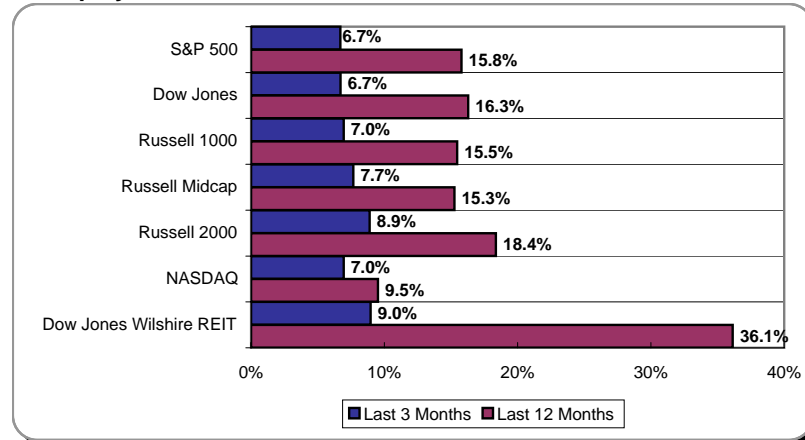


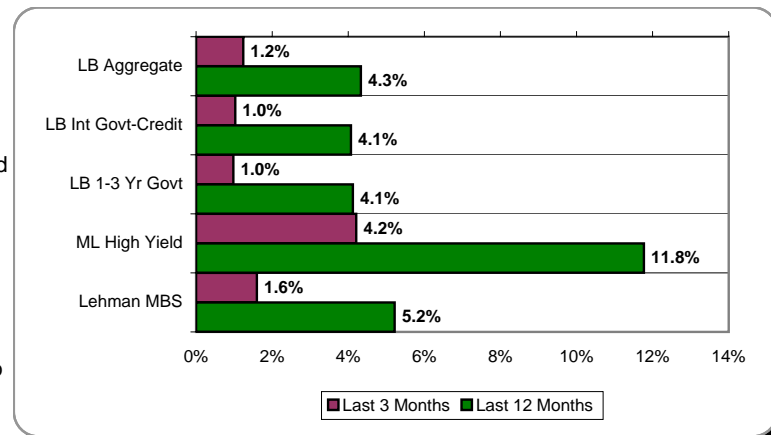
US Equity



- ◆ A better-than-some-recent-quarters performance from the bond pits. At least total returns were positive in major sectors, though anemic for both the quarter and all of 2006. The so-called yield curve (see chart on page 4) has been either flat, or downward sloping for an unusually long run.
- ◆ There is still a disconnect between the Fed (which sets T-bill rates) and bond market geeks. The unstable (and unhealthy) yield curve shape has had an expected impact: traders reached for yield, buying more low-credit-quality bonds, driving their prices and total returns up (see chart at right).
- ◆ The US Fed is apparently still posturing to smite the inflation-serpent, via further ratcheting up of interest rates. But, there are portfolio managers steering be-jillions of bond dollars who are betting otherwise. We continue to be quite wary of the US Dollar's global predicament...Euroland interest rates are still well below the US and yet the dollar is sagging badly.

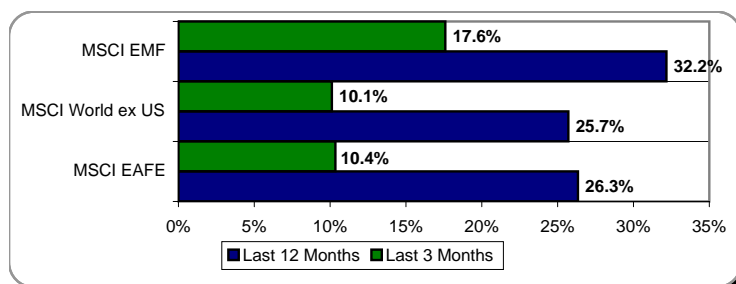
- ◆ A strong fourth quarter, across the board finished off a handsome return for 2006 that, as of June had looked like a very tired elephant, dragging its trunk along in a cloud of dust.
- ◆ Most market sectors had robust returns for 4Q; exceptions were consumer staples and healthcare. Big contributors were Exxon Mobil: 14.7%, Citigroup: 13.2%, Cisco and IBM: almost 19% each, while Texas Instruments, Corning and Motorola blew out the bottom with double-digit negative numbers.
- ◆ What else can be said about the REIT sector? "Lookout below!" is tempting, but that warning would be born of little more than raw contrarianism.
- ◆ Small cap stocks have not yet run outta gas either. And though the growth crowd is recently chugging close behind, value stocks did another big-gap number on growth in 2006...an annual occurrence (except for '03's dead-heat), since the infamous techno-bubble days, seven...yes, 7 years ago.

US Fixed Income

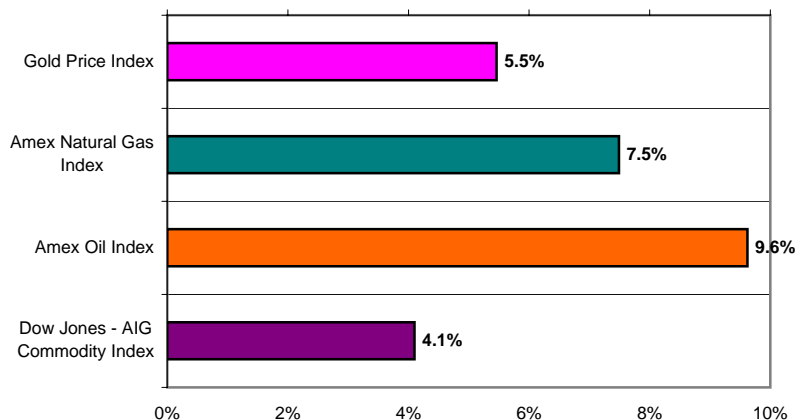


- ◆ Steaming along in the wake of a stumbling US Dollar, world stock markets gave their dollar-based investors a juiced-up return in both 4Q and 2006.
- ◆ Emerging markets paid the proper premium for their extra risk and limited liquidity, while Toyota and big telecom companies were fourth-quarter 20+% stars among the big caps.
- ◆ 2006 was another notch in a powerful non-US equity surge that has seen few, if any pauses for several years.

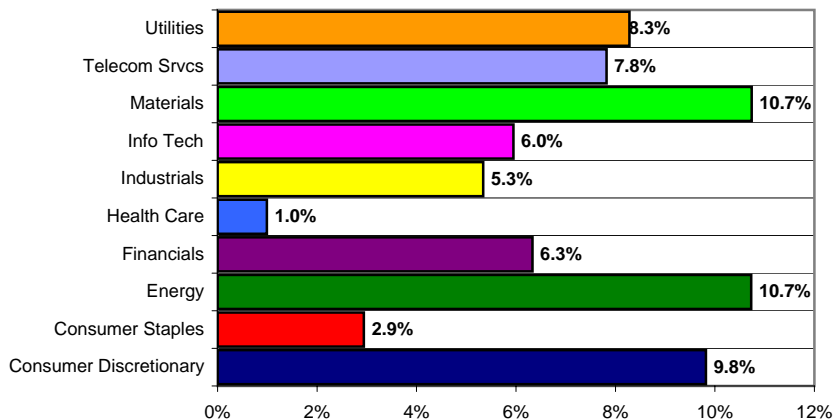
International Equity (returns measured in US Dollars)



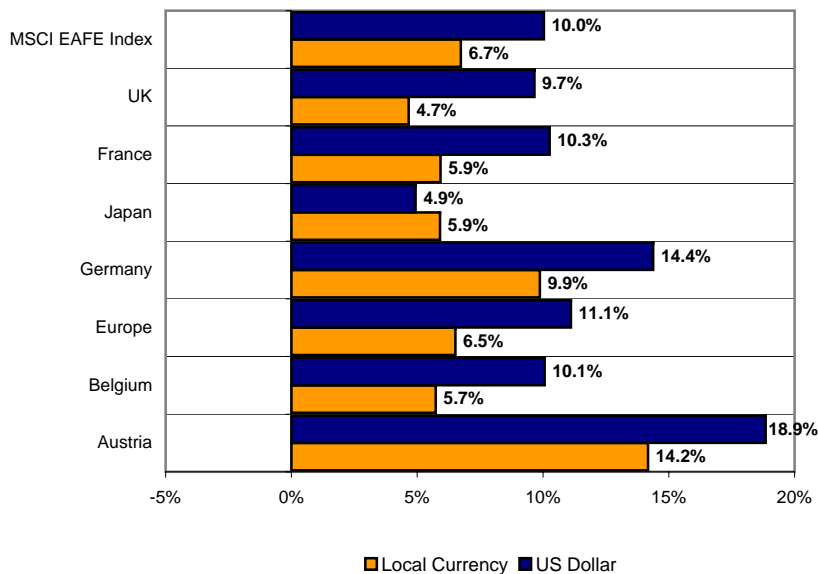
Commodities Indexes 4th Qtr 2006



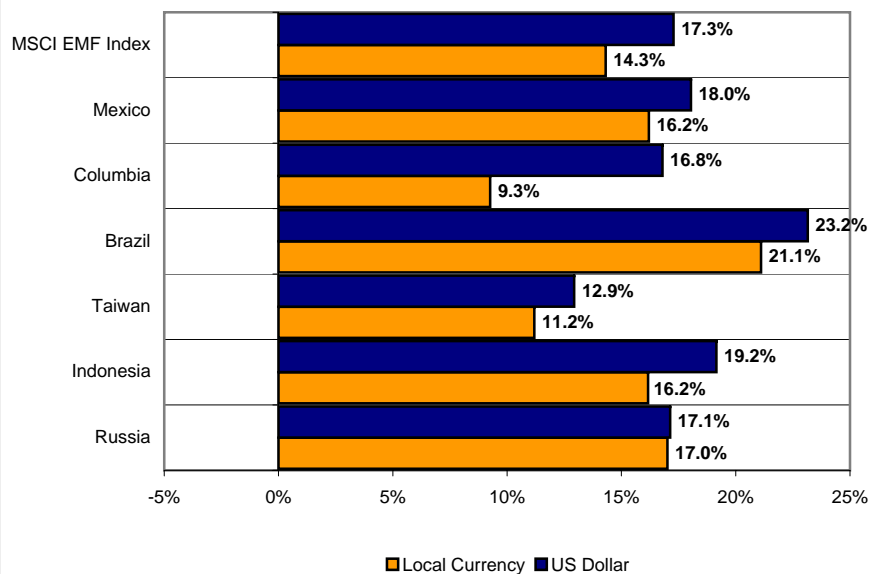
S&P Returns by Sector 4th Qtr 2006

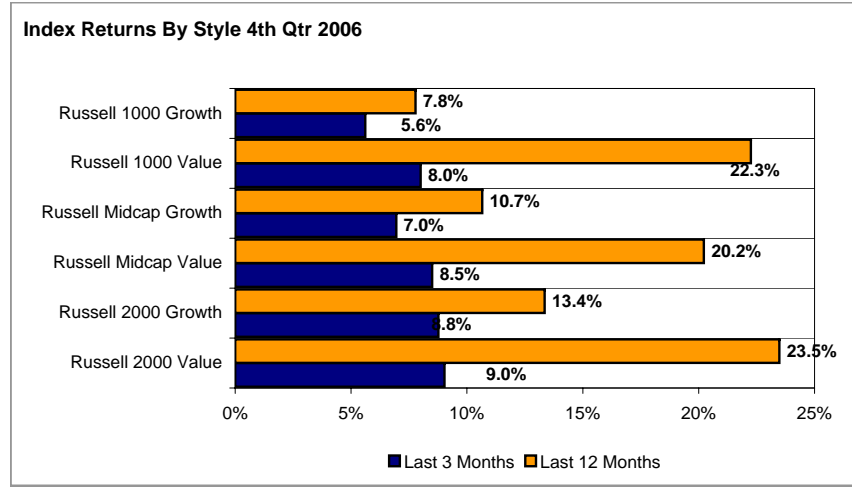


Developed Markets Returns 4th Qtr 2006

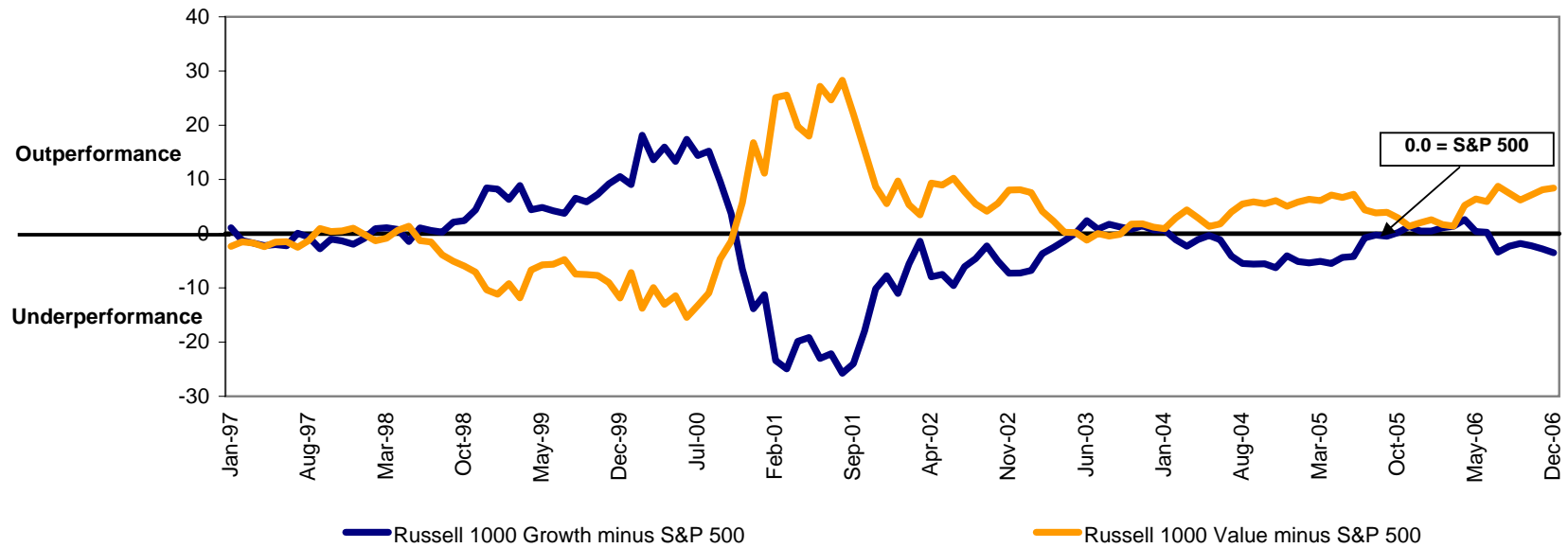


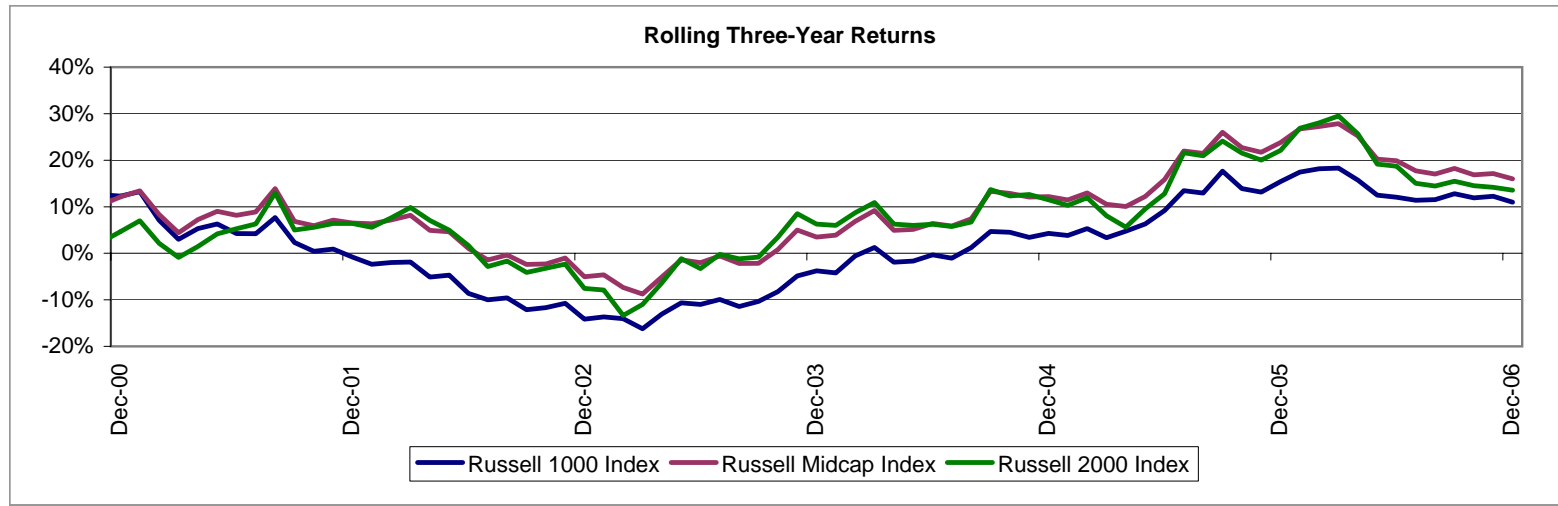
Emerging Markets Returns 4th Qtr 2006



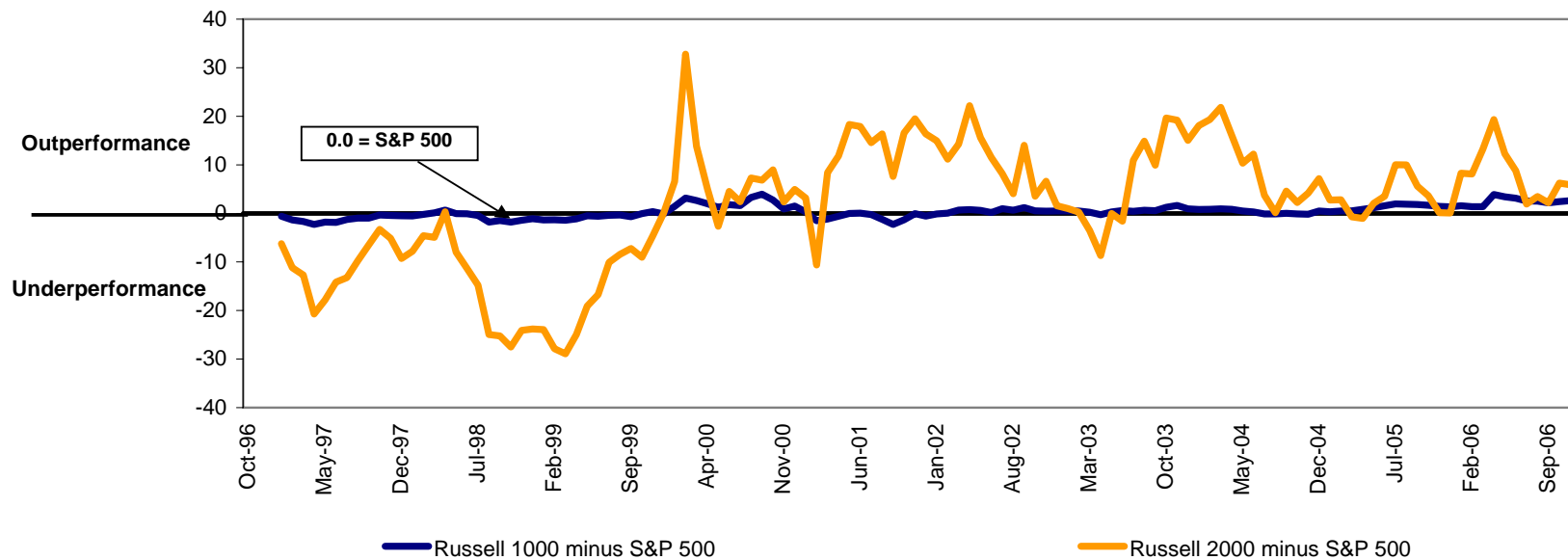


Growth vs. Value Style Stocks' Performance
(rolling twelve months compound total returns) - Using the S&P 500 Index as a Baseline

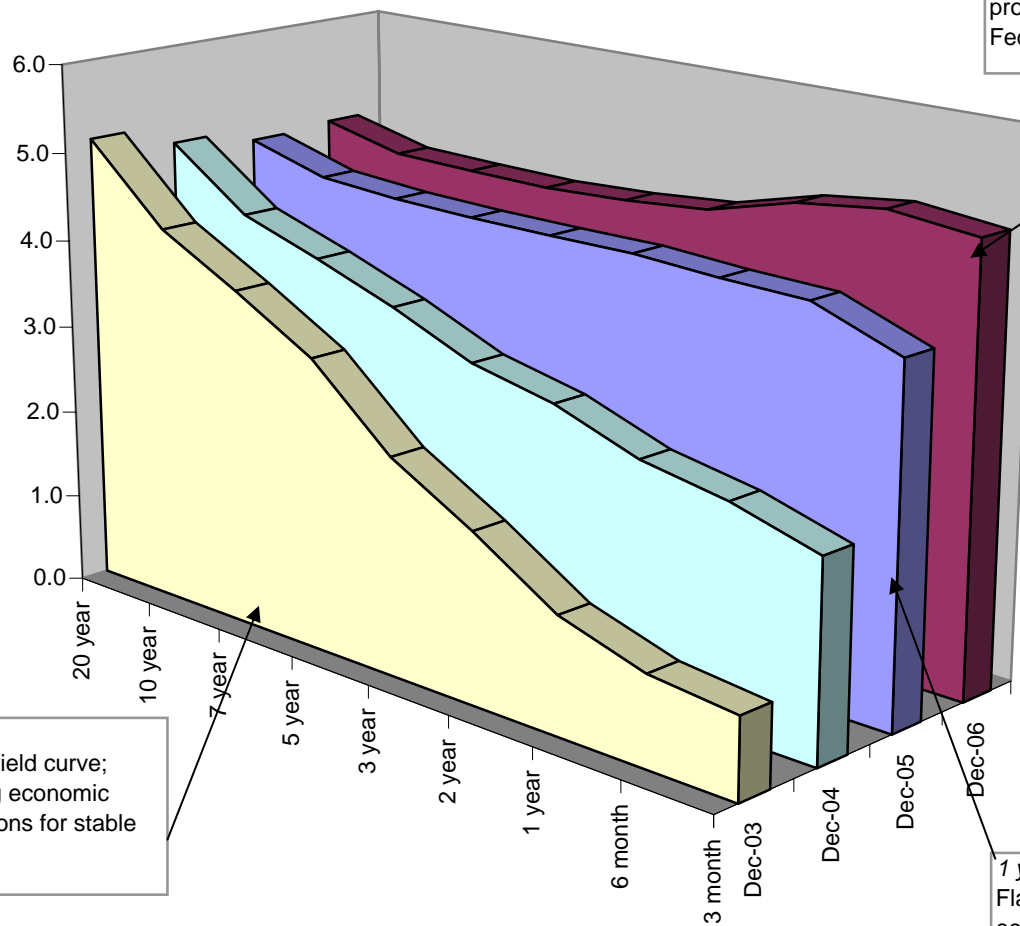




Large Cap vs. Small Cap Stocks' Performance
(rolling twelve months compound total returns) - Using the S&P 500 Index as a Baseline



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



Now:
Inverted yield curve, often a leading indicator for slowing economic prospects; the bond market and the Fed are in disagreement.

2-3 years ago:
Normal, upward sloping yield curve; generally indicates strong economic outlook, favorable conditions for stable growth.

1 year ago:
Flat yield curve, indicating possible economic crossroads due to elevation of short term rates (by the Fed) and absence of similar change in long-dated bond yields.