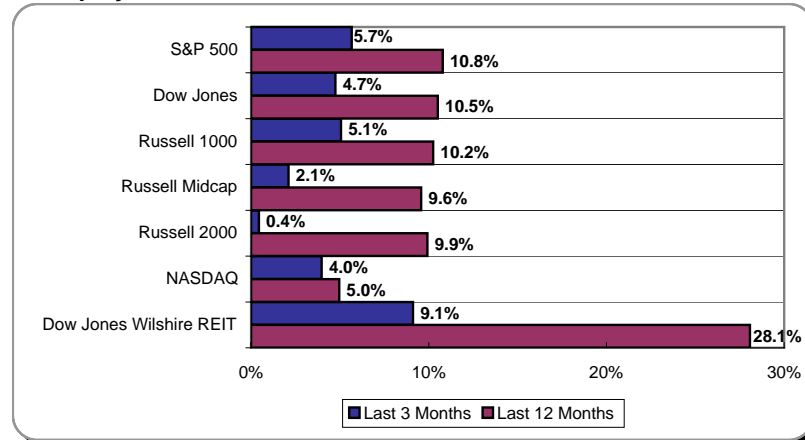


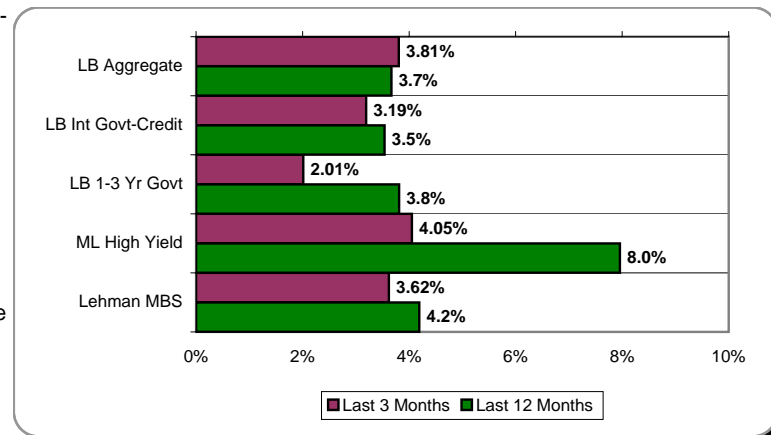
US Equity



- ◆ Funny thing happened along the route to the Federal Reserve's interest rate hike parade: The long-maturity end of the market has consistently balked at going along, creating a potentially ominous "inversion" in bond yields (i.e., when shorter maturities have higher yields).
- ◆ Surprise *déjà vu*: While the Fed continued its dogged bumping of interest rates, the bond market's interest yields actually declined this quarter, providing handsome capital gains. So, the total index return was just shy of 4% while its coupon-yield portion was only about 1% (for the quarter).
- ◆ Something has to give: Either the Fed will start reducing interest rates, or the bond market will throw in its towel, causing long-maturity bonds' interest yields to go higher. Most bond managers, despite a pesky inflation rate, are betting the Fed will reverse its direction in 2007...maybe earlier, in order to tickle a sputtering housing market back to normal (see page 5).

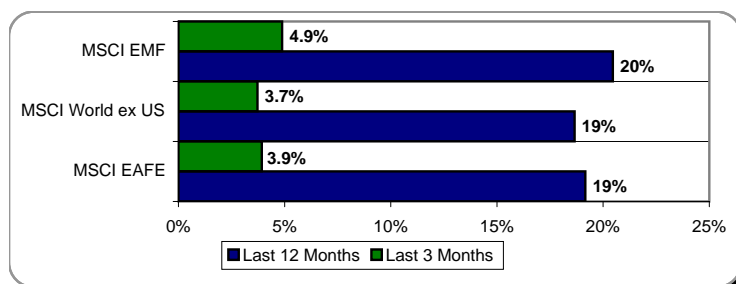
- ◆ The working parts of this quarter's markets weren't steady. The macro-result was solid for US stocks, but not so hot for small cap, especially small growth companies. This appears to be a cyclical turn toward large cap.
- ◆ Despite the market's nearly continuous, 6-year preference for its value-style component, those stocks have done it again...not only this quarter, but also for the past 12 months, during which period value stock indexes are all sporting double-digit returns. We (still) expect a cyclical turn toward growth.
- ◆ Conversely, the past 12 months for the growth-style side of the market are puny by comparison to, not only value-style stocks, but also bonds.
- ◆ CableTV market-mavens have long been cautioning all 200,000 viewers to flee REIT stocks, but the feast was not done, despite rising mortgage rates. 3Q 2006 put a new notch in the REIT-return belt. Its trailing 12-, 36- and 60-month annualized returns were 28%, 27.4% and 23%, respectively.

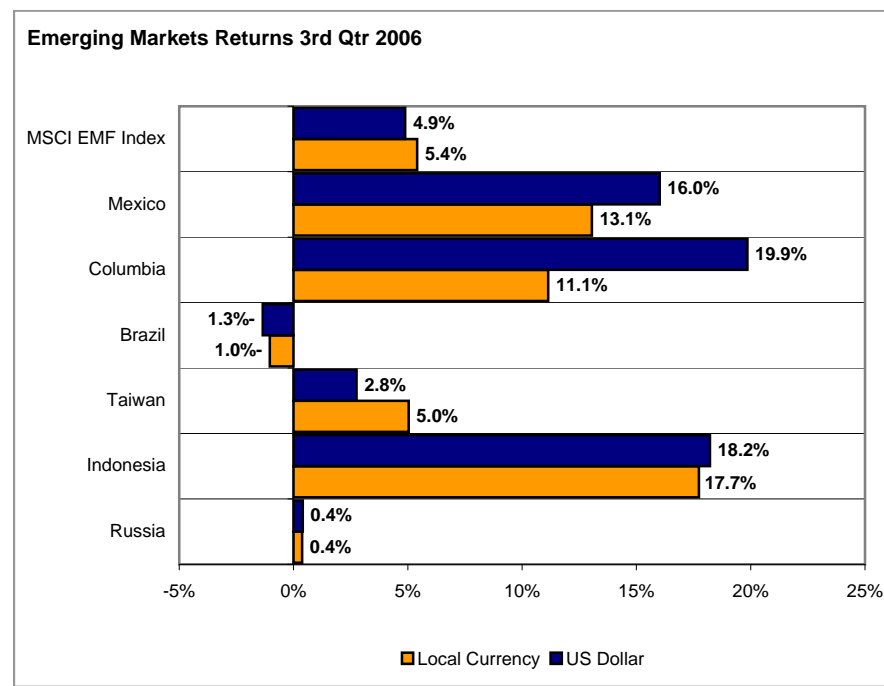
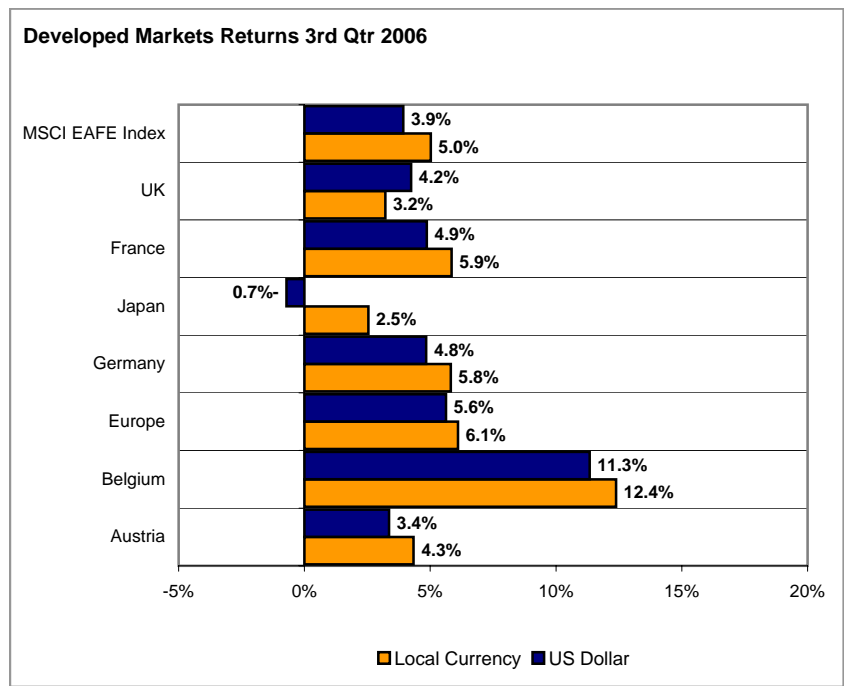
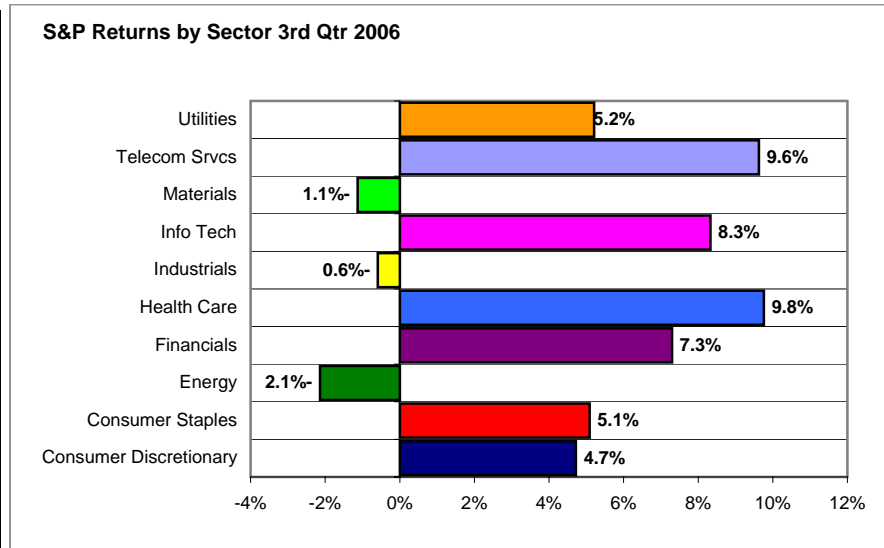
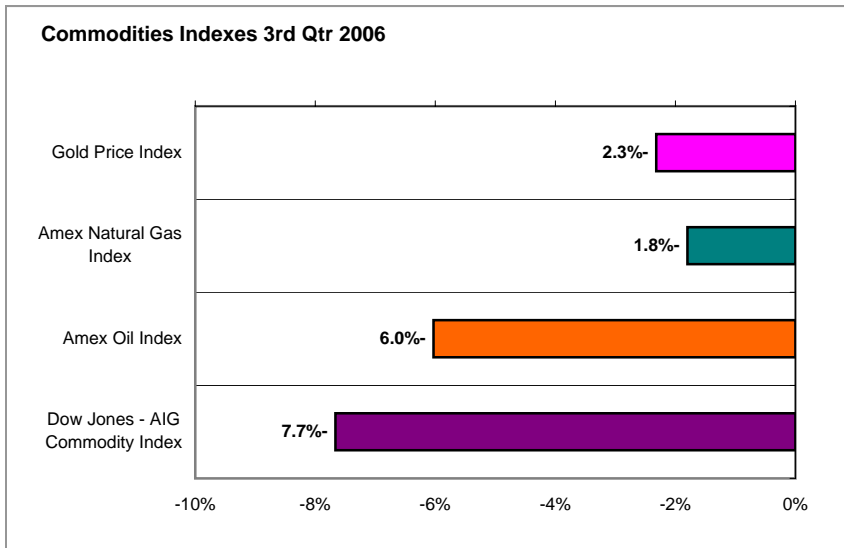
US Fixed Income

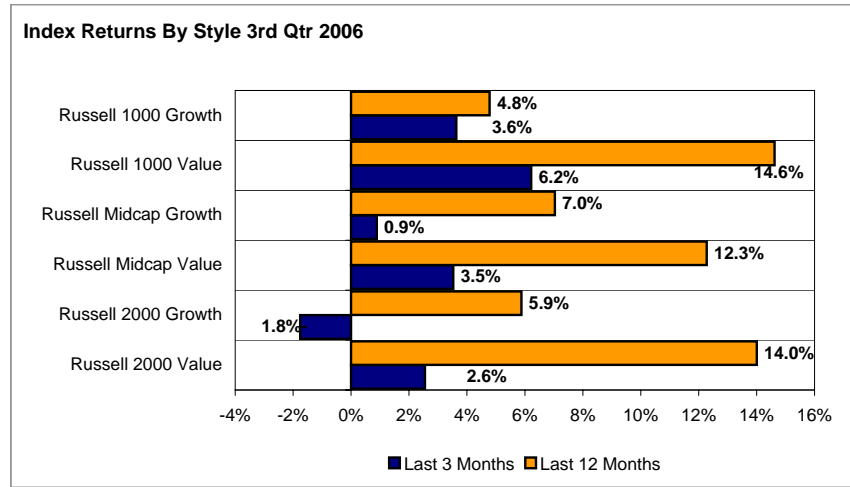


- ◆ Despite widespread disdain for the US's foreign maneuvers, most of the investing world is (still) in love with US business growth and relative safety.
- ◆ After an incredibly long recession, Japan is still yawning and stretching itself back into growth posture, though its third quarter was a disappointment, especially for US Dollar investors.
- ◆ Emerging markets bridged a springtime negative-return chasm, turning in a smoothly earned 5% third quarter, and just over 20% for the past 12 months.

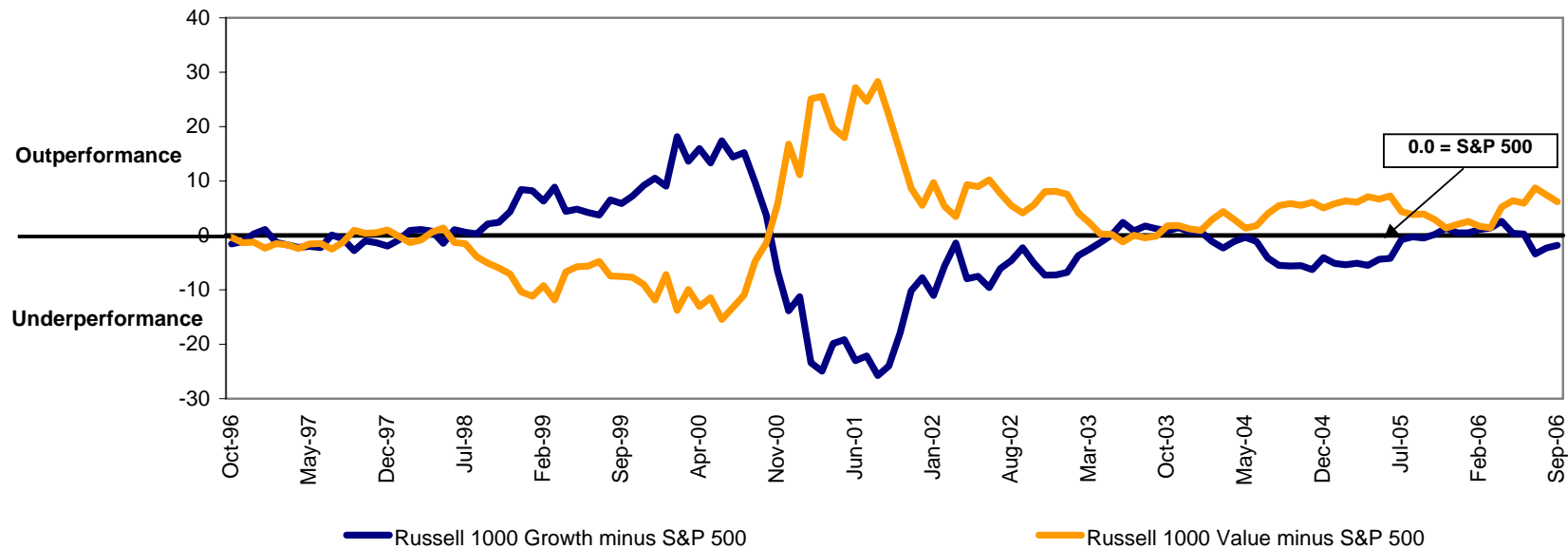
International Equity (returns measured in US Dollars)



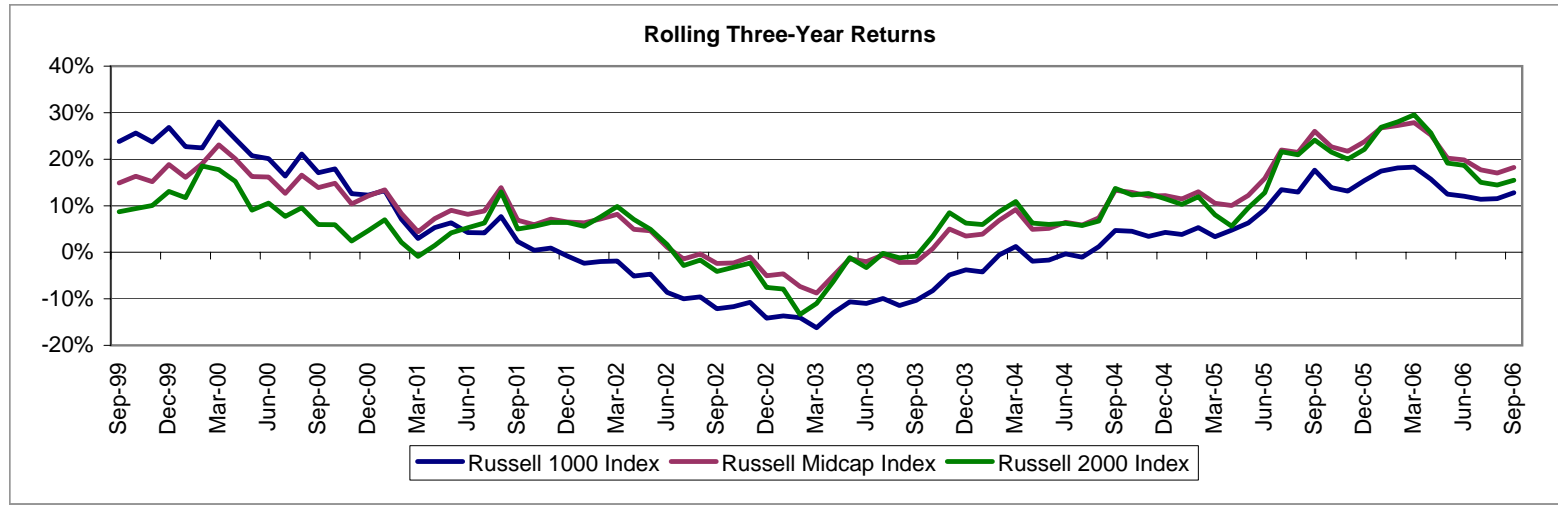




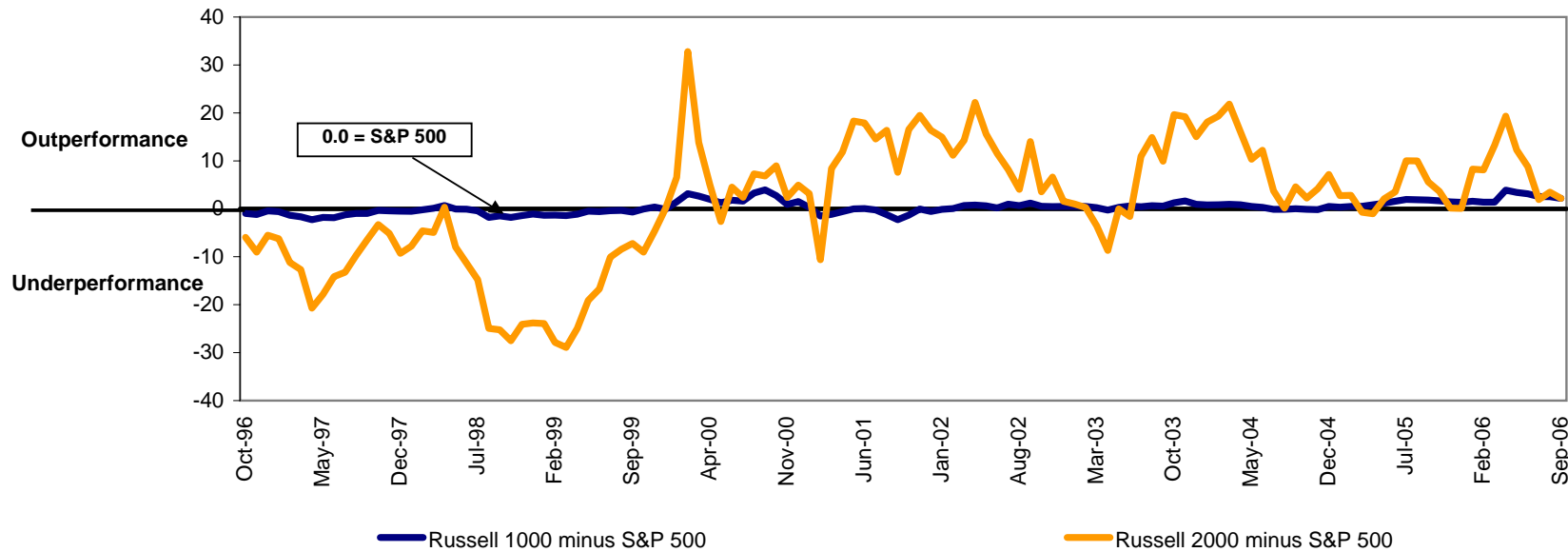
**Growth vs. Value Style Stocks' Performance**  
(rolling twelve months compound total returns) - Using the S&P 500 Index as a Baseline



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**Large Cap vs. Small Cap Stocks' Performance**  
(rolling twelve months compound total returns) - Using the S&P 500 Index as a Baseline



**U.S. Government Bond Yields  
At Selected Quarter End Dates**

