The Advantage Advisor

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Market Commentary:

The markets have fairly well recovered from the mini-correction that took place at the end of February. Even in spite of the fear that took hold of the markets, the stable underlying fundamentals held true and are moving stocks higher once again. While the S&P-500 ended the first quarter essentially flat, there were plenty of sectors that did far better, as is evidenced by the returns that our stock based strategies posted for the quarter.

In last month's newsletter, I pointed out the huge flight to quality that pushed US Treasury bond prices up dramatically. I also mentioned that the reversal of this sudden move would be a clear marker of the end of the correction. As you can see in the chart of the Shearson Treasury Bond Index below, that is exactly what has occurred. The letter "A" highlights the run-up in Treasury Bonds as global investors sold stocks and bought Treasuries. The letter "B" highlights the reversal of that move and demonstrates a large buildup of cash that is ready to move back into stocks.

The drop in the markets provided some excellent buying opportunities. We made a move from large cap value stocks into technology stocks near the end of the month. We also used the correction as an opening to increase the exposure to equities for several clients.

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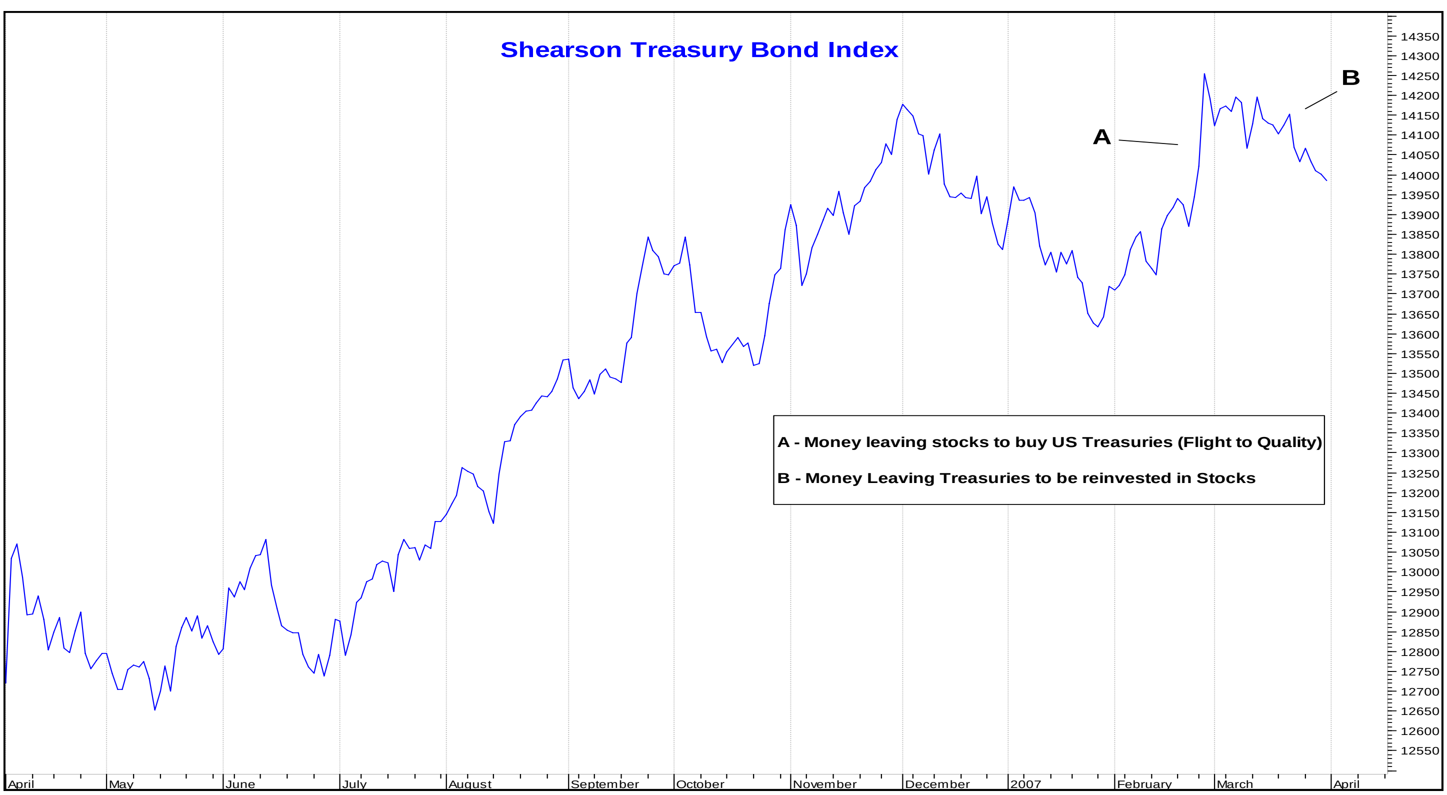
Market Statistics for March

Market Index	Closing Price	% Change
Dow Jones Industrial Average	12,354	0.70%
S&P-500 Stock Index	1421	1.00%
Russell 2000 Stock Index	801	0.93%
Shearson Treasury Bond Index	13,986	-0.97%
Dow Jones World Stock Index	284	1.79%
Nasdaq Composite Index	2,422	0.23%



The Economic Picture

The final revision for GDP for the fourth quarter of 2006 came in slightly higher than the prior revision, posting a 2.5% annual growth rate. While this remains below the “potential” growth of 3%, it still represents a healthy, growing US economy. Alan Greenspan seemed bent on bringing that growth to a quick end with his inflationary comments during the past month. What was truly remarkable was that his recession forecast was based not on the underlying data, but simply on the length of the current expansion. That is certainly not consistent with good economic forecasting.

The current Fed chairman has quite a different outlook on things - and one that recent events appear to be confirming. Ben Bernanke’s forecast of slowing but stable growth with slowing inflation is right in line with the current reports. It appears that the Fed is indeed setting up the opportunity to lower rates later in the year. Currently, the markets are pricing in a 100% expectation of a 1/4 point rate cut, and an 82% chance of a 1/2 point rate cut by year-end.

The two major weights on the economy at present are energy prices and the housing markets. Oil prices rose sharply during the month over the heightened tensions in Iran. In addition, we are still feeling the after-effects of Hurricane Katrina as refineries are still trying to catch up on maintenance operations that were delayed while trying to maintain supplies after the storm. Housing sales and prices do appear to be stabilizing, helped by the weather and rising consumer incomes. While the fallout from the sub-prime lending markets has yet to be fully realized, it does appear to be contained and discounted by the markets. Even the bankruptcy of New Century Financial last week failed to rattle the markets any further. So while these two areas may continue to act as a drag on growth for the balance of the year, it is unlikely that they will act to derail the current expansion.

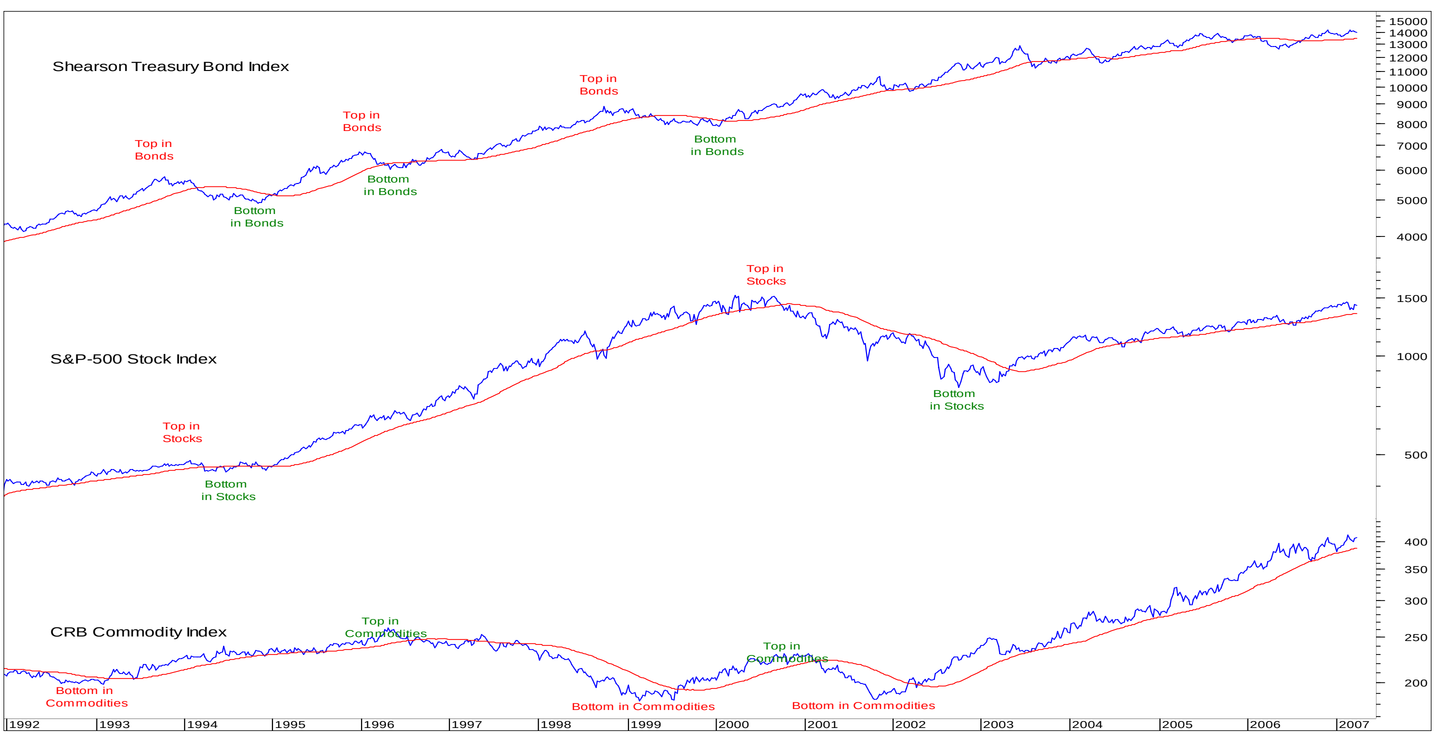
Current Economic Position:
Stage 3—Growth

Economic Indicators

Growth	**Latest**	**Prior**
GDP	+2.5%↑	+2.0%
Productivity	+1.6%	+3.0%
Employment Cost Index	+0.8%	+1.0%
Capacity Utilization	82.0%	81.4%↑
Inflation		
Consumer Price Index	+0.4%	+0.2%
PCE Deflator	+0.4%	+0.2%
Implicit Price Deflator (GDP)	+1.6%	+1.9%
Sentiment		
Consumer Confidence Index	107.2	111.2↓
Unemployment Rate	+4.5%	+4.6%
Personal Income	+0.6%	+1.0%

↑=revised up, ↓=revised down

Source: Moody’s Economy.com



Source for Data: Investor’s Fast Track

Advantage Investing, Inc.
Investment Strategy Composite Annualized Returns
For The Period Ending 3/31/2007

Investment Strategy	**1st Qtr. 2007**	**1 Year**	**3 Year**	**5 Year**
Bond Strategy	2.33%	7.75%	5.87%	10.82%
Current Income Strategy	3.33%	11.65%	4.49%	7.94%
Stock Strategy	1.23%	-1.25%	6.98%	6.07%
Strategic Allocation Strategy	0.79%	5.92%	12.04%	14.46%
Comparison Indices				
S&P-500 Stock Index	0.18%	9.73%	8.05%	4.37%
Dow Jones Corporate Bond Index	2.00%	7.11%	3.32%	7.16%
US T-Bill Index	1.24%	5.05%	3.36%	2.60%
Shearson Treasury Bond Index	1.15%	7.19%	3.60%	7.38%

Notes:
Composite returns are time weighted returns that include all client accounts invested within the respective strategy. Returns greater than one year in length are annualized. All strategy returns are shown net of 2% annual asset management fee, as well as all other trading expenses incurred.

(***Market Commentary,*** *Continued from page 1)*

As we look forward, the markets continue to appear cheap on a relative value basis. For example, at the beginning of the bull market in October of 2002, the P/E ratio for the S&P-500 stood at 26.5 times, while it currently stands at around 17 times. It is clear that earnings have been growing at a much faster pace than stock prices. This provides a much higher degree of confidence that any corrections will be short-lived and that the market can withstand quite a lot of shocks before turning into a true bear market.

Another measure of value for the markets is the comparison of the earnings yield (the inverse of the P/E ratio) to that of Treasury Bonds. The earnings yield for the S&P-500 is currently 6.53% versus the current yield on the 10 Year US Treasury bond which is 4.65%. This represents the widest such gap since 1986. Based on the forecast that the Fed is likely to lower rates later in the year, the S&P-500 is currently at least 26% undervalued relative to bonds.

Certainly it is not likely that the S&P-500 will gain 26% this year, but it does increase the probability of a 10% to 15% gain by the end of the year. There certainly are risks to this forecast, such as a sudden buildup in inflation or serious deterioration on the housing front. However, given the relative value of the markets and a continuing expansion in the economy, the potential for further gains certainly outweighs the risks of any serious downturn.

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