

Capital Market Review • Second Quarter 2006

The second quarter of 2006 was a wild ride for investors as the major stock market indices reached new five and six year highs only to give up most of the gains by mid June. The quarter started by continuing the solid gains that were seen in the first quarter of the year. Worries about inflation, rising oil prices, the economy, and the uncertainty of what the Federal Reserve would do weighed on the market. The Dow Jones Industrial Average was off 8.1% from its peak for the quarter to its low on June 13th. The S&P 500 shed 7.7% from its peak on May 5th to a low on June 13th. The EAFE and Russell 2000 fared much worse. The EAFE suffered a drop of 14.7% by mid June from its May 9th peak. Also, by mid June, the Russell 2000 slipped 14.0% from a peak on May 5th. Investors seemed more than willing to sell what they perceived to be riskier and more richly valued asset classes such as emerging markets and small cap stocks. Investors moved money into safer places such as money market accounts where interest rates have increased. They also found some comfort in large stable companies. The bond market continued to be under pressure from the confusion of what the Federal Reserve's next move would be. The Lehman Brothers Aggregate Bond index continued its losses from the first quarter falling .08%. The quarter provided some important highlights. The Federal Reserve continued on its measured pace raising the fed funds rate twice during the quarter for the 17th consecutive time to 5.25% to control inflation. The yield on the 10 year treasury increased 30 basis points from 4.85% at the beginning of the quarter to 5.15% on June 30th. The price of oil increased 11% from \$66.63 on April 1st to \$73.93 at the end of June. Real estate continued its strong performance with the Dow Jones Wilshire REIT index finishing the quarter with a 5.76% gain. The return year to date now stands at 14.40%. Investors are entering the third quarter with a lot of uncertainty after a solid gain in the first quarter and a volatile second quarter.

STOCK MARKET

The major benchmarks finished mixed for the quarter as uncertainty ruled the investing

landscape. Dow Jones AIG Commodity Index led the way with a return of 4.9%. The Dow Jones Wilshire REIT Index fell 1.2% for the quarter but was still up 14.4% year to date. The Russell 2000, index of domestic small-cap stocks, underperformed large-caps losing 5.0% for the quarter but gained 8.2% so far in 2006. The Russell 2000 is now beating the S&P 500 by more than 5% this year. The MSCI EAFE, major index of international stocks, improved slightly since last quarter to return 0.7% this quarter. For the six month period through June, the EAFE is up 10.2% and for the last twelve months it is the best performing major benchmark with a return of 26.6%. The S&P 500 fell 1.4% for the quarter outpacing the Russell 2000 for the three month period but not for the six month or the twelve month period. The S&P 500 is up 2.7% so far in 2006 vs. 8.2% for the Russell 2000. For the twelve month period the Russell 2000 is leading with a return of 14.6% compared to the S&P's 8.6%. The Dow Jones AIG Commodity Index gained 4.9% during the quarter after a dismal first quarter. It now has gained 1.2% this year and 13.3% for since June 30th of last year.

Market Returns

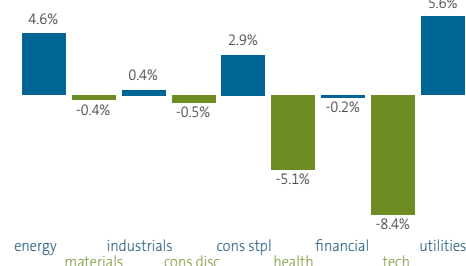
	3 Months ended 6/30	12 Months ended 6/30
T-Bills	1.2%	4.3%
Lehman Bros. Aggregate Bond Index	-0.1%	-0.8%
S&P 500	-1.4%	8.6%
Russell 2000	-5.0%	14.6%
EAFE	0.7%	26.6%
Wilshire REIT	-1.2%	22.1%

Returns by Equity Manager Style

	3 Months ended 6/30	12 Months ended 6/30
Large Value	-0.1%	10.2%
Large Growth	-4.8%	7.0%
Small Value	-3.4%	12.7%
Small Growth	-7.0%	12.7%
International	-1.0%	27.5%
Real Estate	-1.2%	19.1%

Unlike last quarter where every equity style was positive this quarter saw just the opposite. All equity styles finished the quarter weaker. Growth stocks were hit the hardest. After a strong first quarter, small growth funds lost 7.0% for the quarter. They still posted a gain for the year of 4.9%. Large-cap growth funds dropped 4.8% for the second quarter of the year. Large growth remains the only equity style that is down for the year with a loss of 1.3%. Value funds held up much better than growth funds but small value still lost 3.4% for the quarter. It has a strong return of 7.1% for the year however. Large value almost posted the only gain for the second three months, but couldn't quite get there, giving up 0.1%. Large value funds trail every style except large growth for the year gaining 4.7%. International stock funds lost 1.0% for the quarter, but have outpaced all domestic funds for the year with a 9.2% gain. Real estate funds held up relatively well during the quarter given the selling of securities and sectors that the market deemed overvalued. Real estate lost 1.2% for the second quarter. The average real estate fund has beaten every other equity manager style for the six month period ending June 30th with a return of 12.4%.

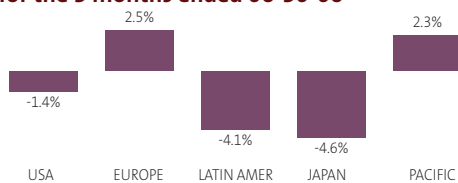
Stocks by Sector for the 3 months ended 06-30-06



The major sectors of the stock market were mixed for the second quarter of the year. The energy sector and utility sector provided investors with the best returns. The Energy sector has continued to be a great place for investors returning 4.6% for the three month period and 13.5% for the year. The Utilities sector was the best performing sector during the quarter gaining 5.6% and after a first quarter loss it's only up 4.3% for the year. Industrials and Consumer Staples

were the only other two sectors that were positive during the second quarter with returns of 0.4% and 2.9% respectively. They are building on gains from the first quarter to return 8.3% for Industrials for the year and 4.8% for Consumer Staples year to date. The worst performing areas of the market were Technology losing 8.4% and Healthcare dropping 5.1%. Only the technology and health-care sectors are down for the year losing 3.0% and 4.0% respectively. Materials, Consumer Discretionary, and Financials all were close to unchanged for the quarter. Materials lost 0.4% for the second three months, Consumer Discretionary shed 0.5%, and Financials lost 0.2%. These sectors all remained positive for 2006 though, with returns of 7.1%, 2.5%, and 3.0% respectively.

Stocks by Region for the 3 months ended 06-30-06



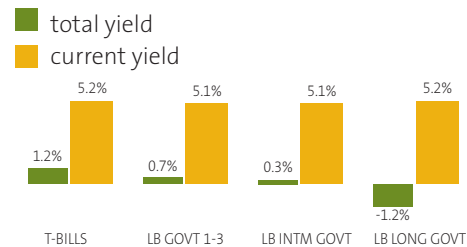
Most of the major regions around the world could not build on their positive returns of the first quarter. The United States remained an under-performing region for investor's money. With a loss of 1.4% during the quarter, it has gained 2.7% for 2006 beating only Japan during that time period. It has been the worst region in the world during the last twelve months gaining 8.6% to Europe's 24.8%, Latin America's 46.5%, Japan's 35.9%, and Pacific's 18.1%. Japan was the worst performing region during the quarter losing 4.6% and is now the region with the lowest return year to date gaining a mere 1.9%. The Pacific region had a surprising gain of 2.3% for the quarter despite the volatility and severity of the sell off of some emerging markets. The region has a return of 8.9% for the year. Europe was the best place to have your money during the second three months of the year. Barely beating the Pacific region for the quarter, it returned 2.5% making it the best region for the first six months of the year with a gain of 13.6%. The Latin America region could not avoid the May and June sell off losing 4.1% for the period beating only Japan's -4.6%. Despite the sell off during the second quarter, the region trails only Europe with a gain of 10.2% year to date. Even though the international markets, especially emerging markets, can have significant losses

during certain time periods diversification across all regions is crucial.

BOND MARKET

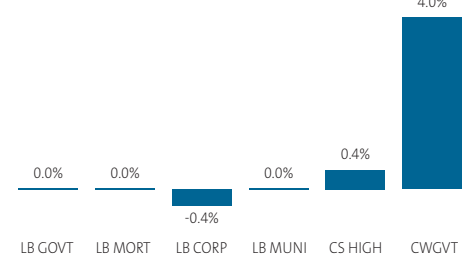
The Federal Reserve continued on its measured pace of raising short-term interest rates by increasing the fed fund's rate twice during the quarter to 5.25%. This makes it the 17th consecutive time it has raised rates and the fourth time this year. After predicting last quarter the fed would stop at 5.00%, the consensus seems to be that the fed will stop at 5.50% in August. The statement from the Fed seems to suggest that the end of the rate hike cycle is near. They did leave the door open for more increases by saying that future moves would depend on economic numbers. Inflation remains the main concern for the policy-makers and will be watched closely along with rising energy prices and other economic data. The Federal Reserve did note that economic growth is slowing.

Bonds by Maturity for the 3 months ended 06-30-06



Lehman Brothers Aggregate Bond, a broad measure of the bond market, best represents the performance of the bond market. The index fell 0.10% for the second quarter and dropping 0.7% for the year. The yield on short, intermediate, and long-term bonds all rose during the quarter affecting performance. Short-term government bonds rose 0.70% for the quarter. They saw their yield sharply rise from 4.39% at the beginning of the year to 5.11% at the end of June. Intermediate-term government bonds returned about the same coming in with a gain of 0.30% for the quarter and saw its yield rise to 5.15% from 4.39 at year end. The long-term government bonds again were most affected by the rise in yield and worries about inflation. The yield rose from 4.53% at the beginning of the year to 5.20% for the end of the first half of the year. The return for the quarter for long-term government bonds was -1.20%, the worst when comparing returns by maturity.

Bonds by Sector for the 3 months ended 06-30-06



Most sectors of the bond market were unchanged during the second quarter. The one exception was World Government bonds. It returned 4.0% and was also the best sector for the six month period with a 3.8% return. Mortgages, Municipals, and Government bonds remained unchanged with a 0.0% return. Credit bonds posted a loss of 0.4% for the quarter and remained in negative territory for the year losing 1.6%. High Yield bonds were barely in positive territory increasing 0.4% and continuing the positive momentum from the first quarter. They are up 3.5% so far in 2006 trailing only World Government bonds.

COMMODITIES MARKET

Commodities bounced back strong after the Dow Jones AIG Commodity Index lost 3.5% in the first quarter. The second quarter return of 4.9% helped to push the index into positive territory for the year. The index is up 1.2% for the first six months of the year. Commodities were helped by a 39.2% rise in copper and a 5.5% rise in gold during the quarter. Natural gas continues to weigh on the index falling 15.3% for the quarter and 45.6% year to date. The price of oil increased \$7.30 to end the quarter at \$73.93 and it is clearly something that most investors and the Federal Reserve are keeping a close eye on.

CURRENCY MARKET

The U.S. dollar ended lower against the other major currencies in the second quarter. The Euro gained 5.5% against the U.S. dollar with the yen adding 0.2%. The U.S. dollar did gain slightly against the Canadian dollar strengthening 2.9% during the period. The U.S. dollar was hurt by a sell-off in April when Fed chairman Ben Bernanke indicated the Fed was near the end of its two year rate hike cycle. The dollar fell to an eleven month low against the Euro and a twenty year low against the Canadian dollar before bouncing back.