

Asset Returns

Mar 31, 2008	1 Yr	2006	2005	10 Year	20 Year
Domestic stocks					
Large	-4.8	15.7	4.8	8.4	11.8
Large Value	-9.1	22.0	6.9	11.0	12.8
Large Growth	-0.5	8.9	5.1	5.4	10.3
Small	-11.4	18.2	4.5	9.4	10.9
Small Value	-15.5	23.2	4.4	13.3	13.5
Small Growth	-7.4	13.1	4.0	4.9	7.8
Micro Cap	-16.4	16.2	5.7	13.5	13.2
International stocks					
Large	-1.8	26.0	13.3	8.1	8.4
Large Value	-6.1	30.0	14.4	10.6	11.0
Large Growth	3.1	21.9	13.6	5.3	5.9
Small	-8.7	24.9	22.0	8.6	-
Small Value	-10.6	28.4	23.2	10.2	-
Emerg. Mkts.	20.2	30.7	32.6	8.5	-
EM Value	21.3	37.3	25.8	10.5	-
EM Small	8.1	28.4	37.3	25.8	-
Sectors					
U.S. REITs	-13.1	35.5	13.1	15.2	11.7
Energy	30.9	18.4	40.2	11.5	12.0
Bonds					
Short Term	4.4	4.8	2.3	4.3	4.6
Five Year	3.7	3.9	1.7	6.2	7.5
Long Bond	4.9	1.7	6.6	7.9	10.3
Total Market	6.7	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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Fed Rate Cuts and Stock Market Impact

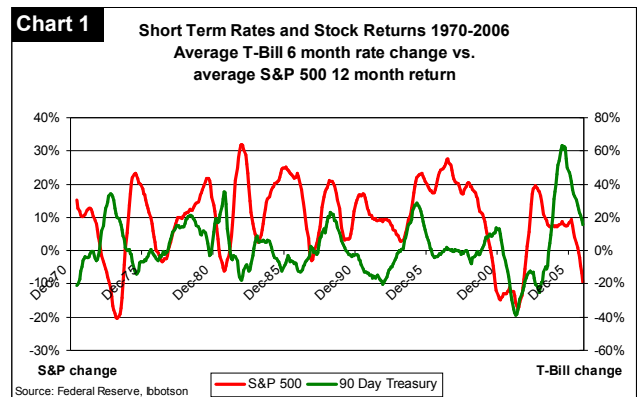
The last six months have been a volatile period in the markets. Almost every equity asset class we track is down since October 2007, in some cases the declines have been over 30%. Financial sector losses, driven by sub prime mortgages and collateralized debt obligations, energy inflation and declining consumer confidence have all helped fuel market declines.

In response to the financial sector volatility, the Federal Reserve has lowered the Fed Funds Rate from 5.25% to 2.25%, initiated lending programs for new assets and facilitated the sale of Bear Stearns to JP Morgan. To date, its actions have been intended to improve growth and promote employment, with the expectation that inflation will begin to stabilize later in 2008.

Conventional wisdom says the lower rates should improve equity returns going forward. In this newsletter I'll review the impact of lower short term rates on future stock prices, discuss their economic impact, review the time lag for rate changes and stock returns, and examine the impact based on valuation and size.

History

Chart 1 shows the average change in short term rates (green) and the 12 month lagged return for the S&P 500 (red) since 1970. Although the correlation isn't exact, lower rates have historically led to higher stock returns over the ensuing 12 months.



Assuming T-Bill returns are closely linked to Federal Reserve lending rates, this chart supports the notion that lower short term rates have led to higher equity returns. Additionally, you could infer that rising rates will lead to lower returns. However, the correlation is stronger between lower rates and positive returns than higher rates and negative returns. Why would this be true and how can we examine this idea further?

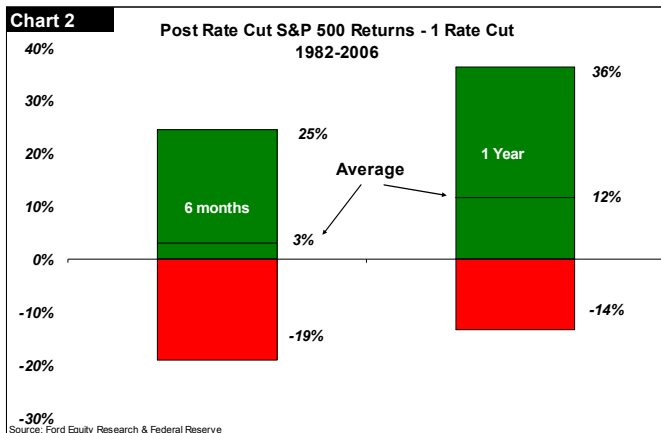
Economic Impact

Interest rates are the Fed's primary tool to meet its goals of economic growth, full employment and low inflation. Lower rates have the basic effect of changing the discount rate for investment decisions. If an investor is reviewing a potential investment and calculating the net present value (NPV) based on short term interest rates, lower rates drive a higher NPV. As the cost of debt declines, businesses are more inclined to take on leverage for new projects or capital restructurings. Consumers feel an immediate impact with lower credit card rates. Additionally, lower short term rates can lead to lower mortgage

rates for home buyers. Increased home buying activity can fuel the construction industry and consumer spending in general. These are only a few of the positive impacts that rate cuts have on the economy and consumers.

Small Cap and Large Cap Returns

One of the central themes in our investment philosophy is to take advantage of the size effect as represented by the difference between small stock and large stock returns. Over time, small cap stocks have generated higher returns than large cap stocks. What impact do rate cuts have on this phenomenon? Chart 4 shows one year returns for small cap stocks and large cap stocks following three consecutive rate cuts by the Fed. It turns out, the small cap effect is also apparent following rate cuts.



Single Rate Cut vs. Multiple Rate Cuts

If we accept the premise that a single rate cut can lead to positive returns for stocks, then presumably, several rate cuts would be more positive. Charts 2 and 3 look at large cap stock returns for single and multiple rate cut scenarios during the period 1982-2006. During this period there were 14 rate cuts.

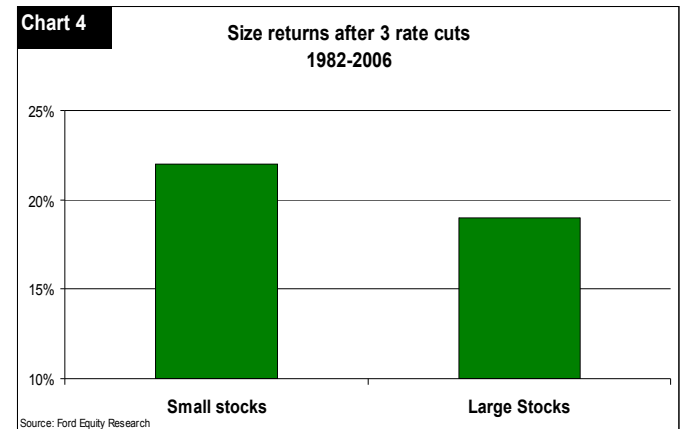
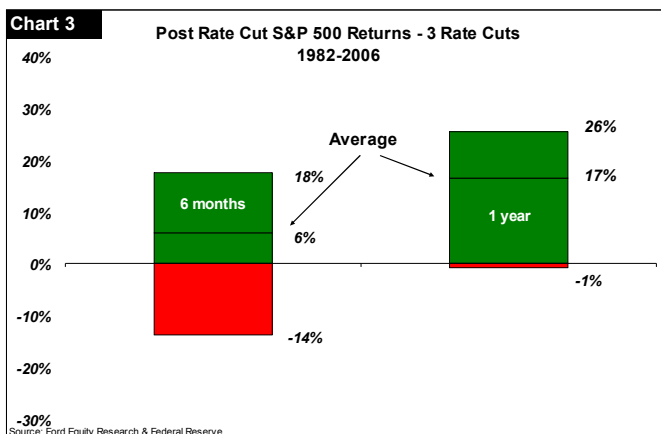
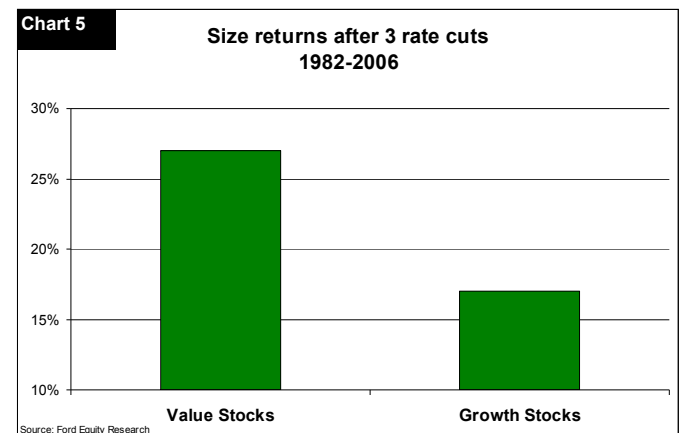


Chart 2 shows the range of returns and average returns for 6 months and 1 year after a single rate cut. The average return for the market after 6 months was 3% and after 12 months was 12%. However, the spread of returns was relatively wide with -19% on the downside and 36% on the upside.

Valuation Impact

In addition to size, valuation is a key factor we use when constructing asset allocations for our investment management clients. Long term research has shown that inexpensive (value) stocks have outperformed expensive (growth) stocks over time. What impact do rate cuts have on this anomaly? Chart 5 shows that value stocks also outperform growth stocks during periods following multiple rate cuts.

Chart 3 shows similar returns information after three rate cuts. In this case, the worst 1 year return was down 1% following 3 rate cuts. Additionally, the range of returns was narrower. These charts demonstrate that several rate cuts have been more consistently positive for stocks, with higher average returns and a narrower range of returns.



In conclusion, Fed rate cuts have been associated with positive stock returns subsequent to those cuts. Additionally, the size and value effects remained robust during these periods. Taken together, we think there is good reason for optimism regarding stock returns in the coming year.