

Capital Market Review · Fourth Quarter 2006

The last quarter of 2006 built on gains from the third quarter and ended with impressive gains for the year for the major benchmarks. The Dow Jones Industrial Average surged to a record high and closed the year up 16.29%. The S&P 500, index of large-cap companies, reached levels not seen since 2000 and closed the quarter up 6.7% and almost 16% for the year. The Russell 2000, index of small-cap companies, had a strong quarter gaining 5.9% and ending the year up a little over 18%. The international markets, represented by the MSCI EAFE, had a stellar fourth quarter with a return of 10.4% to finish 2006 up 26%. The best asset class for the third consecutive year was real estate with the Dow Jones REIT Index finishing the year up 36% and returning 9% for the quarter.

Falling oil prices and the stability in short term interest rates helped contribute to the rally in the fourth quarter. The price of crude oil rose to almost \$80/barrel during the summer, up 30% from where it started the year, before giving up all those gains to finish the year little changed at around \$60 per barrel. The Federal Reserve held short term rates steady for the fourth consecutive meeting ending the year at 5.25%. Investors were happy to see that the Fed seems to have inflation under control helped by lower energy prices and a slowing economy.

With the stock market posting impressive gains during the fourth quarter it was anything but in the fixed income market. The broad fixed income market, represented by the Lehman Brothers Aggregate Bond Index, finished the quarter with an unimpressive gain of 1.2%. Short, Intermediate, and Long-term bonds were pretty much unchanged during the quarter with the exception of the High Yield market gaining 4.5%. The LBAB finished the year with a respectable return of 4.3%.

Commodities bounced back in the fourth quarter with the Dow Jones AIG Commodity Index gaining 5.4% to eek out a gain of 2% for the year.

With 2006 behind us, 2007 brings some interesting questions. Will this year finally be the year large-cap stocks handily beat small-cap stocks? Small caps have now beaten large six out of the last seven years. How much longer can the real estate asset class give investors double digit returns?

The Dow Jones Wilshire REIT Index has returned 27%, 24%, and 15% for the last three, five, and ten year annualized periods respectively. Will the price of oil settle into a tight trading range or will it continue to be a real concern in the back of investors' minds? Will the Federal Reserve raise or lower interest rates or leave them unchanged? The economic numbers in the first few months should give the Fed a clearer picture of the course of action they will take. These questions and many more should make 2007 another exciting year in the global investment landscape.

STOCK MARKET

All of the major benchmarks were substantially higher for the quarter and the year with the exception of the Dow Jones AIG Commodity Index. The MSCI EAFE led the way with a double digit gain of 10.4% for the quarter propelling it to a strong gain of 26.3% for the year. The Dow Jones Wilshire REIT Index was the second best performing major benchmark during the quarter with a return of 9.0%, but trounced the other ones for 2006 with a gain of 36.1%. The Russell 2000 surged 8.9% during the quarter to finish the year with a strong 18.4% gain. The S&P 500 trailed the Russell 2000 Index for the quarter and the year returning 6.7% and 15.8% respectively. The Dow Jones AIG Commodity Index lagged the other stock market indices for both the quarter and the year. It posted a gain of 5.40% for the fourth quarter and bounced back from a 6.5% loss in the third quarter. The gain in the fourth quarter helped the index cross into positive territory for the year with a gain of 2.07%.

Market Returns

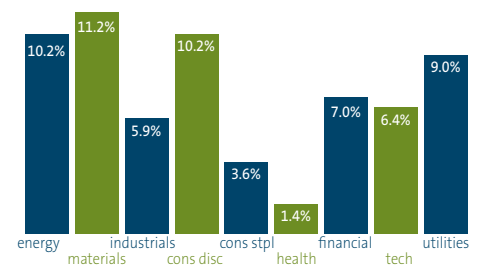
	3 months ended 12/31	1 year ended 12/31
T-Bills	1.3%	5.1%
Lehman Bros. Aggregate Bond Index	1.2%	4.3%
S&P 500	6.7%	15.8%
Russell 2000	8.9%	18.4%
EAFE	10.4%	26.3%
Wilshire REIT	9.0%	36.1%

Returns by Equity Manager Style

	3 months ended 12/31	1 year ended 12/31
Large Value	7.2%	18.2%
Large Growth	5.6%	6.9%
Small Value	8.4%	16.3%
Small Growth	7.9%	10.5%
International	11.0%	25.8%
Real Estate	10.1%	33.6%

The fourth quarter provided investors gains across all equity styles. International equities led the way for the last three months of the year with an 11.0% return and a 25.8% return for 2006. Real estate trailed only International Equities during the quarter with an impressive gain of 10.1%, but handily beat every equity style for the year with a 33.6% return. Continuing the trend, value beat growth for both the small and large-caps. Large Company Value gained 7.2% compared to Large Company Growth's 5.6%. Looking at the year however, Large Value almost tripled Large Growth outpacing it 18.2% to 6.9%. Small-caps saw much of the same. Small Company Value gained 8.4% for the fourth quarter compared to Small Company Growth's 7.9%. Small Value outpaced Small Growth for 2006 with a strong showing of 16.3% to 10.5%. All of the equity styles were positive for the year with International and Real Estate leading the way.

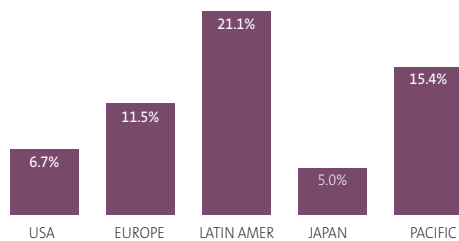
Stocks by Sector for the 3 months ended 12-31-06



Every sector was positive for the fourth quarter and the year indicating the broad based nature of the stock market rally. The Energy sector bounced back after losing 5.3% in the third quarter to gain 10.2% in the fourth and finish the year with a solid gain of 18.4%. The Materials and Consumer

Discretionary sectors rounded out the top three with gains of 11.2% and 10.2% respectively for the quarter. Materials and Consumer Discretionary posted impressive returns of 18.3% and 18.4% for 2006. Utilities built on its 6.0% return for the third quarter to gain another 9.0% this quarter making it the best performing sector for the year with a positive return of 20.6%. The Industrial, Financial, and Technology sectors were in the middle pack with 5.9%, 7.0%, and 6.4% for the last three months of 2006. For the year, Industrials rose 13.6%, the Financials sector was up 18.9%, and the Technology sector climbed 12.1%. Consumer Staples and the Healthcare sectors rounded out the bottom two for the quarter, but still managed to end in positive territory. Consumer Staples was up 3.6% for the quarter and 14.5% for the year, while Healthcare was up 1.4% for the quarter and came in as the poorest performing sector of 2006 with a 7.1% gain

Stocks by Region for the 3 months ended 12-31-06

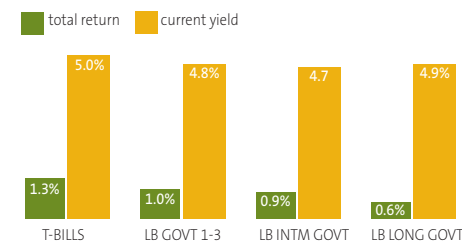


The five major regions of the world experienced a positive quarter and a positive year. A very strong fourth quarter for Latin America helped move it into the top spot for the year. Latin America surged 21.1% for the last three months and finished up 39.3% for the year. The 15.4% gain for the fourth quarter for the Far East region wasn't quite enough to move it into second place for the year. It still climbed 28.5% for 2006 to finish behind Europe and Latin America. Europe returned 11.5% for the fourth quarter and finished the year with an impressive 33.7% gain. Almost half of the gains in the United States came during the fourth quarter. USA was up 6.7% for the quarter and 15.8% for the year making it the best year for returns in the region since 2003. The fourth quarter gain of 5.0% for Japan was a major improvement from the third quarter and resulted in the region being up 6.2% for the year, but it still finished as the worst performing region in the world in 2006.

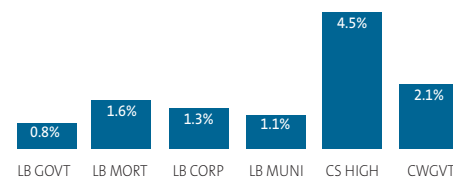
BOND MARKET

The Federal Reserve continued to keep the Fed fund's rate at 5.25% for the second consecutive quarter and the fourth consecutive meeting. Falling oil prices from their mid-summer peak along with continuing signs of a slowing economy and a "soft-landing", made the Fed's job easier. The Lehman Brothers Aggregate Bond Index, a broad fixed income benchmark, returned 1.2% for the quarter trailing T-bills slightly. It also trailed T-bills for the year gaining only 4.3%. T-bills outpaced the short, intermediate, and long areas of the bond market for the fourth quarter and the year. T-bills returned 1.3% for the last three months of 2006 and 5.1% for the year. Short government bonds returned a mere 1.0% in the fourth quarter and trailed only T-bills with a 4.1% for the year. Intermediate government bonds, measured by the Lehman Brothers Intermediate Government Index, rose 0.9% for the last three months of the year and climbed 3.80% for the year. The longer end of the bond market was the weakest area to be from a maturity standpoint. Long government bonds rose 0.6% for the quarter and finished the year with a 2.1%.

Bonds by Maturity for the 3 months ended 12-31-06



Bonds by Sector for the 3 months ended 12-31-06



All bond sectors built on gains from the previous quarter to finish the year in positive territory. High yield bonds, tracked by the Credit Suisse High Yield Index, led the way with a 4.5% gain for three months and an 11.9% gain for the year. World Government bonds returned 2.1% for the quarter and 6.9% for the year finishing behind only High

Yield for both time periods. Mortgages, Corporates, and Municipals all were in positive territory gaining 1.6%, 1.3%, and 1.1% respectively. For the year Mortgages were up 5.2%, Corporates added 4.3%, and Municipals gained 4.8%. Governments lagged all bond sectors, but still managed to finish the year in positive territory. Governments were up 0.8% for the quarter and 3.5% for 2006.

COMMODITIES MARKET

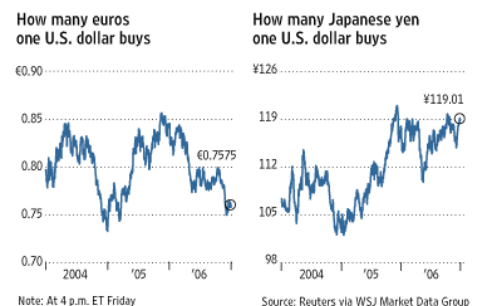
The Dow Jones AIG Commodity Index erased almost all its losses in the third quarter to gain 5.40% this quarter. The gain was enough for the index to finish higher for the year with a 2.07% gain. After a seesaw year in which crude oil prices rose and fell some 30%, they ended close to where they started the year and had little impact on the return for the index. Gold was a big contributor with a 22.8% gain to close the year at \$635.20 an ounce. Silver was even more impressive with a return of 45.3%. Copper was also a positive contributor to the index with a 32% gain for 2006. Nickel, lead, and zinc all hit record highs for the year.

CURRENCY MARKET

The U.S. dollar continued to weaken against the Euro in the fourth quarter. The Euro gained 11.49% against the U.S. Dollar for the year while the Dollar rose 0.9% against the Yen. Analysts believe some support for the Dollar was removed when the Federal Reserve ended its steady rate hike cycle. The Dollar Doldrums chart shows all three currencies for the past three years. Many analysts are uncertain as to where the U.S. Dollar will go from here. Some believe 2007 will be a somewhat positive year for the Dollar while others believe the downward trend that started in 2002 will continue. ■

Dollar Doldrums

Change in the strength of the U.S. dollar against the euro and Japanese yen.



Note: At 4 p.m. ET Friday

Source: Reuters via WSJ Market Data Group