



REVIEW & OUTLOOK

1ST QUARTER

2007

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Annualized Returns

	1st Qtr	1 Year	3 Year	5 Year	7 Year	Since Inception 3/31/1996
CCM Growth	1.0	11.4	11.8	6.8	0.2	11.1
Russell 1000 Growth	1.2	7.1	7.0	3.5	(5.6)	6.6
S&P 500	0.6	11.8	10.1	6.3	0.9	9.2

Annualized Returns

	1st Qtr	1 Year	3 Year	Since Inception 12/31/2002
CCM High Quality Tax Exempt Bond	1.0	4.8	2.9	3.6
Lehman 5 Year Municipal Index	0.9	4.3	2.2	2.8

Performance Review

After moving up for eight straight months U.S. stocks fell sharply on February 27 with both the S&P 500 and Dow Jones indices declining over 3% - the worst one day decline since September 11, 2001. Stocks in China plunged 10% the day before on news the Chinese government might impose regulations aimed at quelling market speculation. The U.S. market, it seems, was the proverbial tail of the Chinese dog. But China cannot take all the blame for recent declines. Nagging worries over sub-prime lending, coupled with fears of a slowing economy, further eroded investors' confidence. The S&P 500 Index closed the quarter ended March 31, 2007 up 0.6%. Growth stocks, as measured by the Russell 1000 Growth Index, rose 1.2%. Our *Growth Equity Composite* advanced 1.0%. To more accurately quantify performance of underlying holdings in our fully discretionary equity accounts we typically post returns for both the S&P 500 and Russell 1000 Growth Indices when reporting our composite results.

"Bad Credit, No Credit, No Problem..."

"The bear market in tech stocks (was) the result of 'too much capacity inappropriately financed.' That seems an appropriate depiction of today's residential housing market."

This quote from our 2Q 2005 Review & Outlook (see "Real Estate... Too Hot?") referred to our view of conditions that existed in the U.S. housing market. Looking back, it is now clear that June 2005 was the peak in residential real estate activity when measured by total home unit sales as a percentage of total existing households.

As seen in the chart on the following page, the 2005 peak of 7.0% exceeded the 1977 peak of 6.5%, was 35% higher than the 1986 peak, and was also 50% higher than the forty-year average.

As is typical of bull markets, the final phase of the housing bull market was underpinned by aggressive credit expansion justified by perceived collateral value appreciation.

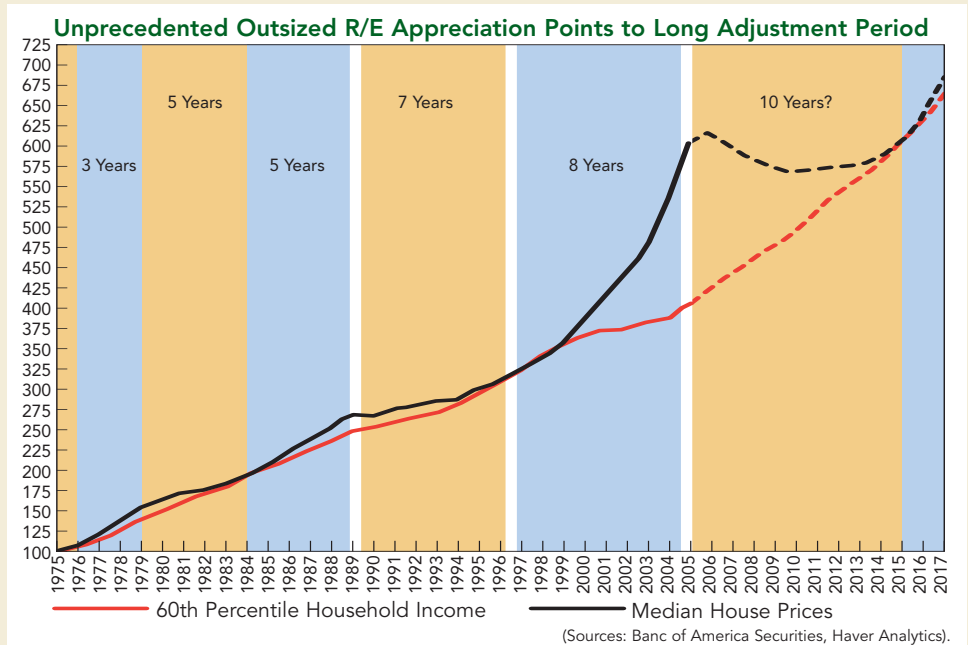
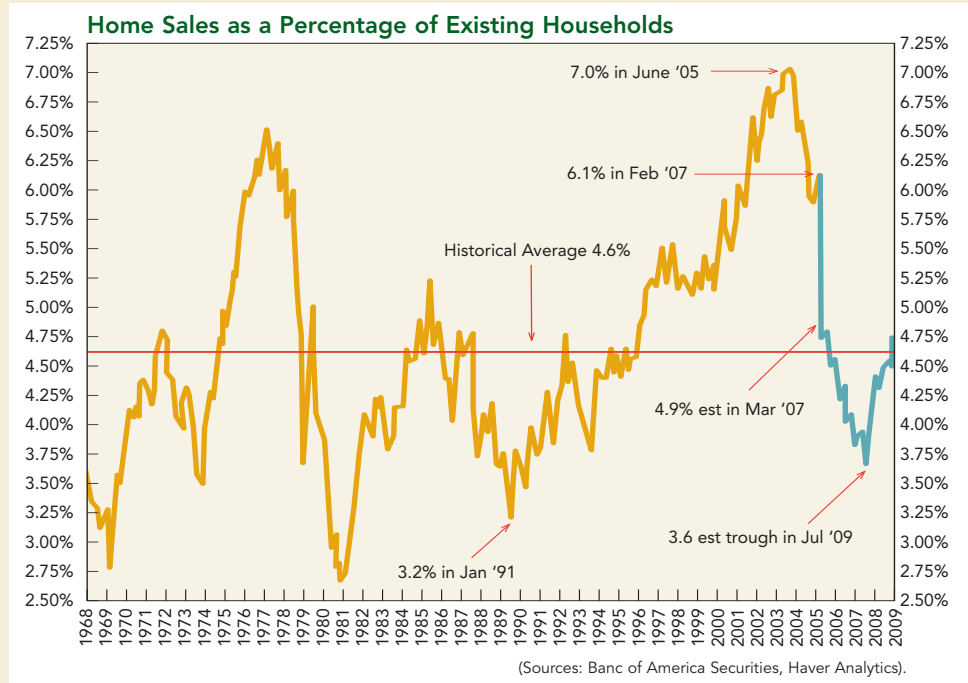
Home equity lines and refinancings were one mechanism that allowed homeowners to extract cash from rising home collateral values. Increased housing demand was met and further fueled by financial innovations such as low or “no doc” loans, interest only loans, sub-prime loans, no down payment loans and adjustable rate mortgages. Given the ready availability of credit, large numbers of marginal home buyers entered the housing market for the first time.

We believe this housing down-cycle could be longer and perhaps more severe than other

post-WWII cycles due to four factors: (i) the extended duration of the up-cycle; (ii) the magnitude of house price appreciation versus the rate of household income growth; (iii) demographic changes; and (iv) potential headwinds from a less favorable interest rate environment.

First, the sheer length of the most recent up-cycle is noteworthy. Whereas, the two prior housing up-cycles were only three and five years in duration, the most recent up-cycle lasted eight years.

Second, in previous up-cycles, when median home prices grew somewhat faster than household incomes (1976-1978 and 1984-1988), the inevitable correction caused housing prices to rise at a slower rate than incomes. These correction periods each lasted roughly two years longer than the previous up-cycle. The just completed up-cycle saw median home price inflation far exceed household incomes. Thus, it seems plausible that the current correction needs to redress the magnitude of the recent up-cycle.



Third, in previous housing cycles, Baby Boomer maturation stimulated household formation. This disproportionately large demographic cohort stimulated the up-cycles and muted down-cycles. By contrast, during the current correction, the Baby Boomers are beginning to retire and will thus remove marginal demand from the housing market.

Finally, there may be less scope for interest rate adjustments to cushion the current down-cycle. Corrections in the early 1980's and 1990's coincided with significant declines in interest rates. Such declines provided homeowners with opportunities to refinance fixed-rate mortgages at lower rates, or trade up to a bigger, better home for a similar monthly payment. Even those homeowners and investors who took out adjustable-rate mortgages were helped by the rate declines. This is not likely to happen in the future. Ten-year U.S. Treasury and 30-year fixed interest rates likely hit multi-generational lows in mid-2003. Since then they have moved up while short-term rates moved up significantly. Instead of being a tailwind for homeowners and real estate investors, interest rates will at best be neutral and quite possibly a stiff headwind.

For added perspective it is helpful to note that housing prices did rise significantly and concurrently with rising interest rates during the 1970's. But government fiat at the time capped interest rates on deposits in the 5% range. Given subsidized sources of funds, lenders had an incentive to attract deposits and lend for a longer period - often in the housing market - at a higher interest rate. This financial incentive fueled 1970's housing appreciation. However, such incentives no longer exist as short-term rates are now unregulated and most short-term funds are held in variable rate money market accounts rather than bank accounts.

Yale economics professor Robert Shiller, author of the 2000 book *Irrational Exuberance* and an expert in real estate, has forecast U.S. housing prices declines of 20-30% in several regions over the next ten years. Despite weakness in certain overbuilt areas, we do not subscribe to a doomsday thesis with respect to national housing prices. To be sure, the parts of the U.S. with the most dramatic appreciation and speculation are vulnerable to a dramatic retrenchment. However, the national market seems more likely to simply flat-line for five to ten years while incomes rise, thus closing the housing price to income gap shown in the preceding chart. We expect houses to once again be regarded as homes in which to live rather than as ATM's or as a unidirectional asset class.

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How does a housing slowdown affect our equity portfolios?

Chilton Capital has very little exposure to sub-prime mortgages or residential real estate, in general. We decided to position our portfolios away from both several years ago. In financials, it has been our strategy to own high quality companies with the least direct exposure to mortgages: Goldman Sachs (GS), Morgan Stanley (MS) and Citigroup (C). These multinational investment banks are beneficiaries of global growth in financial services and thus relatively less dependent on the U.S. consumer. Another company we own, Merrill Lynch (MER), recently purchased a sub-prime company but the deal has a put-back provision which reduces risk.

As to other sectors, significant discretionary income and ample mortgage debt has already been expended in upgrading the national housing stock. The 1998-2005 boom in real estate was a significant driver of domestic economic growth. Muted demand, paired with tempered (if any) collateral appreciation and tightened credit standards, seems likely to result in fewer housing-related jobs (construction, materials supply, real estate brokerage, mortgage lenders, and certain retailers). Growth in consumer spending is likely to correspond more closely to positive, albeit anemic, income growth rather than mortgage refinance activity. With the ebbing of a rising consumer tide that has lifted many (corporate) boats, we expect markets to differentiate more sharply between the growth prospects of individual companies.

We have written in several previous letters about our view that the U.S. consumer is “spent up rather than pent up.” Generally speaking, our strategy has been to invest in those industries and companies most likely to prosper despite a housing slowdown. For example, given Boomer demographics, consumer spending seems likely to shift towards healthcare and away from residential real estate. We are invested in traditional healthcare companies such as Novartis (NVS) and Amgen (AMGN), as well as firms that are taking advantage of changes in health care spending trends such as drug stores. Per our thesis articulated in a previous letter “*Don’t look for growth in the rear-view mirror*”, we continue to emphasize new investment in companies that are innovators and/or market-share gainers.

Valuations are a mitigating force for the equity market.

Market valuations today are nowhere near the levels of the last market peak in March 2000. At that time the S&P 500 was trading at 27 times expected 2000 earnings of \$57. Today the market is trading at close to half that multiple, or 15.7 times expected 2007 earnings of \$92. This is a remarkable shift, particularly in relation to bonds. In March 2000, the 10 year U.S. Treasury offered a 6.1% yield while the estimated earnings yield (1 divided by estimated price-earnings ratio, or PE) on stocks was 3.7%. Now the 10-year U.S. Treasury yields 4.75% and the estimated earnings yield on the S&P 500 is 6.4%. This gap between stock and bond valuations is the widest since 1986. In other words, stocks by this measure are the cheapest in two decades. Given these relationships, we believe that equities offer attractive values relative to both bonds and real estate.

Fixed Income Commentary for First Quarter 2007

Interest rates, or more accurately the negative impact of increased interest rates, were in the news often during 1Q 2007. Rising interest rates led to frequent talk about sub-prime lenders and those lenders with less than ideal financial conditions. In fact, over a dozen sub-prime lenders have either shut down or filed for bankruptcy protection in the past few months. While the troubles of sub-prime lenders were headline news for several weeks, the Federal Open Market Committee (“FOMC”) and its activities went largely unnoticed and those actions were not effected by the failings within the sub-prime industry.

In spite of all the turmoil in the sub-prime lending industry, the FOMC kept the federal funds rate steady at 5.25% both times that they met during the quarter and there was no mention of the sub-prime turmoil in the statements. Instead, the statement from the March 21 meeting illustrates the FOMC is still focused on inflation, “...*the Committee’s predominant policy concern remains the risk that inflation will fail to moderate as expected.*” The FOMC believes that economic expansion will continue, even though higher interest rates are impacting some industries and sectors of the economy in a negative way. The FOMC believes “*future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.*” They are unsure of the direction of any of the indicators used for gauging inflation or economic growth and; therefore, any future actions can not possibly be anticipated at this time. This is exactly what the FOMC said in its January 31 statement, but with slightly different wording.

Yields on the 10 year U.S. Treasury decreased 6 bps from 4.71% to 4.65% with the low yield being 4.49% and the high yield being 4.89% during the quarter. The Bond Buyer 20 weekly index, a municipal bond index that is comprised of 20 General Obligation bonds rated “A1” by Moody’s Investors Service with maturities of 20 years, increased 8 bps from 4.17% to 4.25% with the low yield being 4.08% and the high yield being 4.32% during the quarter. In general, bond values were unchanged to slightly higher as a result of the interest rate movement during the quarter.

Performance Disclosures

GROWTH COMPOSITE								
Year End	Total Firm Assets (millions)	Composite Assets			Annual Performance Results			
		U.S. Dollars (millions)	% of Firm Assets	Number of Accounts	Composite Gross	Composite Net	Russ 1000 Growth	Composite Dispersion
2006	350	97	28%	63	16.73%	15.60%	9.1%	1.19%
2005	304	76	25%	50	12.78%	11.66%	5.27%	0.50%
2004	256	43	17%	27	4.97%	3.95%	6.30%	0.68%
2003	215	42	20%	29	28.27%	26.98%	29.76%	1.31%
2002	165	15	9%	19	-22.66%	-23.45%	-27.89%	2.30%
2001	155	25	16%	31	-19.46%	-20.28%	-20.42%	4.30%
2000	172	37	22%	32	8.33%	7.26%	-22.43%	1.60%
1999	137	17	12%	17	34.37%	33.07%	33.16%	14.43%
1998	109	25	23%	12	25.17%	23.95%	38.71%	4.70%
1997	99	21	22%	12	29.23%	27.97%	30.49%	2.90%
1996	30	11	35%	5 or fewer				

2007 GROSS AND NET QUARTERLY PERFORMANCE FOR COMPOSITES								
	1Q 2007		2Q 2007		3Q 2007		4Q 2007	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Growth Composite	1.0%	0.8%						

HIGH QUALITY TAX-EXEMPT BOND COMPOSITE								
Year End	Total Firm Assets (millions)	Composite Assets			Annual Performance Results			
		U.S. Dollars (millions)	% of Firm Assets	Number of Accounts	Composite Gross	Composite Net	Lehman 5 Yr Muni	Composite Dispersion
2006	350	20	6%	17	3.97%	3.54%	3.34%	0.53%
2005	304	19	6%	16	2.19%	1.77%	0.95%	0.68%
2004	256	15	6%	11	3.12%	2.71%	2.72%	N.A.*
2003	215	7	3%	Five or fewer	4.99%	4.73%	4.13%	N.A.*

2007 GROSS AND NET QUARTERLY PERFORMANCE FOR COMPOSITE								
	1Q 2007		2Q 2007		3Q 2007		4Q 2007	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
High Quality Tax-Exempt Bond Portfolio	1.0%	0.7%						

*Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

Chilton Capital Management, LLC (CCM) is a registered investment advisor. The firm maintains a complete list and description of composites, which is available upon request.

The CCM Growth Composite contains fully discretionary taxable and tax-exempt growth equity accounts. Prior to March 1, 2003, this composite contained only taxable growth equity accounts. The minimum account size for this composite is \$250 thousand. For comparison purposes, the Growth Composite is measured against the Russell 1000 Growth Index. In materials shown prior to January 1, 2005 the composite was measured against the S&P 500 Index which was changed retroactively to better reflect the composite strategy. Balanced portfolio segments are not included in the composite. Though leverage is not part of the firm's strategy, it is occasionally used in the Growth Composite. The Growth Composite was created April 1, 1996. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee-paying accounts are not included in the composite. As of December 31, 2006, the Growth Composite contains approximately 51% of the accounts managed in that strategy. Past performance is not indicative of future results.

The U.S. dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the accounts. A fee schedule is an integral part of a complete presentation. Net of fee performance is calculated using the highest management fee as described in Part II of the firm's ADV, which is available upon request. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Additional information regarding the policies for calculating and reporting returns is available on request.

Chilton Capital Management, LLC has prepared and presented this report in compliance with Global Investment Performance Standards (GIPS®).

A third-party verification as set forth by the GIPS standards has been conducted by Ashland Partners & Company LLP from April 1, 1996 through December 31, 2006. A copy of the Independent Verifier's Report is available upon request.

High Quality Tax-Exempt Bond Composite contains fully discretionary non-custom fixed income accounts and for comparison purposes is measured against the Lehman 5-Year Municipal Index. The minimum account size for this composite is \$200 thousand. Chilton Capital Management, LP has prepared and presented this report in compliance with Global Investment Performance Standards (GIPS®).

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee-paying accounts are not included in this composite. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net of fee performance was calculated using the highest management fee of 40 basis points per year. Prior to January 1, 2004, the highest management fee was 25 basis points per year. A fee schedule is an integral part of a complete presentation and is described in Part II of the firm's ADV, which is available upon request.

Balanced portfolio segments are not included in this composite. Leverage is not used in this composite.

The High Quality Tax-Exempt Bond Composite was created January 1, 2003.

The Independent Verifier's Report is an integral part of this presentation.