FIRST Trust ADVISORS L.P.

Quarterly Market Overview

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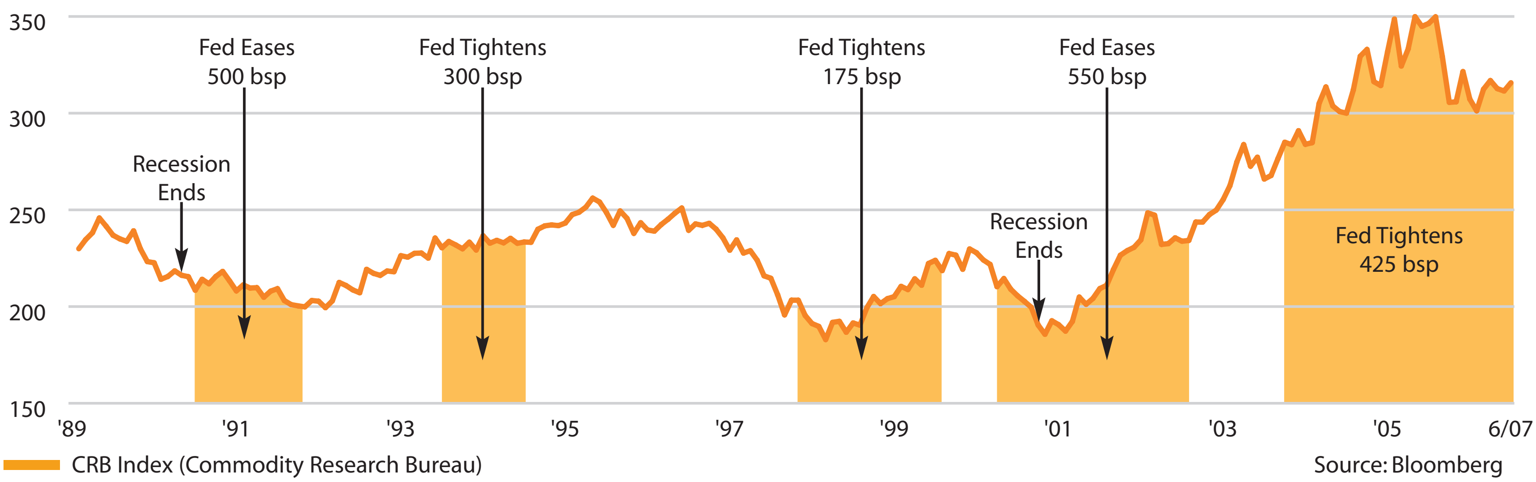
Mr. Carey has appeared as a guest on such programs as Bloomberg TV and CNBC and has been quoted by several publications, including *The Wall Street Journal, The Wall Street Reporter, Bloomberg News Service, and Registered Rep*.

You can thank cheap money for the extraordinary run in commodities



What's your take on commodities?

We believe that one of the best ways to respond to a question of this sort is to first qualify the intent of the investor by asking the following question: Are you looking to exploit the current strength in commodities in the hopes of achieving a short-term gain or do you view commodities as a longer-term growth opportunity suitable for a buy-and-hold strategy? Now to some that may come off sounding like "Investing 101" but it is not. It was just a little over seven years ago when the tech bubble burst and scores of investors were stunned by the degree to which their capital eroded. It was a euphoric time in the markets and investors poured big dollars into dot-com dreams looking to get rich quick. Unfortunately, many of them didn't pull the trigger to buy until the game was in the 8th or 9th inning. Dalbar, a financial-services research and consulting firm based in Boston, has compiled plenty of statistical evidence to show that investors have not fared well over the past couple of decades chasing returns. So don't try! Today's climate may not be as euphoric as it was at the start of this decade, but investors are just as vulnerable to sharp pullbacks and corrections. Our goal for this issue is to provide some insight into what drives the commodities markets so that investors can better answer the question we posed.

A picture is worth...

The chart above shows the movement in the CRB Index since the end of 1989. This particular index tracks commodity futures prices. Commodity prices are a function of supply and demand and both sides of the equation are continuously influenced by external forces. For example, the supply of wheat or corn can be altered by weather patterns. The production and price of oil can be manipulated by geopolitical events, labor strikes and hurricanes. The price of steel can shift suddenly if one or more countries choose to impose trade restrictions or place tariffs on imported steel. **But there is no greater influence over time, in our opinion, than monetary policy.** Central banks around the world control the supply of money and the most influential bank is still the Federal Reserve. The commodities markets may be global in scope, but commodities are priced in dollars. So we have included the key changes in U.S. monetary policy since 1989 on the chart above. It is generally accepted that it takes anywhere from 6-9 months, on average, for a Fed move to begin making an impact on the economy. The orange line representing the CRB Index in the chart clearly supports this claim. **Notice the change in the direction of commodity prices around 9 months or so after the Fed has completed its tightening and easing phases.**

Continued

What is an investor to do?

How some commodities have fared since the start of the last Fed easing (1/31/01-6/29/07)	
CRB/Reuters Spot Metals	+308.7%
Crude Oil Futures	+146.6%
Gold Futures	+145.1%
S&P 500	+22.9%
Natural Gas Futures	+18.6%
$ (U.S. Trade-Weighted Index)	-23.7%

Source: Bloomberg

We have already suggested that it probably isn't in one's best interest to chase returns. So the thought of investing a large lump sum in commodities at this point in time does not look that promising on paper. The chart on page one clearly indicates that commodities have enjoyed an impressive multi-year run, but it also shows that the CRB Index has traded off its recent high. It could be that previous Fed rate hikes are beginning to work. After all, it has been a year since the Fed last hiked the fed funds rate. It may also have to do with recent comments by the Fed that it is more concerned about inflation than growth. Regardless, investors considering jumping into commodities may want to tread slowly. Investors should strongly consider initiating a small position to start and then accumulate more on pullbacks/corrections. As of June 29, the S&P 500 carried a 3.1% weighting in materials and a 10.8% weighting in energy.

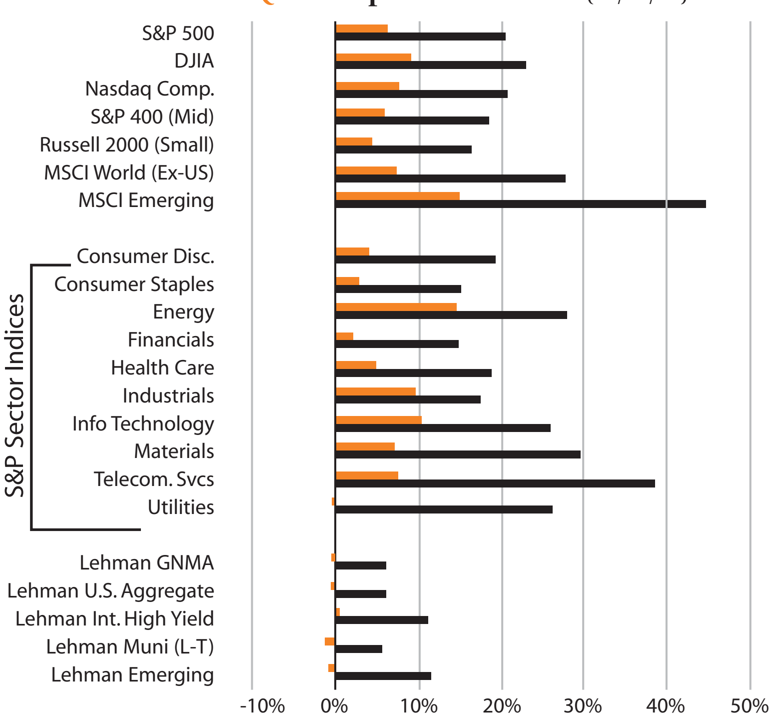
In other news, we think it's time for blue chip stocks to act like blue chip stocks...

The tide seemed to turn in the bond market around the end of April when it became evident the Fed was not going to cut interest rates any time soon. The yield on the 10-yr. T-Note jumped from 4.62% to as high as 5.30% in mid-June only to settle back to 5.03% by the close of June. That rebound may have been fueled by a flight to quality inspired by the fallout in the subprime mortgage market. We believe the upward trend in rates is justified and overdue based on the strength of the economy and inflation levels. The average annual total return on long-term government bonds from 1926 through 2006 was 5.42%, vs. 10.42% for the S&P 500, according to Ibbotson Associates. So history has shown that high quality, large-cap stocks return about 5 percentage points more per year, on average, than government bonds. But that has not been the case so far this decade.

From 3/00 through 6/07 (87 months), the average annual total return for the Lehman Brothers U.S Treasury: Intermediate Index was 5.0%, vs. an average gain of just 1.7% for the S&P 500. We chose 3/00 as the starting date because the S&P 500's previous all-time high was set on March 24, 2000. So government bonds have thumped the S&P 500 despite the fact that earnings growth for the companies in the S&P 500 has been stellar since early 2001. The last time corporate earnings bottomed was in the second quarter of 2001. Since then, S&P 500 profits are up 150% through May 2007, but the index itself has appreciated just 25%, according to Howard Silverblatt, senior index analyst at S&P. The 500 companies that comprise the index are 45% cheaper today relative to historical profits than when the index last peaked on March 24, 2000, and 30% cheaper than when it bottomed on October 9, 2002, according to Bloomberg. P-E ratios have contracted despite the longest quarterly profit growth streak since 1950.

So, needless to say, we favor stocks over bonds at this point in the economic expansion.

Total returns for Q2 and past *12 months* (06/29/07)



A Look Ahead:
The outlook for earnings (year-over-year)...

	Q3'07E	Q4'07E	2007E
Financials	-0.8%	**4.4**%	6.2%
Technology	**5.8%**	**18.0%**	**7.0%**
Health Care	11.7%	15.2%	11.7%
Consumer Staples	**7.8%**	**10.7%**	**7.9%**
Consumer Discretionary	2.3%	24.6%	1.8%
Industrials	**11.1%**	**10.8%**	**10.8%**
Telecommunications Services	8.8%	11.5%	9.3%
Energy	**-1.1%**	**9.8%**	**3.3%**
Utilities	5.7%	10.6%	7.4%
Materials	**0.6%**	**-3.9%**	**1.6%**
S&P 500 Index	**3.5%**	**6.7%**	**5.6%**
S&P 400 Index (Mid-Cap)	**7.9%**	**12.7%**	**8.0%**
S&P 600 Index (Small-Cap)	**10.2%**	**19.5%**	**5.1%**

Source: Thomson First Call/Baseline (6/29/07)