

Avoiding the Bomb on Dividend Cuts

9 to SELL
9 to BUY

More on Regional Banks

Telecom Services

Consumer

130 30 Fundamentals

**Independent Research Supporting
130 / 30 Investment Strategies**

06/20/2008

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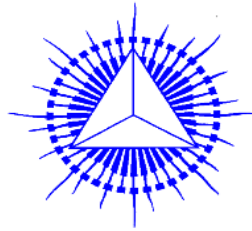
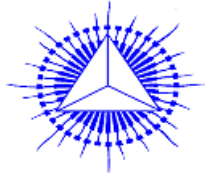


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In the new investment approach adopted by pension funds and mutual funds known as 130 / 30 investing, portfolio managers seek to add to total portfolio return by hedging a portion of their long positions with short positions in contrasting securities.

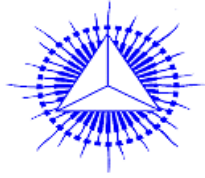
**130% long
(30%) short**

100% net equity

Extension of long positions to 130% of portfolio equity, offset by (30%) net short positions, maximizes return, assuming stock selection adequately reflects strong fundamental research .

Independent research has a key role to play in 130 / 30 investment strategies. Providing industry themes and stock choices to support both long and short positions, independent research steps outside traditional Wall St. research in taking an unbiased look at the full range of portfolio options .

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Atlantis Investment Co. combines 3 research services that together provide incremental value for portfolio managers in beating the indexes:

Atlantis Research Service

“Growth stocks LONG and SHORT” published since 1986

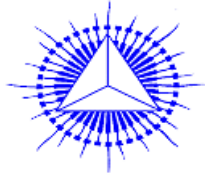
REIT Growth and Income Monitor

Comprehensive coverage of more than 130 REITs providing income and long / short opportunities published since 1997

130 / 30 Fundamentals

Combining the “Best of the Best”: **analysis of growth sectors** for long/short combinations coupled with REITs for **income** to deliver differentiated **performance vs target indexes**

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Recommended Strategies:

1) Add income to the portfolio

monitor top 50 Yields in S&P 500 Index
contrast REITs vs Banks, Utilities and other high yield groups

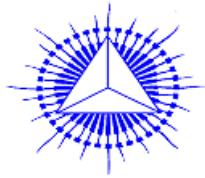
2) Use industry themes to target over weightings

selection of target industries based on fundamentals
focus on multi-year trends

3) Combination positions - long / short contrasts

selection of stocks based on fundamental contrasts
use of non-S&P 500 stocks long/short
large cap Russell index stocks
NASDAQ stocks
selected ADRs

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Update Since May 2008

Since publishing our comments on Regional and Money Center Banks, REITs, and Utilities in May, 2008, we have seen dramatic drops in valuation for certain bank stocks, while REITs and Utilities have traded reasonably well in a difficult market environment. The S&P 500 Index declined (6%) during the this period. With the exception of **Progress Energy**, up 1%, our BUY recommendations all decreased in a range of (4%)-(22%), while our SELL recommendations decreased more, in a range of (12%)-(55%), with the most severe declines impacting Bank stocks. Credit issues head the list of investor concerns on Bank stocks, while liquidity and demands for more disclosure add to a negative lending environment.

We have already seen 2 dividend cuts among our SELL group since May, 2008. **Fifth Third Bancorp** tumbled from \$20 per share to only \$9 per share on news of a (66%) dividend reduction and plans to raise \$2.0 billion in new capital, including \$1.0 billion in a preferred financing and \$1.0 billion from asset sales. While management views this news as showing determination to improve **Fifth Third's** capital position, investors apparently view these events as indicating more unannounced bad news pending. We have been following published reports of **Fifth Third's** efforts to recover \$612 million invested in **Citigroup's** Falcon Strategies hedge fund, and we agree with the general sentiment that we have not yet seen the worst from **Fifth Third Bancorp**.

Another large decline was posted by **KeyCorp**, also down more than (50%) on news of a (50%) dividend reduction and a charge relating to leveraged-lease transactions of (\$1.1)-(\$1.2) billion. **KeyCorp** raised \$1.6 billion through sale of common and preferred shares to strengthen capital base in June, 2008.

130 30 Fundamentals Recommendations Update						
Rank as of May 16, 2008						
Company	Sector	Ticker	Price 05/16/2008	Price 06/18/2008	% change	Current Yield
BUY:						
Ameren Corporation	Utilities	AEE	\$46.07	\$42.95	-7%	5.91%
Apartment Investment and Management	Financial - REIT	AIM	\$40.44	\$36.24	-10%	6.62%
Bank of America	Financial - Bank	BAC	\$36.17	\$28.37	-22%	9.02%
Consolidated Edison	Utilities	ED	\$41.65	\$40.04	-4%	5.84%
Developers Diversified	Financial - REIT	DDR	\$42.43	\$36.81	-13%	7.50%
Equity Residential	Financial - REIT	EQR	\$44.07	\$40.74	-8%	4.74%
General Growth Properties	Financial - REIT	GGP	\$43.83	\$38.01	-13%	5.26%
HCP	Financial - REIT	HCP	\$34.70	\$32.49	-6%	5.60%
Pinnacle West Capital	Utilities	PNW	\$34.20	\$32.50	-5%	6.46%
Progress Energy	Utilities	PGN	\$42.02	\$42.41	1%	5.80%
SELL:						
American Capital Strategies	Financial - Non-bank lender	ACAS	\$32.82	\$27.98	-15%	14.72%
Citigroup	Financial - Bank	C	\$23.12	\$20.40	-12%	6.27%
Comerica	Financial - Bank	CMA	\$38.34	\$29.13	-24%	9.06%
Fifth Third Bancorp	Financial - Bank	FITB	\$20.48	\$9.26	-55%	6.48%
First Horizon National	Financial - Bank	FHN	\$9.91	\$7.98	-19%	10.03%
Host Hotels & Resorts	Financial - REIT	HST	\$18.47	\$14.68	-21%	5.45%
Huntington Bancshares	Financial - Bank	HBAN	\$9.40	\$5.52	-41%	9.60%
KeyCorp	Financial - Bank	KEY	\$23.72	\$11.13	-53%	6.74%
Regions Financial	Financial - Bank	RF	\$20.17	\$11.40	-43%	13.33%
SunTrust	Financial - Bank	STI	\$56.01	\$36.95	-34%	8.34%
Wachovia	Financial - Bank	WB	\$27.39	\$16.88	-38%	8.89%
S&P 500 Index			\$1,425.35	\$1,337.81	-6%	1.93%

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More bad news should also be expected from **Huntington Bancshares**, with the stock down more than (40%) for the last month. **Huntington Bancshares** has been sued by shareholders over its relationship with Franklin Credit Management **Huntington Bancshares** has made no comments regarding plans to reduce the dividend, but the pending July, 2008 report of earnings results for 2Q 2008 provides an appropriate forum for management to announce the "capital strengthening" moves demonstrated by **Fifth Third Bancorp** and **KeyCorp**. Recognition of need for more capital probably precipitated these dividend reductions, as managements perceived the need to demonstrate determination to preserve cash in order to be able to access capital from new investors. Huntington already reduced its dividend (50%) in April, 2008.

Other regional bank stocks with significant recent price declines include **Regions Financial**, down (43%), **SunTrust** down (34%) and **Wachovia**, down (38%) in the last month. As discussed in our May 16, 2008 issue of Yield Opportunities, regional banks feel the credit crisis more through direct lending to consumers and commercial customers than through exposure to the asset-backed securities that have plagued money center banks, stockbrokers and investment banks. In addition to residential loans, increasing pressure on homebuilders, apartment developers and condominium converters should be expected to impact loan losses for regional banks during 2008 and 2009. Although **Regions Financial** and **SunTrust** have made no announcements indicating readiness to reduce dividend distributions, yields on the stocks have increased to the point that investors may assume a dividend reduction is pending. **Wachovia** saw the forced retirement of its CEO during June, 2008. **Wachovia's** (41%) dividend reduction in April, 2008 may not be enough to counter speculation on the need to recognize additional asset impairments.

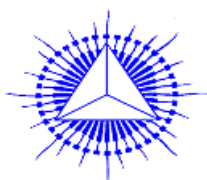
Trading action of **Citigroup** compared to **Bank of America** provides an interesting contrast. We see **Bank of America** trading down as investors await the merger of **Bank of America** with Countrywide Credit. News of politicians receiving favorable terms on Countrywide mortgages may impact perception of **Bank of America** negatively. We think that **Bank of America** will proceed with the Countrywide merger, allowing arbitrage short positions to unwind, benefiting the stock price. **Bank of America** stock retreated (22%) this past month as these issues have been discussed. **Citigroup** stock, in contrast, decreased only (12%). We note that **Citigroup** plans to divest 23% of its assets, a decision that should impact dividend distributions for 2009. **Citigroup** reduced its dividend (41%) in January, 2008, while **Bank of America** has a consistent record of dividend increases with no breaks since 1989. Both **Bank of America** and **Citigroup** are on the list of the Top 25 market caps for the S&P 500 Index, with **Citigroup's** market cap weighting close to 1.0% and **Bank of America's** market cap weighting close to 1.4%. **Bank of America's** 9.02% yield appears far more attractive than **Citigroup's** 6.27% at this time.

More on Banks and Other Financials

Our first list of regional banks demonstrating risk to dividend payments is clustered at the top of the range of the Top 50 Yields of the S&P 500 Index, as shown on pages 14-16 of this report. We think investors should avoid at least 5 more of these regional banks on the list of the Top 50 Yields, including **Marshall & Ilsley**, **BB&T Corporation**, **US Bancorp**, **Wells Fargo**, and **Zions Bancorp**. Investors may wish to avoid the regional bank stocks in general over the next 6 months, a cautious stance justified by the probable impact of incremental news on stock prices. We also see risk to dividends at **Fannie Mae**, the government-sponsored home mortgage entity, and **KB Home**, one of the largest US homebuilders. In addition to the banks and non-bank lenders, we see heightened risk to property casualty insurers, including **Cincinnati Financial** and **XL Capital**, due to severe floods and storms during 2008 and to the impact of the softening US economy on premium growth and yields.

Marshall & Ilsley, providing diversified banking services to consumers and corporate customers from offices in Wisconsin, Arizona, Indiana, Minnesota and Missouri, has the distinction of being one of the few regional banks to increase the dividend during 2008, up 3% for the distribution in June, 2008. **Marshall & Ilsley** is #17 on the list of the Top 50 Yields, with a current yield of 6.98%. EPS for 1Q 2008 decreased (14%) from the previous year, as a \$39 million gain on the Visa IPO and a \$20 million tax benefit outweighed a (0.30%) decline in ROEA (return on earning assets) and a decline of (0.11%) in NIM (net interest margin). Net chargeoffs of (\$131) million increased dramatically to 1.08% of loans, as loans and leases on non-accrual of \$787 million (63% in the construction and development category) increased to 1.57% of total loans (concentrated 34% in Arizona, 16% in Florida, and 13% in Wisconsin). Residential real estate and other consumer loans represent 34% of total loans, with total loans to commercial borrowers at 66% (including commercial real estate 24% and construction and development 21%). Wisconsin represents 42% of **Marshall and Ilsley's** revenue as of 1Q 2008. **Marshall & Ilsley** has a record of slow but steady increases in dividends since 1999.

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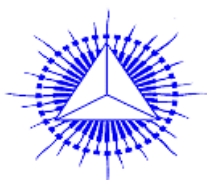
BB&T Corporation, with headquarters in Winston-Salem, North Carolina, reaffirmed its intention to increase dividend distributions during 2008, but stock price action indicates investors are skeptical. **BB&T** is #18 on the list of the Top 50 Yields, with a current yield of 6.86%. EPS for 1Q 2008 was flat at \$0.77 per share, with the Visa IPO providing a \$30 million gain. While net interest margin improved by 0.08% to 3.54% for 1Q 2008, credit deterioration impacted results, with a provision of \$232 million up more than 100% from the previous year, bringing allowance for loan losses to 1.05% of total loans. Credit deterioration was noted in Georgia, Florida, and the metropolitan DC area. This level of allowance for loan losses is lower than industry peers, indicating a conservative portfolio posture, although the rapid increase in net chargeoffs to 0.54% of average loans is worrisome, now exceeding any year since 1996. Mortgage and consumer loans represent 51% of total loans, with small business and commercial loans at 49%. **BB&T** also depends on consumers for non-interest income, derived from sales of property & casualty, health and life insurance. Management proudly notes that dividends have increased in every year for the last 36 years, with 12% dividend growth compounded over the last 10 years. It appears that **BB&T** is unlikely to reduce the dividend under current management, although the stock may trade as though it is as exposed to a dividend cut as its less conservative peers.

From its headquarters in Minneapolis, **US Bancorp** built a solid base of business among midwestern consumers and commercial borrowers. Ranked #34 on the list of Top 50 Yields, with a current yield of 5.49%, **US Bancorp** last increased dividends 6% during 4Q 2007. With an excellent long term record of dividend increases dating back to 1998, **US Bancorp** is unlikely to reduce dividend distributions unless profitability is severely impaired. EPS for 1Q 2008 was flat at \$0.62 per share, benefitting from a \$492 million gain on the Visa IPO, partially offset by \$253 million impairment charges on structured investment securities. Return on average assets decreased (0.24%). Consumer residential mortgages and retail loans represent 48% of total loans and commercial loans and commercial real estate 52%. Total loan loss provision was \$485 million, up more than 50% from the previous year, at 1.54% of total loans. An incremental provision of \$192 million for loan losses reflects concern over residential mortgage exposure, due to declining home values, and consumer loans. The Minneapolis market enjoyed exceptional home value appreciation over the previous 15 years, so home values should be expected to decline during this difficult credit environment. Nonperforming assets are 0.53% of total loans, up from 0.40% for the previous year. Stock price performance for **US Bancorp** has exceeded other bank stocks in the Top 50 Yields for 2008, with the stock almost flat from December 31, 2007.

Wells Fargo, with exposure to California and other western markets where inflated home values have been widely reported, has not yet seen significant impact from investor concern over the credit crisis, with the stock down only (14%) year to date for 2008. **Wells Fargo** is ranked #49 on the list of the Top 50 Yields, with a current yield of 4.79%. Dividends have demonstrated consistent growth since 1990. EPS for 1Q 2008 decreased (9%) from the previous year, despite the benefit of a \$334 million gain on the Visa IPO. Consumer loans represent 60% of total loan portfolio and commercial loans and commercial real estate (including construction and development) 40%. Net chargeoffs for 1Q 2008 were (\$1.5) billion, at 1.6% of total loans. Total provision for loan losses was \$2.0 billion (0.5% of total loans), including \$500 million allocated to build reserves, with chargeoffs concentrated in the home equity loan portfolio. **Wells Fargo** announced plans to liquidate \$11.5 billion of home equity loans (with an annualized loss rate of 5.58%) while retaining a core portfolio of \$72.1 billion (with annualized loss rate of 1.56%). Due to exposure to high growth western states, **Wells Fargo** has exceeded deposit growth and asset growth of most of its peers, although EPS has flattened out in a range of \$0.60-\$0.67 per share since 2006. Results for 4Q 2007 were impacted by unusual credit reserve additions of (\$1.4) billion. We note that Wells Fargo changed accounting methodology in April, 2008, to chargeoff loans 180 days overdue, a less conservative posture than its previous policy of writeoffs at 120 days.

Conservatively managed **Zions Bancorp**, located in Salt Lake City, Utah, is ranked #44 on the list of the Top 50 Yields, with current yield of 5.10%. **Zions Bancorp** has a record of steady dividend increases since 2000. EPS for 1Q 2008 decreased (28%) from the previous year, with ROE of 8.18%, down (4.07%) from the previous year. The Visa IPO contributed only \$18 million to results for 1Q 2008. Total assets of \$53 billion include total loans of \$41 billion, concentrated 80% in commercial loans and commercial real estate and 18% in consumer residential and credit card loans. Non-performing assets increased 53% to \$434 million (1.09% of total loans) for 1Q 2008. Net chargeoffs of 0.52% of loans also increased dramatically, up 86% from the previous year. Chargeoffs are concentrated in the residential development and construction category, as deterioration became evident in Utah and Idaho during 1Q 2008, lagging the homebuilding and construction downturn in southwestern states. **Zions Bancorp** stock decreased (28%) year to date for 2008.

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Fannie Mae, the government-sponsored entity (GSE) providing home loans, offers investors an alternative vehicle to bank stocks to make a bet on the direction of the mortgage credit crisis. **Fannie Mae** is ranked #30 on the list of Top 50 Yields, with a current yield of 5.63%. **Fannie Mae** stock decreased (38%) during 2008 year to date, a rate of decline exceeding the (34%) decline posted for 2007. **Fannie Mae** reduced dividend distributions by (50%) in 2005, and since 4Q 2006 has followed a policy of variable dividend payments reflecting profitability. Dividend distributions of \$0.35 per share for 1Q 2008 and 2Q 2008 are down (30%) from the level of dividends paid during 3Q 2007 and 4Q 2007.

Unlike the regional banks, liquidity is never a concern for **Fannie Mae**, as its offerings of debt and equity are viewed as almost as risk-free as US government obligations. Emergency borrowing of up to \$2.5 billion is available to **Fannie Mae** through the US Treasury, in a facility that has never been used. **Fannie Mae** acts as a provider of mortgage capital to banks by purchasing "conforming" mortgage loans and enabling securitization of these loans in the lowest risk and most liquid category of securitized home loans (known as agency-backed MBS, mortgage-backed securities). Despite **Fannie Mae's** position as the lowest risk issuer of MBS, trading in the stock indicates investor perception of much higher risk than was previously assumed. EPS for 1Q 2008 was a loss of (\$2.57) per share, reflecting (\$4.3) billion in fair value accounting adjustments and (\$3.2) billion in credit-related expenses. Like bank holders of mortgage loans and MBS, **Fannie Mae** is subject to the vagaries of higher mortgage delinquencies, defaults and foreclosures, home price declines, variable interest rates, and reduced liquidity levels. We note that due to **Fannie Mae's** restriction to invest only in "conforming" loans, **Fannie Mae's** credit adjustments relate far more to conditions in mid-Western markets than is typical of the banks discussed above. **Fannie Mae** is not invested in the jumbo mortgage loans typical for east and west coast borrowers.

Trading in **Fannie Mae** stock is also subject to the action of government regulators. OFHEO (Office of Federal Housing Enterprise Oversight) is responsible for monitoring **Fannie Mae's** safety and soundness, with particular focus on capital adequacy and policies impacting affordable housing and access to home loans for low income borrowers. Following a contentious review of **Fannie Mae** (including complaints of inappropriate conduct on the part of prior management) culminating in a consent order issued in May, 2006, **Fannie Mae** was required to raise more capital and restrict the size of its loan portfolio. This limitation was removed in March, 2008, enabling **Fannie Mae** to support the mortgage market with a higher level of purchase activity. A new GSE reform bill is expected from the Senate in 2008 with unpredictable impact on **Fannie Mae's** operations.

KB Home, one of the largest US homebuilders, is even more susceptible to earnings downdraft than most banks as a result of declining US home values and lack of access for consumer credit. **KB Home** is #35 on the list of the Top 50 Yields, with a current yield of 5.44%. **KB Home** stock peaked at \$85 per share in July, 2005, before declining (29%) for 2006 and (58%) for 2007. **KB Home** stock is down (15%) year to date for 2008. Dividends, surprisingly, have never been reduced, as **KB Home** initiated dividend distributions in 1990 at a low percentage of EPS and made gradual increases. **KB Home** last earned EPS in excess of the dividend for 1Q 2007. The current quarterly dividend distribution of \$0.25 per share is to be paid in July, 2008. Results for 1Q 2008 reveal a high level of stress unlikely to be alleviated until mortgage financing is once again freely available and home values recover. Revenues for 1Q 2008 decreased (43%), reflecting sharply lower home sales transactions and a (7%) decline in the average home selling price. EPS for 1Q 2008 was a net loss of (\$3.47) per share, including (\$224) million in non-cash impairment charges on home inventories and abandonment of land option contracts. EPS from continuing operations for 2007 was a loss of (\$18.33) per share, including (\$1.5) billion in charges. We view **KB Home's** dividend as a probable casualty of the current difficult lending environment and see no signs to indicate resurgence in home sales revenue necessary to restore profitability.

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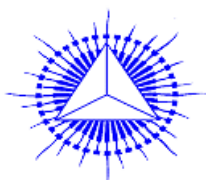


Bermuda-based property casualty insurer and re-insurer **XL Capital** is another stock to avoid in this difficult credit environment. **XL Capital** is ranked #42 on the list of the Top 50 Yields, with a current yield of 5.13%. Dividends were reduced (24%) in 1Q 2006 and have remained flat for the 2 years since that event. **XL Capital** stock decreased (41%) year to date for 2008, following a (30%) stock price decline for 2007, with the sudden decline precipitated by the rapid change in pricing for bond insurance. **XL Capital** wrote off (\$500) million of its \$670 million investment in Security Capital Assurance Ltd. during 4Q 2007 and provided (\$300) million for additional SCA losses. As a guarantor to certain SCA subsidiaries, **XL Capital** may face additional writeoffs on contracts now viewed as unrelated, as litigation with Merrill Lynch proceeds. **XL Capital** was also forced to recognize mark-to-market losses of (\$500) million of "structured credit assets" (ie: subprime securitizations) carried as balance sheet investments during 4Q 2007. A new CEO joined **XL Capital** in May, 2008, after the previous CEO announced his pending retirement in October, 2007.

XL Capital's EPS for 1Q 2008 decreased (61%) from the previous year, as a 3.4% increase in the combined ratio added to the pressure of a (12%) revenue reduction. Results for 1Q 2008 also included a (\$102) million net realized loss on investments. Outlook for the property and casualty underwriting business for 2008 and 2009 is negative, as economic slowdown impacts demand, excess capacity impacts pricing, and a bad year for storms and floods impacts underwriting losses. **XL Capital** disclosed exposure to crop insurance that may be the subject of additional negative attention from analysts following the Mississippi floods. **XL Capital** currently enjoys strong credit ratings that may be adjusted if continued investment losses impact book value.

Cincinnati Financial, an Ohio-based property casualty company, saw a stock price decline of (23%) year to date for 2008, as investment income exposure to **Fifth Third Bancorp** is seriously impacted by **Fifth Third Bancorp's** dividend cut. Holdings of 67.3 million **Fifth Third Bancorp** shares were valued at \$1.4 billion in March, 2008, but have been reduced in value to only \$680 million today, accounting for more than (\$3) per share decline in the book value of **Cincinnati Financial**. Identity of another \$1.3 billion in equity investments on **Cincinnati Financial's** balance sheet in March, 2008, is undisclosed. **Cincinnati Financial** is ranked #41 on the list of the Top 50 Yields, with a current yield of 5.13%. A long term record of steady dividend growth may be in jeopardy, as the loss of dividend income from **Fifth Third Bancorp** is compounded by unexpected catastrophe losses. **Cincinnati Financial** projects (\$115) million in catastrophe losses for 2Q 2008, an unprecedented level that will drive combined ratio above 100% for 2008. Premiums are projected to decrease (5%) for 2008. EPS for 1Q 2008 was a net loss of (\$0.26) per share, down from a profit of \$1.11 per share for the previous year. Revenues for 1Q 2008 decreased (32%), with written premiums down (8%), earned premiums down (4%), and investment income of \$152 million offset by (\$16) million in realized losses and (\$214) million impairment charges.

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Telecom Services - Consistent Dividend Payors

We think investors should seek out telecom services as an appropriate sector to derive dividend income. While EPS and revenue growth for telecom services providers is generally slow, dividend distributions have been conservative, with steady, if slow growth. Telecom services companies have been slightly more generous than utilities with their distributions, making this industry sector relatively attractive. Demand variables change slowly and costs appear well controlled. Regulatory issues are of less concern than for utilities. Investors may expect consistent near term performance, with the only serious risk a long term trend towards VoIP (voice over Internet protocol), as technology change to WiMAX and other new technologies introduces new competition. We see 5 telecom services stocks on the list of the Top 50 Yields that should be investigated by income investors: **Verizon Communications**, **Citizens Communications**, **Qwest Communications**, **Embarq** and **Windstream**.

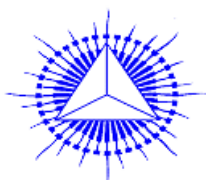
Verizon Communications is ranked #48 on the list of the Top 50 Yields, with a current yield of 4.80%. While this dividend yield of less than 5.00% is at the low end of the threshold of interest, **Verizon Communications'** large market cap of more than \$100 billion makes the stock easy to own and overweight, with a market cap weighting in the S&P 500 Index of close to 0.90%. **Verizon Communications** last increased dividend distributions by 5% in 4Q 2007. Review of the last 18 years of dividend distributions reveals an 8 year period (from 1997 to 2005) with no increase, but there is no instance of dividend reduction. This record of dividend distributions is more consistent than that achieved by **AT&T Communications**, **Verizon Communications'** much larger Telecom Services competitor.

Verizon Communications reported EPS from continuing operations for 1Q 2008 of \$0.61 per share, up 20% from the previous year. Revenues increased 6%, with the rapid growth wireless revenue (now 48% of total revenues) up 16%. EBITDA margin was 33.7% for 1Q 2008. Cash flow from operations of \$5.4 billion for 1Q 2008 was devoted \$4.2 billion to capital expenditures and \$1.2 billion to dividends (representing 100% of free cash flow). **Verizon Communications** has been repurchasing stock, investing \$1.0 billion in share repurchase for 1Q 2008. These financial characteristics are likely to hold **Verizon Communications** stock steady in a volatile stock market environment.

Citizens Communications, a rural Telecom Services company located in Connecticut with 2.4 million access lines in 24 states, is ranked #7 on the list of the Top 50 Yields, with a current yield of 8.99%. Quarterly dividend distributions of \$0.25 per share have been stable since 2006. EPS of \$0.14 per share for 1Q 2008 decreased (32%) from the previous year, as operating expenses, up 12%, outpaced revenue growth, up 2%. Acquired operations impacted expenses. EBITDA margin for 1Q 2008 was 54.2%. Operating cash flow decreased (3%) to \$302 million. Quarterly capital expenditures of less than \$50 million enable dividends to capture 48% of free cash flow. **Citizens Communications** appears to offer investors the consistency that is most desirable for income investors.

Qwest Communications, based in Colorado with 12.5 million access lines, is ranked #12 on the list of the Top 50 Yields, with a current yield of 7.71%. Quarterly dividend distributions of \$0.08 per share began recently, in January, 2008. EPS for 1Q 2008 of \$0.09 per share decreased (25%) from the previous year, reflecting a higher tax rate, as **Qwest** began to accrue taxes at a normal corporate tax rate. EBITDA margin for 1Q 2008 was 33.6%. Capital expenditures are high, at \$416 million for 1Q 2008, as **Qwest** invests in fiber-to-the-node in targeted markets. Adjusted free cash flow was \$56 million for 1Q 2008. As capital expenditures are expected to decline sequentially, **Qwest** may have more free cash flow to devote to dividends. Quarterly dividend distributions of \$142 million are unlikely to increase until adjusted free cash flow exceeds this level by at least 50%.

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Windstream Corporation, a rural Telecom Services company located in Arkansas with 3.2 million access lines, is ranked #13 on the list of the Top 50 Yields, with a current yield of 7.62%. EPS of \$0.27 per share for 1Q 2008 increased 29% from the previous year, with revenues up 4%. EBITDA margin was 52.3% for 1Q 2008. Cash flow from operations of \$215 million for 1Q 2008 was allocated \$56 million to capital expenditures, \$114 million to dividends, and \$100 million to share repurchase. Dividends now represent 72% of free cash flow. We note that income investors benefit from share repurchase as well as from dividend distributions, as share repurchase supports EPS and stock price performance. **Windstream Corporation** appears to be a strong candidate to continue both dividend distributions and share repurchase program to the benefit of income investors.

Embarq Corporation, a rural Telecom Services company located in Kansas with 6.4 million access lines, is ranked #26 on the list of the Top 50 Yields, with a current yield of 6.00%. **Embarq** has increased dividend distributions since 2006. EPS for 1Q 2008 of \$1.38 per share increased 31%, with revenues down (1%) from the previous year. EBITDA margin for 1Q 2008 was 43.7%. Cash flow from operations of \$593 million was allocated \$177 million to capital expenditures, \$107 million to dividends, and \$115 million to share repurchase. Dividends represent only 26% of free cash flow, indicating ability to increase distributions. As with **Windstream**, the combination of dividend growth and share repurchase should benefit income investors in **Embarq Corporation**.

Consumer Staples – Tobacco

Income investors seeking both consistency and growth for dividend distributions cannot do better than the tobacco companies, with 2 of these stellar performers of the Consumer Staples category included in the list of the Top 50 Yields, including **Reynolds American** and **Altria Group**. Although cigarette unit volume has been declining for years, with domestic unit volume decline partially offset by international unit growth, price increases drive revenue growth. Acquisitions of food and related Consumer Staples businesses provide revenue diversification for tobacco companies, but it is the enduring demand of the tobacco business that drives cash flow.

Reynolds American is ranked #19 on the list of the Top 50 Yields, with a current yield of 6.54%. Dividends have increased steadily since the IPO of **Reynolds American** by a leveraged buyout group in 2004. Brands including CAMEL, KOOL, PALL MALL, WINSTON, SALEM and DUNHILL drive revenue growth. **Reynolds American** eschews the diversification strategies of competitors to concentrate on a full product line in tobacco, including little cigars in the WINCHESTER brand, roll-your-own tobacco in the BUGLER brand, and “smokeless tobacco” including KODIAK and GRIZZLY moist snuff, loose leaf tobacco, dry snuff, and tobacco “plugs.” Adjusted EPS for 1Q 2008 decreased (10%) to \$1.00 per share and revenues decreased (4%), as a (12%) decline in shipments offset price increases. Management estimates “brand consumption” decreased (4%), with retail market share of key growth brands CAMEL, KOOL and PALL MALL up slightly. Operating margin of 23.2% decreased (2.4%) from the previous year. Operating cash flow of \$878 million for 1Q 2008 was more than adequate to fund \$39 million capital expenditures and \$251 million dividend distributions, with cash balance increasing by almost \$600 million. Guidance for EPS for 2008 indicates a flat comparison. EPS for 2009 will be supported by a \$350 million share repurchase program, expected to be completed in 12 months. Income investors should find **Reynolds American** to be a consistent dividend payer.

Altria Group, parent company of Phillip Morris, is ranked #33 on the list of the Top 50 Yields, with a current yield of 5.56%. **Altria's** cigarette brands include Marlboro, Basic, L&M, Parliament, and Virginia Slims, with John Middleton cigars acquired in December, 2007. **Altria Group** also owns a 29% interest in SABMiller, an investment resulting from the combination of South African Brewing and Miller Brewing in 2002, one of the world's largest brewers, as well as an international bottler of Coca Cola. Prior to the dividend adjustment for 2Q 2008 (reflecting the spinoff of **Phillip Morris International**, discussed below), dividend distributions demonstrated both consistency and long term growth. Adjusted EPS from continuing operations decreased (12%) to \$0.29 per share for 1Q 2008, with revenues up 3%, as Marlboro continued its long term market share gain. Unit volume decreased (3.5%), adjusted for retail inventories. Operating income of 26.2% decreased (3.8%) from the previous year. Cash from operations of \$3.6 billion funded \$45 million in capital expenditures and \$1.6 billion in dividends. Quarterly dividend distributions represent 45% of free cash flow. Guidance indicates 9%-11% EPS growth for 2008. Share repurchase, with authorization for \$7.5 billion to be invested in share repurchase over a 2 year period, will support EPS for 2009.

Altria Group spun off **Phillip Morris International** [PM] during 1Q 2008, providing an alternate investment vehicle for income and growth investors. Dividends for **Phillip Morris International** have been established at a current yield of 3.70%. Over time, **Phillip Morris International** stock is expected to provide dividend characteristics similar to **Altria Group**, supported by the unit growth demand of international markets.

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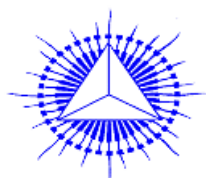
Consumer Discretionary – Media

Media stocks, representing just a small part of the Consumer Discretionary category, are represented by 2 newspaper companies among the list of the Top 50 Yields, including **Gannett** and **New York Times**. Dividends for these consumer stocks provided both consistency and growth for income investors over an extended period of time, with both revenues and earnings growth supported by advertising volume and circulation gains. Advertising suffers short impact from economic trends, although the long term trend has been for constant growth, both in domestic and international markets. Technology change, with distribution of both news and advertising moving to Internet venues, provides a challenge for media companies, one that they seek to meet through their own investment in Internet platforms.

Gannett is ranked #22 on the list of the Top 50 Yields, with a current yield of 6.26%. **Gannett** has established one of the best long term records of dividend distributions in the S&P 500 Index, with steady annual dividend growth since 1989. Best known for **USA Today** in US and **Newsquest** in UK, Gannett operates 102 daily newspapers in the US and the UK, as well as 23 broadcast TV stations reaching 23 million Americans. EPS from continuing operations for 1Q 2008 decreased (5%) from the previous year to \$0.84 per share, as revenues decreased (8%), reflecting impact of a soft economy on advertising expenditures. Operating margin for 1Q 2008 decreased (1.3%) to 19.5%. Cash flow from operations of \$338 million funded \$28 million of capital expenditures, \$92 million of dividend distributions and \$58 million of share repurchase. Quarterly dividends represent 30% of free cash flow as of 1Q 2008. **Gannett's** long term record of consistent dividend growth augers well for income investors, despite impact of a soft economy on current results.

New York Times is ranked #32 in the list of the Top 50 Yields, with a current yield of 5.57%. Like **Gannett**, **New York Times** has an excellent record of long term dividend growth since 1989, although there was a period from 1990 to 1996 of no dividend growth. In addition to leading daily journal New York Times, **New York Times** owns Boston Globe, T magazine, International Herald Tribune, and About.com. Excluding unusual items, EPS from continuing operations for 1Q 2008 decreased (76%) to \$0.04 per share, with revenues down (5%), reflecting impact of a soft US economy on advertising expenditures. Cash flow from operations of \$35 million funded \$35 million in dividend distributions. Capital expenditures are high, as New York Times invests in online platforms, including its own news brand as well as About Group, with capital spending of \$63 million for 1Q 2008 well in excess of cash flow from operations. Dividends are unlikely to increase until normal profitability is restored.

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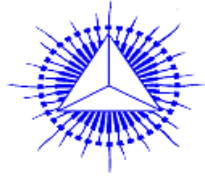


**Top 50 Yields of S&P 500 Index
Rank as of 06/16/2008**

Rank	Company	Industry Sector	Ticker	Price 06/16/2008	Dividend	Yield
1	American Capital Strategies	Financial - Non Bank Lender	ACAS	\$28.78	\$4.12	14.32%
2	Fifth Third Bancorp	Financial - Bank	FITB	\$12.74	\$1.76	13.81%
3	KeyCorp	Financial - Bank	KEY	\$11.75	\$1.50	12.77%
4	Countrywide Financial Corp.	Financial - Non Bank Lender	CFC	\$4.95	\$0.60	12.12%
5	Regions Financial Corp.	Financial - Bank	RF	\$13.05	\$1.52	11.65%
6	First Horizon National	Financial - Bank	FHN	\$8.18	\$0.80	9.78%
7	Citizens Communications	Telecom Services	CZN	\$11.12	\$1.00	8.99%
8	Bank of America	Financial - Bank	BAC	\$29.73	\$2.56	8.61%
9	Wachovia Corp.	Financial - Bank	WB	\$17.53	\$1.50	8.56%
10	Huntington Bancshares	Financial - Bank	HBAN	\$6.37	\$0.53	8.32%
11	Comerica	Financial - Bank	CMA	\$31.95	\$2.64	8.26%
12	Qwest Communications	Telecom Services	Q	\$4.15	\$0.32	7.71%
13	Windstream Corporation	Telecom Services	WIN	\$13.12	\$1.00	7.62%
14	SunTrust Banks	Financial - Bank	STI	\$41.97	\$3.08	7.34%
15	Pfizer	Health Care	PFZ	\$17.88	\$1.28	7.16%
16	Developers Diversified Realty	Financial - REIT	DDR	\$39.01	\$2.76	7.08%
17	Marshall & Ilsley	Financial - Bank	MI	\$18.35	\$1.28	6.98%
18	BB&T Corporation	Financial - Bank	BBT	\$26.83	\$1.84	6.86%
19	Reynolds American	Consumer Staples - Tobacco	RAI	\$52.00	\$3.40	6.54%



	BUY
	SELL

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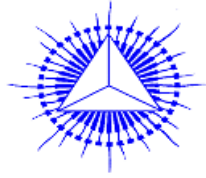


**Top 50 Yields of S&P 500 Index
Rank as of 06/16/2008**

Rank	Company	Industry Sector	Ticker	Price 06/16/2008	Dividend	Yield
20	Pinnacle West Capital	Utilities	PNW	\$32.56	\$2.10	6.45%
21	Apartment Investment and Mgmt.	Financial - REIT	AM	\$37.44	\$2.40	6.41%
22	Gannett Co.	Consumer Discretionary - Media	GCI	\$25.54	\$1.60	6.26%
23	Citigroup	Financial - Bank	C	\$20.72	\$1.28	6.18%
24	Bristol-Myers Squibb	Health Care	BMJ	\$20.12	\$1.24	6.16%
25	General Motors	Consumer Discretionary	GM	\$16.52	\$1.00	6.05%
26	Embarq Corporation	Telecom Services	EQ	\$45.86	\$2.75	6.00%
27	Ameren Corporation	Utilities	AEE	\$43.50	\$2.54	5.84%
28	Consolidated Edison	Utilities	ED	\$40.38	\$2.34	5.79%
29	Progress Energy	Utilities	PGN	\$42.99	\$2.46	5.72%
30	Fannie Mae	Financial - Non Bank Lender	FNM	\$24.87	\$1.40	5.63%
31	Leggett & Platt	Consumer Discretionary	LEG	\$17.92	\$1.00	5.58%
32	New York Times	Consumer Discretionary - Media	NYT	\$16.52	\$0.92	5.57%
33	Altria Group	Consumer Staples - Tobacco	MO	\$20.85	\$1.16	5.56%
34	U.S. Bancorp	Financial - Bank	USB	\$30.94	\$1.70	5.49%
35	KB Home	Consumer Discretionary	KBH	\$18.39	\$1.00	5.44%

	BUY
	SELL

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**Top 50 Yields of S&P 500 Index
Rank as of 06/16/2008**

Rank	Company	Industry Sector	Ticker	Price 06/16/2008	Dividend	Yield
36	HCP	Financial - REIT	HCP	\$33.66	\$1.82	5.41%
37	NiSource	Utilities	NI	\$17.34	\$0.92	5.31%
38	Masco Corp.	Industrials	MAS	\$17.42	\$0.92	5.28%
39	Host Hotels & Resorts	Financial - REIT	HST	\$15.27	\$0.80	5.24%
40	CBS Corp.	Consumer Discretionary	CBS	\$20.86	\$1.08	5.18%
41	Cincinnati Financial	Financial - Insurance	CINF	\$30.39	\$1.56	5.13%
42	XL Capital	Financial - Insurance	XL	\$29.62	\$1.52	5.13%
43	Integrus Energy Group	Utilities	TEG	\$52.26	\$2.68	5.13%
44	Zions Bancorp	Financial - Bank	ZION	\$33.75	\$1.72	5.10%
45	General Growth Properties	Financial - REIT	GGP	\$39.40	\$2.00	5.08%
46	Duke Energy	Utilities	DUK	\$18.23	\$0.88	4.83%
47	DTE Energy	Utilities	DTE	\$44.08	\$2.12	4.81%
48	Verizon Communications	Telecom Services	VZ	\$35.86	\$1.72	4.80%
49	Wells Fargo	Financial - Bank	WFC	\$25.98	\$1.24	4.77%
50	Southern Co.	Utilities	SO	\$35.32	\$1.68	4.76%

	BUY
	SELL

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