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The Averages
(market close: 4-28-06)

DJIA 11,367.14

ytd +6.06%

NASDAQ 2322.57

ytd +5.32%

S&P 500 1310.61

ytd +4.99%

Russell 2000 764.54

ytd +13.56%

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Dow Jones Industrial Average



It's a resilient market.

In the most recent quarter there was further evidence that the stock market is still very much earnings driven. Although crude oil hit record highs in the month of April due in part to the anxiety over the Iranian nuclear situation, earnings and corporate outlooks have again grabbed the market's attention. Crude is up 8% in the month of April and the national average for a gallon of gasoline topped \$3, but the Dow (DJIA) and the S&P (S&P 500) still managed modest increases of 2.3% and 1.2% respectively. The NASDAQ composite, however, lost .7%. Most analysts suggest that the impetus for the recent run-up has been solid corporate earnings reports. With most U.S. companies having reported first-quarter results, they have, for the most part, exceeded expectations.

Additional enthusiasm for stocks can be pinpointed to recent testimony by Chairman Bernanke and similar commentary by San Francisco Fed President Janet Yellen. In front of a congressional panel last week, for example, Bernanke stated that the "Federal Reserve may pause -- but not necessarily stop -- its rate-tightening campaign." This cleared some uncertainty in the bond market, thus leading to a short-term rally in the stock market. However, in the days and weeks to come the Fed will continue to monitor forthcoming economic data. Should it show more signs of inflationary pressure, the Fed may decide not to continue tightening. If the economy shows sustained growth without inflation, then the Fed may decide to leave rates alone. This of course could lead the equity markets higher.

With the psychologically important Dow Jones Industrial Average now trading at all time highs, stock selection remains a key to investing. Maintaining some sort of balance between equity and fixed income holdings in the portfolio is also vital for long-term investors. Now is the time to rebalance.

Michael Campbell
(5-1-06)



ROE, ROE, ROE your portfolio

Return on Equity, ROE, is commonly used to get a snapshot of a company's ability to generate a return for its shareholders. When doing research on a company, the ROE can be broken down into drivers which shed light on how that return is generated. These ROE drivers include profit margin, asset turnover, financial leverage, etc. Here's an example of how ROEing is getting you results:

Last summer, there was a lot of talk about a commercial aerospace up-cycle. Research uncovered that there are about 18,000 commercial planes flying worldwide. Further, demand at the big aircraft makers was growing. More aero transportation meant more new airplanes and more work to upgrade & maintain the current fleet. The airlines were certainly not the place to look for investment opportunities, as ROE confirmed. But with increased worldwide demand, there were certain to be some opportunities. We found a mid-sized company, which was the number one provider of new aviation parts and supply-chain management to the aerospace market. They were the number one provider with only a 5% market share. In a fragmented market of 200+ equipment manufacturers, 17,000+ customers, including 200+ airlines, there appeared to be a great opportunity for this company to continue to scale & lever its resources for the benefit of the entire industry. Turning to the ROE drivers revealed consistent asset turns, reasonable financial leverage, and most notably, increasing margins. ROE, and those increasing margins in particular, provided an anchor for the valuation work and we built a position in the low \$30's/share. Yesterday, 05/01/06, a major aerospace company offered \$48/share to buy the company.

Ron Medley
(05/02/06)

HISTORICAL TREASURY YIELDS

	03'	04'	05'	Apr
<i>Funds</i>	1.44	1.06	4.25	4.75
<i>90 day</i>	1.10	0.91	4.08	4.82
<i>180 day</i>	1.11	1.00	4.38	4.99
<i>Year</i>	1.18	1.24	4.47	5.01
<i>2yr</i>	1.50	1.83	4.41	4.95
<i>3yr</i>	1.88	2.24	4.37	4.96
<i>5yr</i>	2.72	3.15	4.37	4.99
<i>7yr</i>	3.31	3.69	4.35	5.05
<i>10yr</i>	3.80	4.13	4.36	5.12
<i>20yr</i>	4.83	4.98	4.40	5.35
<i>30yr</i>	4.82	4.95	4.58	5.21
SLOPE:				
<i>90D-30yr-</i>	3.72	4.04	0.50	0.39
<i>2yr- 30yr</i>	3.32	3.12	0.17	0.26
<i>90D-10yr -</i>	2.70	3.22	0.28	0.30

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