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The Averages
(market close: 5-31-06)

DJIA 11,168.31
ytd +4.21%
NASDAQ 2178.88
ytd -1.2%
S&P 500 1270.09
ytd +1.75%
Russell 2000 721.01
ytd +7.10%

June 2, 2006 NEWSLETTER

INSIDE

Dow Jones Industrial Average

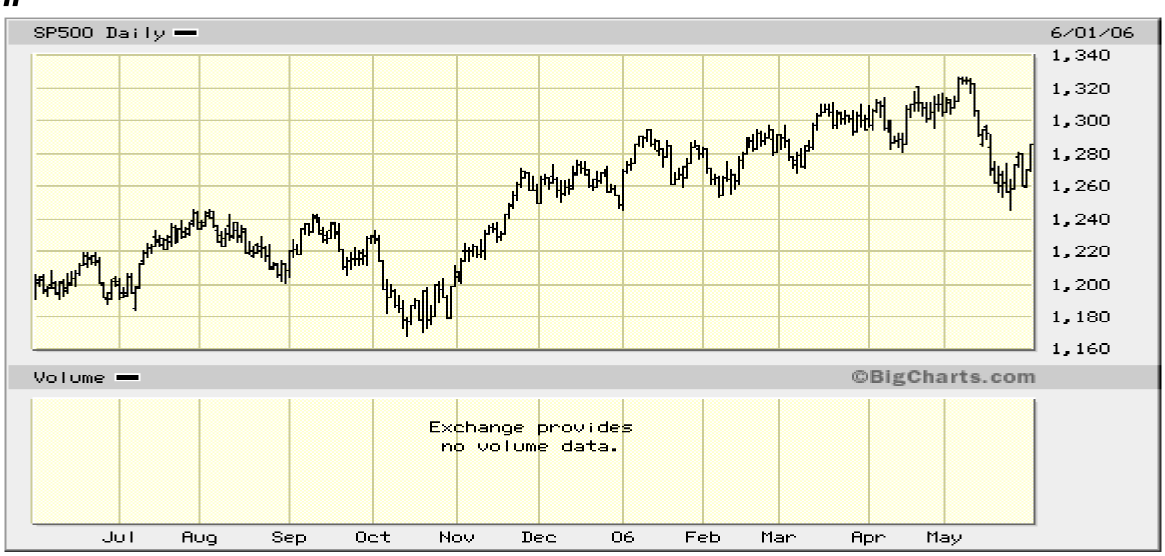
U.S. and world equity markets have been in a state of flux since the Fed's last interest rate hike last month. In fact, U.S. stocks, as evidenced by the S&P 500, saw their worst performance in May since 1984. It wasn't just the simple fact that the Fed hiked rates for a 16th consecutive time to 5%. On the other hand, it was the manner in which they left everyone groping in the dark to find a light for an end to the current tightening campaign. Everyone thought that they were finished (at least for a little while), while in fact, they may have further to go. This scenario that has been playing out for several weeks has instilled fear into investors' minds that higher rates will hurt corporate profits when the economy and consumer spending finally begin to slow.

As we move into the summer the Fed will be keeping a watchful eye on all of the key economic data leading up to its next two day meeting in the last week of June. The underlying fundamental conclusion to draw from all of this: no one, not even the members, have a clue right now as to what the Fed's policy will be. At this point in time, the equity markets are telling us that they have already factored in another rate hike.

Looking beyond the meeting (which is something we as LT investors like to do) and into Q2, Q3 and 07, experts point to a healthy, robust economy that should land softly if Bernanke can provide the right mix of monetary policy. Additionally, geopolitical factors may play out for the better in the months to come. Very recent reports that the United States is ready to join talks with Iran over its nuclear program, may continue to ease tensions in the world oil markets. If the talks are successful, oil prices should subside, thus helping out matters on the inflation front both domestically and globally.

Nothing stays the same forever. The volatility and uneasiness that we are witnessing today should eventually give way to a better environment for stocks. Until then get outside, its beautiful out there!

Michael Campbell
(5-31-06)



Defensive steps in the current market environment

One of the difficulties of the current market environment, nearing an end to Federal Reserve rate increases, is the condition of the U.S. Dollar in the light of the U.S. budget & trade deficits. There is much debate about how a falling dollar affects consumer prices. Economists refer to that affect as the "pass-thru." Regardless of the pass-thru's magnitude, the dollar may continue to fall, as evidenced by the market, commodity prices, and by monetary policy statements from various government officials. While a further falling dollar helps U.S. exporters, the effect may be greater in the other direction as inflation may catch up with consumer prices. Sellers of imported goods may be less likely to absorb reduced margins. The government appears concerned as well. The exit of John Snow from the U.S. Treasury, to make room for Hank Paulson from Goldman Sachs as Treasury's new leader, is likely a reflection of that concern.

The falling dollar could multiply the impact of a slowing economy. With that backdrop in mind, steps to position investments defensively have included investing in companies that either:
A. get a lot of their business outside the U.S.;
B. are a beneficiary of rising commodity prices, or
C. are least impacted by slower consumer spending.

In challenging environments, and at turning points, the benefits of investment management work done for you here can likely be more readily seen than the experience in less volatile, more predictable times. We will continue to take steps to prudently address market risks and add value in your portfolios.

Ron Medley
(6/02/06)

HISTORICAL TREASURY YIELDS

	03'	04'	05'	May
Funds	*1.44*	*1.06*	*4.25*	*5.00*
90 day	*1.10*	*0.91*	*4.08*	*4.83*
180 day	*1.11*	*1.00*	*4.38*	*5.06*
Year	*1.18*	*1.24*	*4.47*	*5.11*
2yr	*1.50*	*1.83*	*4.41*	*5.02*
3yr	*1.88*	*2.24*	*4.37*	*5.02*
5yr	*2.72*	*3.15*	*4.37*	*5.02*
7yr	*3.31*	*3.69*	*4.35*	*5.07*
10yr	*3.80*	*4.13*	*4.36*	*5.10*
20yr	*4.83*	*4.98*	*4.40*	*5.34*
30yr	*4.82*	*4.95*	*4.58*	*5.20*
SLOPE:				
90D-30yr-	*3.72*	*4.04*	*0.50*	*0.37*
2yr- 30yr	*3.32*	*3.12*	*0.17*	*0.18*
90D-10yr -	*2.70*	*3.22*	*0.28*	*0.27*