Schaper, Benz & Wise
INVESTMENT COUNSEL, INC.

Economic and Market Summary

April 2008

All financial crises are different yet they share a common thread. Throughout history, financial crises have been precipitated by government scandal, oil embargos, double-digit inflation, currency devaluations, bank failures, and asset bubbles. Today's crisis is unique in that the credit and housing problems are amplified by an increasingly complex, highly leveraged, and globally intertwined financial system. The common thread among all crises is fear which intensifies even as the market approaches a bottom. During these turning points, the mood is bleak and confidence is low. News headlines are spun in a negative light. Putting these emotions aside, the issues facing us today are manageable. As in the past, we will find a way through this tumultuous period.

The Federal Reserve is taking aggressive and creative actions in an effort to restore confidence in the financial system. Banks across the globe have grown wary of lending to one another because of worries that counterparties may have undisclosed losses and solvency issues. Recently, the Federal Reserve accepted responsibility for billions of Bear Stearns' securities for which there was no market, and thus no currently quantifiable value. The decision to facilitate the buyout of Bear Stearns by JP Morgan Chase is consistent with the bold actions Chairman Bernanke has employed in responding to concerns about economic growth and financial market stress. Over the last eight months, the Federal Reserve has lowered the interest rate on short term interbank loans (federal funds) from 5.25% to 2.25% and hinted at potentially more rate cuts to come. Although it may take some time for confidence to return, the process is well underway.

Economic growth has stalled recently due to anemic consumer spending. Slowing income growth, combined with the run-up in energy and food prices, has taken a bite out of discretionary purchases. With the housing market contracting, home equity withdrawal can no longer be counted on to fill the gap. The only clear area of strength is exports which continue to benefit from strong global economic growth and a weak dollar. The effects of monetary and fiscal stimulus should provide the foundation for a better second half of the year. We are maintaining our +1-2% U.S. GDP forecast for 2008.

While we are somewhat encouraged that core (excluding food & energy) inflation remains low by historical standards at around 2%, we note that headline inflation has been running at fairly high levels. Consequently, we are watching inflation, and inflationary expectations, closely.

The credit market disruption has created opportunities in select bonds. We also believe that compelling values are being created in the stock market. Positives for stocks include cash reserves building up in money market funds, representing enormous buying power, and significant insider buying. The S&P 500 index is also trading at about 15 times trailing operating earnings or more than a 20% discount to the average P/E (price-to-earnings ratio) over the past 20 years. While we expect further volatility as sentiment ebbs and flows in response to incoming data regarding housing and credit conditions, valuations of high quality, consistent growth companies are attractive.

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To request our SEC Form ADV Part II, please contact Michael L. Wise, Chief Compliance Officer, at the address below.

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