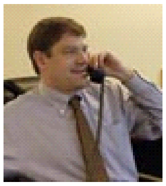
INVESTMENT UPDATE NEWSLETTER

ALLEN TRUST COMPANY

MAY 2007



William A. Harris, CFA
Portfolio Manager

Year-to-Date Investment Review

Stock Performance
Their late February swoon notwithstanding, stocks have been marching hard this year, as corporate earnings have come in stronger than expected, and mergers & acquisitions activity is providing a bonanza-like (or lottery-like!) air of optimism for investors in potential takeover candidates.

Total Return Jan-Apr 2006	
Allen Trust Equities	6.56%
S&P 500	*5.09%*
Allen Trust Bonds	1.77%
Lehman Agg Bond	*2.05%*

Note: Performance stated gross of fees.

The good thing is – as the table above shows – your equity portfolios in the aggregate have more than kept pace. The bad news is, the pace may yet slacken or even falter (but more on that next month).

In order to better understand what has been driving the stock market's rise, let's take a look at the second table (top right column), which shows the total return to S&P 500 stocks within each economic sector, as well as the percentage of market value each sector comprises within the index.

Utilities and Materials ran well ahead of the index, but they're among the smallest sectors by total market value, while stocks in the largest sector – Financials, which make up over a fifth of the S&P 500 – scarcely broke even. In small part, your portfolios' outperformance can be attributed to overweightings in Materials and Energy, but foremost it is due to our underweighting Financials. While we would have expected our overweighting of Health Care to contribute more to outperformance, this was not the case due to positions in Amgen, the megacap biotech rocked recently by safety concerns and adverse regulatory action in its core anemia drug business.

S&P 500 Sector	YTD 2007	Weight
Energy	7.0%	10.2%
Materials	10.5%	3.0%
Industrials	5.3%	11.0%
Consumer Discretionary	1.5%	10.3%
Consumer Staples	4.8%	9.5%
Health Care	7.8%	12.2%
Financials	0.4%	21.6%
Information Technology	4.2%	15.0%
Telecommunications	6.4%	3.6%
Utilities	12.9%	3.7%

Altogether, our sector allocations were increasingly defensive in nature, shying away from areas vulnerable to a softening economy, and tending towards areas whose stability we judge to be sustainable.

Bond Performance
The bond market, though momentarily "finding religion" in a brief flight to quality mid-first quarter, has since *unmended* its ways, returning to seedier neighborhoods and again glutting on credits which we, prim as ever, deem less than respectable. Your bond portfolios have underperformed accordingly.

There are two ways to look at this: 1) on your behalf, we have been paying a lower-than-historical average premium to buy sound issues; and 2) other investors are overpaying for issues whose values could suffer grievously in any liquidity crunch or turn in the credit cycle. As for paying the "premium" for safety, we're going to keep doing so. As for a liquidity crunch, we think it a possibility (see my February letter), and as for the credit cycle, well, creditors are showing all the wisdom typical of late cycle behavior, which is to say, they're over-chasing yield and under-accounting for risk. Yes, we're still humming that same old tune!

William A. Harris, CFA

Firm News
Stuart Allen will be speaking as part of an expert panel at the Oregon State Bar's June 15 CLE seminar entitled "Hot Topics in Estate Planning." Stuart will be presenting on Trustee Selection, with a focus on issues of situs and the use of Trust protectors. To learn more about how to enroll, please visit https://www.osbar.org/_docs/cle/programs/seminars/AEP07.pdf, or call 1-800-452-8260, ext. 413.