushion built into portfolios by investing in stable areas should U.S. economic growth falter even more.

In addition to capturing growth, the key to superior returns will be to avoid problem sectors and poor performing companies. This is always easier said than done, but our challenge for 2008. Good investors today will have to play defense as well as they play offense.

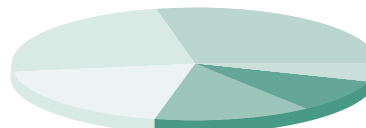
Wealth Management

Over the course of the previous year, we have reduced exposure to small-caps, real estate and emerging markets. We enhanced weightings in large-caps, especially growth, and more mature international markets. These moves mirrored where returns have shifted. At present, we expect current weightings to hold for some time.

Fixed Income

Our approach always has been to invest only in the high quality categories sticking with instruments of known credit quality with defined maturity and stated coupon. As a result, the alphabet soup (CDO's, CMO's, ABCP's, etc.) of exotic instruments never were of interest.

We continue to keep maturities within 5 years. Since the interest rates available in high quality instruments for short-term vs. longer-term securities is of little difference, why take the risk of committing to the long term? Riverplace Capital has also moved our clients' liquid funds from general money market funds to the safest Treasury funds. Some money market funds have invested in the exotic instruments that are losing value. We do not want any surprises here (remember defense).



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