4th Quarter Market Review
2006 Year-End Market Review

Investor sentiment that the Federal Reserve would cut interest rates in early 2007 fueled strong growth in most indices for the 4th quarter. Despite conflicting economic signals of a softening economy and increasing inflation, the markets brushed off contradictory indicators to give most U.S. indices their biggest quarterly gain for the year. The Dow ended 2006 up 19% at 12,463, near its highest level ever. (Please refer to the performance illustration below for comprehensive full year returns.)

Performance for the year proved broad as both the large cap S&P 500 and the multi-cap S&P Composite 1500 rose 15.8% and 15.3%, respectively. The NASDAQ Composite trailed, just edging into double digits with its 10.4% advance.

Value style stocks extended their multi-year supremacy over their growth counterparts in all three market capitalization categories with large cap value the leader at 18.2%. Large cap growth is still waiting for its day in the sun as it brought up the rear at 7%.

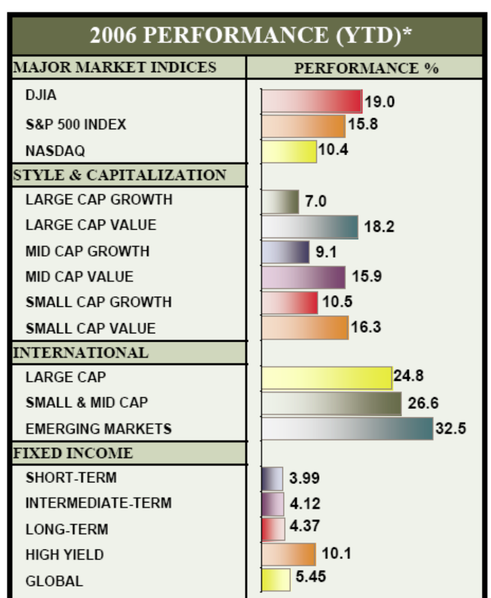
Among the individual sectors, Telecom Services benefited from healthy wire-line margins and wireless demand growth, boosting the category to its top performing 32.1% return. The Materials and Energy sectors were the biggest 4th quarter gainers, jumping 10.7% each. The Energy sector (22.2% YTD) has been particularly volatile as a result of major swings in short-term supply/demand balances and high levels of hedge fund speculation. Health Care, the worst performer in the 4th quarter also held that title for the full year (7.70%).

International markets were the highlight of 2006 as both the large cap (24.8%) and small cap (26.6%) sectors soared.

Emerging markets were also on a tear, gaining 32.5%. Overseas investors were doubly rewarded for their diversification as they benefited from solid market returns as well as currency gains due to the falling U.S. dollar, which dipped 11.8% versus the Euro and 14.3% versus the British Pound. For example, while the MSCI EAFE (Europe, Australia, and Far East) index rose a solid 13.8% in local currencies, the gain virtually doubled to 26.3% when translated back into the U.S. dollar.

On the bond side, mixed economic signals and inaction by the Fed in the second half of 2006 led to moderate swings in bond yields, with 2, 10, and 30 year yields rising approximately 30 basis points (.3%) from their January levels. The high yield sector led all fixed income categories for the year with a 10.1% return as short, intermediate and long maturity bond funds garnered returns ranging from 3.9% to 4.4%. The short-end of the yield curve, which currently yields slightly over 5%, continues to be the sweet spot in an otherwise "flat" yield curve.

Tim Hai, CFA



Source Data: Morningstar, Inc. (investment category performance)
*Year-to-date as of 12/31/2006