

**Concern over Fannie Mae and Freddie Mac Drives Government Rescue Plan**

**Limited Impact of the Housing Bill on Banks**

**Homebuilders See Recovery Delayed to 2009**

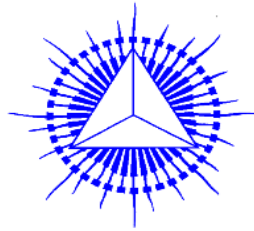
**Rally of Financial Stocks Premature**

## **130 30 Fundamentals**

**Independent Research Supporting  
130 / 30 Investment Strategies**

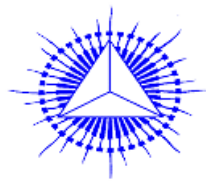
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In the new investment approach adopted by pension funds and mutual funds known as 130 / 30 investing, portfolio managers seek to add to total portfolio return by hedging a portion of their long positions with short positions in contrasting securities.

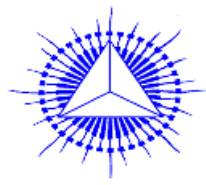
**130% long  
(30%) short**

**100% net equity**

Extension of long positions to 130% of portfolio equity, offset by (30%) net short positions, maximizes return, assuming stock selection adequately reflects strong fundamental research.

Independent research has a key role to play in 130 / 30 investment strategies. Providing industry themes and stock choices to support both long and short positions, independent research steps outside traditional Wall St. research in taking an unbiased look at the full range of portfolio options.

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Atlantis Investment Co. combines 3 research services that together provide incremental value for portfolio managers in beating the indexes:

**Atlantis Research Service**

“Growth stocks LONG and SHORT” published since 1986

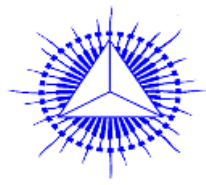
**REIT Growth and Income Monitor**

Comprehensive coverage of more than 1 30 REITs providing income and long / short opportunities published since 1997

**130 30 Fundamentals**

Combining the “Best of the Best”: **analysis of growth sectors** for long/short combinations coupled with REITs for **income** to deliver differentiated **performance** vs target indexes

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## Recommended Strategies:

### 1) Add income to the portfolio

monitor top 50 Yields in S&P 500 Index  
contrast REITs vs Banks, Utilities and other high yield groups

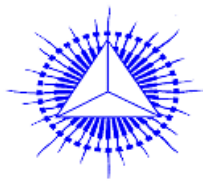
### 2) Use industry themes to target over weightings

selection of target industries based on fundamentals  
focus on multi-year trends

### 3) Combination positions - long / short contrasts

selection of stocks based on fundamental contrasts  
use of non-S&P 500 stocks long/short  
large cap Russell index stocks  
NASDAQ stocks  
selected ADRs

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## Delay in Report Issuance for Housing Bill

Normally our Yield Opportunities comments are issued during the third week of each month, using prices as of the middle of each month to determine yield rankings. During July, 2008, we are so struck by the extraordinary trading action in financial stocks, demonstrating the need for action on the GSEs (government sponsored entities), **Fannie Mae** and **Freddie Mac**, that we decided to delay issuance of our July, 2008 Yield Opportunities report until the Housing Bill emerged from the Senate in final form. Discussion of **Fannie Mae** and **Freddie Mac** begins on page 8 of this report, with comments on the impact on banks and other financial stocks on pages 11-13.

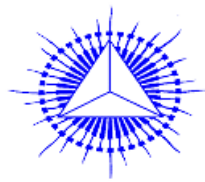
## Review of 60 day performance of BUY and SELL recommendations

A review of the last 60 days of price performance trends for our BUY and SELL list among the Top 50 Yields of the S&P 500 Index reveals a clear disparity between the banks and non-bank Lenders and other financial stocks. We see this disparity as indicating the continuing focus on credit quality issues.

As noted below, our Yield Opportunities BUY list is concentrated in Utilities, Telecom Services, and REITs, with a small selection of Consumer stocks supporting our yield picks. Our only BUY recommendation among Banks is **Bank of America**, because of the depth of capital resources and management's commitment to maintain the dividend.

Company	Sector	Ticker	Price 05/16/2008	Price 06/16/2008	Price 07/17/2008	% change since May	Current Yield
<b>BUY:</b>							
Altria Group	Consumer Staples - Tobacco	MO	\$22.45	\$20.60	\$20.65	-8%	5.62%
Ameren Corporation	Utilities	AEE	\$46.07	\$43.54	\$40.26	-13%	6.31%
Apartment Investment and Management	Financial - REIT	AM	\$40.44	\$38.00	\$35.90	-11%	6.69%
Bank of America	Financial - Bank	BAC	\$36.17	\$30.32	\$26.50	-27%	9.66%
Citizens Communications	Telecom Services	CZN	\$11.02	\$11.19	\$11.26	2%	8.88%
Consolidated Edison	Utilities	ED	\$41.65	\$40.30	\$37.99	-9%	6.16%
Developers Diversified	Financial - REIT	DDR	\$42.43	\$39.44	\$32.66	-23%	8.45%
Embarq	Utilities	EQ	\$45.74	\$46.07	\$43.22	-6%	6.36%
Equity Residential	Financial - REIT	EQR	\$44.07	\$43.30	\$41.31	-6%	4.67%
Gannett	Consumer Discretionary - Media	GCI	\$29.75	\$25.70	\$17.26	-42%	9.27%
General Growth Properties	Financial - REIT	GGP	\$43.83	\$40.30	\$29.89	-32%	6.69%
HCP	Financial - REIT	HCP	\$34.70	\$34.49	\$34.90	1%	5.21%
New York Times	Consumer Discretionary - Media	NYT	\$18.47	\$16.57	\$13.29	-28%	6.92%
Philip Morris International	Consumer Staples - Tobacco	PM	\$53.38	\$50.73	\$50.96	-5%	3.61%
Pinnacle West Capital	Utilities	PNW	\$34.20	\$32.53	\$31.22	-9%	6.73%
Progress Energy	Utilities	PGN	\$42.02	\$43.12	\$40.84	-3%	6.02%
Qwest Communications	Telecom Services	Q	\$4.76	\$4.19	\$3.80	-20%	8.42%
Reynolds American	Consumer Staples - Tobacco	RAI	\$54.22	\$51.35	\$50.99	-6%	6.67%
Windstream Communications	Telecom Services	WIN	\$13.22	\$13.21	\$11.93	-10%	8.38%
Verizon Communications	Telecom Services	VZ	\$38.77	\$36.24	\$35.43	-9%	4.85%

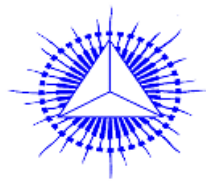
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Our SELL list includes almost all of the banks among the Top 50 Yields of the S&P 500 Index, as well as **KB Home**, a homebuilder, and 2 insurance companies, **Cincinnati Financial** and **XL Capital**, both with unique exposures to credit risks. Our SELL list also includes a REIT, **Host Hotels & Resorts**, the largest of the publicly traded Hotel REITs, due to earnings exposure to lower travel expenditures resulting from high gasoline prices and airfares, as well as the slowing US economy.

Company	Sector	Ticker	Price 05/16/2008	Price 06/16/2008	Price 07/17/2008	% change since May	Current Yield
<b>SELL:</b>							
American Capital Strategies	Financial - Non-bank lender	ACAS	\$32.82	\$29.21	\$21.54	-34%	19.13%
BB&T Corporation	Financial - Bank	BBT	\$34.28	\$27.34	\$27.63	-19%	6.80%
Cincinnati Financial	Financial - Insurance	CINF	\$35.51	\$31.50	\$24.51	-31%	6.36%
Citigroup	Financial - Bank	C	\$23.12	\$20.83	\$17.97	-22%	7.12%
Comerica	Financial - Bank	CMA	\$38.34	\$32.02	\$28.18	-26%	9.37%
Fannie Mae	Financial - Non-bank lender	FNM	\$29.89	\$25.60	\$10.93	-63%	12.81%
Fifth Third Bancorp	Financial - Bank	FITB	\$20.48	\$13.56	\$13.76	-33%	4.36%
First Horizon National	Financial - Bank	FHN	\$9.91	\$8.69	\$8.22	-17%	9.73%
Host Hotels & Resorts	Financial - REIT	HST	\$18.47	\$15.51	\$12.76	-31%	6.27%
Huntington Bancshares	Financial - Bank	HBAN	\$9.40	\$6.67	\$7.98	-15%	6.64%
KB Home	Consumer Discretionary - Homebuilder	KBH	\$25.57	\$19.00	\$18.00	-30%	5.56%
KeyCorp	Financial - Bank	KEY	\$23.72	\$11.80	\$10.77	-55%	6.96%
Marshall & Ilsley	Financial - Bank	MI	\$24.71	\$19.21	\$14.52	-41%	8.82%
Regions Financial	Financial - Bank	RF	\$20.17	\$13.75	\$9.79	-51%	15.53%
SunTrust	Financial - Bank	STI	\$56.01	\$44.55	\$34.58	-38%	8.91%
US Bancorp	Financial - Bank	USB	\$33.91	\$31.38	\$27.54	-19%	6.17%
Wachovia	Financial - Bank	WB	\$27.39	\$18.13	\$13.44	-51%	11.16%
Wells Fargo	Financial - Bank	WFC	\$28.95	\$26.38	\$27.83	-4%	4.46%
XL Capital	Financial - Insurance	XL	\$35.45	\$30.63	\$19.25	-46%	7.90%
Zions Bancorp	Financial - Bank	ZION	\$44.05	\$37.16	\$27.51	-38%	6.25%

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### Concern over Fannie Mae and Freddie Mac

Events of the past 30 days among financial stocks appear set to be the subject of analysis for many years, as July, 2008 becomes known as the time when rampant fear forced Federal intervention to design a rescue for **Fannie Mae** and **Freddie Mac**. The precipitous decline in **Fannie Mae** and **Freddie Mac** began in October, 2007, with both of the stocks down more than (40%) by the end of 2007. The slide continued through the first 6 months of 2008, with **Fannie Mae** down (59%) and **Freddie Mac** down (43%) through June 30, 2008. This gradual decline during early 2008 now appears uneventful in contrast to the price action for **Fannie Mae** and **Freddie Mac** during the first 2 weeks of July, 2008, when both stocks suddenly tumbled again, with **Fannie Mae** down (47%) and **Freddie Mac** down (78%).

The July, 2008 panic appeared to be the result of speculation that accounting adjustments for **Fannie Mae** and **Freddie Mac**'s balance sheets for mark-to-market adjustments for 2Q 2008 would prove the fundamentally necessary GSEs (government sponsored entities) to be insolvent. Rumors spread that an infusion of Treasury capital would dilute or even eliminate shareholder capital. Public discussion of the "conservator" option for government intervention appeared to have the same impact on holders of publicly traded stock in **Fannie Mae** or **Freddie Mac** as irrevocable bankruptcy.

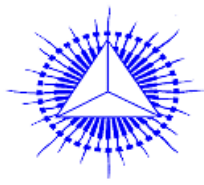
Continuing the role of **Fannie Mae** and **Freddie Mac** in the market for publicly traded mortgage debt is an important international issue. Foreign holdings of GSE debt totaled \$1.3 trillion as of June, 2007, including \$570 billion of asset-backed securities, according to Treasury Foreign Portfolio of US Securities, a report issued in April, 2008. Total foreign purchases of GSE backed securities totaled \$18.7 trillion for March, 2008, \$15.3 trillion for April 2008, and \$24.2 trillion for May 2008, according to Treasury International Capital Report of July, 2008. Any possibility of default by **Fannie Mae** or **Freddie Mac** could ignite a worldwide financial panic, a risk that the Treasury could not even contemplate. Although almost all of the stock of **Fannie Mae** and **Freddie Mac** is held by domestic institutional investors, sudden speculation regarding the possibility of insolvency was exaggerated by stock price decline. The Treasury had to act quickly.

The panic continued for days, as Treasury Secretary Paulson met with President Bush and Congressional leaders, while issuing reassuring but unspecific statements for the press as framework of a planned rescue took shape. Revealed on July 14, 2008, Treasury Secretary Paulson's proposed plan enables both **Fannie Mae** and **Freddie Mac** to turn to the Treasury for up to \$2.25 billion of emergency capital. Short term (repo) financing is to be made available through the Federal Reserve Bank of New York. Both companies are to commit to raise \$5 billion through traditional debt financing in the public markets. Treasury Secretary Paulson made it clear that the government's plan views public shareholders as a necessary source of equity, proving the independence and integrity of **Fannie Mae** and **Freddie Mac** as entities dedicated to their mission of supporting the market for securitized MBS securities through purchase and sale of conforming loans.

Each facet of Treasury Secretary Paulson's plan requires a new regulatory framework to be supported by legislation. Approval of the plan required a vote by the House of Representatives and the Senate, as well as President Bush's signature. Certain features of Treasury Secretary Paulson's plan, but not all, were incorporated into the Housing Bill. The House of Representatives passed the Housing Bill on July 25, 2008 and the Senate approved it on July 27, 2008. President Bush is expected to sign the bill on Tuesday, July 29, 2008. We are still in an uncertain time before this new regulatory framework is in place.

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Rally in the financial stocks in response to announcement of Secretary Paulson's plan on July 14, 2008 appears to give the plan adequate time to be put in place. Relief that the Treasury was prepared to act quickly drove the stocks of both **Fannie Mae** and **Freddie Mac** back up, with **Fannie Mae** up 72% as of July 22, 2008 and **Freddie Mac** up 128% from the low stock price on July 14, 2008.

Final provisions of the Housing Bill include the following:

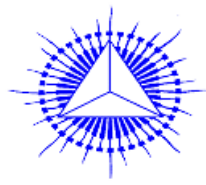
- 1.) Both **Fannie Mae** and **Freddie Mac** will have the current limit of \$2.25 billion in loans from the Treasury lifted on a temporary basis until January, 2009.
- 2.) Treasury is empowered to take an equity stake in either company in response to an emergency situation with the equity option to expire in January, 2009.
- 3.) A new regulator is to be created, with the primary mandate of setting appropriate capital levels for **Fannie Mae** and **Freddie Mac**, supported by broad powers to coordinate Treasury action with other agencies
- 4.) Federal Housing Administration is authorized to refinance up to \$300 million in non-performing mortgages to be acquired from **Fannie Mae** and **Freddie Mac**.
- 5.) Cap on conforming loans has been increased by 50% to \$625,500, significantly broadening the ability of **Fannie Mae** and **Freddie Mac** to purchase loans originated in states with high home values.
- 6.) Certain first-time home buyers are eligible for a tax credit of \$7,500.
- 7.) Foreclosure prevention programs will be funded up to \$20 million.
- 8.) Local governments have authority to issue up to \$11 billion of tax exempt bonds to refinance non-performing loans.
- 9.) Communities burdened with maintenance of abandoned properties may apply for federal grants to purchase and repair homes, funded up to \$9 billion.
- 10.) Federal debt limit has been increased by \$800 billion up to \$10.6 trillion.

The Housing Bill makes reference to a Congressional Budget Office finding that the probability is less than 50% that Treasury will need to use emergency measures to save **Fannie Mae** and **Freddie Mac**, making the cost to US taxpayers negligible. If a rescue is required, the Congressional Budget Office estimates the cost of rescue action at \$25 billion, with a 5% probability that the cost could be \$100 billion.

While critics of the Housing Bill complain the Treasury now has a "blank check" to spend as much as desired to rescue **Fannie Mae** and **Freddie Mac**, we are concerned that Treasury's authority to act may end too quickly. Rally in the financial stocks in response to Treasury Secretary Paulson's plan has already occurred. The mortgage markets will take at least 6 more months to recover, with uncertain impact from further softening of the US economy on home prices adding normal cyclicality to this unusual crisis

The mortgage securities market now awaits renewed purchasing by **Fannie Mae** and **Freddie Mac**. Both were actively purchasing mortgages in the secondary markets through the end of June, 2008, and both pulled back from buying loans in July, 2008, pending availability of Treasury support. Now that the Housing Bill has been signed, capital availability to fund new purchases is no longer in doubt. Auctions for **Fannie Mae** and **Freddie Mac** bonds have continued through the third week of July, 2008 in a normal tone, with sufficient bids to complete proposed refinancings, albeit with a wider spread versus Treasuries than previously paid. **Fannie Mae** sold \$2 billion in 3 month notes at 2.48% on July 16, 2008, at a spread of 1.14% over Treasuries, compared to a spread of less than 0.50% for a previous financing. **Fannie Mae's** accompanying 6 month notes sold at 2.68%, at a 0.84% spread over comparable Treasuries.

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Investors are beginning to focus on differences in the risk profile of **Fannie Mae** and **Freddie Mac**, an analysis that should determine differentiated valuation parameters for each stock. **Fannie Mae**, with a market cap and an asset value twice that of **Freddie Mac**, has long enjoyed the status of special capital withdrawal rights on US Treasury funds, rights that are now extended to **Freddie Mac**. This solution appears to elevate **Freddie Mac**'s borrowing status, lowering risk profile. We note, however, that **Freddie Mac**'s balance sheet holdings of MBS securities and its purchase activity exposes a greater concentration in Alt-A and subprime loans. **Freddie Mac** reported holdings of \$60 billion in Alt-A and subprime securities as of March, 2008, with additional balance sheet exposure in the form of single family loans in the amount of \$130 billion (9% of single family loans held on the balance sheet), for total Alt-A and subprime balance sheet exposure of more than \$200 billion. **Freddie Mac** also reports that 30% of its loan purchase and sale volume is in Alt-A and subprime mortgages. The figures are of similar magnitude for **Fannie Mae**, but the concentration is less, due to **Fannie Mae**'s much larger asset base.

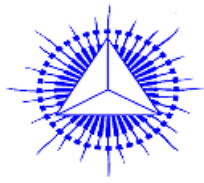
**Freddie Mac** is reported to have dramatically stepped up purchases of Alt-A and subprime loans, starting in 3Q 2007, in response to the evolving credit crisis, as money center banks and large brokerage firms began to recognize billions of losses on subprime and Alt-A portfolios. This market activity was both discussed and approved by regulators as playing an important role in stabilizing uncertain markets. Investors are now concerned that **Freddie Mac**'s pending balance sheet adjustments for mark-to-market on these purchased securities will be so significant that it will be forced to raise dilutive capital.

### Uncertainty Remains for GSE Stockholders

We conclude that there is still significant bad news ahead for shareholders in **Fannie Mae** and **Freddie Mac**. Both of the GSEs appear set to report much larger losses for 2Q 2008 than for 1Q 2008, with uncertainty over the accounting treatment of mark-to-market adjustments impacting perceived book value of the shares. If the Treasury injects equity capital in the form of preferred stock, such an equity infusion would be severely dilutive to existing shareholders. Management of **Freddie Mac** issued comments in July, 2008, indicating a high probability that the current dividend will be "reduced or withdrawn" in order to conserve capital. **Freddie Mac** scheduled release of financial results for 2Q 2008 on August 6, 2008, indicating the time when discussion of accounting issues will come to the foreground. **Freddie Mac**'s commitment to raise more than \$5 billion in equity is another issue impacting stock valuation, as current market value of \$5.4 billion would be diluted by 50%. Until these issues are resolved, we think that investors should avoid the publicly traded stock of both **Fannie Mae** and **Freddie Mac**.

**Fannie Mae** is ranked #4 on the list of the Top 50 Yields of the S&P 500 Index, with a current yield of 12.81%. **Freddie Mac**, just behind **Fannie Mae**, ranks #5 on the list of the Top 50 Yields of the S&P 500 Index, with a current yield of 12.00%. We think dividend adjustment is likely to impact share price of both of the GSEs with a decline of as much as (25%) before October, 2008.

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## Impact of Housing Bill on Banks and Non-Bank Lenders

We think the Housing Bill will have limited near term impact on Banks and Non-Bank Lenders on the list of the Top 50 Yields in the S&P 500 Index. The greatest benefit should be stabilization of troubled lending markets, now including not only residential mortgages, but also loans to real estate developers, construction loans, and condominium conversions. Return to normal demand in these markets is still many months away, as the impact of the softening US economy is reflected in lower home values and uncertain demand.

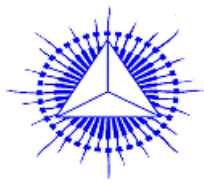
Support from **Fannie Mae** and **Freddie Mac** to the residential lending market is felt primarily through their purchases of conforming loans. The July 2008 Housing Bill increased the cap on conforming loans by 50% to \$625,500; this alone may prove to be a significant positive demand factor. Market sources estimate that less than half of all residential mortgages met conforming loan requirements under the previous cap of \$417,000. Extension of the cap to \$625,500 means that **Fannie Mae** and **Freddie Mac** may now see conforming loan status for as much as 65% of residential loan originations, adding to the lowest risk portion of GSE portfolios. This means that **Fannie Mae** and **Freddie Mac** could quickly increase conforming loan purchase volume, enabling them to reach targeted capital ratios faster. Banks that temporarily suspended mortgage loan operations may be tempted to renew loan origination operations, as they will find it much easier to package and sell conforming loans than Alt-A and subprime loans to nervous credit markets. We think lifting the cap on conforming loans provides the most benefit towards long term recovery of the residential mortgage markets of any of the provisions of the Housing Bill, as most other provisions relate only to the most troubled loans.

We note the Housing Bill has no impact on the accounting issues faced by holders of mortgage backed securities. Mark-to-market adjustments have been severe for those Banks reporting 2Q 2008 results so far, as there was significant mortgage market deterioration between March and June, 2008. Additional market pressures during July, 2008 may force managements to consider an even more conservative posture on balance sheet adjustments, indicating additional negative announcements for 3Q 2008.

We think there are still undisclosed impairments on the balance sheets of many Banks and Non-Bank Lenders. One area of limited discovery so far is equity investment through joint ventures or partnerships. These relationships are generally scrutinized only once or twice per year, compared to monthly reviews of loan portfolios. Many partnerships and joint ventures were tempted to purchase subprime and Alt-A loans during the first signs of market stress prior to 4Q 2007. If appropriately marked to market, such purchases would now show heavy losses, although equity accounting allows for delayed recognition of these losses. Valuation adjustments for equity investments should be expected through impairments to be announced by year end 2008. Lower fee and transaction income will also impact equity investments. Formation of new real estate partnerships has been heavily impacted by liquidity constraints, drying up an important pool of investment for divested assets. As a result, joint ventures and partnerships will see a decline in fees, with lower transaction volume impacting total profitability for Banks and Non-Bank Lenders.

The decline in Bank profitability since 3Q 2007 has been a series of disconcerting jolts for investors, as realization of the true scope of crisis in the financial markets became clear. Now we appear to be emerging from the bumpy part of a decline to discover we are still facing a steep slope determined by falling demand. Lower home values limit transaction volume, as more homeowners are forced to wait to sell their homes for prices adequate to repay mortgages and accumulated credit card debt. This delay will mean even more foreclosures and higher credit losses for banks.

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Banks may not be able to determine their true level of recurring earnings until 4Q 2008. As recurring earnings are the only sustainable source of dividend distributions to investors, we think dividend adjustments among Banks and Non-Bank Lenders will continue through the rest of 2008. Investors should note that presence on the list of the Top 50 Yields of the S&P 500 Index is not necessarily indicative of continuity of dividend distributions.

Most financial companies would consider dividend reduction if their share prices decline to a level where yield no longer appears to support valuation, a level we would now set at 7.00%. Financial companies on the list of the Top 50 Yields of the S&P 500 Index with current yields higher than 7.00% include **American Capital Strategies**, with a current yield of 19.13%, **Regions Financial** 15.53%, **KeyCorp** 13.93%, **Fannie Mae** 12.81%, **Freddie Mac** 12.00%, **Wachovia Corp.** 11.16%, **Comerica** 9.37%, **SunTrust Banks** 8.91%, **Marshall & Ilsley** 8.82% and **Citigroup** 7.12%. Although several of these Banks and Non-Bank Lenders have already announced dividend reductions during 2008, we expect additional dividend adjustments from this group.

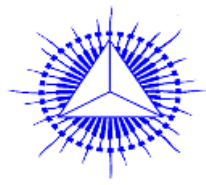
### Homebuilders See Recovery Delayed Until 2009

We noted the impact of the credit crisis on **KB Home** in our previous Yield Opportunities report dated June 20, 2008. **KB Home** is ranked #38 on the list of the Top 50 Yields of the S&P 500 Index, with a current yield of 5.56%. **KB Home's** stock price declined (30%) from May 16, 2008 to July 17, 2008, as shown in the table of our SELL recommendations on page 7 of this report, to trade at the lowest level since 2000.

Recent news on new home starts and home sale prices indicates an enduring negative environment for homebuilders. The Commerce Department reported new single-family home starts declined (5.3%) to a seasonally adjusted annual rate of 647,000 units for June, 2008, representing the slowest pace in 17 years. Housing starts are down (65%) from the peak of the building boom in January, 2006. Sales of existing homes decreased (2.6%) for June, 2008, according to the National Association of Realtors. National median sales price for existing homes decreased more than (6%) to \$215,000 for June, 2008, according to RealtyTrac. Although existing homes are not equivalent to the new homes sold by **KB Home** and other homebuilders, these numbers reflect the same pressures faced by **KB Home** in attempting to market its inventory of new homes.

**KB Home** reported a (55%) decline in revenues for 2Q 2008 (ended May 31, 2008), reporting revenues of only \$639 million, as the number of new homes sold declined (41%). **KB Home** EPS was a loss of (\$3.30) per share for 2Q 2008, including a pretax charge of (\$177) million for impairments on inventory of unsold homes and joint ventures, as well as a (\$25) million charge for goodwill impairment. Management noted that inventories of unsold homes continued to increase as consumer confidence erodes, lamenting that "potential new home buyers remain reluctant to purchase a home." **KB Home** expects that affordability will eventually stimulate a turnaround, although such a recovery is not yet in sight.

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We are now able to add **Lennar Corp.**, another troubled homebuilder, to our SELL list. **Lennar Corp.** is ranked #44 on the list of the Top 50 Yields of the S&P 500 Index, with a current yield of 5.20%. Like **KB Home**, **Lennar Corp.**'s stock price is trading at the lowest price for 8 years.

**Lennar Corp.** saw an even larger revenue decline than **KB Home** for 2Q 2008 (ended May 31, 2008), reporting revenues of \$1.1 billion, down (61%), as the number of new homes delivered decreased (58%). **Lennar Corp.**'s EPS for 2Q 2008 was a net loss of (\$0.76) per share. Average selling price for new homes sold during 2Q 2008 decreased (8%) to \$274,000. **Lennar Corp.** reported a cancellation rate of 22% on new home sales for 2Q 2008, a level indicating a high level of financial stress and liquidity constraints on homebuyers. **Lennar Corp.** appears to have reduced production faster than **KB Home**, as inventories of unsold homes did not increase from the previous quarter.

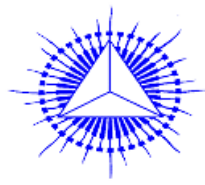
Despite reporting significant losses since 2Q 2007, **Lennar Corp.** has not yet reduced dividend distributions, set at an annual rate of \$0.64 per share since September, 2005. We think the dividend may be reduced or eliminated if **Lennar Corp.** does not see recovery before June, 2009.

We think the Housing Bill is positive for US homebuilders, but the benefit is unlikely to take effect before housing markets recover. The tax credit of \$7,500 may prove to stimulate purchases by homebuyers considering purchase of their first home, an important market segment for homebuilders. New homes are more appealing to such first time buyers, who may have little confidence in their ability to maintain older homes, as well as limited time to invest in renovations. First time homebuyers see good value in new homes, enticed by credit packages tailored to the needs of young families.

### Financial Stock Rally Premature

Markets for financial stocks remain disrupted, as the Federal plan to rescue **Fannie Mae** and **Freddie Mac** has yet to take effect. **Fannie Mae** and **Freddie Mac** have not yet returned to normal purchase volumes of mortgage loans, although the 50% increase in the cap on conforming loans may prove to be of significant long term benefit to mortgage markets. Our review of the Housing Bill indicates little immediate benefit to demand, although confidence in **Fannie Mae** and **Freddie Mac**'s refunding ability should have an important stabilizing effect on nervous financial markets. We conclude that rally in the financial stocks is premature. We recommend investors SELL shares of Banks and Non-Bank Lenders, including **Fannie Mae** and **Freddie Mac**, pending expected dividend reductions before the end of 2008.

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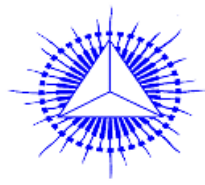
**Top 50 Yields of the S&P 500 Index by Rank Order**

Rank	Company	Industry Sector	Ticker	Price 07/17/2008	Dividend	Yield
1	American Capital Strategies	Financials - Non-Bank Lender	ACAS	\$21.54	\$4.12	19.13%
2	Regions Financial Corp.	Financials - Bank	RF	\$9.79	\$1.52	15.53%
3	KeyCorp	Financials - Bank	KEY	\$10.77	\$1.50	13.93%
4	Fannie Mae	Financials - Non-Bank Lender	FNM	\$10.93	\$1.40	12.81%
5	Federal Home Loan Mtg.	Financials - Non-Bank Lender	FRE	\$8.33	\$1.00	12.00%
6	Wachovia Corp.	Financials - Bank	WB	\$13.44	\$1.50	11.16%
7	Bank of America	Financials - Bank	BAC	\$26.50	\$2.56	9.66%
8	Comerica	Financials - Bank	CMA	\$28.18	\$2.64	9.37%
9	Gannett Co.	Consumer Discretionary - Media	GCI	\$17.26	\$1.60	9.27%
10	SunTrust Banks	Financials - Bank	STI	\$34.58	\$3.08	8.91%
11	Citizens Communications	Telecom Services	CZN	\$11.26	\$1.00	8.88%
12	Marshall & Ilsley	Financials - Bank	MI	\$14.52	\$1.28	8.82%
13	Developers Diversified Realty	Financials - REIT	DDR	\$32.66	\$2.76	8.45%
14	Qwest Communications	Telecom Services	Q	\$3.80	\$0.32	8.42%
15	Windstream Corporation	Telecom Services	WIN	\$11.93	\$1.00	8.38%
16	XL Capital	Financials - Insurance	XL	\$19.25	\$1.52	7.90%
17	Citigroup	Financials - Bank	C	\$17.97	\$1.28	7.12%
18	Pfizer	Health Care	PFZ	\$18.39	\$1.28	6.96%
19	New York Times	Consumer Discretionary - Media	NYT	\$13.29	\$0.92	6.92%

	BUY
	SELL



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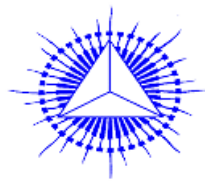
**Top 50 Yields of the S &P 500 Index by Rank Order , continued**

Rank	Company	Industry Sector	Ticker	Price 07/17/2008	Dividend	Yield
20	BB&T Corporation	Financials - Bank	BBT	\$27.63	\$1.88	6.80%
21	Pinnacle West Capital	Utilities	PNW	\$31.22	\$2.10	6.73%
22	General Growth Properties	Financials - REIT	GGP	\$29.89	\$2.00	6.69%
23	Apartment Investment and Mgmt.	Financials - REIT	AIM	\$35.90	\$2.40	6.69%
24	Reynolds American	Consumer Staples - Tobacco	RAI	\$50.99	\$3.40	6.67%
25	Huntington Bancshares	Financials - Bank	HBAN	\$7.98	\$0.53	6.64%
26	Cincinnati Financial	Financials - Insurance	CINF	\$24.51	\$1.56	6.36%
27	Embarq Corporation	Telecom Services	EQ	\$43.22	\$2.75	6.36%
28	Ameren Corporation	Utilities	AEE	\$40.26	\$2.54	6.31%
29	Host Hotels & Resorts	Financials - REIT	HST	\$12.76	\$0.80	6.27%
30	Zions Bancorp	Financials - Bank	ZION	\$27.51	\$1.72	6.25%
31	CBS Corp.	Consumer Discretionary - Media	CBS	\$17.31	\$1.08	6.24%
32	U.S. Bancorp	Financials - Bank	USB	\$27.54	\$1.70	6.17%
33	Consolidated Edison	Utilities	ED	\$37.99	\$2.34	6.16%
34	Progress Energy	Utilities	PGN	\$40.84	\$2.46	6.02%
35	Leggett & Platt	Consumer Discretionary - Furniture	LEG	\$17.06	\$1.00	5.86%

	BUY
	SELL



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**Top 50 Yields of the S & P 500 Index by Rank Order , continued**

Rank	Company	Industry Sector	Ticker	Price 07/17/2008	Dividend	Yield
36	Masco Corp.	Industrials	MAS	\$15.88	\$0.92	5.79%
37	Altria Group	Consumer Staples - Tobacco	MO	\$20.65	\$1.16	5.62%
38	KB Home	Consumer Discretionary - Homebuilder	KBH	\$18.00	\$1.00	5.56%
39	Bristol-Myers Squibb	Health Care	BMY	\$22.54	\$1.24	5.50%
40	NISource	Utilities	NI	\$17.12	\$0.92	5.37%
41	Integrus Energy Group	Utilities	TEG	\$49.99	\$2.68	5.36%
42	Duke Energy	Utilities	DUK	\$17.18	\$0.92	5.36%
43	HCP	Financials - REIT	HCP	\$34.90	\$1.82	5.21%
44	Lennar Corp.	Consumer Discretionary - Homebuilders	LEN	\$12.31	\$0.64	5.20%
45	Newell Rubbermaid Co.	Consumer Discretionary - Housewares	NWL	\$16.36	\$0.84	5.13%
46	DTE Energy	Utilities	DTE	\$41.76	\$2.12	5.08%
47	AT&T	Telecom Services	T	\$31.75	\$1.60	5.04%
48	Dow Chemical	Materials	DDW	\$33.92	\$1.68	4.95%
49	Wells Fargo	Financials - Bank	WFC	\$27.83	\$1.36	4.89%
50	Verizon Communications	Telecom Services	VZ	\$35.43	\$1.72	4.85%

	BUY
	SELL

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