

MARQUETTE ASSET MANAGEMENT, INC.



Investment Management and Trust Services for Individuals, Families and Institutions • Trust Services provided by Marquette Trust

FEATURED

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COMMENTS ON THE HOUSING MARKET

James Rovner
Senior Vice President,
Senior Investment Officer

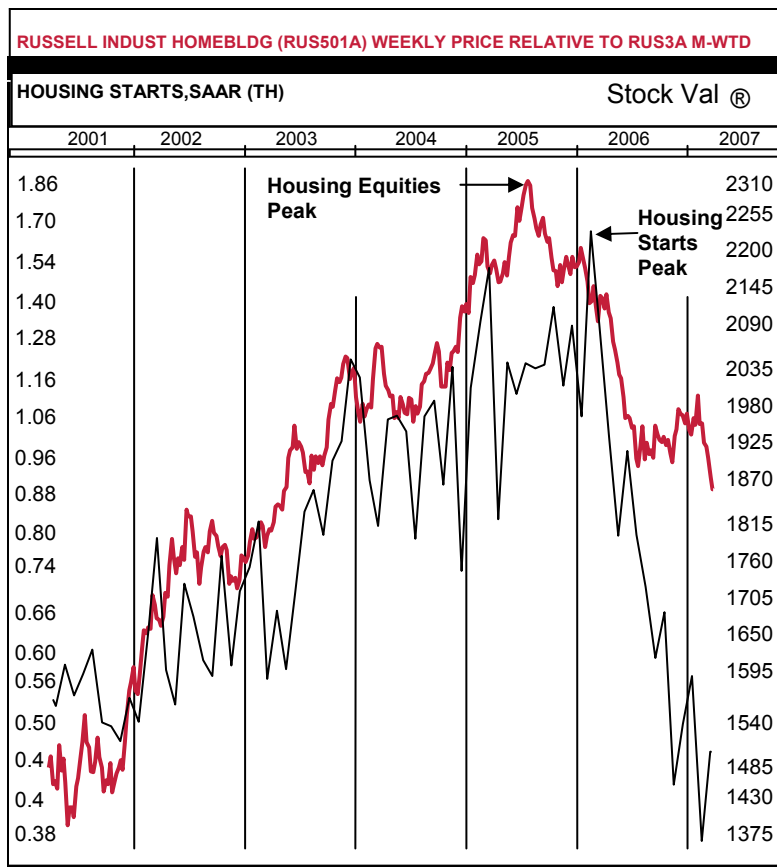
Until this year, when someone mentioned subprime, you may have thought of a slightly lower quality cut of beef and were not quite sure how it would taste. In the mortgage market, a subprime loan is of lower credit quality, and many of these loans are leaving a bad taste in lenders' mouths.

As home prices rose, lenders loosened their standards, reasoning that a continued rise in home prices would protect them in the event of defaults. Now, as home prices have leveled off and declined in certain markets, some borrowers are simply walking away from their loans. Many of these defaults are by speculators who never intended to live in the home in the first place. This has caused a spike in defaults forcing many subprime lenders to exit the business due to mounting losses. It has also had the effect of curtailing that segment of lending, which will most likely prolong the housing slump. Fewer buyers will qualify as lending standards inevitably tighten. The growing inventory of unsold homes will take longer to work off. Ultimately, the change is positive as it puts home ownership in stronger hands.

If you are looking to purchase a home, especially in areas where speculation got out of hand such as Arizona and Nevada, you should find good deals for at least the next year. Since excess home inventory cannot be physically moved, other geographic areas, such as the Midwest, should see price stabilization sooner. A person in a strong financial position may see even better opportunities.

Unlike a totally unanticipated event such as an oil shock or terrorist event, the brewing trouble in the housing sector was well known. As mentioned in this and past Economic Outlooks, we have anticipated the housing problems and factored them into our forecasts. As the old adage goes, "sell on the rumor, buy on the news." We believe the current environment may create investment opportunities. The demand for housing and credit is not going away. As weak players exit the market, stronger companies will find a better environment for their businesses.

The stock market anticipates change. Housing related stocks began to underperform in July 2005, about six months before housing starts peaked (see chart). After a brief recovery, they continue to underperform the over-



all market. Negative news has been incorporated into the price of these stocks for close to two years.

The market also anticipated the problems in the subprime area. The stocks of the lenders peaked on a relative basis even earlier in the last quarter of 2004, well before home sales turned down in January 2006. The risks in the companies' loan portfolios existed; they are only now being properly recognized. The extent of the problem is greater than first thought, but the implications are now clearer. The "news" is: underwriting standards will be tightened, loan reserves will be increased, and bad loans will be written off.

At Marquette Asset Management, our high quality fixed income portfolios do not have exposure to the esoteric subprime credits that many purchased to garner a small incremental yield. The portfolios we manage continue to be of extremely high quality.

ECONOMIC UPDATE

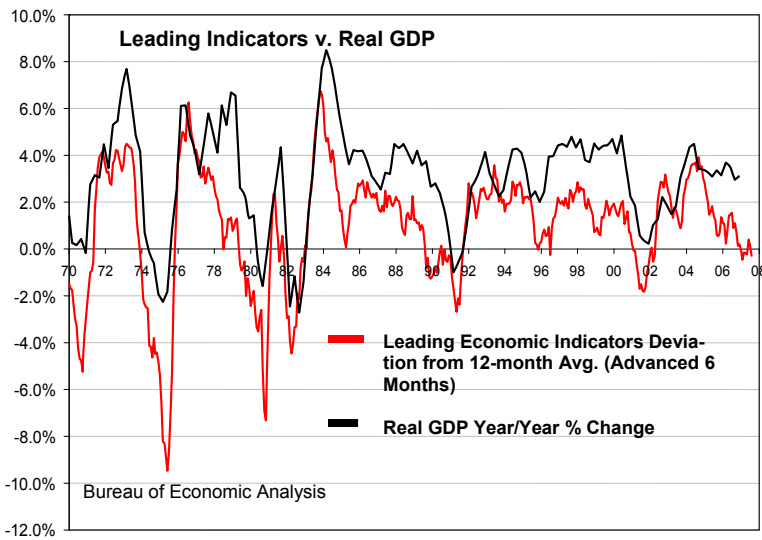
John C. Beuerlein

Managing Director,
Chief Investment Officer



ECONOMIC GROWTH

The economy remains in the midst of a mid-cycle slowdown. Annual growth of real gross domestic product (GDP) in 2006 was 3.1% vs. 3.2% in 2005. Industrial Production is growing at a 3.4% rate for the twelve months ending in February – this is down from the peak growth rate of 6.0% recorded last September. Leading indicators continue to point to the likelihood of further slowing in these measures over the upcoming months (see graph).



Real Personal Consumption Expenditures (PCE) increased 4.2% in the 4th quarter compared to 2.8% in the 3rd quarter. This increase was largely attributable to the sharp drop in energy prices which acted as a tax cut to consumers.

The housing sector continues to be a drag on GDP growth and is the primary risk to economic growth in 2007. Real residential fixed investment decreased by 19.8% in the 4th quarter, following an 18.7% decrease in the 3rd quarter. The weakness in the housing sector coupled with the softness in the auto sector lowered 4th quarter GDP by 1.4%.

Although consumer spending has held up remarkably well, the growth in capital spending by businesses is decelerating as profit growth is expected to slow in 2007. With the continued anticipated drag from the housing sector, it is unlikely to see any substantial strengthening in the economy until the Federal Reserve adopts a more accommodative monetary policy. With these factors in mind, GDP growth is expected to remain in the 2.0% - 3.0% range over the upcoming 2 to 3 quarters.

On the corporate side of the ledger, results for the 4th quarter indicate that profits continue to grow and bolster corporate balance sheets. Going forward, however, corporate guidance is pointing toward more subdued profit growth

in 2007 as corporations are losing pricing power.

On the global front, the Organization for Economic Cooperation and Development (OECD) reports that their leading economic indicator is at a record high, while OECD core inflation is 2.2%. World growth has been 4.8% - 5.4% for the past three years. Expectations are that 2007 will see overall world growth in the high 4% range.

INFLATIONARY PRESSURES

On a year over year basis, the Consumer Price Index (CPI) is up 2.4% through February and the Producer Price Index (PPI) is up 2.6%. These figures have come down substantially since the peak readings in June 2006 of 4.3% for the CPI and 4.9% for the PPI. Removing the impact of energy and food prices, the Core CPI remains elevated at 2.7% through February 2007 and the Core PCE is 2.4%. These core figures have eased only slightly from their 6 month peaks. The Fed would like to see the Core PCE (its preferred measure of inflation) under 2.0%.

The Fed's expectation that a slowing economy will encourage a slowing in core inflationary pressures has been only partially realized so far. The Fed is anticipating that slower economic growth will reduce demand for commodities as well as relieve any budding wage pressures. The Fed remains concerned about the tightening of resources as evidenced by the current 4.4% unemployment rate and the 82.0% capacity utilization ratio. Despite this concern, the Fed is unlikely to tighten monetary policy another notch without clear evidence of increasing inflationary pressures.

Unit labor costs (as of 4th quarter 2006) are at the high end of their 20 year range, and recent productivity readings are below average over the same period. Both of these measures are being impacted by the slowing economic data at the same time that employment continues to advance.

The Fed's central tendency forecast looks for core consumer prices to moderate as last year's "outsized" rise in shelter costs is unlikely to persist and inflation expectations remain anchored. Core PCE is expected to be in a 2% - 2.25% range through the end of 2007, and falling into the 1.75% - 2% range in 2008.

EMPLOYMENT

Year over year payroll growth, which peaked at 2.1% in early 2005, is currently at 1.5% through February. A weakening in employment growth corroborated with increasing unemployment claims would be an indication of softening economic conditions. On that last point, there has been a slight increase in the trend of initial unemployment claims. This bears watching over the coming weeks.

The unemployment rate is currently 4.4%. Earlier in this recovery, the unemployment rate peaked at 6.3% in June of 2003. The Fed is aware of the inflationary implications associated with a very low unemployment rate. We are finally starting to see some increases in real wages. The Fed is concerned that these increases in the cost of labor will be passed on to consumers rather than being absorbed by businesses, thus creating inflationary pressures. So far, this has not occurred.

Corporations are already showing some reaction to slowing profit expectations by their reduction in the growth of orders for durable goods. (Continued on page 3)

Special Event! Economic Presentation by John Beuerlein, CIO of Marquette Asset Management,

(Economic Update continued from page 2)

When corporations turn cautious, there is always the possibility that employment growth will be jeopardized. The employment landscape, while still healthy, may raise some concerns until the economy moves out of this mid-cycle slowdown.

CORPORATE PROFITS

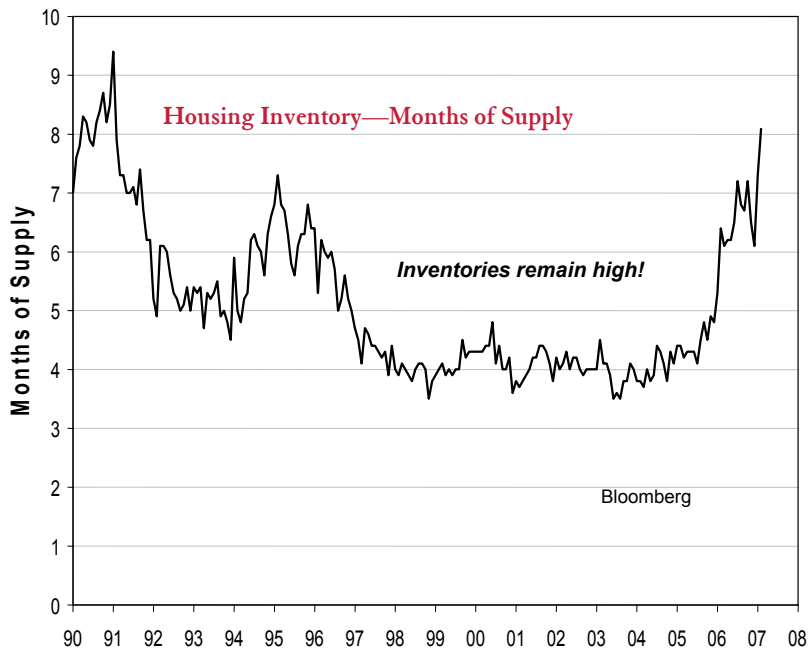
While the 4th quarter's S&P operating earnings were 9.3% higher than that of the 4th quarter of 2005, the guidance from corporations going forward in 2007 is more subdued regarding profits. Expectations are for profits to grow 4% - 6% in 2007. The impact of deteriorating sales growth is beginning to be reflected in the corporate bottom line. Deterioration in year over year retail sales is a result of the ongoing contraction in liquidity for the past 2 years.

Liquidity remains near its low levels of the past 2 years, although it appears to be forming a trough. Economic data is indicating that the slowdown in the U.S. is legitimate, and thus the necessary slack in the economy is developing that would allow the Fed to commence an expansion of liquidity growth.

Retail sales typically don't start to improve much until liquidity actually expands – and profit growth typically follows the improvement in retail sales. The sooner liquidity can start expanding, the better it should be for the durability of the economic recovery.

HOUSING

Housing remains the primary downside risk to the economy in 2007. While some have expressed the opinion that the residential market is stabilizing, statistics highlight the fact that inventories remain too high (see graph) and affordability remains too low. February new home sales were down 18.3% compared to February 2006.



Disruptions in the subprime mortgage market are leading to a repricing of risk. Regulators have called for a tightening of lending standards. The recent Fed's Senior Loan Officer Survey indicated that about 15% of domestic banks had tightened credit standards on residential mortgage loans over the past three months, the highest reading since the early 1990's. Tighter lending standards will slow down the digestion of the excess inventory in the system and may cause even more inventory to be added as refinancings are impacted. Fortunately, to date, there is little evidence of spillover from the subprime mortgage market into the broader financial system.

Significant improvement in inventories will be linked with an improvement in home affordability. Of the three factors that impact affordability – price, income, interest rates – it is most likely that the majority of improvement in affordability will have to come from lower prices.

STOCK MARKET

Volatility in the equity market has increased as uncertainty about the future path of the economy has increased. Risks at this point in the market are centered around the trend of inflationary pressures and growth prospects for the economy. A strong economy raises concerns about increasing inflationary pressures and the likelihood that monetary policy would need to be tightened further. Weaker growth raises concerns about the economy slipping into recession. Until the economy begins to emerge from this mid-cycle slowdown, data will be strong one month and weak the next – adding to the level of uncertainty and market volatility.

Equity valuations continue to become more attractive as earnings grow at double-digit rates. One year forward price/earnings ratios are under 15 and back to levels seen in the mid 1990's.

SUMMARY

- The economy is growing at a below trend pace that should allow inflationary pressures to ease.
- The housing sector remains weak, but at this time the softness in the housing sector has not spilled over into other sectors of the economy.
- Consumer spending remains remarkably resilient in the face of the softness in the housing sector.
- At this stage of the economic cycle, inflation is the key to future Fed monetary policy.
- Headline inflation measures have declined sharply as a result of lower energy prices, but the core measures have remained above where the Fed would like to see them.
- An unexpected increase in inflationary pressures would cause monetary policy to become more restrictive than expected with negative economic ramifications.
- The stock market and bond market are encountering a period of uncertainty about the vitality of the economy which, in turn, causes increased volatility.
- The fundamental underpinnings of the economy appear sound at this time, i.e. a soft landing in the economy remains the most likely course.
- Equity valuations remain reasonable on an absolute basis, and very favorable on a relative basis when compared to bond valuations.



SO, YOU ARE A TRUSTEE?

Betty Anderson
Senior Vice President

It began with a simple “Yes” or “Okay” or “I guess so” or maybe an emphatic “Of course!” You are now the Trustee of a trust created by your parents, your sibling, your close friend. Just what are your duties and responsibilities? And to whom are you accountable?

Unfortunately, there are no simple guides through the maze of legal, accounting, tax, investment, and relationship challenges, so it is important to have professional counsel and capable assistance. Professor George T. Bogert’s book **Trusts** and Professor Austin Wakeman Scott’s **Scott on Trusts** have been the definitive treatises on the subject for years. Below are listed some of the basic duties of a trustee which these texts describe.

DUTY TO ADMINISTER THE TRUST

Being a trustee is not a passive job. A trustee is obligated to provide for the active management of the assets in his/her care and administer the trust according to its written terms. This requires reading and understanding the trust document and its provisions for distributions to beneficiaries, special tax planning objectives, any restrictions on investments, and frequency of accountings, to name just a few.

DUTY TO TAKE CONTROL

The trustee must marshal all assets and retain control over their management and disposition. If there is a corporate trustee, it oversees custody of the assets and maintains the books and records of the trust.

DUTY OF LOYALTY

The trustee must place the interests of the beneficiaries above his/her personal interests. He/she may not use trust property for personal gain or purposes unrelated to the trust. The potential for conflicts may be especially present when a family member is also a trustee. The trust instrument may address these situations by specifically authorizing arrangements which, on their face, may pose conflicts. In any event, a trustee must observe the duty of loyalty and any potential conflicts should be fully disclosed.

DUTY OF CONFIDENTIALITY

The trustee must not disclose the terms of the trust or the identity of the beneficiaries to anyone other than a beneficiary or as needed to assist in the administration of the trust. In addition, the trustee must not disclose any personal information about the beneficiaries that he/she learns in the process of administering the trust.

DUTY OF IMPARTIALITY

Unless otherwise specified in the trust document, the trustee must not favor one beneficiary or class of beneficiaries over another. The trustee must balance the needs of the income beneficiaries and remaindermen (those who receive the trust at termination), and cannot show favor to one to the detriment of another.

DUTY TO SEGREGATE TRUST PROPERTY AND RENDER ACCOUNTS

Trust property must be held in separate accounts which clearly identify the property as that of the trust. The trustee is required to keep detailed

records of the administration of the trust, including all transactions, asset market values, and cost bases. Accountings must be sent to the beneficiaries and, in some cases, are required to be filed with the Court.

In the next issue, we will look at several responsibilities of a trustee that pertain to investment management. Marquette Asset Management is frequently called on to provide individual trustees with investment management and other administrative services. Where a corporate trustee is needed, our affiliate, Marquette Trust can be named directly to administer the trust and manage its assets for the trust beneficiaries. We have an experienced team of professionals ready to assist you.



INTRODUCING...

Phil Ebner
Vice President

We are delighted to introduce you to Phil Ebner, our new Vice President. Phil is responsible for developing client relationships and assisting clients with investment strategies. Phil is a Certified Alternative Investment Analyst and a member of the Investment Management Consultants Association. Prior to joining Marquette Asset Management, Phil was a SVP at Mount Yale Capital Group, LLC, a co-founder of Private Accounts LLC, and an advisor with Prudential Securities. A former captain of the U of M men’s golf team, Phil currently serves on the Board of Directors for the University of Minnesota “M” Club, which supports scholarships.

SPECIAL EVENTS

ECONOMIC PRESENTATION BY:
John C. Beuerlein

CIO of Marquette Asset Management
Chief Economist of Marquette Financial Companies
Tuesday, May 8, 2007

7:30 a.m. breakfast at The Westin Minneapolis or
6:00 p.m. cocktails at Interlachen Country Club
R.S.V.P. to Lisa Jacobson at 612-661-3728 by April 30th.

OUR GUIDING PRINCIPLES

Integrity	The core of who we are and the way we live
Expertise	Knowing our profession and practicing it with passion
Advocacy	Being active champions of our clients’ financial interests
Confidentiality	Ensuring client privacy

These statements are the opinion of Marquette Asset Management, Inc. and are subject to change without notice. This information is not intended to be used as the primary basis for investment decisions and should not be construed as advice designed to meet the particular investment needs of any investor, as individual investment plans will vary based on investment objectives and a number of additional factors. Please remember that past performance is no indication of future results and this publication makes no representation concerning actual future performance of the markets or economy. Please consult with your tax preparer and/or legal counsel as appropriate. Trust services are provided by Marquette Trust, an office of Meridian Bank, N.A.