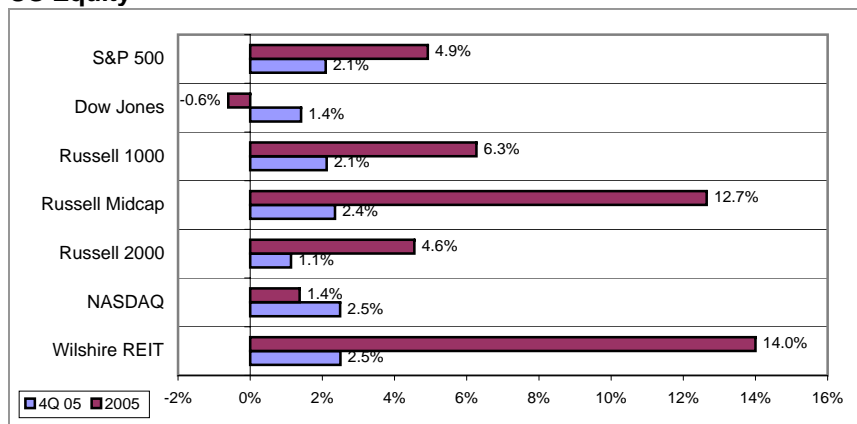


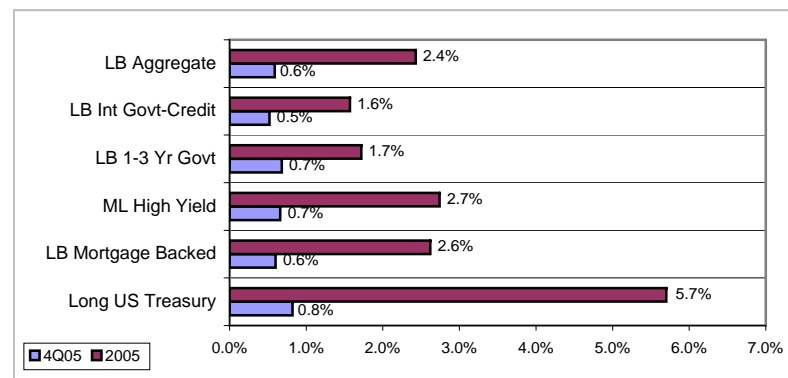
US Equity



- ◆ Despite considerable heat and flashing lights in the media, not much happened in the broad stock market. The first couple of quarters of 2005 were dull to the point of sluggishness.
- ◆ The two subdivisions of US stocks that shined (again) this year were mid-cap and REITs. But, only REITs can claim to be a 5-year powerhouse for all seasons...See our research paper "A REAL Real Estate Bubble" at www.fiduciaryvest.com. Corporate profits grew nicely. Inflation finally inched up to its historically normal 3% level.
- ◆ As we predicted last quarter, hurricanes were not a major factor in market movements. The economy's growth rate continued to soar (which spooks the Fed).

- ◆ Fed-driven ratcheting up of short term interest rates continued at each meeting in 2005, more than quadrupling the 1% rate at mid-2004. Longer term bond yields actually fell in 2005; by year's end the two rates collided.
- ◆ What gives (re the short/long term interest rate collision)?, you might ask. Answer: Something must. The bond market is, in effect, telling the Fed to back off. The current "flat curve" is unstable and un-natural.
- ◆ A worldwide savings glut is afoot, though the US personal saving rate finally fell to negative in 2005 (from its historical 6-8% level). China's mammoth \$\$ trade surplus is invested in US Treasuries *for now*, but signs are growing that this won't last...a serious overhang for bonds.

US Fixed Income



- ◆ Another good year for non-US stocks (and bonds), even without much help, this year, from a falling US Dollar.
- ◆ Many of the world's "emerging markets" indexes have tripled, or quadrupled over the past 3 years. Their internal savings rates are generally very high... capacity for them to consume more US goods.
- ◆ As 2006 dawned, China gave a smoke signal that it may be about to cease holding US Dollars as its reserve currency. If that happens, the US bond market could have a violent reaction. US stocks might follow.

International Equity

