Moloney Securities Asset Management

Where trusted investment management meets individual client needs

Quarterly Newsletter January 8, 2007

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MSAM on the web:

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Stay up to date with MSAM including the latest performance figures.

Yield curve inverted but absolute level of rates still accomodative to business

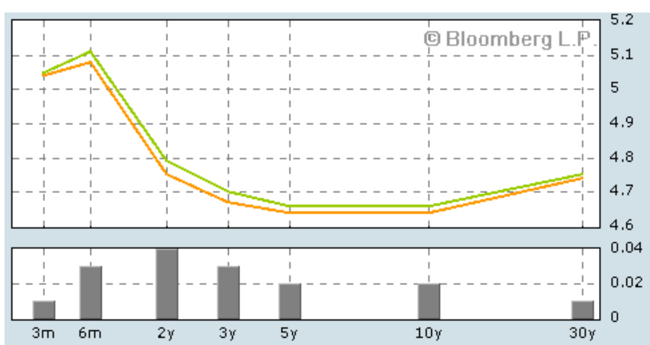
2006 4th Quarter Review

Ending 2006 on a positive note, the 4th quarter saw the stock market further discount an economic soft landing scenario. With the Fed's interest rate policy held steady, long term interest rates continued to support a liquid and growing, albeit slower, environment. Corporate valuations continued to provide opportunity in the equity market as evidenced by record merger and acquisition activity.

The MSAM Growth Composite had its second best calendar year return since inception in 2002. Refer to updated performance numbers on the MSAM website: http://www.msam.net/products.htm. These returns came as a result of the stock market catching up to value being created in companies we have been invested in as well as being a beneficiary of the record merger and acquisition environment. Both of those results offer positive reinforcement that we are effectively indentifying and investing in value through finding companies that can generate sustainable returns on invested capital.

Current Observations

Here are some tailwinds and headwinds, as we refer to them, that appear worthy of consideration and affect investment decision making in the current environment:

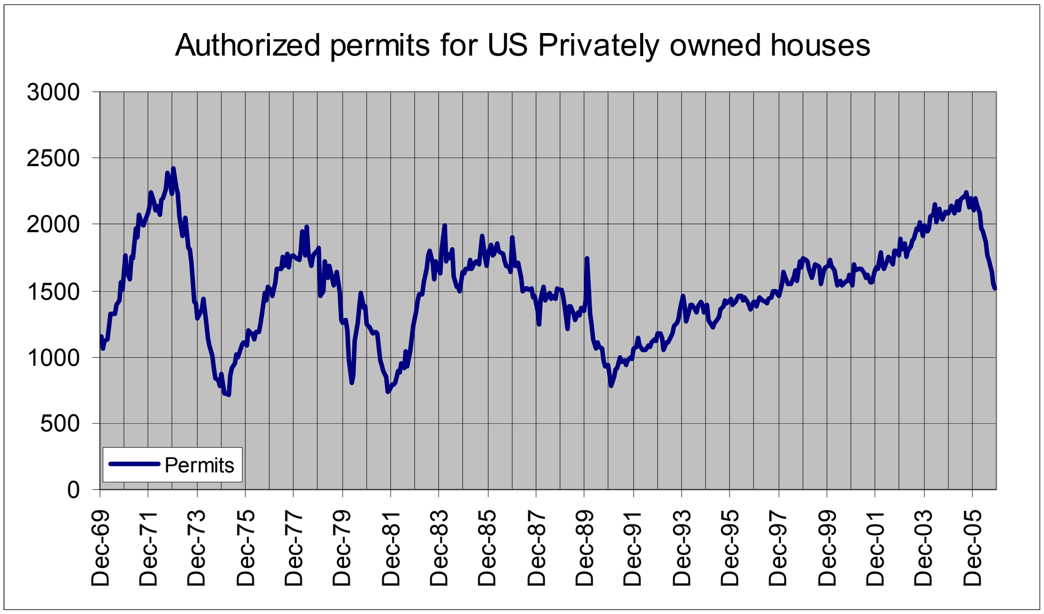


Tailwind1: The absolute level of interest rates continues to be supportive of economic growth in the US and around the globe. Private equity and corporations are active buyers of stock and some companies are even borrowing to buy back their own stock. The absolute level of interest rates still seems rather accommodative, especially long rates. But what a recently tightening Fed policy normally implies seems at odds with that perception. A divergence of opinion about what the current rate environment means has some believing the next Fed move is up, while others think the next move is down. Simply stated, the Fed appears neutral. While economic growth and profits appear to be deteriorating to below trend, they have yet to clearly indicate that corporations are changing the way they make decisions and by extension, the need for the Fed to change policy in either direction. (US yield curve at above left from www.Bloomberg.com)

Headwind1: Permits for housing continue to fall. While some have recently talked about signs that the housing sector is nearing a bottom, it is helpful to look historically at authorized building permits to put those type of comments

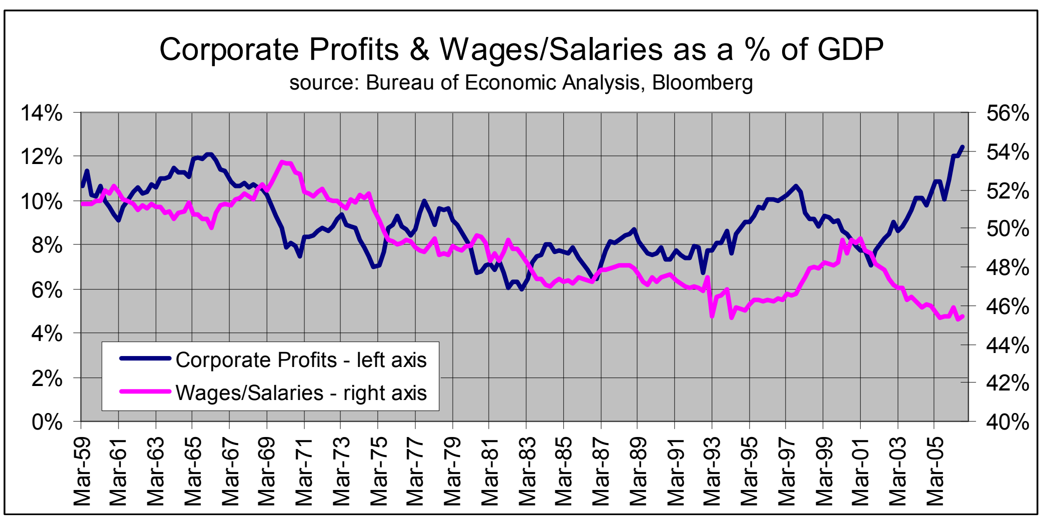
Building permits continue to decline

into perspective. The chart below, showing data from the US census bureau, provides some insight. The amount of economic impact the downturn in housing has on the economy is open to question. A positive here might again be the absolute rate of interest, as 30 year mortgage rates continue to be at low rates historically.



Corporate Profits are strong

Tailwind2:
Corporate profits as a % of GDP are currently at a very high level. The financial resources corporations have amassed over the past few years is impressive. It is interesting to contrast corporate profits with wages and salaries as is shown in the chart below. While outsourcing and offshoring have certainly offered a lever to corporate profits, corporations appear to have the resources to be able to fund wage and salary gains, as well as provide the capital expenditures to maintain a soft landing economic scenario.



Headwind2:
Although corporate profits have had a stellar run, earnings estimates are again being reduced going into the 1st quarter of 2007. While leading economic indicators are currently pointing to the soft landing scenario, the idea that multiples can expand and the market indexes advance may be a bit of a reach as earnings season reveals corporate outlooks for the 2007 calendar year. The table below highlights the last 4 weeks of earnings estimate revisions by

Earnings Estimates continue to be revised down

industry.

Eps 4 week mean estimate revisions by industry	Q4/06 %	Q1/07 %
Health Care	0.78	-0.49
Utilities	0.52	-3.78
Telecommunication Services	0.12	-0.36
Financials	0.02	0.40
Consumer Staples	0.00	-0.10
Industrials	-0.54	-1.33
Information Technology	-0.54	-0.87
Energy	-1.76	-1.51
Consumer Discretionary	-2.53	-0.57
Materials	-2.66	-1.04
Total	-0.59	-0.62

Source: Thomson Financial, Bloomberg

2007 1st Quarter Preview

With earnings estimates coming down again for the 1st quarter 2007, we are faced with the realities of slower growth. In preparation for the the 4th quarter earnings reporting season and companies revealing their 2007 outlooks, we believe the market has yet to fully take into account the lower corporate profits to come, regardless of their magnitude. Thus we have been net sellers into the recent rally and expect to slowly put cash to work during and after the earnings reporting season in the 1st quarter. While housing, manufacturing, and commodities look like areas to avoid currently, we continue to find value in areas like healthcare, technology, and firms with exposure to international economic growth.

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