

Asset Returns

June 30, 2007	YTD	2006	2005	10 Year	20 Year
Domestic stocks					
Large	6.9	15.7	4.8	8.4	11.8
Large Value	6.2	22.0	6.9	11.0	12.8
Large Growth	8.0	8.9	5.1	5.4	10.3
Small	6.6	18.2	4.5	9.4	10.9
Small Value	3.7	23.2	4.4	13.3	13.5
Small Growth	9.3	13.1	4.0	4.9	7.8
Micro Cap	6.1	16.2	5.7	13.5	13.2
International stocks					
Large	10.8	26.0	13.3	8.1	8.4
Large Value	9.6	30.0	14.4	10.6	11.0
Large Growth	11.8	21.9	13.6	5.3	5.9
Small	13.8	24.9	22.0	8.6	-
Small Value	14.0	28.4	23.2	10.2	-
Emerg. Mkts.	14.9	30.7	32.6	8.5	-
EM Value	28.3	37.3	25.8	10.5	-
EM Small	28.4	28.4	37.3	25.8	-
Sectors					
U.S. REITs	-6.5	35.5	13.1	15.2	11.7
Energy	18.4	18.4	40.2	11.5	12.0
Bonds					
Short Term	2.6	4.8	2.3	4.3	4.6
Five Year	2.2	3.9	1.7	6.2	7.5
Long Bond	-1.1	1.7	6.6	7.9	10.3
Total Market	0.8	4.3	2.4	6.2	8.0
Other					
Inflation	-	3.2	3.4	2.6	3.1
Comm. RE	-	16.6	20.4	12.7	8.4
Residential RE	-	7.7	13.4	7.8	5.1
Hedge Funds	-	13.0	2.7	8.7	-
Commodities	-	-2.9	18.9	3.2	5.2

SOURCES:

Large Cap data is based on S&P 500 returns.
 Large Value and Growth returns are based on Russell 1000 Value and Growth data.
 Small Cap, Small Value & Small Growth are based on Russell 2000, R2000 Value and R2000 Growth data.
 Micro Cap returns are based on the CRSP 9-10 index of the smallest publicly traded stocks.
 Int'l Large, Large Value and Large Growth are based on MSCI's EAFE Indexes.
 International Small & Small Value returns are based on small company data in developed markets from DFA.
 Emerging Markets data is from MSCI's Emerging Market.
 Emerging Market Value and Small Cap data is based on Indexes maintained by DFA.
 REITs are based on the Wilshire REIT index.
 Energy data is from S&P's energy index.
 Short term bonds are represented by Lehman's index.
 Five year bonds are five year treasury returns and long term bonds are 20 year treasuries.
 Total Bond market is the Lehman Aggregate Index.
 Other data comes from the Federal Reserve, National Association of Realtors, HFRI & the CRB.

PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS. INVESTMENT OBJECTIVES, RISKS, CHARGES, EXPENSES AND OTHER IMPORTANT INFORMATION ABOUT A FUND ARE CONTAINED IN THE PROSPECTUS; READ AND CONSIDER IT CAREFULLY BEFORE INVESTING. PROSPECTUSES ARE AVAILABLE ON COMPANY WEBSITES OR FROM TSI.

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Market History (1970-2006)

Our investment management philosophy asserts a diversified investment portfolio with appropriate risk and return characteristics is the most effective way to achieve long term investment results. In order to create a diversified portfolio and optimize the risk and return metrics, an advisor must have an understanding of the history of various investment strategies, long term asset class returns and volatility, and diversification options. Ultimately, these factors come together in a unique asset allocation for each client. We backtest our allocations with data going back to 1970 which includes 30-40 different asset classes (i.e. domestic large cap, microcap, international stocks, long term government bonds, etc.) That 37 year time spans a period of incredible change for the financial markets, including two severe bear markets (S&P 500 down 40%) and the 1987 "Black Monday" crash. Through it all, the average market returns were similar to the first 70 years of the 20th century.

In this newsletter I review some of the important financial events of the last 37 years. My purpose is to contextualize the market returns over this period and illustrate the dynamic nature of the investment environment.

1970 Mortgage Backed Securities - Mortgage backed securities were born when Ginnie Mae guaranteed a pool of mortgage loans. The mortgage related debt market now is the larger than the market for Treasury bonds. The vast majority of that debt is guaranteed by the three "Agencies", Fannie Mae, Freddie Mac and Ginnie Mae.

1971 Gold Standard - The U.S. abandoned the gold standard in August when President Nixon announced the U.S. would no longer convert dollars to gold. Previously, the federal government agreed to convert dollars to gold and vice versa at predetermined rates. In a bid to curb inflation, he put a 10% surcharge on all imports and imposed wage and price controls.

1972 Options and Futures - The Chicago Mercantile Exchange began trading and launched the first market for financial futures. The following year, the Chicago Options Exchange opened for option trading. Today, the markets for financial futures include a wide range of underlying products from treasury bonds to the ubiquitous Standard & Poors 500 Index.

1973 Floating Exchange Rates - The world moved to allow exchange rates between currencies to float freely. Previously, the Bretton Woods system pegged U.S. and Western European currencies to specific exchange rates. **Oil Crisis** - OPEC quadrupled the price of oil in October and initiated an embargo of countries that supported Israel in its war with Syria and Egypt. Shortages and gas lines were common throughout the West and the move caused an economic slowdown and higher inflation.

1974 Bear Market - December marked the low point of a two year bear market and an S&P 500 decline of 40%. Over the previous 3 years, the U.S. abandoned the gold standard, exchange rates were allowed to float freely and OPEC quadrupled oil prices and cut supplies.

1978 “Stagflation” - President Carter pressured the G-7 countries to stimulate their economies and improve economic growth. The strategy backfired and spread “stagflation” around the world. The dollar hit all-time lows against the other major currencies.

1979 Iranian Revolution - Iran was shaken by the Islamic revolution when Ayatollah Khomeini returned from France. The revolution sparked a second oil crisis and the taking of U.S. Embassy staff in Tehran. They were held for 444 days.

Silver Market - The Hunt brothers and some Arab partners attempted to corner the market on silver. They bought up half the world’s silver supply before their scheme collapsed, forcing them into bankruptcy.

Fed policy - Paul Volker began his tenure as the Federal Reserve Chairman. He initiated a campaign of higher interest rates to aggressively combat inflation. Ultimately, the Prime Rate peaked at 21.5% in 1980.

1981 Tax cuts - After taking office, Ronald Reagan made good on his supply-side economics promises. He pushed a 25% income tax cut through Congress.

1982 Latin Crisis - Mexico defaulted on its debt and began the 10 year Latin debt crisis.

1984 Bank Failures - Continental Illinois Bank failed after investing in loans from Penn Square Bank (another failed institution). It remains the largest bank failure.

1986 Tech Stocks - Microsoft went public and started the focus on tech stocks. Over the next 15 years, a string of tech companies generated spectacular investment returns, peaking in 2000.

1987 “Black Monday” - The Dow dropped 23% in only one day and takes 18 months to fully recover the losses. The crash led to installation of market “circuit breakers” which close markets in the event of dramatic declines.

1988 S&L Crisis – S&Ls around the country experienced major problems as a result of real estate loans gone bad. Congress created the Resolution Trust Corporation in 1989 to solve the crisis.

1989 Rising Sun - The Japanese markets peaked with the Nikkei reaching 38,916. Land prices in Tokyo implied the Imperial Palace grounds were worth more than the entire State of California, and the top 5 top banks in the world were all Japanese. Over the next 13 years, the Nikkei declined 80%, while large U.S. stocks rose 170%.

1991 Communism falls - The Soviet Union dissolved and President Gorbachev resigned. The Berlin Wall had

fallen in 1989 and most of Eastern Europe was already moving toward capitalism.

1993 Globalization - The World Trade Organization was created in a multi-national trade deal. Its creation marked the last major international trade liberalization agreement with world-wide participation.

1994 Mexican Crisis (Again) - Mexico devalued its currency and began a financial crisis. The IMF and U.S. Treasury join for a \$48 billion bailout.

1997 Asian Financial Crisis – The Asia’s developing economies imploded when their currencies collapsed and stock markets declined as a result of excessive speculation. In dollar terms, some of the markets fell almost 90% over 12 months.

“Mini Crash” - The Dow dropped 554 points on October 27 and closed early due to circuit breaker rules. It recovered its previous highs in two months.

1998 Long Term Capital – The hedge fund collapsed when it bet heavily on Russian debt prior to Russia defaulting on its obligations. The Federal Reserve brought together a group of banks to fund a \$3.6 billion bailout.

1999 Euro – The European Union officially adopted the Euro as its currency. The process was the culmination of an effort begun in 1979 when the European Economic Community agreed to link currency exchange rates in continental Europe.

2000 Y2K Scare – January 1 arrived without the computer world coming to an end. With Y2K spending now behind them, many corporations reduced capital spending on technology. This added to the downturn in technology shares later in the year.

“Tech Bubble” – The tech bubble peaked in March of 2000. The S&P 500 dropped 44% from 3/00 to 9/02 and didn’t fully recover until earlier this year. Other asset classes fared better during the tech meltdown. From 3/00 to 9/02 small value stocks increased 13%, energy stocks 9%, REITs 47%, and the bond market 25%.

2001 9/11 – Terrorists destroyed the World Trade Center, and the markets recorded their worst week in 60 years. **Corporate corruption** – Enron and WorldCom both collapsed in 2001. The outrage sparked Sarbanes-Oxley legislation that dictated new accounting standards for publicly traded companies.

A review of the most notable financial events of the last 37 years helps contextualize today’s markets. Although there has been enormous turmoil during this period, the markets keep moving forward. Our investment strategies are designed to look beyond the daily buzz of the latest crisis or trend and take advantage of the long term drivers of investment returns.