

QUARTERLY  
COMMENTARY

*A quarterly commentary on the markets and the economy from Rorer Asset Management, LLC*

10 LARGEST HOLDINGS AS OF  
DECEMBER 31, 2007

Large Cap Equity:

- Bank of New York Mellon Corp. (BK)
- Caterpillar Inc. (CAT)
- Corning Inc. (GLW)
- Danaher Corp. (DHR)
- Dell Inc. (DELL)
- FedEx Corp. (FDX)
- Fiserv Inc. (FISV)
- Halliburton Company (HAL)
- Illinois Tool Works Inc. (ITW)
- Linear Technology Corp. (LLTC)

Mid Cap Equity:

- Bucyrus International Inc. (BUCY)
- Consol Energy Inc. (CNX)
- Fiserv Inc. (FISV)
- Hologic Inc. (HOLX)
- Kaydon Corp. (KDN)
- L-3 Communications Holdings Inc. (LLL)
- Newfield Exploration Co. (NFX)
- optionsXpress Holdings, Inc. (OXPS)
- Pharmaceutical Product Development Inc. (PPDI)
- TD Ameritrade Holding Corp. (AMTD)

All Cap Equity:

- Bucyrus International Inc. (BUCY)
- Corning Inc. (GLW)
- Express Scripts Inc. (ESRX)
- Janus Capital Group Inc. (JNS)
- Halliburton Company (HAL)
- Hologic Inc. (HOLX)
- L-3 Communications Holdings Inc. (LLL)
- optionsXpress Holdings, Inc. (OXPS)
- Parker Hannifin Corp. (PH)
- PepsiCo Inc. (PEP)

**RORER**  
ASSET MANAGEMENT, LLC

# THE RORER REVIEW

## "A World of Opportunities"

As we turn the pages on 2007 and begin the New Year, we feel now is an appropriate time for some reflection on the markets, which, to say the least, have been volatile. One year ago, we were of the opinion, and wrote extensively in this very publication, that the U.S. economy was headed for a slowdown. Furthermore, we were strong advocates that the Fed should lower interest rates in order to combat the slowdown and plant the seeds for future economic growth. At the time, pundits were more concerned about inflation and an economy that might be growing too strongly. To wit, Fed minutes at the time routinely expressed concerns about rising commodity costs and other inflationary pressures. What a difference a year makes! We were out of the main-stream then, a position we enjoy being in, and we are probably a little out of the consensus now as we look forward to what we believe will be a stronger

economy in the second half of 2008 and a healthy year for blue chip, high quality U.S. equities, the bed-rock of our investment portfolios.

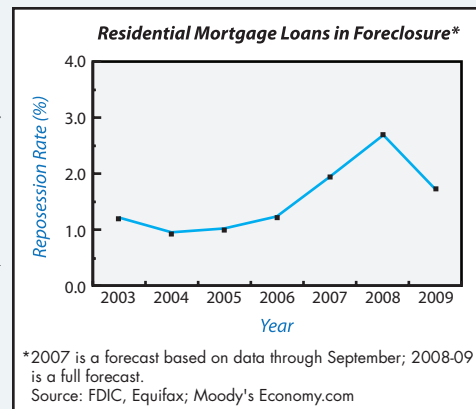
The slowdown in the economy that we were predicting one year ago is clearly here now, brought on by a deepening subprime mortgage crisis that grew and became more

apparent during the fourth quarter of 2007. Delinquency rates and foreclosures are up sharply. Average home prices in the U.S. were actually down last year, the first time in over a generation that has happened. Most major global financial institutions have had to write down substantial amounts of investments related to U.S. subprime mortgages. Some think that the pain of the U.S. housing correction is not over yet, and we agree. Home prices are still high versus both rental rates and household incomes. Major market cycles take more than just a couple of quarters to correct and we feel the housing market still has more pain in the year ahead. We have stayed away from buying stocks in any of the national home builders over the last couple of years, and despite the dramatic sell off in these and other housing related stocks,

we still are not tempted to invest in this area of the market. As home prices weaken, homeowners, who are consumers, certainly feel the pain.

Another area where the U.S. consumer has

been facing headwinds has been with energy costs. As we begin the New Year, oil prices are hovering around \$100 a barrel, which on an inflation-adjusted basis is about on par with the peak in oil prices back in 1980, soon after the Iranian revolution. High oil prices hurt the consumer in many ways.



Gasoline prices go up for drivers, heating costs go up in the winter, and various other energy related costs go up when the price of oil is high. The one-two punch of higher energy costs and falling homes prices has many economists concerned, a position we share. However, the death of the consumer, long anticipated by economists, may be a bit of an exaggeration. Although we are concerned about a prolonged housing correction, we are not as troubled about prolonged high oil prices. With the global economic slowdown we are experiencing, demand for oil should start to slow also. The spike we have seen in oil prices over the last year is poised for a pullback and we do not feel the consumer will be faced with \$100 a barrel oil costs as we move through the spring into the summer months. Notwithstanding the foregoing, perhaps characterized by some as consensus thinking, we believe that 2009 will bring us renewed economic growth following the pause we expect in 2008.

The Fed, in our opinion, was late to start the current cycle of cutting interest rates and remains “behind the curve.” Indeed, as we wrote about in prior Rorer Reviews, we would have preferred the Fed to start cutting rates at the beginning of 2007, instead of in September of 2007. From the start of last year, when the Fed Funds rate stood at 5.25%, the Fed cut rates by 100 basis points, down to 4.25% at the end of last year. Such action is welcomed, but still not enough in our opinion. We would like to see the Fed cut rates more in 2008, hopefully by at least an additional 100 basis

points. To be sure, we still see a prolonged housing correction, as already discussed, but the worst of the credit crunch should start to recede into the background as the year unfolds.

The value of lower interest rates will start to work their economic healing process after a lag of several quarters. We remain optimistic about the equity markets in spite of the horrendous start with which they greeted the New Year. History tells us, should the economy avoid a recession, an outcome we expect, that an economic slowdown accompanied by falling interest rates, usually results in positive returns for the market. Also, in spite of the shocks that are being visited on certain sectors of the economy, corporate balance sheets are strong and well positioned to weather the slowdown we are currently experiencing.

S&P 500 Sectors	Foreign Exposure (%)
Energy	54.7%
Information Technology	54.1%
Materials	45.3%
Consumer Staples	41.3%
Industrials	36.8%
Health Care	36.1%
Consumer Discretionary	24.7%
Financial	17.7%
Utilities	8.1%
Telecommunications	3.4%

Source: ISI Portfolio Strategy

Strong international economies also increase our optimism in the capital markets for the year ahead. In a past edition of the Rorer Review, entitled “It’s a Small World After All,” we expanded on the positive forces of globalization and how we benefit

from free trade. The many benefits of globalization are clearly at work today and will continue to be a positive force in our economy for many years to come. Importing deflation and exporting our products to a growing international marketplace are two of the key benefits of globalization. As we show in the chart at left below, the stocks that make up the S&P 500 now have significant exposure to the international markets. Thus, a strong and robust international marketplace is almost as important for large U.S. companies as the health of the domestic market.

In summary, despite the near term headwinds that we see for the economy, namely declining home prices and a slowing domestic economy in 2008, we are optimistic about the outlook for U.S. stocks in 2008. A weakening of inflation risks and a more accommodating Federal Reserve should help U.S. business activity pick up as we look toward 2009. Since the stock market discounts future economic activity, we feel now is an attractive time to be invested in high quality U.S. stocks, the very foundation of our investment portfolios. As always, we will use our highly disciplined relative value approach for stock selection to guide our search for new investments in companies with improving fundamentals and a catalyst for growth. As we survey the investment horizon, we see a world of opportunities out there and look forward to capitalizing on them as the year unfolds.

January 2008

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