

3rd Quarter 2006 Market Review

After 17 consecutive upward changes to short-term interest rates that began in 2004, the Federal Reserve chose to halt further increases. This pause in interest rate increases, paved a way for growth in both the equity and fixed income markets in the 3rd quarter. The Dow flirted with its record high; ending the quarter at 11,679 (which it has since surpassed). The Dow increased 5.35% and the S&P 500 returned 5.67% in the 3rd quarter. The narrowness of these gains is exposed in the quarterly returns of the S&P Midcap 400 (-1.08%) and S&P Smallcap 600 (-0.88%). The NASDAQ Composite returned a solid 4.15% for the quarter. (Please refer to the performance illustration below for year-to-date returns.)

Investors' appetite for large capitalization stocks, as evidenced by the 3rd quarter returns of the Dow and S&P 500 (both of which are barometers for large cap stocks) was also apparent in investment style returns. Both Large Cap Value (5.14%) and Large Cap Growth (2.55%) outperformed the other investment styles, benefiting from a flight to quality as the US economy slowed down in the 3rd quarter. Value stocks in general maintained their performance lead over their respective growth stock counterparts.

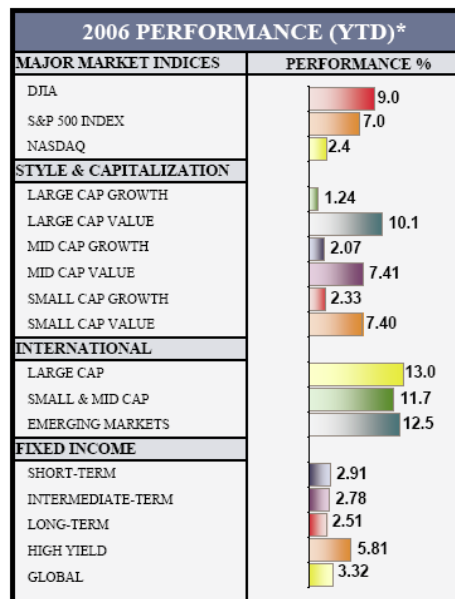
Weakness in the Materials (-1.13%) and Industrials (-0.59%) sectors in the 2nd quarter carried over into the 3rd quarter and were joined by weak performance in the energy sector (-2.14%). Domestic crude oil prices have fallen in recent months due to oversupply concerns in inventories, a weaker-than-anticipated Hurricane season, and abating conflicts in Lebanon. Health Care and Information Technology, comprising some of the S&P 500's largest companies, were among the best performing sectors with 3rd quarter returns

of 9.76% and 8.33%, respectively (and further demonstrate the narrowness of the recent performance in the large cap indices).

World markets continued to perform well as international large cap, small/mid cap, and emerging markets returned 3.72%, 1.95%, and 5.26% in the 3rd quarter, respectively.

The decision by the Federal Reserve to pause on increases to interest rates as well as signs of an economic slowdown sparked a short-term bond rally in the 3rd quarter. Yields on the two and ten year US Treasury notes responded by falling approximately 50 bps (0.50%), each, in a 90-day time period and are near their January 1st levels. Consequently, fixed income returns performed well (due primarily to price appreciation) as they recovered losses suffered in the first two quarters. Short maturities, which yielded slightly over 5%, offered minimal price volatility and continued to be the sweet spot in an otherwise "flat" yield curve.

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Source Data: Morningstar, Inc. (Investment category performance)
*Year-to-date as of 09/30/2006