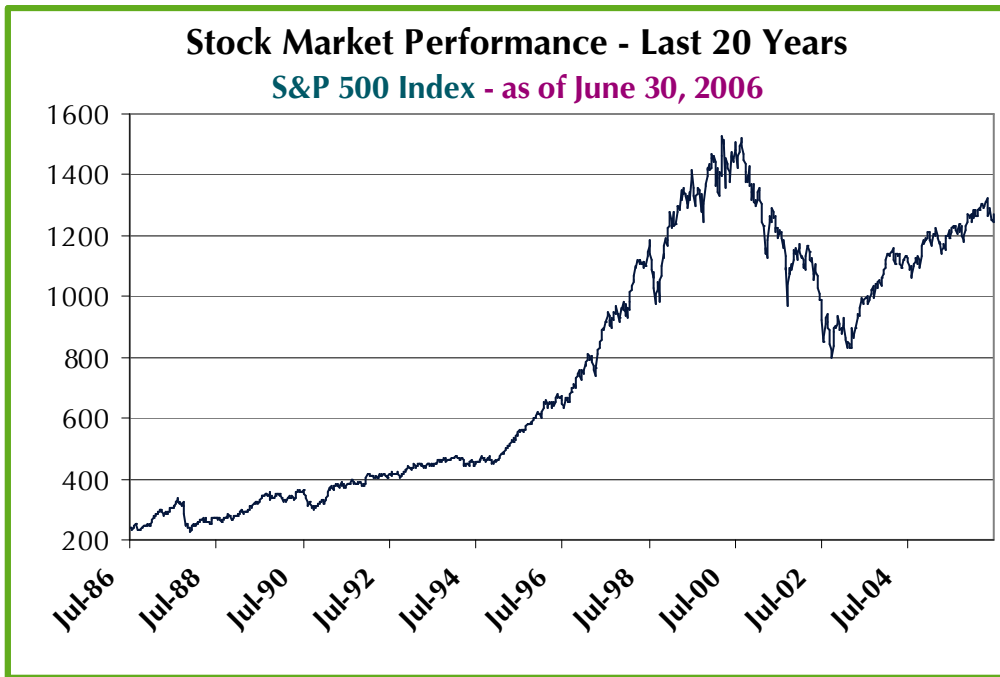


Second Quarter 2006 – Market Review

The second quarter was a modestly negative one for financial markets. Rising interest rates, higher oil prices and a slowing housing market all led to weak investment results. Since the end of the quarter escalating conflict in the Middle East and missile tests in North Korea have also added to an uncertain investment climate. Now, with the odds of a recession possibly increasing and no immediate resolution to the above issues, the financial markets are prone to downdrafts.



For investors who need their portfolios to provide an inflation-adjusted stream of income or growth of capital to meet future needs, these can be challenging times. Challenging, because the markets are experiencing some weakness *and* because price volatility can cause investors to abandon their long-term investment plans for the near-term safety of cash.

Unfortunately, for most investors “going to cash” is not a viable long-term

investment strategy as it struggles to keep pace with inflation and taxes. Several studies have shown that the biggest hurdle investors’ face is not the markets, but themselves (please see our November 2005 Commentary). The actions that investors take often do more harm than good, reducing their returns to just a fraction of what could have been earned if a disciplined investment approach was followed. This means that setting an asset allocation target, rebalancing to the target when markets move and resisting the temptation to make changes in response to current events is critical.

“If you don't control your mind, someone else will.” John Allston

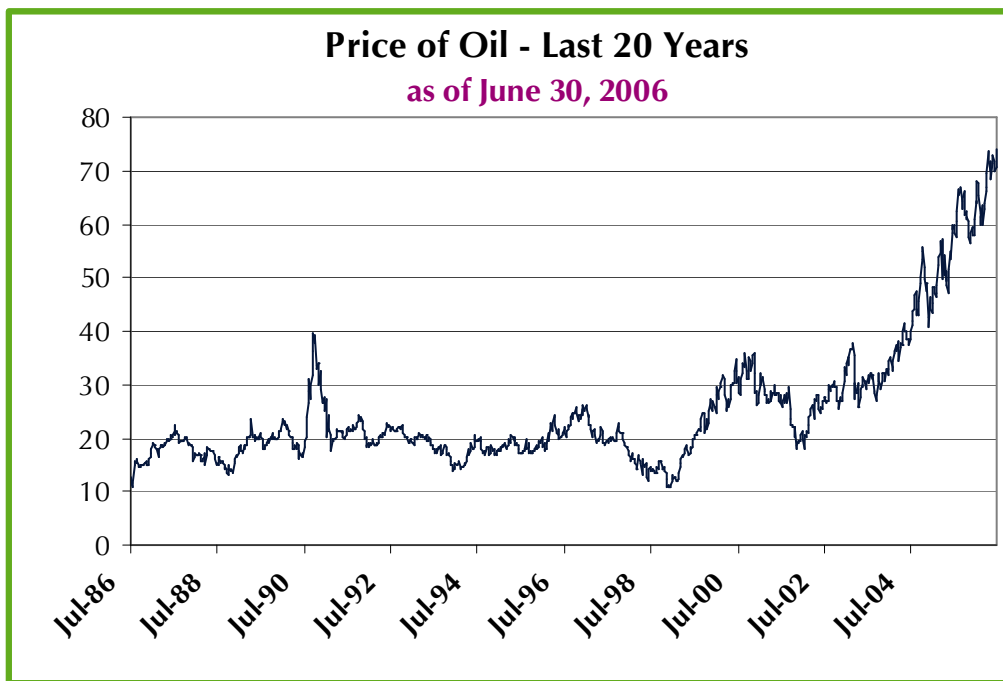
The investment climate will always be full of unknowns. There will always be one or more international crises brewing. The global economy will always have a few “imbalances.” Corporations will always be facing competitive threats at home and abroad that pressure earnings. Election results will not be to everyone’s liking nor will new laws enacted by Congress. New tax regulations will constantly change the rules for investors. Thus the challenge for every investor is to sort through all this noise, while not letting it precipitate actions that could be detrimental to achieving their investment goals.

“Time is the most powerful weapon in an investor’s arsenal. Nothing comes close to it.” James Glassman

“Buy to the sound of cannons; sell to the sound of trumpets.” Nathan Mayer Rothschild

Second Quarter Review: Large company stocks, as measured by the S&P 500 were down 1.4% in the quarter and finished the first half of the year up 2.7%. Small and mid-sized companies had a more difficult quarter, down 5.0% and down 3.1%, respectively. However, year-to-date small company stocks are still up 8.2% and mid-sized companies are up 4.2%. Looking ahead, large companies appear to be better positioned to benefit from opportunities in growing international markets than their smaller counterparts and in many cases are trading at low valuation levels not seen in over ten years.

Real Estate Investment Trusts (REITs), after declining a total of 6.5% in April and May, managed to bounce back in June with a 5.2% return, to post a negative return during the quarter of -1.6%. REITs are still up 12.9% year-to-date, but have become increasingly volatile as higher interest rates take effect and economic uncertainties creep into the real estate markets.



International markets managed a slight positive return for the quarter, eking out a 0.7% return and rising 10.2% in the first six months of 2006. Stocks in Asia fell 4.2% during the second quarter, while stocks in Europe rose 2.5%. Stocks in the United Kingdom led the way, gaining 4.9% in the second quarter while stocks in New Zealand posted the biggest loss, falling 7.5%. In Japan, stocks were also quite weak in the second quarter, falling 4.6%. Year-to-date, stocks in Norway

and Portugal are leading the way, each up more than 20%, while New Zealand is the only developed market with a negative return, down 11.6%.

Closer to home, the Federal Reserve's relentless campaign to raise interest rates (now 17 increases to the Fed Funds rate and counting) is taking its toll on the bond market. Bond market indices are largely down year-to-date. The Lehman Brothers Aggregate Bond index (a mix of government and corporate bonds) is down 0.7%, inflation adjusted bonds as measured by the Lehman Brothers U.S. TIPS index are down 1.8% and international bonds as measured by the Lehman Brothers Global Credit index are down 0.5%. Oil prices rose 12% during the quarter and are up 21% for the year, continuing a four-year run up (see chart above). While today's prices of \$75 to \$77 per barrel are all-time highs, adjusting for inflation the price of oil reached \$98.58 in 1980. Let's hope that new inflation adjusted highs aren't seen any time soon.

“The best years of your life are the ones in which you decide your problems are your own. You don't blame them on your mother, the ecology, or the President. You realize that you control your own destiny.” Albert Ellis