

## Windows on Wall Street

From Lincoln International

As the extent of the subprime mortgage crisis has unraveled in recent weeks, investors have reaffirmed their negative outlook on the building products and construction sector. However, there was a glimmer of hope in October 2007 housing starts data. According to the U.S. Census Bureau, housing starts, on a seasonally adjusted annual basis, rose 36,000 units over September levels. Although this is still approximately 43% below January 2005 levels, October's uptick comes after three straight months of declines. Is this a turning point? Only time will tell. The market remains skeptical that this is a signal the housing market will break free of its downward spiral. As you can see in the chart below, there was a slight increase in the *Window & Door* stock index after the release of this data at the end of November, nevertheless the index has fallen 17.4% year-over-year, compared to the S&P 500, which has gained 5.1% over the same period. As it has been mentioned in previous issues, the *Window & Door* stock index will likely continue to under-perform relative to the S&P 500 until we are through the bottom of the residential construction cycle, which the market is not convinced has happened yet.

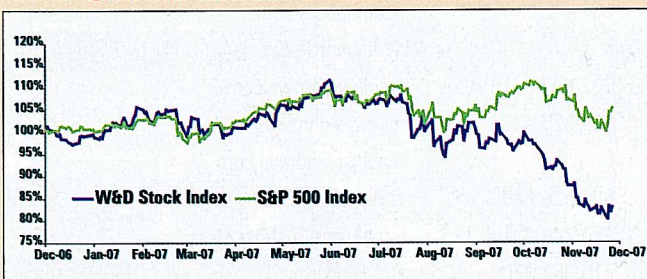
### WD Stock Watch

As of December 16, 2007

Company	Current Price (\$)	52 week High	52 week Low	*EV/EBITDA
Black & Decker Corp.	\$82.65	\$97.01	\$76.85	8.1x
Building Materials Holding Corp.	5.72	27.00	5.72	4.6x
Drew Industries Inc.	27.32	44.18	23.82	7.4x
Fortune Brands Inc.	76.65	90.80	75.59	10.1x
Home Depot Inc., The	28.56	42.01	26.78	5.8x
Huttig Building Products Inc.	3.82	8.77	3.63	41.0x
Lowe's Companies Inc.	24.41	35.74	21.76	6.4x
Masco Corp.	22.40	34.72	20.89	7.8x
PPG Industries Inc.	68.64	82.42	63.02	7.1x
Quanex Corp.	50.04	55.51	32.91	6.7x
Wolseley PLC	14.29	29.32	12.55	6.9x

The WD Stock Watch includes a select list of publicly-traded companies involved in the window and door industry. For \*EV/EBITDA: EV (enterprise value) = Market value of stock plus debt outstanding minus cash, and EBITDA = Earnings before interest, taxes, depreciation and amortization. Data provided courtesy of Lincoln International.

### WD Stock Index



Note: Local currency converted to USD using historical spot rates. The WD Stock Index consists of the above stocks weighted by market cap. Data provided courtesy of Lincoln International.

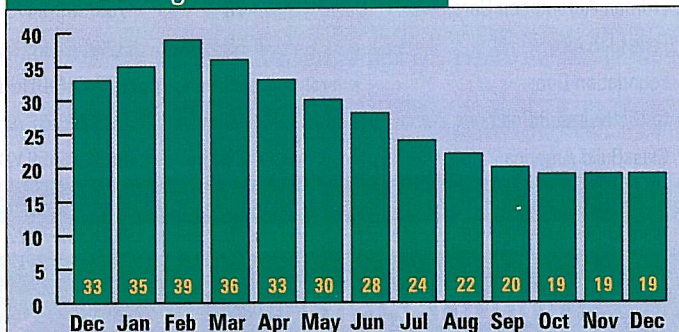
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## Market Snapshot—New Construction

Builder confidence levels flattened in the last three months of 2007, ending at a level of 19 for December, the lowest reading since the series began in 1985. The National Association of Home Builders/Wells Fargo Housing Market Index indicates that builder confidence remains at all-time lows due to the housing market and lending woes. "Builders continue to look for signs of improvement in the ongoing mortgage market crisis that is weighing on housing and the overall economy," says Brian Catalde, NAHB president. "Recent actions taken by Congress and the Administration addressing certain aspects of the problem are definitely a step in the right direction." On the upside, the number didn't sink any lower in December than the October and November numbers. "Today's report shows that builders' views of housing market conditions haven't changed in the past several months, and there clearly are signs of stabilization in the HMI," notes David Seiders, NAHB chief economist. "At this point, many builders are bracing themselves for the winter months when home buying traditionally slows, scaling down their inventories and repositioning themselves for the time when market conditions can support an upswing in building activity – most likely by the second half of 2008."

### Housing Market Index



Source: NAHB, Builders' Economic Council (BEC) Monthly Surveys

The HMI is compiled by NAHB, based on a monthly survey of builders, in which they are asked to rate the current business climate. Any number over 50 indicates that more builders view sales conditions as good than poor.

## Economy—Recession in '08?

A December Wall St. Journal poll of more than 50 economists pegs the likelihood of a recession in 2008 at 38 percent. Among the most pessimistic of participants was Kathleen Camilli, an economist who says the "internal dynamics" of the economy are spiraling downward toward a recession. "Growth will be negative this quarter [Q4, 2007], nonfarm payrolls will be revised down, and from what I can see, personal-consumption expenditures are rapidly slowing. All U.S. consumers, wealthy and middle-class, pull back their spending when their housing investments stop appreciating and start deteriorating in value. This is already under way, and has been exacerbated further by high oil prices."

## Mortgage Crisis—Greenspan Weighs In

"The crisis was an accident waiting to happen. If it had not been triggered by the mispricing of securitized subprime mortgages, it would have been produced by eruptions in some other market."

—Alan Greenspan, former Federal Reserve chief.