26 years
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Volume 26, No. 24 December 23, 2005

Steady As She Goes

The 2006 Outlook

by Walter S. Frank, Chief Investment Officer

After looking over our 2005 outlook, we thought about running it again this year, simply changing 2005 to 2006. Up to a point that would work. The same worries we had one year ago are with us now, if not in the same order of importance or prominence—the "oil shock" hitting the consumer, Fed tightening and the overall effect of higher oil prices on the economy. On the latter score, how innocent we all were one year ago. At that time, we were worried about $40 oil!

The market (and the economy) lived through those worries, and our overall positive view turned out to be correct. On the other hand, keep the spirit of the Holiday Season alive, and don't ask about the details.

But the world moves on. While the U.S. market sputtered last year, the emerging markets went on a tear. Japan emerged from intensive care, and commodity funds (rebaptized "natural resources" funds) long ignored, rose up to lead the performance tables.

As this long domestic bull market proceeds and as international funds roar ahead, the same old questions come to mind. What's left, and where to turn? Has everything been discounted? Of course, these questions apply every day, but they take on more prominence at year-end.

Growth and inflation

We will tackle those questions, but before we do we need to offer some context. The most important fact as we enter 2006 is that the world economy continues to grow. Asia is growing, including Japan. The U.S. is growing. Latin America is growing. Europe is stirring. Growth is good for profits and equities.

While the world economies are growing, the growth, of course, has not gone unnoticed by investors worldwide. Stock and commodity markets have boomed in response to that growth. Price-earnings ratios have risen and "cheap" is a relative—not an absolute—term in markets worldwide.

Growth is wonderful, but as usual there is no free lunch. Along with growth, as it continues, comes a concern about inflation. Nowhere right now is that concern more prevalent than in the U.S. The consequence is that it is the U.S. that has taken the lead in raising rates. Not Europe, not Japan, not China.

Rising rates, of course, are not market-friendly, and the U.S. market has been grappling with the issue of profit growth versus increased short-term rates (and presumably higher long-term rates) for some months. While climbing rates are directly only an issue for investors in the U.S. market, they are also indirectly an issue for most other markets. As U.S. short-term rates rise, higher, secure returns become an alternative for American investors to riskier investments abroad. We saw this process at work, earlier this year, as the Fed's initial rate increases led to sharp selling in Asian and emerging markets.

The Fed

This leads us back to the big picture in the U.S. How far is the Fed going to go next year? As this year ends the Fed has given us two signals to guide us, at least for the next few months. First, short-term rates are going to increase some more ("measured policy firming is likely to be needed"). Second, inflation so far has been contained, despite good reason for it to move up (think energy prices).

In addition, Fed speeches and earlier minutes have made it clear that the economy has to slow to its long-run growth rate of about 3–3¼%. As the Fed sees it, there is little slack in the economy and faster than speed limit growth will quickly absorb any slack and lead to inflationary pressure.

Contrary to the Fed's desires, there will be forces at work in the first half of next year resisting any slowing. First of all, of course, we have Katrina spending coming on line. This will provide strong stimulus for months. Second, as growth picks up abroad we should see a further meaningful pickup in U.S. exports. Finally, we are due for an inventory spending push.

Yes, higher rates are already affecting housing, and cashing out of home price appreciation (refinance) has slowed and will slow more. The consumer sector will lose some of its pop, but jobs are increasing and so are wages. The consumer is not going away.

The net, as we see it, is an economy a notch or two too strong for the Fed, at least in the first half of the year. If we are right short-term rates will be moving to 5% by next fall.

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Market Trends

	Trailing 12-Mo Trend	Forward 6-Mo Estimate
Economy	Higher	Higher
Interest Rates	Higher	Higher
Dollar	Higher	Flat/Lower
Inflation	Higher	Flat/Higher
Dow	Flat/Higher	Higher
NASDAQ	Higher	Higher
Europe	Higher	Higher
Japan (Nikkei)	Higher	Higher
Hong Kong (Hang Seng)	Higher	Higher

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Moving right along

While the Fed will be working to rein in the U.S. economy, no such reining in will be going on abroad. The two big growth engines of the world economy, China and India, both want to grow at rapid rates. China was concerned about overheating at this time last year, but that concern appears to have faded. Meanwhile, the Indian Prime Minister, in a speech only a few weeks ago, set a target of 10% growth for an indefinite period going forward. As India and China continue to grow, the rest of Asia, the suppliers to these giants, grows right along with them, as we have seen this year. As Raymond Mills, Executive Vice President of T. Rowe Price International Funds, said in prepared remarks at the T. Rowe Price 2006 Outlook Briefing, "Asia is probably the most dynamic region in the world." We would eliminate the word "probably."

We have not said a word about Europe. Last year we skipped Europe, and said we were doing so deliberately. Not so this year. Growth is stirring in Europe, led by Germany. More important, underneath the placid and even stagnant growth surface, European companies are continuing to improve their financial performance. That is one reason European stocks have done very well in 2005. Don't look at the GDPs, look at the bottom line profit numbers.

Putting it together, and just speaking of the economies, for most of the world it is growth straight ahead, while others are now picking up some speed (Japan and Europe). Only the U.S. is trying to slow down. This is a difference to remember as we plunge into 2006.

The U.S. market

As readers know, we have been cautious about the U.S. market. In fact, in October we cut back our domestic equity allocation. The reason was quite simple, the Fed and rising short-term rates. We remain cautious. But we do not expect our caution to last throughout next year.

The first half of the year is going to be challenging, as we mentioned. The economy will be moving ahead briskly, and earnings reports should generally positive. But there will also be the Fed raising short-term rates at least 2–3 more times.

For the market, aside from the short-term rate, the 10-year Treasury rate also matters. Valuations key off the 10-year rate. If the rate can hold at or below 5%, the U.S. market will continue to look attractive from a valuation perspective. Given the experience of this year, we believe the 10-year rate will hold. If the economy then slows some in the last half of the year, and even if profit growth slows as well, we believe the U.S. market's valuation will then be compelling. It may sound paradoxical, but slower growth is the prescription for good market performance.

We expect that by the last half of the year, as the Fed stays its hand, we will be more positive toward the U.S. market. If things work out as we see it, we look for a 10% gain for the S&P 500 next year.

Asia and emerging markets

This gets us to the "what's left" question posed earlier. As Todd Henry, portfolio specialist at T. Rowe Price, said in an interview about emerging markets, "the pace of gains we have seen is simply not sustainable." The gains, of course, are phenomenal. 41% through November and 37% for the three-year annualized. We all know that cannot continue. For one, emerging market valuations have moved up significantly relative to developed markets. Yet, and there is a yet, "valuations are still reasonable." Emerging markets, as a whole, are still trading at a fair discount to developed markets. In the past there were times when emerging markets traded at a premium, and that says Henry is the danger point. We are not there.

Also, we need to repeat a point made in prior discussions of emerging markets. Asia caught cold whenever the U.S. or Europe sneezed.

We remain very positive toward emerging market funds in general. But we have to take Henry's words seriously. Unless a bubble mania takes over, the gains ahead will undoubtedly lose their spectacular quality.

The developed markets

Japan was our dark horse market last year, and the horse came in. We view Japan as basically a longer-term opportunity. There are numerous signs that Japan has turned the corner. One is the fact that property prices are rising in Tokyo. Another is that Japanese companies have been hiring and raising wages.

As Mark Headley, portfolio manager of the Matthews Japan Fund, put it in a recent article, "Japan is a massive restructuring play. Change is occurring from the top and the bottom." Headley, we might add, was very early in recognizing the potential in the Japanese market.

The restructuring of the world's second largest economy is not an overnight affair. We are looking at some years of improving market fundamentals. We have not made a specific allocation to Japan, but as the Japan funds become "buys" we would not hesitate to add them to our portfolios.

It is a little hard to speak of a dark horse this year when everything has moved up, but if there is a dark horse, it could be Europe. Most Wall Street commentary, when not focused on the U.S., moves on to Asia, and developed Europe gets short shrift.

It may be though that Europe next year will offer even better returns than the U.S. with comparable risk. As

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Next Issue: Volume 27, No. 1

Mails: January 13, 2006

Internet: January 11, 2006, 12:00pm (ET)

Note: There will be 3 weeks between issues

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Raymond Mills observed, “European companies are doing the right thing.” Just as in the U.S. they are buying back shares. Dividend yields are slightly above 3% and valuations are a notch or two less than in the U.S. Investors pay less for comparable profit growth. There is no justification for ignoring developed Europe now.

Natural resources

We have never discussed natural resources funds, funds that invest in oil, gas, metals and coal, in the context of a year-end outlook. But the funds have come to life the past two years. The reason, as you well know, is Asian growth. We are in a new era, and a new era calls for new thinking.

We had always treated commodity funds, such as they existed, as boom and bust funds, suitable mainly for traders. But things have changed. The world of commodity companies is no longer just a play on temporary price movements. There is now steadily increasing demand for oil and gas and metals.

The point that Mackenzie Davis of RS Global Natural Resources wants to make is that with steady demand it is possible to find good companies that are not merely depleting their resources over time, selling their future, as it were, but are able to reinvest profitably in new resources and thus secure their future.

With demand reasonably assured for an indefinite period ahead, and with new supply only available at profitable prices, we view the resources funds as akin to real estate funds in their underlying ability to provide steady base returns looking out over the next five years, say.

It is not that 40% returns will continue. But it's that good competitive returns can be expected as the better resource companies demonstrate their earnings power and the market responds by raising their earnings multiple. We are no longer talking of speculative funds.

Asset allocation

As we said earlier, we turned cautious toward the U.S. market and are now carrying a cash position in our two growth portfolios. We think the current allocations are where we should be as we move into the New Year. Yet, as you see, we are generally positive as we look around the globe. Our caution stems from the Federal Reserve. If the Fed’s policy follows our script, it will certainly affect allocations as the year develops. Also, it may be that we will tilt even more to international than we already have. In addition, as we just indicated in the previous section, natural resources funds make sense in this global growth phase we are in.

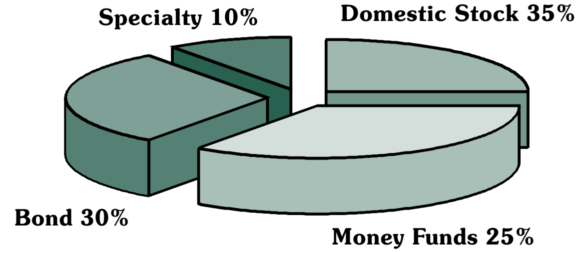
To sum it up, we look forward to 2006, and expect another year of positive performance.

Fund changes

There is a recommended change in the Select Portfolio. The Hotline of Tuesday, December 19th recommended the sale of Fidelity Medical Delivery with the proceeds to be invested in Fidelity Japan $

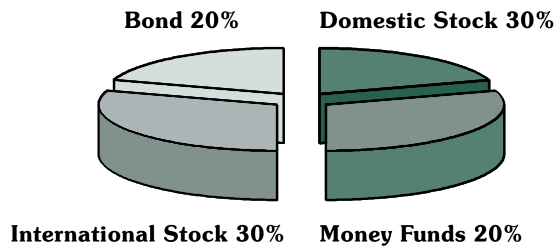
CONSERVATIVE

Seeks steady long-term growth of capital with limited short-term volatility



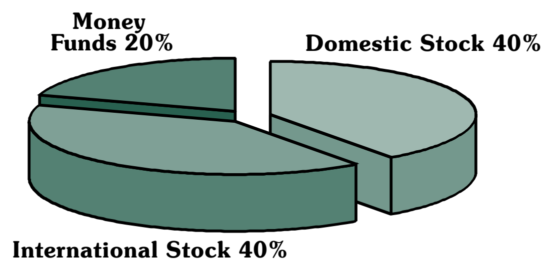
MODERATE

Seeks greater long-term growth than the Conservative Portfolio by taking prudent risks



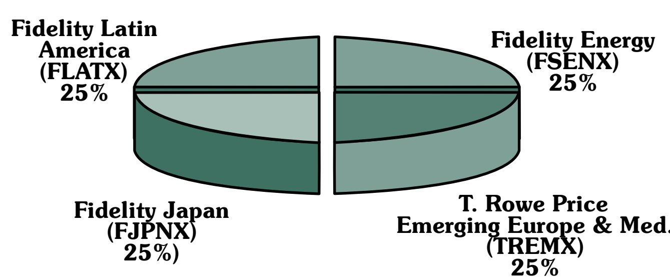
VENTURESOME

Seeks maximum long-term growth by accepting greater short-term volatility



SELECT

Seeks maximum long-term growth by assertively upgrading fund positions



Domestic Stock Funds

RANK 12/16 2005	1Mo Ago	6Mo Ago	Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN 1 mo.	6 mo.	12 mo.	PRICE PER SHARE	RISK Std. Dev.	Beta	NTF/ wtf
1	4	41	TWHIX	American Century Heritage	MCGro	B	B	B	4.9%	15.2%	24.9%	$14.40	15.4	0.76	FSW
2	**8**	**—**	**JORNX**	**Janus Orion**	**MC**	**B**	**B**	**B**	**4.1**	**15.6**	**23.5**	**8.35**	**14.3**	**1.16**	**FSW**
3	1	32	MPEGX	MSI Mid Cap Growth Inst Cl	MCGro	*	B	B	3.8	16.2	22.1	25.17	22.2	1.17	w
4	6	36	SSMGX	Sit Small Cap Growth (2%r<30d)	MCGro	B	B	B	3.8	15.9	21.5	31.99	21.6	1.10	FSW
5	14	122	RYPRX	Royce Premier (1%r<180d)	SC	B	B	B	5.3	15.5	18.8	16.77	19.4	0.84	FsW
6	7	21	BRAIX	Bridgeway Aggressive Investors 2	MCGro	*	B	B	6.0	13.6	20.8	16.55	18.8	1.21	fsw
7	—	—	RIMSX	Rainier Small/Mid Cap Port	MCGro	*	Ⓑ	Ⓑ	4.4	14.5	20.6	33.27	15.7	1.34	FSW
8	9	88	CLSPX	Columbia Mid Cap Growth ClZ	MCGro	B	B	B	4.5	14.4	19.3	23.93	17.7	0.86	Sw
9	5	20	BRSGX	Bridgeway Small Cap Growth	ScGro	B	B	B	3.8	13.7	22.0	13.73	—	—	fsw
10	**27**	**94**	**FMCSX**	**Fidelity Mid-Cap Stock (.75%r<30d)**	**MCGro**	**Ⓑ**	**Ⓑ**	**Ⓑ**	**5.8**	**13.8**	**18.1**	**26.57**	**20.9**	**1.05**	**Fsw**
11	11	159	NEEGX	Needham Growth Fund (.75%r<30d)	SCGro	B	B	B	4.7	14.8	17.2	35.84	25.7	1.19	FSW
12	32	47	JSVAX	Janus Contrarian	MC	Ⓑ	Ⓑ	Ⓑ	4.7	14.4	17.3	14.97	22.3	1.10	SW
13	**3**	**8**	**BRSVX**	**Bridgeway Small Cap Value**	**ScVal**	**B**	**B**	**B**	**5.1**	**12.0**	**22.1**	**14.46**	**—**	**—**	**fsw**
14	37	4	FLVCX	Fidelity Leveraged Co ($10k,1.5%r<90d)	MC	*	Ⓑ	Ⓑ	7.1	11.5	20.0	26.47	36.3	1.39	Fw
15	21	176	HACAX	Harbor Capital Appreciation	LCGro	B	B	B	3.8	14.2	17.8	33.37	19.0	1.10	Fsw
16	12	49	SSMVX	Wells Fargo Adv SC Value ClZ (closed)	SC	B	B	B	4.2	13.9	17.8	30.31	18.3	0.88	FSW
17	**24**	**95**	**FEXPX**	**Fidelity Export & Multinat'l (.75%r<30d)**	**LC**	**H**	**H**	**H**	**3.8**	**13.5**	**18.3**	**21.52**	**20.3**	**1.07**	**Fsw**
18	23	190	PFGRX	Preferred Large Cap Growth	LCGro	H	H	H	3.5	13.9	17.3	14.03	19.0	1.10	fw
19	18	223	TGSCX	TCW Galileo Small Cap Growth	MCGro	*	H	H	5.5	14.7	11.4	17.83	37.3	1.83	FSW
20	15	81	NBNGX	Sit Mid Cap Growth (2%r<30d)	MCGro	*	B	B	3.4	13.2	18.1	12.86	23.5	1.23	FSW
21	51	71	RPMGX	T. Rowe Price Mid Cap Growth	MCGro	H	H	H	4.4	13.0	17.0	54.31	22.1	1.11	fsw
22	55	242	FMILX	Fidelity New Millennium (closed)	MCGro	Ⓑ	Ⓑ	Ⓑ	5.2	14.1	12.3	34.94	27.3	1.27	Fsw
23	19	5	NPRTX	Neuberger Berman Partners	LCVal	B	B	B	4.7	11.1	20.5	28.41	20.7	1.10	fSw
24	45	231	FFTYX	Fidelity Fifty (.75%r<30d)	LC	H	H	H	4.2	14.0	13.3	22.95	19.8	0.85	Fsw
25	34	61	FCNTX	Fidelity Contrafund	LC	H	H	H	3.3	12.2	19.2	66.35	11.4	0.54	Fsw
26	**42**	**200**	**VWUSX**	**Vanguard U.S. Growth**	**LCGro**	*****	**H**	**H**	**4.2**	**13.2**	**14.2**	**18.35**	**21.6**	**1.23**	**fsw**
27	**36**	**179**	**FDGRX**	**Fidelity Growth Company**	**LCGro**	*****	**H**	**H**	**3.8**	**13.0**	**15.2**	**63.90**	**25.6**	**1.36**	**Fsw**
28	52	72	DNLDX	Dreyfus New Leaders	MCGro	H	H	H	4.7	11.4	17.3	49.16	18.6	0.90	FSW
29	20	82	BOGLX	Bogle Small Cap Growth (closed)	SCGro	Ⓑ	Ⓑ	Ⓑ	4.7	11.4	16.6	26.76	22.3	0.88	w
30	29	78	NMANX	Neuberger Berman Manhattan	MCGro	*	H	H	4.1	11.9	16.5	7.93	23.4	1.15	f
31	35	157	JAOLX	Janus Olympus	LCGro	*	H	H	3.0	12.2	16.9	32.85	19.1	1.04	FSW
32	**41**	**—**	**BWAFX**	**Brandywine Advisors**	**MCGro**	**H**	**H**	**H**	**3.6**	**10.7**	**18.8**	**10.62**	**13.2**	**0.67**	**FSw**
33	65	226	RYLPX	Royce Low Priced Stock (closed,1%r<180d)	SCVal	H	H	H	5.6	12.1	12.0	15.47	27.1	1.10	FSW
34	26	—	BRWIX	Brandywine Fund	MC	H	H	H	3.9	10.5	17.8	31.55	13.7	0.69	fsw
35	**30**	**14**	**FTQGX**	**Fidelity Focused Stock (.75%r<30d)**	**LC**	*****	**H**	**H**	**2.8**	**10.3**	**19.7**	**11.92**	**17.2**	**1.00**	**Fw**
36	68	191	FDFFX	Fidelity Independence	LCGro	H	H	H	4.6	11.8	12.9	19.80	21.4	1.11	Fsw
37	49	100	BUFMX	Buffalo Mid Cap	MCGro	H	H	H	3.8	11.0	15.8	14.68	17.6	1.34	FSW
38	10	235	LMOPX	Legg Mason Opportunity Trust (1%r<1yr)	MC	*	B	B	5.3	11.4	12.7	17.14	35.1	1.48	—
39	**80**	**—**	**WWNPX**	**Kinetics Paradigm (2%r<30d)**	**MC**	**H**	**H**	**H**	**4.8**	**8.6**	**20.0**	**20.47**	**11.7**	**0.63**	**FSw**
40	60	185	NTHFX	Northeast Investors Growth	LCGro	*	H	H	3.6	11.5	14.4	18.78	16.8	0.96	fw
41	61	11	NBGNX	Neuberger Berman Genesis (closed)	SC	H	H	H	3.0	9.9	19.0	34.33	15.5	0.63	fSw
42	46	209	MNSCX	WellsFargo Montgomery Small Cap (closed)	SCGro	H	H	H	4.7	12.1	10.9	12.11	23.3	1.05	fS
43	**57**	**19**	**VIMSX**	**Vanguard Mid-Cap Index**	**MC**	**H**	**H**	**H**	**4.3**	**9.9**	**16.6**	**17.92**	**20.1**	**0.97**	**fsw**
44	112	58	MPMVX	MSI Mid Cap Value	MCVal	S	S	S	4.6	10.3	15.1	26.56	23.1	1.18	fsw
45	121	12	TAVFX	Third Avenue Value (1%r<60d)	SC	H	H	H	3.7	9.0	19.2	60.36	17.2	0.79	FSW
46	16	37	BARAX	Baron Asset	MCGro	Ⓗ	Ⓗ	Ⓗ	2.6	10.5	16.5	56.69	21.2	0.94	FSW
47	22	98	TMGFX	Turner Mid Cap Growth	MCGro	*	H	H	3.1	11.0	14.4	27.56	29.3	1.45	FSW
48	53	43	PRNHX	T. Rowe Price New Horizons	SCGro	H	H	H	4.6	9.6	15.8	32.16	28.3	1.30	fsw
49	47	259	TGANX	TCW Galileo Aggressive Growth CIN	MCGro	S	S	S	4.5	13.0	7.2	13.47	37.7	1.82	FSW
50	70	230	FOCPX	Fidelity OTC Portfolio	LCGro	*	S	S	4.2	11.0	12.6	38.51	28.0	1.31	Fsw
51	13	1	CGMFX	CGM Focus	SCVal	*	H	H	0.6	7.3	27.0	36.61	37.9	1.03	sw
52	33	254	POGSX	Pin Oak Aggressive Stock	MCGro	*	H	H	3.5	11.6	11.9	23.23	42.0	2.20	FSW
53	85	160	WBGSX	William Blair Growth (1%r<60d)	LCGro	H	H	H	3.6	11.2	12.7	11.47	19.5	1.09	sW
54	40	173	LMASX	Legg Mason Special Investment Trust	MC	*	S	S	4.2	10.6	13.2	45.62	30.9	1.33	—
55	48	134	KAUFX	Federated Kaufmann Fund (0.2%)	MCGro	S	S	S	3.5	11.1	13.0	5.59	19.5	0.86	FSW
56	69	138	RSGRX	RS Growth	MCGro	S	S	S	3.9	10.3	14.2	15.98	18.2	0.97	FSW
57	58	45	PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	4.7	9.4	15.4	10.83	20.4	0.80	Fsw
58	44	115	JAENX	Janus Enterprise	MCGro	H	H	H	3.5	10.8	13.5	42.11	21.4	1.09	FSW
59	91	188	GABGX	Gabelli Growth	LC	S	S	S	3.4	10.7	13.7	29.40	23.3	1.35	FSW
60	54	199	SGROX	Wells Fargo Advantage Growth	LCGro	H	H	H	4.2	11.0	11.8	21.34	17.7	0.97	FSW
61	2	6	BPTRX	Baron Partners	MCGro	*	Ⓗ	Ⓗ	1.6	10.8	16.1	18.85	28.6	1.26	FSW
62	106	27	FDVLX	Fidelity Value	MCVal	S	S	S	5.2	8.6	15.8	75.98	19.0	0.89	Fsw
63	77	119	CRMSX	CRM Small Cap Value Inv (closed)	SCVal	H	H	H	5.3	9.5	13.3	25.68	23.8	0.93	FSw
64	43	123	USAAX	USAA Growth	LCGro	S	S	S	3.1	10.8	12.9	15.45	20.9	1.14	—
65	99	96	JAGIX	Janus Growth & Income	LCGro	S	S	S	4.0	9.4	15.0	36.12	15.1	0.87	FSW
66	72	62	VALSX	Value Line Special Situations	MCGro	S	S	S	3.5	9.7	14.7	27.25	15.4	0.71	FSW
67	38	258	TGCNX	TCW Galileo Select Equity	LCGro	*	S	S	3.2	11.8	9.6	20.71	28.1	1.46	FSW
68	138	10	FAIRX	Fairholme Fund	MC	S	S	S	4.0	8.3	17.0	25.37	10.5	0.48	fsw

Bold funds are currently held in *MONEYLETTER* model portfolios.
Advice: B=Buy, H=Hold, S=Sell, Ⓑ, Ⓗ, Ⓢ = advice new this issue, *=not for this portfolio.
Std. Dev.: Standard Deviation based on trailing 3-yr. returns.

Beta: fund's correlation to the market (S&P 500 = 1.0). A fund with a beta greater than 1.0 is more volatile than the S&P 500.
NTF/wtf: NO TRANSACTION FEE/with transaction fee (F/f) for Fidelity, (S/s) for Schwab and (W/w) for TD Waterhouse.

Domestic Stock Funds (continued)

RANK 12/16 2005	1Mo Ago	6Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN 1 mo.	6 mo.	12 mo.	PRICE PER SHARE	RISK Std. Dev.	Beta	NTF/ wtf
69	**17**	**212**	**MXXIX**	**Marsico 21st Century (2%r<30d)**	**LC**	**H**	**H**	**H**	**2.2**	**12.2**	**10.0**	**12.95**	**21.1**	**0.95**	**fSW**
70	75	76	VALLX	Value Line Leveraged Growth	LCGro	*	S	S	5.2	9.2	12.9	28.59	14.9	0.83	FSW
71	76	31	FDSCX	Fidelity Small Cap Ind. (1.5%r<90d)	SC	H	H	H	4.2	9.5	13.5	20.57	16.7	0.58	Fsw
72	98	74	STCSX	Wells Fargo Adv Common Stock Z (closed)	MC	S	S	S	4.5	8.9	14.0	21.82	22.6	1.15	FSW
73	84	126	OTCFX	T. Rowe Price Small Cap Stock Fund	SC	S	S	S	4.4	10.0	11.6	33.14	19.2	0.84	fsw
74	102	97	ACBGX	USGlobal Holmes Growth (.25%r<30d)	MCGro	H	H	H	4.5	9.5	12.5	17.52	15.3	0.57	FSW
75	50	154	MFOCX	Marsico Focus (2%r<30d)	LCGro	S	S	S	2.9	10.6	12.2	18.38	15.3	0.74	FSW
76	101	59	LSGIX	Loomis Sayles Value	LCVal	S	S	S	3.5	9.2	14.5	19.44	16.4	0.89	fsW
77	90	153	RSMOX	RS MidCap Opportunities	MCGro	S	S	S	4.5	9.6	11.9	13.42	22.6	1.11	FSW
78	81	213	LMVTX	Legg Mason Value	LCVal	S	S	S	5.1	9.4	10.9	70.38	23.3	1.19	—
79	31	26	BERWX	Berwyn Fund (1%r<180d)	SCVal	S	S	S	1.7	9.6	15.3	31.51	22.3	0.77	fsw
80	79	52	VLIFX	Value Line Fund	LCGro	H	H	H	5.0	8.4	13.2	15.58	13.1	0.73	FSW
81	67	171	TWCVX	American Century Vista	MCGro	H	H	H	3.6	9.9	11.4	14.91	15.8	0.68	FSW
82	92	93	FIDYX	AIM Dynamics Inv (closed)	MCGro	S	S	S	3.8	9.4	12.5	18.25	28.2	1.48	FSw
83	66	—	BRSIX	Bridgeway Ultra Small Co Mkt	Sc	*	S	S	4.4	11.0	7.4	18.12	18.5	1.03	fsw
84	87	9	RSPFX	RS Partners (closed)	SC	H	H	H	3.6	8.8	14.0	33.00	20.9	0.69	FSW
85	89	236	VGEQX	Vanguard Growth Equity	LCGro	S	S	S	3.3	10.3	10.6	10.57	22.2	1.22	fsw
86	119	166	VMRGX	Vanguard/Morgan Growth	LC	S	S	S	4.1	9.3	11.7	17.91	19.6	1.08	fsw
87	64	111	RSSGX	RS Smaller Company Growth	SCGro	*	H	H	4.8	9.3	10.8	21.34	28.5	1.23	FSW
88	25	120	JAVLX	Janus Twenty (closed)	LCGro	S	S	S	1.5	10.1	13.4	49.44	17.3	0.93	FSW
91	**63**	**50**	**VEXMX**	**Vanguard Extended Market Index**	**MC**	**H**	**H**	**H**	**4.0**	**8.5**	**13.5**	**34.84**	**21.5**	**1.02**	**fsw**
186	**143**	**40**	**VISVX**	**Vanguard Small-Cap Value Index**	**SCVal**	**H**	**H**	**H**	**4.0**	**5.1**	**9.3**	**15.01**	**22.4**	**0.90**	**fsw**

	1 mo.	6 mo.	12 mo.	
Dow Jones	**1.9%**	**2.8%**	**1.6%**	*indexes do not include dividends*
NASDAQ	**3.0**	**7.8**	**5.0**	
S&P 500	**2.9**	**4.7**	**5.3**	

International Stock Funds

RANK 12/16 2005	1Mo Ago	6Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative	Moderate	Venturesome	1 mo.	6 mo.	12 mo.	PRICE PER SHARE	Std. Dev.	Beta	NTF/ wtf
1	**8**	**73**	**FJPNX**	**Fidelity Japan (1.5%<90d)**	**Japan**	*****	**B**	**B**	**14.2%**	**40.6%**	**45.3%**	**$17.30**	**17.3**	**—**	**Fsw**
2	1	2	PRLAX	T. Rowe Price Latin America (2%r<90d)	LatinA	*	H	H	4.0	37.6	65.6	25.05	29.7	—	fsw
3	**3**	**3**	**FLATX**	**Fidelity Latin Amer. (1.5%r<90d)**	**LatinA**	*****	**H**	**H**	**5.3**	**37.7**	**61.5**	**31.78**	**29.8**	**—**	**Fs**
4	5	10	EUROX	US Global Eastern Europe (2%r<180d)	Europe	*	B	B	7.1	39.0	47.3	42.49	26.6	—	FSW
5	2	4	SLAFX	Scudder Latin America (closed,2%r<30d)	LatinA	*	H	H	4.0	36.1	58.5	48.68	27.3	—	Sw
6	**4**	**1**	**TREMX**	**T. Rowe Price Emg Europe & Med (2%r<90d)**	**Europe**	*****	**B**	**B**	**3.6**	**32.6**	**64.1**	**24.73**	**29.2**	**—**	**fw**
7	12	70	PRJPX	T. Rowe Price Japan (2%r<90d)	Japan	*	B	B	11.6	35.3	43.4	11.42	14.4	—	s
8	**11**	**14**	**DRIDX**	**Driehaus Intl Discovery (2%r<60d)**	**Int'l**	*****	**B**	**B**	**13.7**	**31.9**	**45.8**	**39.97**	**21.1**	**—**	**FSW**
9	24	63	FJSCX	Fidelity Japan Smaller Cos (1.5%r<90d)	Japan	*	H	H	15.7	30.7	42.5	15.71	28.4	—	Fsw
10	6	15	DREGX	Driehaus Emerging Mkts Gr (2%r<60d)	Int'l	*	B	B	9.5	33.9	42.4	27.60	24.9	—	FSW
11	**7**	**6**	**FEMKX**	**Fidelity Emerging Mkts (1.5%r<90d)**	**Int'l**	*****	**B**	**B**	**8.1**	**30.4**	**47.2**	**17.81**	**—**	**—**	**Fsw**
12	10	—	HLEMX	Harding Loevner Emerg Mkt (2%r<90d)	Int'l	*	B	B	6.8	27.1	41.3	34.02	15.5	—	FSw
13	21	76	SJPNX	Japan Fund (Scudder) (2%r<180d)	Japan	*	B	B	12.9	28.1	27.4	12.62	14.8	—	FSW
14	16	11	AIOIX	Amer.Cent.Intl Opp. (closed,2%r<180d)	Int'l	*	B	B	10.5	23.6	42.1	10.20	20.4	—	—
15	23	75	WPJGX	CS Warburg Pincus Japan Grth (2%r<30d)	Japan	*	H	H	11.2	27.3	29.3	6.85	22.7	—	FSW
16	**9**	**5**	**PRMSX**	**T. Rowe Price Emerging Mkts Stk**	**Int'l**	*****	**B**	**B**	**4.9**	**25.6**	**41.3**	**25.00**	**18.8**	**—**	**fsw**
17	15	39	FPBFX	Fidelity Pacific Basin (1.5%r<90d)	Pacific	*	B	B	9.1	25.4	35.3	24.69	14.7	—	Fsw
18	13	28	JAOSX	Janus Overseas (closed,2%r<90d)	Int'l	*	B	B	6.9	26.5	33.5	31.03	16.5	—	FSW
19	20	36	PRIDX	T. Rowe Price Intl Disc. (2%r<90d)	Int'l	*	H	H	8.3	23.5	31.3	40.80	16.0	—	fsw
20	**14**	**8**	**VEIEX**	**Vanguard Emerging Mkts Stk Index (.5%r)**	**Int'l**	*****	**H**	**H**	**6.2**	**21.9**	**33.9**	**18.90**	**22.6**	**—**	**fsw**
21	**18**	**72**	**VPACX**	**Vanguard Pacific Stock Index (2%r<60d)**	**Pacific**	*****	**H**	**H**	**7.9**	**23.5**	**27.0**	**11.26**	**13.7**	**—**	**fsw**
22	31	12	FISMX	Fidelity Intl Small Cap (closed,2%r<90d)	Int'l	*	H	H	10.0	19.6	32.7	26.32	—	—	Fw
23	**25**	**7**	**FSEAX**	**Fidelity SE Asia (1.5%r<90d)**	**Pacific**	*****	**H**	**H**	**7.6**	**19.1**	**33.4**	**20.52**	**21.1**	**—**	**Fsw**
24	33	30	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	*	H	H	8.5	18.9	29.5	19.35	—	—	SW
25	**36**	**23**	**PISRX**	**Forward Intl Small Companies (2%r<180d)**	**Int'l**	*****	**H**	**H**	**9.4**	**18.2**	**29.1**	**14.77**	**—**	**—**	**FSW**
26	32	16	NBISX	Neuberger Berman Intl (2%r<60d)	Int'l	*	H	H	8.4	18.6	27.2	21.53	16.3	—	fSw
27	26	—	USPAX	Excelsior Pacific/Asia	Pacific	*	H	H	7.5	19.5	25.6	10.41	13.6	—	FSW
28	19	13	DRFMX	Dreyfus Premier Emerging Market (1%r)	Int'l	*	H	H	6.1	18.8	27.7	24.05	21.6	—	fSw
29	17	—	PRGSX	T. Rowe Price Global Stock (2%r<90d)	Global	*	H	H	5.9	19.4	25.2	19.28	11.6	—	fsw
30	22	29	SCOBX	Scudder Global (closed,2%r<30d)	Global	*	H	H	5.8	18.8	26.6	32.67	12.7	—	FSW
31	27	31	WBIGX	Wm. Blair Intl Growth N (closed,1%r<60d)	Int'l	*	H	H	6.6	18.7	25.4	24.87	14.6	—	FSW
32	38	35	ICEUX	ICAP Euro Select Equity (2%r<30d)	int'l	*	H	H	7.6	18.9	22.2	35.75	18.0	—	fSw
33	30	45	HAINX	Harbor International (2%r<60d)	Int'l	*	H	H	6.1	18.9	23.3	51.10	17.9	—	Fsw
34	35	—	ACINX	Columbia Acorn Intl Z (2%r<60d)	intl	*	S	S	7.8	16.8	25.7	33.05	13.3	—	Sw
35	47	27	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	*	S	S	7.3	17.4	24.1	19.76	20.4	—	FSW
36	44	59	ARTIX	Artisan International (2%r<90d)	Int'l	*	S	S	7.5	18.5	20.2	25.23	16.4	—	FSW
37	34	57	FOSFX	Fidelity Overseas (1%r<30d)	Int'l	*	S	S	7.9	17.9	21.0	40.76	15.5	—	Fsw
38	52	24	VINEX	Vanguard Intl Expl (closed,$25k,2%r<60d)	Int'l	*	S	S	9.0	15.6	24.4	17.73	16.3	—	fsw
39	**29**	**9**	**PRASX**	**T. Rowe Price New Asia (2%r<90d)**	**Pacific**	*****	**H**	**H**	**5.0**	**16.2**	**28.4**	**11.58**	**19.7**	**—**	**fs**
40	50	46	VTRIX	Vanguard International Value (2%r<60d)	Int'l	*	S	S	7.7	16.8	21.0	34.70	16.8	—	fsw
41	41	40	BJBIX	Julius Baer Intl Equity A (2%r<90d)	Int'l	*	S	S	7.2	16.9	21.5	36.86	12.5	—	FS
42	42	47	WAIGX	Wasatch Intl Growth (closed,2%r<60d)	int'l	*	S	S	7.4	16.8	21.0	19.38	—	—	FSW
43	51	48	SCINX	Scudder International (2%r<180d)	Int'l	*	S	S	7.5	16.5	20.6	51.46	13.5	—	FSW
44	40	18	MAPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	*	S	S	6.5	15.1	25.4	19.07	23.6	—	FSW
45	43	60	PRITX	T. Rowe Price Intl Stock (2%r<90d)	Int'l	*	S	S	6.8	17.3	19.0	14.67	16.4	—	fsw

***Bond Funds** (next issue on page 6: Specialty Funds)*

12/16/2005

Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN 1 mo.	6 mo.	12 mo.	PRICE PER SHARE	Std. Dev.	Yield	NTF/ wtf
FFRHX	Fidelity Floating Rate High Inc (1%r<60d)	BnkLoan	B	*	*	0.4%	2.1%	3.4%	$9.95	0.85	4.35%	Fw
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	*	*	*	0.9	0.6	-0.6	11.06	4.16	4.96	FSW
CMHYX	Columbia High Yield CIZ (closed)	HighYld	*	*	*	1.3	1.4	1.9	8.49	3.96	6.43	FSw
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	2.2	2.9	4.1	8.39	7.15	6.36	Fsw
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	1.5	2.7	2.3	8.80	5.14	7.77	Fsw
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	1.3	1.3	1.9	9.52	4.14	6.84	FSW
NTHEX	Northeast Investors Trust	HighYld	*	*	*	1.3	1.9	2.5	7.38	3.92	8.36	fw
PHYDX	PIMCO High Yield (2%r<30d)	HighYld	*	*	*	1.6	1.9	3.6	9.71	5.17	6.70	FSW
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	1.4	2.7	2.8	7.67	4.61	6.87	FSW
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.7	2.0	2.5	8.52	1.73	4.77	FSW
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	1.4	2.5	2.7	6.91	4.46	7.58	fsw
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	1.5	2.1	0.4	6.91	5.67	7.55	FSW
VWEHX	**Vanguard High Yield Corporate (1%r<1yr)**	**HighYld**	*	**B**	*	**1.4**	**2.1**	**2.6**	**6.16**	**4.21**	**7.17**	**fsw**
FNMIX	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	1.4	5.6	9.7	14.61	8.17	5.79	Fsw
PYGFX	Payden Global Fixed Income	Int'l	*	*	*	0.6	1.7	4.5	9.62	3.43	9.02	fsW
SSTGX	Scudder Global Bond S-T (closed,2%r<30d)	Int'l	*	*	*	1.7	0.0	-0.4	9.49	5.41	4.84	Sw
BGNMX	American Century Ginnie Mae	IntTerm	*	*	*	0.9	0.6	2.1	10.24	2.47	4.69	FSW
CPTNX	American Century Government Bond	IntTerm	*	*	*	0.6	-0.2	1.8	10.47	3.29	3.63	FSW
ACITX	**American Century Inflation Adj**	**IntTerm**	**B**	*	*	**1.0**	**0.2**	**2.2**	**10.91**	**6.88**	**5.62**	**FSW**
BBHIX	BBH Inflation Indexed Sec (1%r<30d)	IntTerm	B	*	*	0.4	0.4	2.5	10.95	6.86	4.98	FSW
SRINX	Columbia Income CIZ	IntTerm	*	*	*	0.8	0.1	1.4	9.77	4.40	5.50	FSw
SRBFX	Columbia Intermediate Bond CIZ	IntTerm	*	*	*	0.6	0.1	1.7	8.87	3.90	4.85	FSw
DODIX	Dodge & Cox Income	IntTerm	*	*	*	0.6	0.5	1.9	12.66	3.28	4.04	fsw
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	0.8	0.5	2.5	13.62	4.62	4.14	FSW
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	0.7	0.8	2.2	14.44	2.95	3.98	FSW
DSINX	Dreyfus Premier Core Bond (closed)	IntTerm	*	*	*	0.8	0.3	1.5	14.39	4.32	4.31	fSw
FTRGX	Federated Total Return Govt	IntTerm	*	*	*	0.5	-0.3	2.0	10.71	5.00	4.47	fsw
FGMNX	Fidelity GNMA	IntTerm	*	*	*	0.7	0.2	1.6	10.88	2.35	4.17	Fsw
FINPX	**Fidelity Inflation-Protected Bond**	**IntTerm**	**B**	*	*	**0.4**	**-0.1**	**0.8**	**10.93**	**6.96**	**1.27**	**Fw**
FTHRX	Fidelity Intermediate Bond	IntTerm	*	*	*	0.5	0.1	1.1	10.29	3.75	3.75	Fsw
FBNDX	Fidelity Investment Grade	IntTerm	*	*	*	0.7	0.4	1.6	7.36	4.13	3.80	Fsw
MBDFX	Managers Fremont Bond	IntTerm	*	*	*	0.5	-0.3	2.1	10.35	4.38	3.35	fsw
PTTDX	PIMCO Total Return (2%r<7d)	IntTerm	*	*	*	0.9	-0.3	1.8	10.48	4.26	3.16	FSW
PTMDX	PIMCO Total Return Mortgage (2%r<7d)	IntTerm	*	*	*	1.0	-0.1	1.7	10.57	2.92	3.20	FSW
SCSBX	Scudder Income (closed,2%r<15d)	IntTerm	*	*	*	0.7	0.3	2.4	12.66	4.16	4.65	Sw
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	0.8	0.5	2.1	9.46	2.49	4.63	fsw
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	0.7	0.1	2.2	8.95	4.06	4.17	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	*	*	*	0.6	0.6	2.7	9.77	2.94	4.53	FSW
USAIX	USAA Income	IntTerm	*	*	*	0.5	0.4	2.7	12.20	4.39	4.78	W
VFIIX	**Vanguard GNMA**	**IntTerm**	**B**	*	*	**0.9**	**1.1**	**3.0**	**10.27**	**3.13**	**4.67**	**fsw**
VIPSX	**Vanguard Inflation Protected Sec**	**IntTerm**	**B**	*	*	**0.6**	**0.2**	**2.3**	**12.40**	**6.77**	**4.19**	**fsw**
VBMFX	Vanguard Total Bond Market Index	IntTerm	*	*	*	0.7	0.1	1.9	10.03	4.25	4.48	fsw
MNTRX	Wells Fargo Adv Total Return Bond	IntTerm	*	*	*	0.8	-0.1	1.6	12.14	4.24	3.93	fSw
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	0.9	0.8	1.9	10.53	3.85	5.44	FSW
DRGBX	Dreyfus 100 Treasury L-T	LngTerm	*	*	*	0.9	-1.4	4.9	16.14	8.26	4.47	FW
FGOVX	Fidelity Government Income	LngTerm	*	*	*	0.5	-0.1	1.5	10.12	4.84	3.39	Fsw
MGFIX	Managers Bond	LngTerm	*	*	*	0.6	1.1	2.4	24.29	5.59	3.58	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	0.7	0.1	1.8	9.64	5.58	4.80	fsw
VUSTX	Vanguard L-T U.S. Treasury	LngTerm	*	*	*	0.8	-1.3	4.3	11.52	9.86	4.91	fsw
FSICX	**Fidelity Strategic Income**	**Multi**	**B**	**B**	*	**1.5**	**2.2**	**3.3**	**10.50**	**4.79**	**5.05**	**Fw**
LSBDX	Loomis Sayles Bond Instl (2%r<60d)	Multi	B	B	*	1.2	3.1	1.3	13.49	6.81	6.49	fsw
LSBRX	**Loomis Sayles Bond Retail (2%r<60d)**	**Multi**	**B**	**B**	*	**1.2**	**2.9**	**1.1**	**13.46**	**6.80**	**6.32**	**FSW**
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	1.4	1.2	2.2	11.82	4.01	4.16	fsw
DSTIX	Dreyfus Premier Short-Term Income	ShtTerm	B	*	*	0.5	0.4	1.2	10.94	1.80	4.04	FSW
FSHBX	Fidelity Short-Term Bond	ShtTerm	B	*	*	0.4	0.8	1.4	8.86	1.83	3.46	Fsw
JASBX	Janus S-T Bond	ShtTerm	B	*	*	0.3	0.6	1.1	2.87	1.47	2.88	FSW
MGIDX	Managers Int. Duration Govt	ShtTerm	*	*	*	0.7	0.1	1.5	10.50	2.48	2.89	FSW
MGSDX	Managers Short Duration Govt	ShtTerm	B	*	*	0.4	1.4	2.7	9.62	0.53	3.33	FSW
MWLDX	MetroWest Low Duration	ShtTerm	B	*	*	0.1	0.3	1.9	9.33	1.77	3.86	FSW
SWBDX	Schwab S-T Bond Mkt Index	ShtTerm	B	*	*	0.5	0.5	1.2	9.95	2.35	3.38	fS
SCSTX	Scudder Short-Term Bond (closed,2%r<15d)	ShtTerm	B	*	*	0.4	1.0	1.7	9.94	1.57	4.74	Sw
SSTBX	Strong S-T Bond	ShtTerm	B	*	*	0.4	0.8	1.6	8.54	1.82	4.05	FSW
PRWBX	T. Rowe Price S-T Bond	ShtTerm	B	*	*	0.3	0.6	1.3	4.68	1.75	3.38	fsw
VFSTX	Vanguard Short-Term Investment Grade	ShtTerm	B	*	*	0.4	0.9	1.9	10.51	1.82	3.58	fsw
VSGBX	Vanguard S-T Federal	ShtTerm	*	*	*	0.6	0.5	1.1	10.26	1.89	3.20	fsw
VFISX	Vanguard S-T Treasury	ShtTerm	B	*	*	0.4	0.6	1.3	10.33	1.90	3.04	fsw
MNSGX	WellsFargo Montgomery S Dur Govt (closed)	ShtTerm	B	*	*	0.5	0.4	1.2	9.90	1.65	3.56	fSw
BTTNX	American Century Target 2010	ZeroCpn	*	*	*	0.7	-0.7	5.1	87.95	7.52	4.33	FSW
BTTTX	American Century Target 2020	ZeroCpn	*	*	*	1.0	-1.5	7.9	57.89	15.51	4.10	FSW
BTTRX	American Century Target 2025	ZeroCpn	*	*	*	1.0	-2.4	12.2	50.78	18.19	4.54	FSW

Berwyn Income

Originally, the idea behind Berwyn Income was to create a fund to counterbalance the aggressive Berwyn Fund, one that would provide income, capital preservation, and attractive total returns. Today, the Berwyn Income fund is not like many other income or asset allocation funds. Manager Ed Killen mixes a number of different types of bonds with preferred and common stocks. He uses macroeconomic analysis and individual security evaluation to allocate assets.

Top Five Holdings & Sectors (% of Assets)

iShares GS $ InvesTop Corp	2.9	Financial Svc	21.7
Champion Enterprises 7.6%	2.0	Consumer Goods	16.8
Black Hills 6.5%	2.0	Utilities	14.6
Humana 6.3%	2.0	Healthcare	13.6
Roadway 8.3%	2.0	Indust. Materials	10.5

As of October 31, 2005

Common stocks may comprise no more than 30% of total assets; today, that asset class constitutes a quarter of the portfolio. Equities are chosen in the same style as that used by its sibling, with a couple of deviations. First, the fund tends to look in the small- and mid-cap areas, (compared to small- and micro-cap), and the securities must pay dividends. That mandate causes it to emphasize conservative businesses, such as utilities and banks. Typically, about 25 stocks end up in the portfolio.

Killen also tends to take a contrarian approach to bond investments. In the summer of 2004, the fund was positioned with about 60% of assets in junk bonds. But as their yields dropped (and prices escalated), he cut the fund's stake to about 40% of assets. Meanwhile, Killen also trimmed REIT and utility stocks last spring as investors bid up the shares. Instead, he increased the fund's exposure to convertible bonds as their prices dropped sharply. $

Berwyn Income (BERIX)
Berwyn Funds
1189 Lancaster Avenue, Berwyn, PA 19312;
(800) 992-6757 • Minimum Investment: $3,000, $1,000 IRA

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF	3.79%	3.53%	2.51%
Vanguard Treasury MMF	3.74	3.63	2.60
Amer Century Capital Presv Fund/Inv	3.47	3.41	2.40
T. Rowe Price US Treasury MF	3.46	3.37	2.29
HSBC Investor US Treas MM/Cl D	3.32	3.24	2.19
JPMorgan 100% US Treas MMF/Morgan	3.29	3.23	2.23
Citi US Treasury Reserves	3.27	3.22	2.14
DBAB Cash Reserve Treas/Inv	3.27	3.20	2.12
Merrill Lynch CMA Treas Fund RIC	3.27	3.18	2.18
Schwab US Treasury Money Fund	3.24	3.18	2.19

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	4.18%	4.11%	3.09%
Scudder MM Series Premium/AARP	4.12	3.91	2.96
MFS Money Market Fund	4.07	4.01	2.72
TIAA-CREF Money Market Fund	4.01	3.92	2.83
Scudder MM Series Prime Reserve/AARP	4.00	3.84	2.88
Vanguard Prime MMF/Retail	3.98	3.89	2.83
SSgA MMF/Cl A	3.94	3.81	2.74
AIG Money Market Fund/Cl B	3.90	3.76	2.70
TCW Galileo Money Market Fund	3.89	3.81	2.71
Wells Fargo Adv Heritage MF/Admin	3.88	3.80	2.72

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Alpine Municipal MMF/Investor	2.96%	2.99%	2.34%
Vanguard Tax-Exempt MMF	2.79	2.88	2.23
Fidelity AMT Tax-Free Money Fund	2.63	2.72	2.06
Scudder Tax-Exempt Money Fund	2.54	2.62	1.96
Amer Century T-F MMF/Inv Class	2.52	2.59	1.93
Dreyfus BASIC Muni MMF	2.52	2.57	1.93
Fidelity Municipal MMF	2.52	2.58	1.95
Scudder T-E Cash Managed Shares	2.50	2.58	1.90
T. Rowe Price Summit Muni MMF	2.50	2.54	1.91
USAA Tax Exempt MMF	2.50	2.59	1.94

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	2.75%	2.86%	2.21%
Vanguard PA Tax-Exempt MMF	2.75	2.86	2.19
Vanguard CA Tax-Exempt MMF	2.74	2.81	2.17
Vanguard NY Tax-Exempt MMF	2.74	2.84	2.18
Vanguard NJ Tax-Exempt MMF	2.68	2.79	2.17
Fidelity FL Municipal MMF	2.50	2.57	1.91
Fidelity CA Municipal MMF	2.46	2.51	1.86
Fidelity PA Municipal MMF	2.45	2.55	1.90
Fidelity AZ Municipal MMF	2.44	2.54	1.90
Fidelity NY Municipal MMF	2.44	2.52	1.87

Taxable equivalent yield = yield / (1—total effective tax bracket). Funds are ranked by 7-day yields; 7-day and 30-day yields are compound yields as of 12/13/05. Third column refers to 1-year total return. Criteria for inclusion include: top-yielding unrestricted retail funds only, with minimum initial investment <$25,000 and assets >$100 million.

Source: iMoneynet's Money Fund Report (800) 343-5413

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RS Global Natural Resources: Exposure at a Lower Risk

Andy Pilara is the first to admit that he doesn't know where oil prices are going to head in the near term. In a September post-Hurricane Katrina interview, the portfolio manager of RS Global Natural Resources stated that he had no idea where oil prices would be over the following six months. However, he added that, "I do think the price of oil, along with most commodities, will be lower than it is now over the next three years." Indeed, in the their third quarter commentary, Pilara and co-manager MacKenzie Davis state, "We remain steadfast in our belief that commodity prices will be lower in the future."

Now, *MONEYLETTER* is currently favorably disposed toward natural resource funds for the long haul. That seems to fly in the face of these expert industry observers. But not really, because Pilara, who has managed the fund since its November 1995 inception, also commented recently, "For the rest of the decade, this is the place to be." He does not see a commodity price bubble. Rather, he points out that many of the natural resources stocks that the RS fund has invested in still sell at single-digit P/E (price/earnings) multiples. And, he adds that he is finding companies that spend less than $20 a barrel to find, develop, and produce oil. So as long as the price of oil is above $30, which he believes will be true for the foreseeable future, such firms will sport attractive rates of return.

Also, Pilara notes that long-term investors should consider investing in a natural resources fund for one simple reason: supply and demand. Over time, the demand for many commodities will outstrip supply as emerging market economies continue to increase their consumption. In fact, co-manager Davis (since January 2005) made a trip to China and India in September, not only to look at individual companies, but also to get a handle on whether demand from these nations for energy, industrial metals, and other raw materials was going to continue to be robust. The answer in a nutshell: Yes. His findings: long-term demand in the nations "for energy and raw materials remains strong, and fears of supply constraints are mostly overdone."

How they invest

Pilara and Davis are true value investors. A successful candidate for the portfolio should be growing both reserves and production. It should earn returns that are above its cost of capital. Finally, the managers will not buy unless the price of the stock is less than what they think it is worth. Their process includes on-site meetings, discussions with company managements (and employees), and in-depth financial analysis. The managers will consider any size company for the portfolio, but tend to invest in more mid- and small-cap names than many of the fund's peers. Typically, the portfolio consists of between 45 and 60 stocks, and turnover is reasonable at about 100% annually.

Meanwhile, the fund also strays from traditional natural resources fare. Currently, it has less than 50% in other energy and integrated oils combined, less than the category average. Pilara and Davis instead spread their bets around a bit, investing in industrial and agricultural shares more than their typical competitor. They state that they are committed to diversifying the fund across commodities, geographies, and market capitalization. At times, this can cause the fund to lag its peers that might be making sector bets. But, over the long haul, the more diversified approach has worked well, as the portfolio's volatility has been less than its typical peer. Also, long-term results are strong. For the trailing five- and three-year periods through December 16, the fund outpaced more than 90% of its Morningstar natural resources fund peers. More recently, for the year-to-date, it is in the middle of the pack with a 41.9% return.

Top Five Holdings & Sectors (% of Assets)

Paramount Resources	4.3	Other Energy	43.1
EnCana Corp.	4.0	Materials & Processing	18.4
Compton Petroleum	3.8	Integrated Oils	4.4
Exxon Mobil	3.5	Utilities	4.4
Trilogy Energy Trust	3.4	Financial Services	0.6

As of September 30, 2005

What's up?

All of the sectors in the fund have been contributing positively to performance recently. And, some of the fund's largest positions in each of its sectors have also been top performers. The managers have held a long-term view that Canadian oil sands hold tremendous potential. In that line, top holding Paramount Resources (up 101% in the third quarter) is benefiting as the market recognizes the significant potential of its acreage positions. The number two stock, EnCana, is another Canadian firm and also the largest natural gas company in North America. It has substantial North American landholdings, is leveraged to domestic natural gas prices, and recently acquired a company with large reserves in the Rocky Mountains. $

RS Global Natural Resources (RSNRX)
RS Funds
388 Market Street, Ste. 1700, San Francisco, CA 94111
(800) 766-3863•Minimum Investment: $5,000, $1,000 IRA

MONEYLETTER® (ISSN:1526-5110) is published twice each month for $150 per year (24 issues) by PRI Financial Publishing Inc., 479 Washington St., P.O. Box 6020, Holliston, MA 01746-6020. First Class Postage paid at Holliston, MA and at additional mailing offices. POSTMASTER: send address changes to *MONEYLETTER*, 479 Washington St., P.O. Box 6020, Holliston, MA 01746-6020. President: Bruce W. Hardy. Chief Investment Officer/Chief Economist: Walter Frank. Contributing Editor: Cynthia Andrade. Publisher: Brian W. Kelly. Address all subscription and editorial inquiries to PRI Financial Publishing Inc., 479 Washington St., P.O. Box 6020, Holliston, MA 01746-6020, (800) 890-9670.