

## MARKET REVIEW & OUTLOOK

### A ROUGH START

The markets have gotten off to a shaky start in 2008. The primary culprit in the decline is the precipitous drop in home prices that has triggered a ripple effect throughout the economy and touched virtually every economic sector. However, housing prices are just one of the excesses being wrenched from the economy and reflected in the stock market.

The S&P 500, a large company index, finished the quarter down 9.4%. While international markets, as measured by the MSCIEAFE, fell over 8.8%. The Russell 2000, a proxy for small companies, fell by almost 10%.

### *Total Market Returns as of March 31, 2008* (annualized if greater than 1 year)

	Quarter	1 Year	3 Years	5 Years
<b>S&amp;P 500</b>	-9.44%	-5.08%	5.85%	11.32%
<b>Dow Industrials</b>	-7.00%	1.59%	7.78%	11.45%
<b>NASDAQ</b>	-13.99%	-5.11%	5.30%	11.96%
<b>Russell 1000 Value (Large)</b>	-8.72%	-9.99%	6.01%	13.68%
<b>Russell 1000 Growth (Large)</b>	-10.18%	-0.75%	6.33%	9.96%
<b>Russell 2000 (SMID)</b>	-9.90%	-13.00%	5.06%	14.90%
<b>MSCI EAFE Index</b>	-8.82%	-2.27%	13.79%	21.90%
<b>Lehman Aggregate</b>	2.17%	7.67%	5.48%	4.58%
<b>3-Mo. T-Bills</b>	0.71%	4.19%	4.21%	3.03%

As noted above, housing prices have fallen dramatically and brought the stock market with them. In various parts of the country, real estate prices were rising at a blistering pace. A pace that, as many anticipated, could not be justified.

cont'd on p 2

### In This Issue:

Market Outlook . . . . . p 1	Sector Diversification . p 3
S&P 500 Sector Perf. . p 2	Asset Allocation . . . . . p 3
What's New? . . . . . p 2	Market Monitor . . . . . p 4
Stock Highlights . . . . . p 3	Perf. Scoreboard . . . . . p 4

**Dover's new ADV II is available  
see page 3 for information on receiving a copy.**

### Dover's Investment Methodology

The foundation of Dover's Investment philosophy is its disciplined approach to stock analysis, beginning with a quantitative analysis of companies based on strict fundamental criteria. This is followed by a more subjective evaluation of factors including portfolio diversification and individual company characteristics.

#### Large Cap Value Portfolio

Dover's value philosophy bases its buy/sell decisions on four criteria: rising earnings expectations, low relative price to earnings (P/E) valuation, improving profitability, and low historical P/E valuation. Stocks passing all four screens are considered buy candidates and will be further evaluated to establish quality and appropriateness for the portfolio.

#### Large Cap Growth Portfolio

Dover's growth philosophy begins by considering only large capitalization companies in the top 50% of earnings per share growth over the last three years. Dover then bases its buy/sell decisions on three criteria: return on investment (ROI), net sales growth, and free cash flow. Stocks passing these screens are considered buy candidates and will be further evaluated to establish quality and appropriateness for the portfolio.

#### Value/Growth (Core) Portfolio

Dover's value/growth, or core portfolio utilizes a blend of the top buy ideas from both the pure growth and pure value philosophies. The intent behind this method is to maintain less volatile portfolio returns over the course of a market cycle. The portfolio is structured with an emphasis on diversification, utilizing a wide blend of high-quality holdings across the various economic sectors.

# MarketLine

(Market Review & Outlook cont'd from p 1)

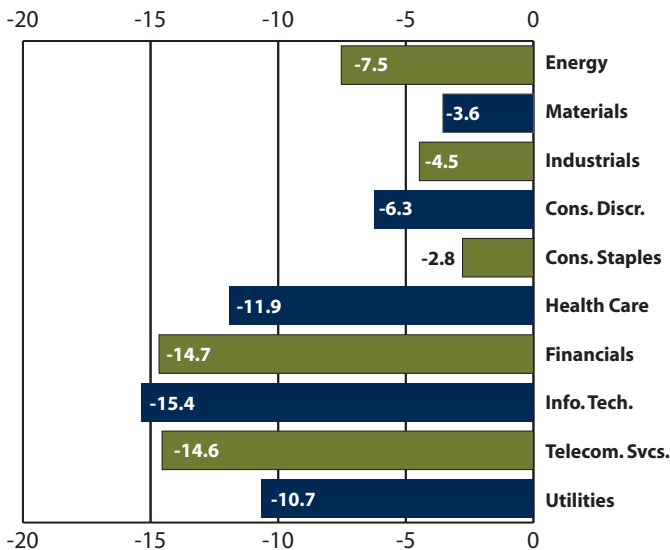
As a result, the "housing bubble" was being inflated. It is not possible to identify with certainty the causes of the "housing bubble" or its subsequent deflation, but questionable lending most certainly played a part. These broad lending practices are loosely referred to as "sub-prime mortgages", a term with a strict definition tied to a borrower's credit score.

The specter of inflation in the economy has not helped the market either. Petroleum and other raw materials combine to make up the majority of the products made around the globe. As their prices rose, Americans began to feel the pinch of rising prices on the goods and services they buy. In addition, many consumers anticipate that prices will rise further.

In an effort to combat inflation, the Federal Reserve Board took several actions in the first quarter. On March 18th, the Fed cut its target on the Fed Funds rate by 2%. This is the rate at which large banks and other institutions lend to each other. The Fed also amended several of its lending policies - including accepting mortgage securities as collateral - to help introduce liquidity into the markets.

## S&P 500 ECONOMIC SECTOR PERFORMANCE

Three Months Ending 3/31/07 - Source: S&P Index Services  
Price Change Only



The Fed's actions were swift and significant indicating it is serious about thwarting inflation and maintaining stability in this economy.

Both inflation and the housing bubble have had immediate impacts on the U.S. economy and likely the World economy. But it is worth noting that the economy, although certainly struggling, has not academically entered into recession. Recession is academically defined as two quarters of negative GDP growth. Through the first quarter, the U.S. economy was still growing. That said, it certainly feels like the economy is in recession. And the consumer is feeling it too with the Consumer Confidence index in March falling to its lowest level in five years.

But we have seen times like these in the market before. Without detrimental political, fiscal, or financial actions that are unpredictable in this world, the market should rebound.

## WHAT'S NEW?

As your investment advisor, part of Dover Partners' fiduciary responsibility is to be aware of any changes in your financial needs or circumstances. We strive to make sure each client's assets are managed to best suit his or her unique situation.

To help us continue to manage your Dover Partners, Inc. account(s) in keeping with your financial needs, please take a moment to make us aware of any changes in your financial circumstances. This could include changes in employment or marital status, a change of residence, or a new addition to the family.

Also, please let us know at any time if you would like to set up an account review with a Dover representative. We would be happy to arrange a meeting. You can contact us by:

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## ADV PART II OFFER

### READ ALL ABOUT US

Dover's new 2008 Form ADV, Part II is available. This document describes the products and services we offer, the fees we charge, and many other aspects of our business.

You are entitled to receive a copy of this form, which serves as Dover Partners' SEC disclosure brochure, at any time. If you would like a copy, contact Jennifer Moix at [jennifer@dover-partners.com](mailto:jennifer@dover-partners.com) or (937) 299-4105 ext. 837.

## STOCK HIGHLIGHTS

**Colgate-Palmolive (CL)** - Colgate-Palmolive is a widely known company whose stock Dover recently added to Value portfolios. The company serves over 200 countries with its consumer products, household names such as SoftSoap, Irish Spring and Speed Stick. Let's not forget the company's namesake products; Colgate toothpaste and Palmolive Dish Soap. In addition to the brands recognized here, Colgate-Palmolive is also involved in pet nutrition through its Hills® product lines: Science Diet and Prescription Diet. The company is beginning to bear fruit from the seeds sown during its 2004 restructuring, with 2007 revenues growing more than 13% while increasing the company's earnings on each dollar of revenue (gross margin). With its expanding product line, strong research and development, and an expanding advertising budget, Colgate-Palmolive should perform well in the marketplace.

Headquarters: New York, NY

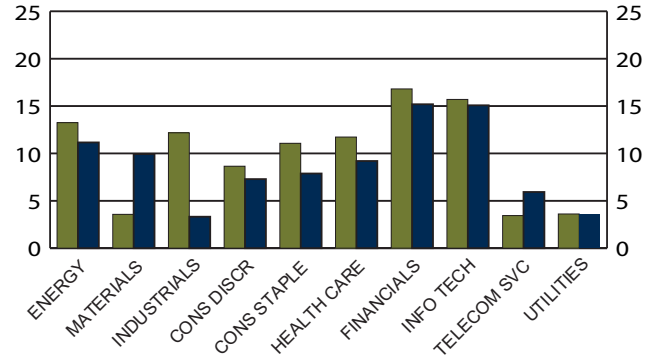
**Microsoft Corp. (MSFT)** - Microsoft, which was bought in Value and Core portfolios, is the largest provider of software products for computing devices worldwide. It develops and sells software products for a wide range of computing devices. Microsoft also sells the Xbox video game console. Demand for Microsoft products continues to grow as the company continues to roll out new and upgraded products and services. And the company's expansion of business overseas, especially in fast-growing emerging markets, should help offset any economic slowdown in the U.S.

Headquarters: Redmond, WA.

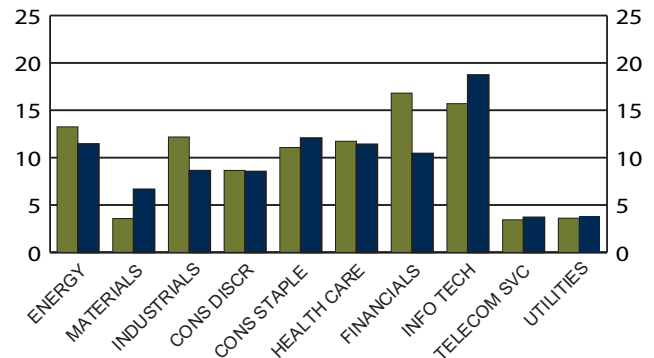
## SECTOR DIVERSIFICATION

(as of 3/31/08)

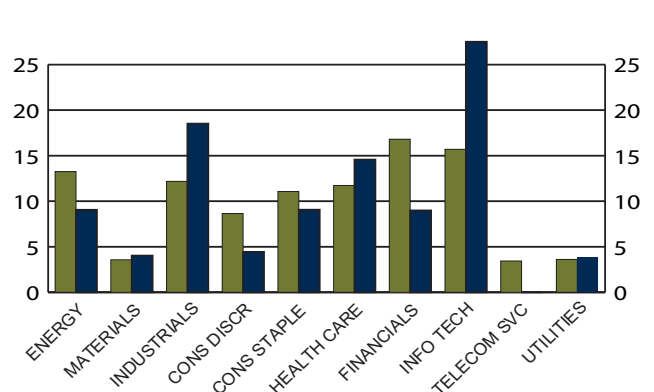
### S&P 500 vs. Value Portfolio



### S&P 500 vs. Core Portfolio



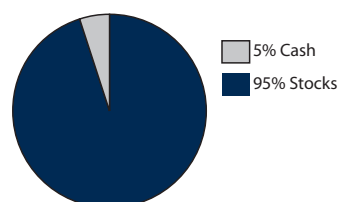
### S&P 500 vs. Growth Portfolio



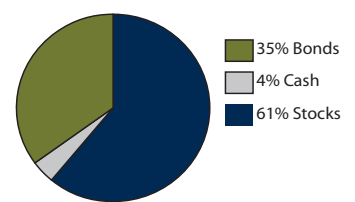
## ASSET ALLOCATION

(as of 3/31/08)

### Equity Accounts



### Balanced Accounts



These are guidelines only and accounts are not necessarily expected to reflect the exact weightings listed above.

**MARKET MONITOR**

Market returns for the first three months of 2008 indicated the extent to which investors are beginning to face the continuing problems of last year. These problems include the credit crisis, housing market woes, and weak economic data. As the Federal Reserve let loose all available guns, the U. S. government passed a stimulus of their own in the form of a tax rebate. How far the turmoil will go will not be known until it actually turns around.

For equities, the average mutual fund lost over 10.5%, worse than the Dow Jones or S&P 500 indexes (see Scoreboard). Value styles outperformed growth, as the business cycle continues to turn, in all categories of capitalization. Further, U. S. markets measured relatively well versus international developed and emerging countries.

The best relative performing stock sectors were Consumer Staples, Materials, and Industrials. The worst were Information Technology, Financials, and Telecommunications Services.

The extreme price volatility in the bond market surprised many. Even the safest of investment havens were impacted by the mounting pressures of the credit crisis. Although most sectors gained positive returns for the quarter, safety ruled. For the quarter, the 10 year Treasury yield fell from 4.03% to 3.41%. The short-term Treasury bill fell to an unusual low of just 0.86%.

**PERFORMANCE SCOREBOARD** AS OF 3/31/08 (TOTAL RETURNS)

<i>Periods over 1 year annualized</i>	<b>1 Quarter</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>
S&P 500 Index	-9.44%	-5.08%	5.85%	11.32%
Dow Jones Industrial Average	-7.00%	1.59%	7.78%	11.45%
NASDAQ Composite	-13.99%	-5.11%	5.30%	11.96%
Dow Jones Wilshire Large Value	-8.93%	-8.10%	6.22%	13.31%
Dow Jones Wilshire Large Growth	-9.90%	-1.26%	6.62%	10.50%
Lehman US Gov't/Credit Bond	2.53%	8.37%	5.56%	4.62%
Lehman US Municipal Bond	-0.61%	1.91%	3.71%	3.93%
Citigroup 3-month T-bill	0.71%	4.19%	4.21%	3.03%

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MarketLine A Newsletter for Clients and Friends of Dover

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