2ND QUARTER 2007

Dow & S&P Climb to New Highs

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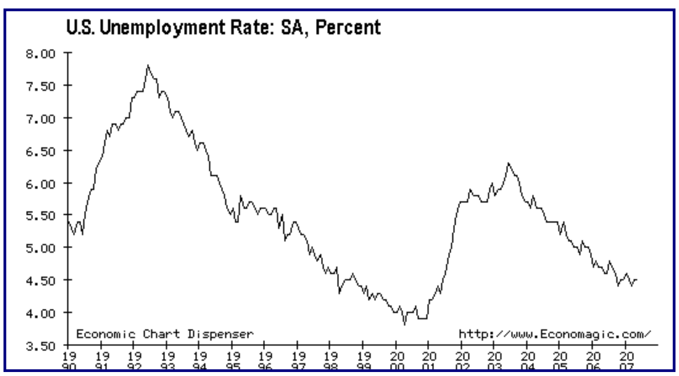
The Second Quarter of 2007 turned out to be one for the record books as the Dow Jones Industrial Average crossed the 13,000 mark and the S&P 500 topped its March 2000 high. The DJIA led all major indices with a 9.11% return followed by the NASDAQ, S&P 500 and Russell 2000 with 7.5%, 6.28% & 4.41% returns respectively. The MSCI EAFE continued its solid performance with a return of 6.67% for the quarter. The YTD shift from Small Caps to Large Caps continues to be an underlying trend.

The Federal Reserve continues to hold steady with their targeted short term rate of 5.25%. Based on the Fed's most recent language, interest-rate futures no longer forecast a rate cut anytime soon. Some investors have begun to worry that a hotter economy will keep inflation high enough that the Fed could be forced to even raise rates, which could potentially be bad news for stocks. First Quarter GDP did come in at a very low rate of an anemic 0.7%, but most analysts are predicting a much stronger 2nd Quarter. This coupled with tightness in the labor markets and high capacity utilization levels is keeping the Federal Reserve on the inflation watch.

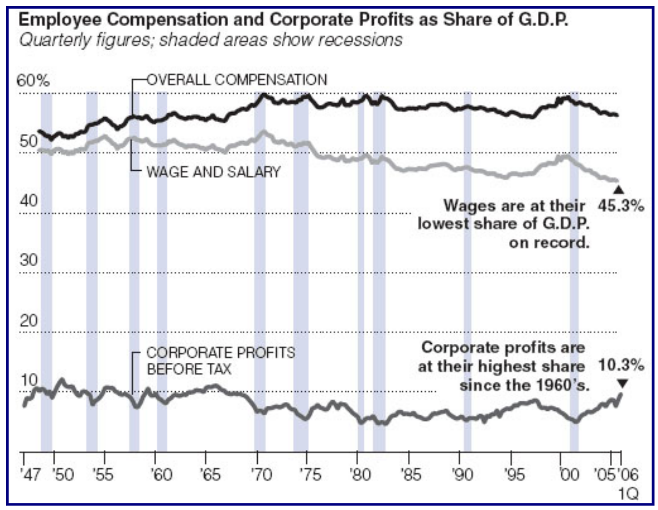


The 10-Year Treasury captured headlines in June as we saw a strong move upwards in the yield. The quarter began with a yield of 4.651% and ended at 5.034%. This caused the Lehman Aggregate Bond Index to post a -0.52% for the quarter as bond prices moved in the opposite direction as their yields. The Lehman High Yield Corporate Index squeaked out a positive 0.2% return for the quarter.

Subprime mortgage weakening continues to take most of the credit for the volatility in the markets. Hedge funds that are heavily invested in these types of loans are starting show signs of instability.

Several large global money managers have announced major problems with their portfolios that are highly concentrated in subprime mortgages. The continued sagging of the U.S. housing market will likely only make this spread across many other institutions and products.

The Global Economy is also extremely healthy which has been good for U.S. exporters, but is one of the culprits on our domestic inflation concerns. As other countries raise their rates to temper growth, this makes domestic yields less attractive and ultimately higher rates. We see this as only a mild concern.



Corporate profits are ultimately what drive stock prices. We at AFS still believe that overall economy is in relatively good shape and that equities can move higher during the rest of the year. Enjoy your Summer!

B. Keith Sproles
Chief Investment Strategist

We sincerely appreciate the business and trust you've placed with us!

Please know that we grow our business through referrals and would never be too busy to speak with a friend or family member if you think we could be of assistance.

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