The S&P 500 barely managed to hang onto a gain for the first quarter, advancing just 0.64%. Mid sized companies as represented by the S&P MidCap 400 lead the market with gains of 5.80% for the quarter and the S&P SmallCap 600 returned 3.21%. Value stocks outperformed growth stocks with the S&P 500/Citigroup Value Index returning 1.34% versus the S&P 500/Citigroup Growth Index return of -0.09%. The best performing sectors were Utilities and Basic Materials, returning 8.43% and 8.38% respectively and the worst performing sectors were Financials and Technology, returning -3.44% and -1.10% respectively.

The final report for national economic growth showed the GDP advancing 2.5%, a revision 0.3% higher than the preliminary estimates. The unemployment rate remains around 4.5% with a final reading of 531 thousand jobs being added in the fourth quarter and preliminary estimates of 243 thousand jobs added in the first two months of this year. Finally, in their meetings during the first quarter, the Federal Reserve Open Market Committee decided to keep the fed funds rate the same, at 5.25%, where it has been since the end of June 2006.

Economic and market news was interesting on a number of fronts during the quarter. One of the main stories was the beginning of a shake up in the sub-prime mortgage market. This market includes companies that offer higher risk mortgages as well as the companies and investors that buy these mortgages after they are securitized. The big news in this area broke when one publicly traded company, New Century Financial, announced that, because of the poor performance of the loans it originated, it was unable to get further funding for loans and would cease originating them. Currently, New Century is in the process of filing for bankruptcy protection. The result of these events unfolding was felt throughout the financial sector and led to the sector's poor showing for the quarter.

A number of events surrounded tensions with Iran. For the majority of the quarter, the issue in the news was the West's insistence that Iran forego its nuclear program which Iran continues to claim is for peaceful purposes only. More recently, however, was the capture of 15 British soldiers off the Iranian coast where Iran claims the soldiers were trespassing in Iranian waters. The net effect of these events has been continued instability in the oil market as Iran is one of the world's largest oil suppliers. Currently oil is trading at over $64 a barrel after being as low as $52 in the middle of January.

We will continue to monitor these events closely. We feel, as does the fed, that forces of inflation and economic growth are in balance. Clearly the economy and corporate earnings are slowing; however, earnings are still advancing and as inflation pressures abate the multiple the market is willing to pay for those earnings should increase. This would provide decent double digit returns for equities which compares quite favorably to the 4.5% yield on 10 yr treasuries.

We will continue to focus on our knitting and look for stocks and or ETF's which rank favorably on our valuation models and which fit with our outlook for the economy and markets.

Over the next quarter, I plan on contacting each one of you to discuss your investment situation. I look forward to speaking with each one of you and helping you plan for achieving your goals. Thanks again for your continued support.

In order to provide accurate and timely reports we are requesting your email address so that we can send quarterly reports and updates via email. Please forward your email addresses to Tracy Taylor at ttaylor@hutchco.net. We will continue to send hard copies and will be checking with you in the future to see how you are enjoying the new service we are providing.

Sincerely,