FIRST Trust ADVISORS L.P.

TALKING POINTS

A Recap of September 2007

The Economy

GDP growth in the second quarter was revised slightly lower from 4.0% to 3.8%. The federal funds rate was cut 50 basis points on September 18 and the reduction was well received by the stock and bond markets. Global investors did not embrace the cut as evidenced by the 9.9% spike in the price of gold futures and the 3.85% decline in the value of the U.S. dollar. Foreign investors, in our opinion, sent a message back to the Fed that the rate cut will prove inflationary in time. While some worry that the U.S. might be heading towards recession, Brian Wesbury, chief economist at First Trust Advisors, believes just the opposite. In his latest piece (October 1), Wesbury sees a re-acceleration of growth springboarding off of Q2. In other words, a takeoff rather than a soft landing scenario. Wesbury is looking for growth at 3.0% or better over the next few quarters.

Consumer Confidence	**99.8** (Sep)	105.0 (Aug)	⇩
Crude Oil (Mo.-End)	**$81.66** (Sep)	$74.04 (Aug)	⇧
Personal Spending	**0.6%** (Aug)	0.4% (Jul)	⇧
ISM Manufacturing	**52.0** (Sep)	52.9 (Aug)	⇩
ISM Non-Manufacturing	**54.8** (Sep)	55.8 (Aug)	⇩
Gold (Mo.-End)	**$742.80** (Sep)	$675.80 (Aug)	⇧
Natural Gas (Mo.-End)	**$6.87** (Sep)	$5.47 (Aug)	⇧
Construction Spending	**0.2%** (Aug)	-0.4% (Jul)	⇧
New Home Sales	**795,000** (Aug)	870,000 (Jul)	⇩
Existing Home Sales	**5.50M** (Aug)	5.75M (Jul)	⇩

The Stock Market

The major indices performed as follows (**Sep** & Y-T-D): S&P 500 (**3.74%** & 9.13%); DJIA (**4.16%** & 13.31%); Nasdaq Composite (**4.09%** & 12.48%); Russell 2000 (**1.72%** & 3.17%); MSCI Emerging Markets in USD (**11.05%** & 34.32%); and MSCI World ex-USA in USD (**5.70%** & 14.83%). Some of the top performing S&P 500 industry groups in September were as follows: Fertilizer & Ag Chemicals (+22.9%); Diversified Metals & Mining (+20.0%); Internet Retail (+14.6%); Automobile Manufacturers (+14.2%); and Construction & Engineering (+13.2%). The top performing S&P sector was Energy (+8.0%). In September, the dividend-payers (388) in the S&P 500 (equal weight) posted a total return of 2.34%, vs. 2.84% for the non-payers (112), according to Standard & Poor's. Year-to-date, the payers gained 6.01%, vs. 7.13% for the non-payers. For the 12-month period ended September 2007, payers gained 13.52%, vs. 14.31% for the non-payers. The number of dividend increases (S&P 500) year-to-date totaled 224. That topped the 222 increases over the same period in 2006, but lagged the 232 increases registered in 2005. The dividend yield on the index was 1.85% at the close of September. The Q3'07 edition of the *Investment Manager Outlook*, a survey of investment managers conducted by Russell Investment Group, says that money managers continue to be most bullish on large-cap growth stocks over all other asset classes. Sixty-nine percent of those managers polled are bullish, down slightly from 74% in Q2'07. Non-U.S. developed markets came in second at 57% followed by mid-cap growth stocks at 53%. The sectors that managers are most bullish on are technology (73%) and health care (69%). U.S. investment managers continue to favor equities over fixed-income.

U.S. Dollar (U.S. Trade- Weighted Basket)	**-3.85%** (Sep)	-8.64% (Y-T-D)	$ was down 5.25% in '06	⇩
CBOE Total Equity Options (# of contracts in millions)	**34.4** (9/28)	49.4 (8/31)	*August's 49.4 million is the record*	⇩
Short Interest (NYSE)	Sep: **11.84B** (-5.2%)	Aug: 12.49B (-3.6%)	*Short Interest Record = 12.95B*	⇩
S&P 500 P-E Ratio (Trailing 12-mo. earnings)	**17.94** (9/28)	17.32 (8/31)	*Avg. P-E is 20 over past 25 years*	⇧

The Bond Market

Index (Source: Lehman)	**Sep**	**Y-T-D**	**12-Mo.**
U.S. Treasury: Intermediate	0.60%	5.11%	5.91%
GNMA 30 Year	0.75%	3.63%	5.23%
Municipal Bond (22+)	2.34%	0.04%	1.86%
U.S. Aggregate	0.76%	3.85%	5.14%
Intermediate Corporate	0.67%	3.07%	4.42%
U.S. Corporate High Yield	2.62%	3.21%	7.54%
Global Aggregate	2.24%	6.02%	8.20%
Global Emerging Markets	2.82%	3.69%	8.18%

The yield on the 10-Yr. T-Note rose 6 basis points in September closing at 4.59% – 4 basis points lower than a year ago. Every major bond category performed well. Speculative-grade debt and municipals rebounded nicely after some tough sledding in July and August. Speculative-grade selling pressure was due to heavy supply and a re-pricing of risk, while municipals dipped due to heavy selling from hedge funds. Defaults remain very low for high yield debt, but the outlook isn't as bright. The U.S. speculative-grade default rate declined from 1.5% in July to 1.4% in August, according to Moody's. It expects that rate to climb to 4.5% over the next year. Moody's cites higher spreads and diminished liquidity for the added pressure on distressed issuers. It expects the global rate to increase to 4.1%.

Key Rates as of September 28th

Fed Funds	4.75%
2-Yr. T-Note	3.99%
10-Yr. T-Note	4.59%
30-Yr. Mortgage	6.30%
Bond Buyer 40	4.80%

Key Yield Spread

The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 408 basis points on 9/28. It was 450 on 8/31 and 370 on 9/30/06.

2007 Debt Issuance through August
(Source: Thomson Financial)

Debt Category	$ Amount	% change over '06
Corporate	$770.1 Billion	+13.8%
Convertible	$56.1 Billion	+58.5%
Asset-Backed	$703.6 Billion	-9.6%
Municipal	$290.8 Billion	+22.3%

The Investment Climate

Net cash outflows from equity funds totaled $12.3 billion in August, compared to inflows totaling $11.6 billion in July, according to the Investment Company Institute. Bond funds reported outflows totaling $4.0 billion, compared to inflows totaling $3.9 billion in July. Money funds reported inflows totaling $153.8 billion, up from $71.1 billion in July. Y-T-D through August, inflows to equity funds totaled $88.1 billion, vs. $87.3 billion for bond funds.