CAMBRIDGE FINANCIAL GROUP · INC. ·

REGISTERED INVESTMENT ADVISER

I. Market Environment

The Cambridge Financial Group monthly composite of indicators continues to suggest a **favorable** environment for equities. As such, a **full investment posture** is currently recommended with funds invested 100% in favorably ranked stocks for all equity accounts.

Valuation continues to move toward positive territory. Although the dividend yield on the S&P 500 is graded as negative, the P/E ratio has remained in positive territory. The P/E ratio on the S&P 500 concluded the fourth quarter at 18.6x, a positive reading. The yield on the S&P remains below the 2.0% mark at 1.91%, as of the end of December.

Breadth is graded as positive as of the end of December.

Momentum indicators continue to be favorable in light of the decline during the fourth quarter. Currently, all four indicators in this area are graded positive as of the end of December. Continued movement to the downside in the near term would result in a more oversold situation.

Interest rate relationships are graded as positive, as of the end of December. T-Bill rates were lower throughout the fourth quarter of 2007, finishing December at 3.36%. This is a decrease from the 3.82% level seen at the end of September.

The stock market concluded 2007 by posting a positive return for the fifth consecutive year, matching a feat last accomplished by the bull market run of the 1990s. In addition, large-cap stocks outperformed their small-cap brethren for the first time since 1998. The difference, however, between then and now is tremendous. In the '90s run, between 1995-1999, the S&P 500 advanced over 250%, averaging more than 28% per year. By contrast, the current version of the bull market has tallied a gain of 67% from 2003-2007, an average of just over 12% per annum. The obstacles confronting the current market advance have created serious headwinds not encountered in the 1990s. These include the much publicized subprime crisis with subsequent falling home prices, mortgage foreclosures and tougher credit standards. Tossed into the mix are inflation pressures, oil hovering near $100/barrel, slower profit growth, recession fears, and the ongoing war in Iraq. Needless to say, the environment is treacherous.

Despite the aforementioned deterrents, all three major indices finished 2007 in the black, despite posting negative returns for the final period of the year. Specifically, the DJIA finished up 6.4% for the year although losing 4.5% in the fourth quarter. The S&P 500 gained a modest 3.5% in 2007 while posting a 3.8% loss in Q4. In fact, the DJIA lost value in the fourth quarter for the first time in 10 years, while the S&P 500 declined in the final quarter for the first time in 7 years. Finally, the NASDAQ ended 2007 with an advance of 9.8% for the year despite losing 1.8% in the fourth quarter. Investor anxiety remains, but the beat goes on.

While the risks mentioned earlier persist and pose very real threats to the market, CFG believes the bad news may already be reflected in current stock prices. The U.S. market continues to trade at more than 3% below the level seen when the Fed first reduced rates on 9/18/07, thus creating ample upside potential moving into 2008. This being said, Cambridge continues to urge clients to maintain the same investment discipline that overcame the tumultuous market swings of 2007.

II. Performance

	Return (%)		
Index	Q4	2007	10-Yr.
CFG Core Portfolio	**-2.8**	**7.6**	**10.8**
CFG Aggressive Portfolio	**-5.6**	**12.5**	**10.1**
S&P 500	-3.3	5.5	5.9

** The respective performances for the **CFG Core Portfolio & CFG Aggressive Portfolio** are composite figures for all accounts that are invested according to each specific equity strategy. Figures are presented on a net basis - after transaction costs and management fees. 10-Year returns are for the period ending 12/31/07.*

III. Sub-Sector Portfolios

The names listed below are recommended holdings as of January, 2008.

S&P Momentum	CFGI Momentum	CFGI Value
Amazon.com	Apple	Archer Daniels
Consolidated Energy *	Cisco	Caterpillar
CSX Corp.	EMC	ConocoPhillips *
Direct TV	Google *	IBM
Express Scripts *	Goldman Sachs	GE
Gamestop *	Hewlett Packard	Johnson Controls *
Juniper	McDonald's	Lehman Bros.
Monsanto	Microsoft *	Rohm & Haas
Nat'l Oilwell	Oracle	RR Donnelley
AT&T	Schlumberger	Wal-Mart

* Indicates addition as of January, 2008. Momentum portfolios are adjusted quarterly. Value portfolio is adjusted annually.

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