

## Monthly Highlights

Financial markets experienced a bit of a roller coaster ride in January. Fortunately for stocks, the coaster ended the month on the upswing. Bonds, on the other hand, were headed downhill.

The S&P 500 Index of large capitalization stocks rose 2.65% in January. Small-cap stocks represented by the Russell 2000 Index sprinted ahead a surprising 8.97%. The Dow Jones Industrial Average managed a 1.50% gain while the MSCI EAFE Index of international stocks advanced 6.15%.

Interest rates rose across the maturity spectrum during January and the curve remains extremely flat. The yield on 10-year Treasuries rose from 4.39% to 4.52% and is approaching old highs near 4.65%. On the short end, the Fed raised rates for the fourteenth consecutive meeting pushing the fed funds rate to 4.5%. For the month, the Lehman Aggregate Bond Index only gained 0.01%.

The economy seemed to stumble in the fourth quarter of last year with initial GDP growth of 1.1%. This follows ten straight quarters of GDP readings above 3%. The shortfall was quickly explained away by on again-off again auto incentives. Most economists still expect growth closer to 3% for the year. Continued modest growth is important because it allows for profit gains but keeps inflation low. Despite the slower GDP growth, corporate earnings for the fourth quarter have generally been better than expectations, although forward guidance has been less than stellar.

A major transition took place at the Federal Reserve on February 1. Alan Greenspan, who served 18 years as Chairman, stepped down and was replaced by Ben Bernanke. Investors placed great faith in Greenspan as he helped navigate the economy through several difficult periods over the years. Although Mr. Bernanke has an admirable resume, he will have difficult shoes to fill.

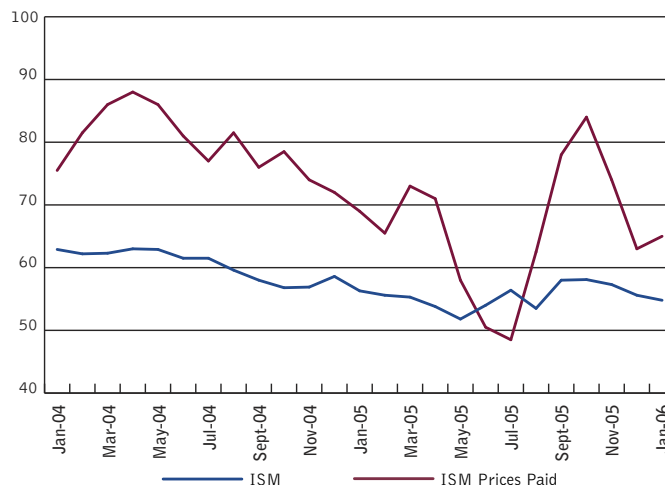
After fourteen rate increases by the Fed, the consensus on Wall Street is that the Fed is close to being done and future rate hikes will be data dependent. Most analysts project one or two more rate increases. The next policy meeting takes place in late March. A stronger economy or higher than expected inflation could prolong the tightening campaign.

Indications that the Fed could go on hold might come from the ISM manufacturing index falling toward 50, core inflation readings consistently below 2% and the job market beginning to cool. Many feel that the financial markets will react favorably when the Fed is done, but one should not be too complacent. Fed tightening and a flat yield curve have often created problems for both the economy and the stock market.

Market Update is prepared from sources we believe to be reliable but is not guaranteed and may not be a complete discussion of all material facts. Because each circumstance is unique, we recommend that you contact your financial advisor regarding your individual situation before making investment decisions.

## Investment Market Reviews

ISM & ISM Prices Paid



## Broad Market Indices\*\*

As of 1/31/06

	1 Month	YTD	1 Year	3 Year*
S&P 500 Index <sup>1</sup>	2.65%	2.65%	10.38%	16.42%
Dow Jones Industrial Average <sup>1</sup>	1.50%	1.50%	6.00%	13.00%
NASDAQ Composite <sup>1</sup>	4.68%	4.68%	12.75%	21.13%
Russell 1000 <sup>®</sup> Growth Index <sup>3</sup>	1.76%	1.76%	10.81%	14.83%
Russell 1000 <sup>®</sup> Value Index <sup>3</sup>	3.88%	3.88%	13.22%	19.96%
Russell 2000 <sup>®</sup> Index <sup>3,4</sup>	8.97%	8.97%	18.89%	26.86%
MSCI EAFE (International) Index <sup>1</sup>	6.15%	6.15%	23.28%	28.49%
Dow Jones Wilshire REIT <sup>5</sup>	7.84%	7.84%	34.61%	31.86%
Lehman U.S. Aggregate Bond Index <sup>2</sup>	0.01%	0.01%	1.80%	3.59%
Lehman Brothers 7-Year Municipal <sup>2</sup>	0.23%	0.23%	1.55%	3.60%
Merrill Lynch High Yield Master <sup>1</sup>	1.59%	1.59%	4.56%	12.69%

\*Annualized

\*\*Reflects initial indices reports and is subject to change

Sources: <sup>1</sup>Zephyr StyleADVISOR, <sup>2</sup>Lehman Brothers, <sup>3</sup>Russell, <sup>4</sup>small stocks, <sup>5</sup>Wilshire Associates