

TO: Agency Depositors
 FROM: Rick Brown, Ed.D., CFRE; Executive Director,
 Desert Southwest United Methodist Foundation
 RE: Monthly Statements for December '07
 DATE: January 10, 2007



The Rate of Return (Net of Fees) for December was: **+0.191%**
 The Rate of Return (Net of Fees) for the Y-T-D is: **+6.975%**

A comparison of the Foundation's Portfolio performance vs. the major indices is shown below. The indices do not contain expenses. The DSUMF portfolio contains up to 60% in stocks, up to 30% in bonds, and up to 10% in Managed Futures.

<u>Index</u>	<u>Dec. ROR % (Gross of Fees)</u>	<u>Y-T-D ROR % (Gross of Fees)</u>
S & P 500	-0.8628	+3.5296
DOW Jones Industrial	-0.7994	+6.4323
NASDAQ	-0.3262	+9.8121
60% / 40% (SP500 / Aggregate Bond)	-0.3000	+6.100
DSUMF	+0.346	+8.914

On the bright side, existing-home sales rebounded a bit and factory orders surged in November. Overshadowing these positives, though, were weak employment growth in December and continued downturns in the outlooks for the manufacturing and services sectors. The S&P 500 Index finished 2007 with a total return of 3.5%. For the week, the index fell 4.5% to 1,412 and the yield of the 10-year U.S. Treasury note fell 22 basis points, to 3.85%. As you can see from the chart above, however, our investment practices generated an 8.9% rate of return for 2007 (gross) and a net return to you of 6.975%, which is almost double the return experienced by the S & P 500.

December Fed meeting minutes reveal concern over slowing growth: The minutes of the Federal Reserve Open Market Committee's December 11 meeting—at which the committee cut its target federal funds rate by 0.25 percentage point—showed that the nation's top bankers saw a slowdown in economic growth in the fourth quarter coupled with a deterioration of financial market conditions and consumer spending. The minutes also revealed committee members' concerns that economic growth would remain well below potential in 2008.

December job growth slowest in more than four years: Nonfarm payrolls showed their weakest growth in December since August 2003, according to the Labor Department. The economy added just 18,000 jobs, far below expectations of a 70,000 increase. For all of 2007, job growth totaled 1.3 million, far below the 2006 level of 2.3 million. For 2007, unemployment averaged 4.6%, the same as in 2006.

Manufacturing and services activity continue slowdowns: Separate surveys released this week confirmed that activity in the manufacturing and services sectors continues to cool. In the Institute for Supply Management's (ISM) survey of the manufacturing sector, the benchmark ISM Index registered 47.7. (A reading below 50 implies a contraction; above 50, an expansion.) It was the first time the index dipped below the 50 threshold since January 2007 and marked the sixth consecutive monthly decline. Five subindustries reported growth, while eight showed contraction.

Existing-home sales better than expected: The National Association of Realtors announced that sales of existing homes grew slightly in November, rising to an annualized level of 5 million units from October's 4.98 million. However, the number of sales was off 20% from the year-ago level of 6.25 million. The inventory of homes for sale dropped slightly, from 10.7 months in October to 10.3 months. Although median sales prices rose from October, they were still 3.3% lower than a year ago. The national median sales price was \$210,200, versus \$217,300 in November 2006.

Higher construction spending defies expectations

Spending on U.S. construction projects grew a modest 0.1% in November, better than analysts' predictions. The private construction category dropped 0.7% as weakness in residential construction persisted. Compared with year-ago figures, private residential spending was 17.8% lower. Spending on private non-residential buildings—such as offices, churches, hotels, hospitals, and commercial facilities—rose 1.7% for the month. Public, or government, construction grew 2.5% in November, up 16.2% versus the year-ago level.

Factory orders surged in November: New orders for manufactured goods grew 1.5% in November, following October's upwardly revised increase of 0.7%. November's increase surpassed analysts' expectation of a 0.5% gain. Higher orders for nondurable goods continued to make the largest contribution as orders for durable goods declined just slightly, although much less than they had in the previous three months. A "core" reading of business investment in nondefense capital goods (excluding aircraft) decreased 0.1%, significantly better than October's 3.0% drop.

All in all, the 2007 markets provided us a wild ride. The volatility in all segments of the markets (Large Cap, Mid Cap, Small Cap, and Fixed Income) provided for some of the most volatility in the markets since September 11, 2001. Our "steady as she goes" management style continues to provide the best rate of return for the least amount of volatility that you can find anywhere.

We will be making a change in our asset allocation during the Month of January. After three monthly meetings of the Investment Committee during the last quarter of 2007, a decision was made to further diversify our portfolio, which automatically lowers our portfolio's risk level. In addition to more diversification, we're adding another asset manager in the Managed Futures area. This move is expected to increase the possibility of our portfolio performing a little bit better.

Finally, as many of you will remember, we will issue your FINAL year-end statement and the beginning 2008 statements when our audit is complete. Our auditors are scheduled to complete their field testing prior to the end of this month. Look for your final year-end statement and your January and February statements in March.

Thank You for continuing to be a member of our Investment Services Family!