

Update on Emerging Markets

by Walter S. Frank, Chief Investment Officer

We have been recommending emerging market funds for almost a year, and our recommendation has been well-rewarded. Since our recommendation, though, we have not written much about the emerging markets (with the exception of some coverage in the year-end outlook), letting the performance speak for itself.

By sheer chance, the latest issue (January 21st) of *The Economist* contains a longish article (by *Economist* standards) and an editorial on the emerging economies. The title of the editorial, "Coming of Age," gives you a flavor of the magazine's view of the status of, and the outlook for, the emerging economies. Prompted by their work, we decided that an update on the emerging markets was in order.

Coming of Age

Most of us here in the U.S. tend to think of emerging markets and economies as relatively small—although rapidly growing—fragile entities. We view the emerging economies as persistently threatened by instability and upset. The sense of heightened risk naturally goes along with the term emerging markets.

This is not all wrong, of course. But collectively the emerging markets and economies have become much more important in the world economy than most of us imagine. While most of us concentrated on the S&P 500, the emerging world moved on.

According to estimates made by the magazine, "in 2005 the combined output of emerging (or developing) countries rose above half of the total (world output)." Not only do the emerging economies now represent a significant share

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Milestone!

MONEYLETTER Celebrates Its 600th Issue

As the Beatles once said, it's been a Long and Winding Road...

With this issue, *MONEYLETTER* celebrates its 600th issue in print, a testament to hard work, sound advice, and loyal subscribers. From its humble origins—the newsletter was launched in 1980 by money market fund expert William E. Donoghue above the general store in Holliston, Massachusetts—*MONEYLETTER* has adapted with the times to provide reliable investment advice to hundreds of thousands of individual investors. At one time a guide for savers, it now provides 10 growth-oriented portfolios for investors with differing risk profiles. Chief Economist and Chief Investment Officer Walter S. Frank has been involved in *MONEYLETTER*'s decision-making for the past 490 issues (time flies when you're having fun, right, Walter?).

We thought it might be fun to take a peek into what the investment world looked like through the eyes of *MONEYLETTER* as the milestones have passed....

Issue #100 (March, 1985): Conservative SLYC investors (that stood for Safety, Liquidity, Yield, and Catastrophe-Proofing) were 25% invested in SLYC growth funds, with Venturesome SLYC investors 60-65% invested; the 7-day average for taxable money funds was 7.91%; the feature fund was United Services Advisors' LoCap Fund.

Issue #200 (May, 1989): Conservative investors had no Domestic Stock Fund position, 50% in Bond Funds, and 50% in Money Funds, with Venturesome investors 30%, 55%, and 15% respectively; the "Donoghue Signal," an all-in or all-out strategy, said "Stop" (there's too much risk to be all in); the 7-day average yield for taxable money funds was 9.15%; and the "most aggressive investors" should consider Benham Target Maturity 2015 in anticipation of falling interest rates.

Issue #300 (July, 1993): Conservative investors were more aggressive, with 50% in Stock Funds (30 Domestic, 20 International) and 50% in Bond Funds, with Venturesome investors fully invested—55% Domestic Stock Funds, 45% International Stock Funds; the Donoghue Signal was "all-in," but was close to a switch as it converged on the 7-day average yield for taxable money funds at 2.63%; Fidelity was about to launch its Funds Network NTF program.

Issue #400 (September, 1997): Conservative investors were relatively aggressive, with 70% in Stock Funds (split evenly between Domestic and International), 10%

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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	Higher	Higher
NASDAQ	Higher	Higher
Europe	Higher	Higher
Japan (Nikkei)	Higher	Higher
Hong Kong (Hang Seng)	Higher	Higher

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of the world's output they also accounted for more than half of the world's growth last year. "Last year," writes *The Economist*, "their combined GDP grew in current dollar terms by \$1.6 trillion, more than the \$1.4 trillion increase of developed economies. And there is more to this than just China and India..."

There are a few more figures worth considering. Remember that the last emerging market crises were brought on by reserve currency difficulties (Russia, the Asian Tigers). Today they possess two-thirds of the world's foreign-exchange reserves, according to the magazine. "On the other hand," it points out, "their stockmarkets still account for only 14% of global capitalization."

We think this last point is very important for emerging market investors. There is more than one reason why the capitalization of the emerging countries' markets is low when their share of growth and output is so much larger. One reason is that investors worldwide have still not recognized how much the emerging economies have grown and matured. For us, this suggests opportunity.

Looking forward

Right now, the emerging market economies are on a roll. *The Economist* tracks 32 emerging economies weekly. Last year, all 32 grew for the second year in a row. "In every previous year since the 1970s," the magazine points out, "at least one emerging economy suffered a recession, if not a severe financial crisis."

As for growth, the emerging economies have averaged more than 6% growth over the past three years. Of course, China and India have been growing faster than that, so many of the other countries have been growing more slowly. The developed world's growth averaged 2.4%. Again the average is a bit misleading since there is the U.S. (growing faster than the developed average) and Japan (the second largest economy) not growing at all. Still the averages give us a sense of where world growth is coming from.

Building on the recent years' growth, the IMF "forecasts that in the next five years they (the emerging economies) will roll along at just under 6%, twice as fast as developed economies."

The outlook for growth in the emerging market economies is extremely favorable. But it is not as if the world has not noticed. The emerging market funds had a banner year last year. The top emerging market funds were up close to 40% last year, and that is after coming off good years in 2003 and 2004.

That raises the inevitable question of valuation. As we discussed in the year-end outlook, expectations have to be tempered after three extraordinary performance years. At the same time emerging market stocks are still selling at a noticeable discount to the S&P 500, for example. They should sell at a discount. They are inherently riskier, though considerably less risky than they have been, considering the progress the sector has made.

At the very minimum we can say that the sector is not overvalued. Given the probable growth ahead, that in a way is all we need to know. Under the circumstances a good stockpicker should be able to provide returns well above those of the domestic market.

The emerging markets are still coming of age.

Asia Roars: The Fourth Quarter Review

Last quarter could be called the quarter that belonged to Asia, at least as far as our portfolios were concerned. It was our international funds that provided performance. Of course, that should not surprise anyone. Consider: Using the Lipper categories, the best performing domestic sector (among funds) was multi-cap growth at 3.5%. Turn to the foreign markets, and Japan was up 17.6% (the best of all sectors) while Pacific ex-Japan rose 7.6%.

As for our portfolio performance results, you already know much of what you need to know. If the portfolio held Japan, it outperformed, if not the performance might not have bested the S&P over the quarter.

As Table 1 shows, the model portfolios' performances over the quarter were quite uneven. All the Fidelity family portfolios outperformed, and the Fidelity Venturesome portfolio even outperformed the Select Portfolio (which had a great year) over the quarter. These results run somewhat contrary to the yearly outcome, and tell you something about the odd fourth quarter.

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Table 1
Portfolio Performance
Fourth Quarter and Year 2005

Portfolio	(4 th Quarter)	(2005)
MONEYLETTER		
Venturesome	1.2%	17.8%
Moderate	0.0	11.0
Conservative	0.0	7.6
Fidelity		
Venturesome	4.9%	18.9%
Moderate	5.3	16.6
Conservative	2.5	8.0
Vanguard		
Venturesome	2.9%	13.4%
Moderate	2.5	9.9
Conservative	0.1	5.2
MONEYLETTER Select	4.0%	34.3%
S&P 500 (div adj)	2.1%	4.9%

The Wobbles

Both the economy and the market have been subject to the wobbles this month. For both, the trouble is that performance is not living up to expectations. We wonder whether the problem is with the expectations rather than the performance.

Profits

We all know now (after the market's big tumble on Friday, January 20th) that the profits reporting season has included some major disappointments (think Intel). There had been much talk at year-end of another year of double-digit growth of profits, and the latest estimate from the gatherers of analyst profit expectations is that we should see such growth for this quarter at least.

We have been wondering about what it is the analysts are seeing. Profit margins are already historically high, and the growth of the economy is not rapid enough to produce double-digit profit gains without a further increase in margins.

What is happening, we believe, is not that profit growth is sputtering or has run into trouble. It is simply that expectations have outrun reality. The economy is growing, and we expect profits to grow along with it. We have an economy that is growing in dollar terms roughly about 6-7%. That is about where our overall expectations should be.

What is going on now is that the profit reports are providing Wall Street with a dose of reality. After Wall Street makes peace with reality we look for further gains. U.S. stocks still provide good value.

The Fed

The latest Fed comments on the economy have had more than a touch of dovishness about them. Most revealing, in a way, were the comments by William Poole, the President of the St. Louis Fed Bank. What is revealing is that Poole, a former academic and a monetarist, is a hawk on inflation and has been hawkish on interest rates until very recently.

His latest comments, made on January 20th, reveal a very relaxed Committee member when it comes to the economy. Poole is quoted in a Bloomberg report as saying, "We're in a very balanced position. We have plenty of room to grow. I think we are very much in a stable inflation environment now and that it is going to continue."

When the subject of interest rates was broached, Poole appeared to go along with the consensus that one or two more rate increases is all we should expect. That does not surprise us. So far the January numbers suggest anything but an economy that is straining at the bit. At best the numbers have varied from good to poor. We expect the Fed is close to being done.

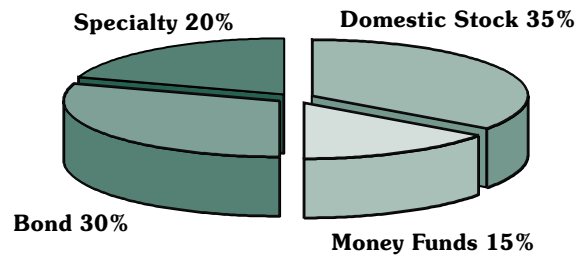
Fund changes

We will report on the recommended allocation change carried in the last issue in our next issue.

The Hotline of Tuesday, January 17th recommended the sale of Third Avenue Value in the *MONEYLETTER* Conservative Portfolio to be replaced by Fidelity Mid-Cap Stock. The Hotline of January 24, 2006 recommended the sale of T. Rowe Price New Asia in the *MONEYLETTER* Venturesome Portfolio to be replaced by Fidelity Japan. \$

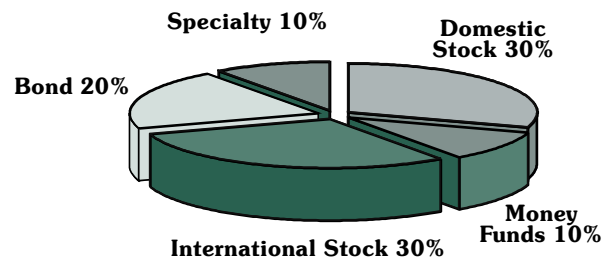
CONSERVATIVE

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



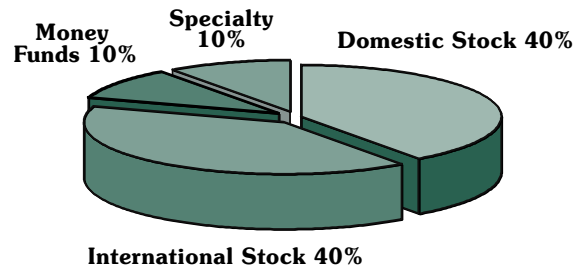
MODERATE

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



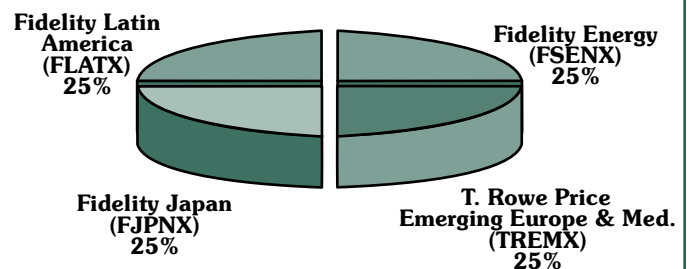
VENTURESOME

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	1/20 2006	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE	RISK		NTF/ w/f
										1 mo.	6 mo.	12 mo.	PER SHARE	Std. Dev.	Beta	
1	26	1	CGMFX	CGM Focus	SCVal	*	(B)	(B)	8.1%	15.4%	39.8%	\$36.19	37.9	1.03	sw	
2	4	2	BRAIX	Bridgeway Aggressive Investors 2	MCGro	*	B	B	7.4	13.5	33.8	17.76	18.8	1.21	fsw	
3	1	19	TWHIX	American Century Heritage	MCGro	B	B	B	4.7	16.5	30.1	14.99	15.4	0.76	FSW	
4	8	3	BRSGX	Bridgeway Small Cap Growth	ScGro	B	B	B	5.7	11.9	33.8	14.41	—	—	fsw	
5	15	21	SSMVX	Wells Fargo Adv SC Value CIZ (closed)	SC	B	B	B	5.3	14.2	26.3	31.59	18.3	0.88	FSW	
6	3	7	SSMGX	Sit Small Cap Growth (2%r<30d)	MCGro	B	B	B	4.6	12.7	30.2	33.10	21.6	1.10	FSW	
7	7	15	JORNJ	Janus Orion	MC	B	B	B	4.0	13.3	29.1	8.60	14.3	1.16	FSW	
8	5	12	MPEGX	MSI Mid Cap Growth Inst Cl	MCGro	*	B	B	3.3	14.3	26.8	25.77	22.2	1.17	w	
9	11	8	NEEGX	Needham Growth Fund (.75%r<30d)	MCGro	B	B	B	5.5	12.4	28.3	37.59	25.7	1.19	FSW	
10	27	168	RYPX	Royce Low Priced Stock (closed,1%r<180d)	SCVal	(B)	(B)	(B)	6.6	14.3	21.4	16.28	27.1	1.10	Fsw	
11	6	—	RIMSX	Rainier Small/Mid Cap Port	MCGro	*	B	B	4.9	13.2	26.2	34.57	15.7	1.34	FSW	
12	2	69	RYPX	Royce Premier (closed,1%r<180d)	SC	B	B	B	3.9	14.2	24.7	17.28	19.4	0.84	Fsw	
13	12	20	FMCSX	Fidelity Mid-Cap Stock (.75%r<30d)	MCGro	B	B	B	5.1	12.4	26.0	27.66	20.9	1.05	Fsw	
14	9	28	CLSPX	Columbia Mid Cap Growth CIZ	MCGro	B	B	B	4.4	13.0	25.4	24.75	17.7	0.86	Sw	
15	16	27	RPMGX	T. Rowe Price Mid Cap Growth	MCGro	B	B	B	4.4	12.1	24.7	55.42	22.1	1.11	fsw	
16	14	32	JSVAX	Janus Contrarian	MC	B	B	B	2.9	12.6	24.1	15.45	22.3	1.10	SW	
17	32	56	BOGLX	Bogle Small Cap Growth (closed)	SCGro	H	H	H	5.4	10.4	25.4	27.84	22.3	0.88	w	
18	10	4	BRSVX	Bridgeway Small Cap Value	ScVal	B	B	B	4.9	9.6	28.2	14.97	—	—	fsw	
19	13	165	FMLX	Fidelity New Millennium (closed)	MCGro	B	B	B	4.2	13.0	20.4	36.12	27.3	1.27	Fsw	
20	37	13	NBGNX	Neuberger Berman Genesis (closed)	SC	H	H	H	4.6	9.6	26.3	35.63	15.5	0.63	fsw	
21	39	65	TMGFX	Turner Mid Cap Growth	MCGro	*	H	H	5.4	10.5	22.4	28.81	29.3	1.45	FSW	
22	18	31	NBNGX	Sit Mid Cap Growth (2%r<30d)	MCGro	*	B	B	3.7	10.8	23.7	13.23	23.5	1.23	FSW	
23	125	142	OBEGX	Oberweis Emerging Growth (1%r<180d)	SCGro	*	S	S	7.2	10.6	18.5	28.97	33.2	1.36	FSW	
24	68	23	PRNHX	T. Rowe Price New Horizons	SCGro	H	H	H	6.0	9.0	23.5	32.89	28.3	1.30	fsw	
25	17	78	FEXPX	Fidelity Export & Multinat'l (.75%r<30d)	LC	B	B	B	2.6	11.9	21.4	21.89	20.3	1.07	Fsw	
26	22	66	FCNTX	Fidelity Contrafund	LC	B	B	B	2.4	11.5	22.6	66.34	11.4	0.54	Fsw	
27	70	—	WWNPX	Kinetics Paradigm (2%r<30d)	MC	H	H	H	4.2	8.9	26.3	21.22	11.7	0.63	FSW	
28	21	25	TGSCX	TCW Galileo Small Cap Growth	MCGro	*	H	H	4.5	10.3	21.3	18.40	37.3	1.83	FSW	
29	20	11	FLVCX	Fidelity Leveraged Co (\$10k,1.5%r<90d)	MC	*	H	H	3.5	8.8	26.1	27.10	36.3	1.39	Fw	
30	19	77	FDGRX	Fidelity Growth Company	LCGro	*	B	B	3.2	10.1	22.5	65.34	25.6	1.36	FSW	
31	64	140	RSMOX	RS MidCap Opportunities	MCGro	H	H	H	4.9	10.3	19.0	13.98	22.6	1.11	FSW	
32	36	14	NPRTX	Neuberger Berman Partners	LCVal	H	H	H	3.7	8.4	24.4	29.20	20.7	1.10	fsw	
33	48	75	PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	4.2	8.9	21.2	11.18	20.4	0.80	FSW	
34	24	71	NMANX	Neuberger Berman Manhattan	MCGro	*	H	H	3.0	9.6	21.3	8.13	23.4	1.15	f	
35	34	—	BWAFX	Brandywine Advisors	MCGro	H	H	H	2.7	8.4	24.6	10.76	13.2	0.67	FSW	
36	61	102	JAGIX	Janus Growth & Income	LCGro	H	H	H	3.1	10.1	19.8	37.16	15.1	0.87	FSW	
37	95	30	FAIRX	Fairholme Fund	MC	H	H	H	3.3	9.1	21.7	26.04	10.5	0.48	fsw	
38	35	109	FDFFX	Fidelity Independence	LCGro	H	H	H	2.9	10.7	18.3	20.28	21.4	1.11	Fsw	
39	118	106	VHCOX	Vanguard Cap Opp (closed,\$25k,1%r<1yr)	MCGro	*	H	H	5.3	8.7	19.7	34.49	25.3	1.28	fsw	
40	23	137	FFTYX	Fidelity Fifty (.75%r<30d)	LC	H	H	H	1.5	11.4	18.1	23.18	19.8	0.85	Fsw	
41	58	124	NTHFX	Northeast Investors Growth	LCGro	*	H	H	2.2	10.4	19.0	18.96	16.8	0.96	fw	
42	46	156	TWCVX	American Century Vista	MCGro	H	H	H	4.6	9.0	18.2	16.55	15.8	0.68	FSW	
43	29	24	FTGQX	Fidelity Focused Stock (.75%r<30d)	LC	*	H	H	3.3	7.4	24.2	12.25	17.2	1.00	Fw	
44	44	22	VIMSX	Vanguard Mid-Cap Index	MC	H	H	H	3.5	8.0	22.1	18.21	20.1	0.97	FSW	
45	40	232	MXIX	Marsico 21st Century (2%r<30d)	LC	H	H	H	2.7	11.0	15.6	13.24	21.1	0.95	fsw	
46	28	49	DNLDX	Dreyfus New Leaders	MCGro	H	H	H	2.2	9.1	20.9	48.01	18.6	0.90	FSW	
47	53	67	FDSCX	Fidelity Small Cap Ind. (1.5%r<90d)	SC	H	H	H	5.0	8.0	19.2	21.42	16.7	0.58	Fsw	
48	103	135	IZZYX	ICM/Isabelle Small Cap Value	SCVal	H	H	H	7.6	7.3	17.2	14.96	29.5	1.04	FSW	
49	67	79	ACBGX	USGlobal Holmes Growth (.25%r<30d)	MCGro	H	H	H	4.4	8.0	19.8	18.08	15.3	0.57	FSW	
50	100	16	JAVLX	Janus Twenty (closed)	LCGro	H	H	H	1.6	9.1	21.2	50.06	17.3	0.93	FSW	
51	158	134	TGONX	TCW Galileo Opportunity N	SC	H	H	H	7.8	6.6	18.1	14.60	22.5	0.90	FSW	
52	55	58	BERWX	Berwyn Fund (closed,1%r<180d)	SCVal	H	H	H	3.2	7.8	21.7	30.78	22.3	0.77	fsw	
53	31	37	JALQX	Janus Olympus	LCGro	*	H	H	1.4	9.3	20.4	33.08	19.1	1.04	FSW	
54	120	203	FCVSX	Fidelity Convertible Securities	Convrt	H	H	H	4.6	10.1	13.5	23.54	15.6	0.74	Fsw	
55	112	38	FFSCX	Forward Hoover Small Cap	SCGro	H	H	H	4.7	6.4	22.6	20.30	20.1	0.85	FSW	
56	47	72	KAUFJ	Federated Kaufmann Fund (0.2%)	MCGro	H	H	H	3.4	9.0	17.8	5.73	19.5	0.86	FSW	
57	41	147	SGROX	Wells Fargo Advantage Growth	LCGro	H	H	H	2.7	8.9	18.8	21.75	17.7	0.97	FSW	
58	121	174	HENLX	Hennessy Cornerstone Growth II (1%r<30d)	SCGro	H	H	H	6.4	6.5	19.2	30.55	30.9	1.19	FSW	
59	50	41	FDVLX	Fidelity Value	MCVal	H	H	H	3.3	7.5	21.2	77.97	19.0	0.89	Fsw	
60	42	—	BRWIX	Brandywine Fund	MC	H	H	H	2.3	7.7	21.6	32.02	13.7	0.69	fsw	
61	74	45	STCSX	Wells Fargo Adv Common Stock Z (closed)	MC	H	H	H	3.6	7.3	20.6	22.46	22.6	1.15	FSW	
62	75	117	OTCFX	T. Rowe Price Small Cap Stock Fund	SC	S	S	S	3.7	8.2	17.9	33.91	19.2	0.84	fsw	
63	137	98	RYPNX	Royce Opportunity (1%r<180d)	SCVal	S	S	S	5.8	7.0	17.3	12.85	30.8	1.18	fsw	
64	84	48	VISGX	Vanguard Small Cap Growth Index	SCGro	S	S	S	4.8	6.7	19.7	17.13	21.6	0.91	fsw	
65	97	157	FSLCX	Fidelity Small Cap Stock (2%r<90d)	SCGro	S	S	S	4.8	7.5	17.3	18.98	21.5	0.94	F	
66	52	59	JAENX	Janus Enterprise	MCGro	H	H	H	2.9	7.9	19.0	43.12	21.4	1.09	FSW	
67	113	123	USRLX	Undiscovered Small Cap Growth (\$10,000)	SCGro	*	H	H	7.9	5.5	17.3	10.77	44.2	1.85	fw	
68	60	52	FIDYX	AIM Dynamics Inv (closed)	MCGro	S	S	S	4.1	7.8	17.1	18.87	28.2	1.48	FSW	

Bold funds are currently held in MONEYLETTER model portfolios.
 Advice: B=Buy, H=Hold, S=Sell, (B), (H), (S) = 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	1/20 2006	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	RISK		NTF/ w/ff
										1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
69	25	29	HACAX	Harbor Capital Appreciation	LCGro	B	B	B	-0.2	8.8	21.1	32.96	19.0	1.10	Fsw	
70	71	122	VPMCX	Vanguard PRIMECAP (closed,\$25k,1%r<1yr)	LC	H	H	H	2.8	8.6	17.0	67.07	21.7	1.13	fsw	
71	81	70	VEXPX	Vanguard Explorer	SCGro	S	S	S	4.4	6.8	19.2	78.00	24.2	1.12	fsw	
72	91	96	RSSGX	RS Smaller Company Growth	SCGro	*	S	S	4.3	7.4	17.7	22.03	28.5	1.23	FSW	
73	63	73	VALLX	Value Line Leveraged Growth	LCGro	*	S	S	3.8	6.3	21.3	23.25	14.9	0.83	FSW	
74	106	112	BRSIX	Bridgeway Ultra Small Co Mkt	Sc	*	S	S	4.7	8.0	15.3	18.73	18.5	1.03	fsw	
75	105	97	PRSVX	T. Rowe Price S-C Value (closed,1%r<1yr)	SCVal	S	S	S	4.5	6.8	18.6	38.51	18.0	0.69	fsw	
76	88	57	TGANX	TCW Galileo Aggressive Growth CIN	MCGro	S	S	S	1.8	9.1	16.6	13.49	37.7	1.82	FSW	
77	166	43	ARTSX	Artisan Small Cap (closed)	SCGro	S	S	S	4.6	6.2	19.2	18.13	26.7	1.19	FSW	
78	96	143	FDEGX	Fidelity Aggressive Growth (1.5%r<90d)	MCGro	*	S	S	4.1	7.5	16.6	18.43	31.1	1.74	Fsw	
79	62	95	VALSX	Value Line Special Situations	MCGro	S	S	S	2.5	7.7	18.4	26.26	15.4	0.71	FSW	
80	57	82	MPMVX	MSI Mid Cap Value	MVal	H	H	H	1.9	8.0	18.6	26.67	23.1	1.18	fsw	
81	30	35	PFRGX	Preferred Large Cap Growth	LCGro	H	H	H	-0.2	8.4	20.6	13.84	19.0	1.10	fw	
82	80	47	VLIFF	Value Line Fund	LCGro	S	S	S	3.8	5.9	20.7	13.74	13.1	0.73	FSW	
83	93	46	VEXMX	Vanguard Extended Market Index	MC	H	S	S	3.6	6.4	19.2	35.41	21.5	1.02	fsw	
89	98	5	RSPFX	RS Partners (closed)	SC	S	S	S	3.7	6.6	17.4	33.87	20.9	0.69	FSW	
91	94	160	VGEQX	Vanguard Growth Equity	LCGro	H	H	H	2.3	7.7	16.7	10.69	22.2	1.22	fsw	
96	43	40	TAVFX	Third Avenue Value (1%r<60d)	SC	Ⓢ	Ⓢ	Ⓢ	1.0	6.5	20.0	55.30	17.2	0.79	FSW	
99	38	104	VWUSX	Vanguard U.S. Growth	LCGro	*	H	H	0.3	7.7	17.3	18.18	21.6	1.23	fsw	
127	45	9	BPTRX	Baron Partners	MCGro	*	Ⓢ	Ⓢ	1.3	5.4	17.0	18.60	28.6	1.26	FSW	
128	49	36	BARAX	Baron Asset	MCGro	Ⓢ	Ⓢ	Ⓢ	0.6	6.3	15.6	56.46	21.2	0.94	FSW	
165	196	85	VISVX	Vanguard Small-Cap Value Index	SCVal	H	S	S	3.4	2.5	15.6	15.06	22.4	0.90	fsw	

Dow Jones
NASDAQ
S&P 500

-1.3%
1.1
0.2

-0.2%
2.7
2.1

1.9%
9.9
7.3

indexes do not
include dividends

International Stock Funds

1	3	1	PRLAX	T. Rowe Price Latin America (2%r<90d)	LatinA	*	H	H	12.6%	45.7%	87.9%	\$28.04	29.7	—	fsw
2	7	6	EUROX	US Global Eastern Europe (2%r<180d)	Europe	*	B	B	17.1	49.7	68.7	45.47	26.6	—	FSW
3	6	4	SLAFX	Scudder Latin America (closed,2%r<30d)	LatinA	*	H	H	12.5	44.0	80.5	50.73	27.3	—	Sw
4	2	3	FLATX	Fidelity Latin Amer. (1.5%r<90d)	LatinA	*	H	H	10.2	43.1	78.1	34.67	29.8	—	Fs
5	8	2	TREMX	T. Rowe Price Emg Europe & Med (2%r<90d)	Europe	*	B	B	15.2	39.3	72.3	28.35	29.2	—	fw
6	10	7	FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	*	B	B	10.2	37.7	58.8	19.75	—	—	Fsw
7	11	14	DREGX	Driehaus Emerging Mkts Gr (2%r<60d)	Int'l	*	B	B	8.7	40.5	52.6	30.13	24.9	—	FSW
8	1	72	FJPNX	Fidelity Japan (1.5%r<90d)	Japan	*	B	B	0.2	44.7	42.3	17.63	17.3	—	Fsw
9	9	13	DRIDX	Driehaus Intl Discovery (2%r<60d)	Int'l	*	B	B	6.8	35.5	52.8	42.81	21.1	—	FSW
10	16	5	PRMSX	T. Rowe Price Emerging Mkts Stk	Int'l	*	B	B	9.8	30.6	53.1	27.58	18.8	—	fsw
11	18	20	JAOSX	Janus Overseas (closed,2%r<90d)	Int'l	*	Ⓢ	Ⓢ	8.8	32.0	45.6	33.82	16.5	—	FSW
12	14	—	HLEMX	Harding Loevner Emerg Mkt (2%r<90d)	Int'l	*	B	B	7.5	30.1	51.9	36.79	15.5	—	FSW
13	4	70	PRJPX	T. Rowe Price Japan (2%r<90d)	Japan	*	B	B	-1.0	36.0	38.3	11.44	14.4	—	s
14	5	71	FJSCX	Fidelity Japan Smaller Cos (1.5%r<90d)	Japan	*	B	B	1.4	33.9	37.2	16.27	28.4	—	Fsw
15	19	10	VEIEX	Vanguard Emerging Mkts Stk Index (.5%r)	Int'l	*	H	H	7.6	26.1	44.5	20.14	22.6	—	fsw
16	13	74	WPJGX	CS Warburg Pincus Japan Grth (2%r<30d)	Japan	*	B	B	2.2	34.9	29.9	7.12	22.7	—	FSW
17	15	57	FPBFX	Fidelity Pacific Basin (1.5%r<90d)	Pacific	*	B	B	3.3	29.2	34.4	25.75	14.7	—	FSW
18	17	8	AIOIX	Amer.Cent.Intl Opp. (closed,2%r<180d)	Int'l	*	H	H	5.3	24.1	41.9	10.78	20.4	—	—
19	21	33	PRIDX	T. Rowe Price Intl Disc. (2%r<90d)	Int'l	*	H	H	5.3	26.5	35.1	42.98	16.0	—	fsw
20	22	21	FISMX	Fidelity Intl Small Cap (closed,2%r<90d)	Int'l	*	H	H	7.4	24.7	35.8	28.25	—	—	Fw
21	27	16	DRFMX	Dreyfus Premier Emerging Market (1%r)	Int'l	*	H	H	7.2	23.5	37.8	22.82	21.6	—	fSw
22	23	17	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	*	H	H	7.7	24.3	33.6	20.82	—	—	SW
23	26	19	SISRX	Forward Intl Small Companies (2%r<180d)	Int'l	*	H	H	6.9	24.3	32.9	15.78	—	—	FSW
24	12	75	SJPNX	Japan Fund (Scudder) (2%r<180d)	Japan	*	Ⓢ	Ⓢ	0.0	31.6	24.2	12.80	14.8	—	FSW
25	24	11	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	H	H	5.7	21.8	37.6	21.83	21.1	—	Fsw
26	37	23	NBISX	Neuberger Berman Intl (2%r<60d)	Int'l	*	H	H	7.0	22.3	31.7	22.89	16.3	—	fSw
27	25	—	USPAX	Excelsior Pacific/Asia	Pacific	*	H	H	4.7	23.4	28.2	11.03	13.6	—	FSW
28	35	—	ACINX	Columbia Acorn Intl Z (2%r<60d)	intl	*	H	H	7.1	20.3	30.3	35.23	13.3	—	Sw
29	20	69	VPACX	Vanguard Pacific Stock Index (2%r<60d)	Pacific	*	H	H	0.9	25.3	26.0	11.31	13.7	—	fsw
30	29	24	SCOBX	Scudder Global (closed,2%r<30d)	Global	*	H	H	4.7	20.5	31.9	31.49	12.7	—	FSW
31	33	37	HAINX	Harbor International (2%r<60d)	Int'l	*	H	H	4.7	20.9	29.5	51.04	17.9	—	Fsw
32	43	36	BJBIX	Julius Baer Intl Equity A (2%r<90d)	Int'l	*	S	S	5.4	21.3	26.8	37.19	12.5	—	FS
33	28	—	PRGSX	T. Rowe Price Global Stock (2%r<90d)	Global	*	S	S	4.5	19.9	31.5	20.03	11.6	—	fsw
34	30	28	WBIGX	Wm. Blair Intl Growth N (closed,1%r<60d)	Int'l	*	S	S	4.4	19.6	29.8	25.92	14.6	—	FSW
35	40	18	SCOPX	Scudder Pacific Opp (closed,2%r<30d)	Pacific	*	H	H	5.8	17.7	29.9	16.62	19.0	—	FSW
36	31	45	FOSFX	Fidelity Overseas (1%r<30d)	Int'l	*	S	S	3.9	19.1	27.7	42.37	15.5	—	Fsw
37	61	26	FEACX	Fidelity Europe Capital App. (1%r<30d)	Europe	*	S	S	7.5	16.9	26.8	23.29	18.8	—	Fw
38	39	34	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	*	S	S	5.2	18.6	25.3	20.71	20.4	—	FSW
39	44	46	WAIGX	Wasatch Intl Growth (closed,2%r<60d)	int'l	*	S	S	5.9	18.6	24.2	20.55	—	—	FSW
40	46	39	FIGRX	Fidelity Intl Discovery (1%r<30d)	Int'l	*	S	S	4.5	18.3	26.8	32.59	15.2	—	Fsw
41	34	29	ICEUX	ICAP Euro Select Equity (2%r<30d)	int'l	*	S	S	2.4	18.7	28.1	33.73	18.0	—	fsw
42	52	15	FIEUX	Fidelity Europe (1%r<30d)	Europe	*	S	S	6.2	16.2	28.3	37.88	22.5	—	Fsw
43	47	25	VINEX	Vanguard Intl Expl (closed,\$25k,2%r<60d)	Int'l	*	S	S	4.6	17.6	26.1	18.57	16.3	—	fsw
44	32	9	PRASX	T. Rowe Price New Asia (2%r<90d)	Pacific	*	Ⓢ	Ⓢ	4.3	15.0	32.8	12.17	19.7	—	fs
45	56	—	ACFFX	Columbia Acorn Intl Select Z	intl	*	S	S	5.5	17.3	23.8	21.38	13.1	—	Sw

Bond Funds (next issue on page 6: Specialty Funds)
 1/20/2006

Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	Std. Dev.	Yield	NTF/wft
						1 mo.	6 mo.	12 mo.				
FFRHX	Fidelity Floating Rate High Inc (1%r<60d)	BnkLoan	B	*	*	0.1%	1.6%	3.6%	\$9.96	0.76	4.45%	Fw
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	*	*	*	1.2	0.2	1.3	11.02	4.16	5.18	FSW
CMHYX	Columbia High Yield CIZ (closed)	HighYld	*	*	*	0.2	0.1	2.3	8.50	3.96	6.43	FSW
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	1.0	1.6	6.0	8.43	7.07	6.12	Fsw
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	0.5	1.3	4.0	8.81	5.14	6.93	Fsw
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	0.4	0.1	2.6	9.55	4.13	6.85	FSW
NTHEX	Northeast Investors Trust	HighYld	*	*	*	1.1	1.4	3.4	7.46	3.91	8.29	fw
PHYDX	PIMCO High Yield (2%r<30d)	HighYld	*	*	*	0.8	1.1	4.6	9.78	5.15	6.69	FSW
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	0.3	1.3	3.2	7.69	4.61	6.83	FSW
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.1	1.5	2.7	8.53	1.72	4.79	FSW
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	0.1	0.6	3.0	6.92	4.45	7.58	fsw
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	0.9	0.9	1.5	6.93	5.66	7.47	FSW
VWEHX	Vanguard High Yield Corporate (1%r<1yr)	HighYld	*	B	*	0.9	1.8	3.8	6.18	4.21	7.12	fsw
FNMX	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	2.3	6.7	13.0	14.64	8.11	5.74	Fsw
PYGFEX	Payden Global Fixed Income	Int'l	*	*	*	0.6	2.0	5.1	9.31	3.31	10.85	fsw
SSTGX	Scudder Global Bond S-T (closed,2%r<30d)	Int'l	*	*	*	1.4	1.1	0.6	9.58	5.11	9.03	Sw
BGNMX	American Century Ginnie Mae	IntTerm	*	*	*	0.9	1.2	2.3	10.32	2.46	4.66	FSW
CPTNX	American Century Government Bond	IntTerm	*	*	*	0.6	0.2	1.8	10.52	3.16	3.74	FSW
ACITX	American Century Inflation Adj	IntTerm	B	*	*	1.5	2.5	3.4	11.04	6.68	5.35	FSW
SRBFX	Columbia Intermediate Bond CIZ	IntTerm	*	*	*	0.6	0.2	1.8	8.91	3.77	4.88	FSW
DODIX	Dodge & Cox Income	IntTerm	*	*	*	0.8	1.0	2.5	12.60	3.06	4.39	fsw
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	1.0	1.2	2.7	13.61	4.49	4.68	FSW
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	1.1	1.6	2.7	14.53	2.93	4.07	FSW
DSINX	Dreyfus Premier Core Bond (closed)	IntTerm	*	*	*	0.8	0.7	1.8	14.37	4.22	4.27	fSw
FTRGX	Federated Total Return Govt	IntTerm	*	*	*	0.6	0.2	1.9	10.76	4.83	4.50	fsw
FGMNX	Fidelity GNMA	IntTerm	*	*	*	0.7	0.8	2.1	10.90	2.33	4.61	Fsw
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	1.2	2.4	2.2	11.06	6.75	1.31	Fw
FTHRX	Fidelity Intermediate Bond	IntTerm	*	*	*	0.4	0.5	1.3	10.31	3.59	3.89	Fsw
FSTGX	Fidelity Intermediate Govt	IntTerm	*	*	*	0.5	0.6	1.3	10.06	3.56	3.55	Fsw
FBNDX	Fidelity Investment Grade	IntTerm	*	*	*	0.7	0.9	1.6	7.39	4.00	3.93	Fsw
MBDFX	Managers Fremont Bond	IntTerm	*	*	*	1.2	0.6	3.4	10.43	4.29	3.49	fsw
PRRDY	PIMCO Real Return (2%r<7d)	IntTerm	*	*	*	1.2	0.9	2.0	11.15	6.70	4.50	FSW
PTTDY	PIMCO Total Return (2%r<7d)	IntTerm	*	*	*	1.0	0.5	2.5	10.57	4.16	3.37	FSW
PTMDX	PIMCO Total Return Mortgage (2%r<7d)	IntTerm	*	*	*	0.8	0.4	1.8	10.64	2.91	3.38	FSW
SCSBX	Scudder Income (closed,2%r<15d)	IntTerm	*	*	*	1.1	0.9	2.8	12.79	4.06	4.82	Sw
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	0.7	0.9	2.1	9.52	2.51	4.62	fsw
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	0.6	0.4	2.1	8.99	3.97	4.17	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	*	*	*	0.8	1.5	3.0	9.81	2.88	4.59	FSW
USAIK	USAA Income	IntTerm	*	*	*	0.9	1.3	3.1	12.26	4.26	4.76	W
VALBX	Value Line U.S. Govt Sec	IntTerm	*	*	*	0.9	0.8	1.9	11.45	3.81	4.61	FSW
VFIIX	Vanguard GNMA	IntTerm	B	*	*	1.3	2.1	3.6	10.36	3.14	4.66	fsw
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	1.3	2.7	3.5	12.24	6.56	5.58	fsw
VBMFX	Vanguard Total Bond Market Index	IntTerm	*	*	*	0.7	0.7	2.0	10.09	4.16	4.47	fsw
MNTRX	Wells Fargo Adv Total Return Bond	IntTerm	*	*	*	0.6	0.2	1.6	12.19	4.13	3.95	fSw
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	1.1	1.2	2.9	10.57	3.81	5.48	FSW
DRGBX	Dreyfus 100 Treasury L-T	LngTerm	*	*	*	1.5	-0.2	4.1	16.36	8.13	4.28	FW
FGOVX	Fidelity Government Income	LngTerm	*	*	*	0.7	0.6	2.0	10.15	4.71	3.60	Fsw
KIFIX	FifthThird Bond	LngTerm	*	*	*	1.1	0.3	1.7	9.92	4.13	3.74	fw
MGFIX	Managers Bond	LngTerm	*	*	*	1.0	1.8	2.9	24.26	5.38	3.63	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	0.8	0.3	2.1	9.71	5.46	4.78	fsw
PRULX	T. Rowe Price U.S. Treas. L-T	LngTerm	*	*	*	1.5	-0.1	3.6	11.91	8.33	4.46	fsw
VUSTX	Vanguard L-T U.S. Treasury	LngTerm	*	*	*	1.6	0.1	4.0	11.58	9.69	4.83	fsw
FSICX	Fidelity Strategic Income	Multi	B	B	*	1.4	2.6	4.8	10.50	4.72	5.16	Fw
LSBDX	Loomis Sayles Bond Instl (2%r<60d)	Multi	B	B	*	2.3	4.2	6.8	13.76	6.68	6.15	fsw
LSBRX	Loomis Sayles Bond Retail (2%r<60d)	Multi	B	B	*	2.3	4.0	6.6	13.73	6.66	5.97	FSW
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	0.7	0.9	2.6	11.86	3.99	4.19	fsw
FSHBX	Fidelity Short-Term Bond	ShfTerm	B	*	*	0.2	0.7	1.7	8.87	1.71	3.51	Fsw
MGIDX	Managers Int. Duration Govt	ShfTerm	*	*	*	1.1	0.9	2.0	10.57	2.47	2.98	FSW
MGSDX	Managers Short Duration Govt	ShfTerm	B	*	*	0.4	1.5	2.7	9.63	0.51	3.33	FSW
SWBDX	Schwab S-T Bond Mkt Index	ShfTerm	B	*	*	0.2	0.6	1.3	9.96	2.23	3.48	fS
SCSTX	Scudder Short-Term Bond (closed,2%r<15d)	ShfTerm	B	*	*	0.3	1.3	2.0	9.97	1.50	4.29	Sw
SSTBX	Strong S-T Bond	ShfTerm	B	*	*	0.0	0.7	1.6	8.54	1.69	4.08	FSW
PRWBX	T. Rowe Price S-T Bond	ShfTerm	B	*	*	0.2	0.8	1.5	4.69	1.65	3.44	fsw
VFSTX	Vanguard Short-Term Investment Grade	ShfTerm	B	*	*	0.2	1.0	1.9	10.53	1.70	3.61	fsw
VSGBX	Vanguard S-T Federal	ShfTerm	*	*	*	0.2	0.7	1.4	10.27	1.83	3.26	fsw
VFISX	Vanguard S-T Treasury	ShfTerm	B	*	*	0.1	0.6	1.5	10.34	1.75	3.12	fsw
BTTNX	American Century Target 2010	ZeroCpn	*	*	*	0.9	0.4	1.7	88.59	7.26	4.34	FSW
BFTFX	American Century Target 2015	ZeroCpn	*	*	*	1.7	0.8	4.0	76.95	11.86	4.26	FSW
BITTX	American Century Target 2020	ZeroCpn	*	*	*	2.7	0.9	7.6	59.42	15.26	4.19	FSW
BITRX	American Century Target 2025	ZeroCpn	*	*	*	3.5	0.7	9.9	52.54	18.01	2.55	FSW

(continued from page 2)

The reason for the performance of the Fidelity portfolios is not hard to find. We recommended Fidelity Japan for the Fidelity Venturesome and Moderate portfolios on November 15, and between then and the end of the year that fund gained an amazing 20.3%. Of course, there is more to the portfolios than Japan. Fidelity Growth Company benefited from the return of growth after the October selloff and gained 9% over the quarter.

On the other hand, the recovery of some funds in the *MONEYLETTER* growth portfolios was simply anemic after the October shrinkage. (This appears to be correcting itself over the opening weeks of this year, but we shall see.) For the quarter, and this is a short period of time, Kinetics Paradigm provided no gain.

Portfolio funds

Looking at the best performing funds in the portfolios, there are no surprises. Well, perhaps a bit of a surprise in the ranking of the funds (see Table 2). For example, Fidelity's emerging market fund almost doubled the performance of the comparable T. Rowe Price fund. And we are not talking small numbers. Still, we need to remind you again that we are discussing a very short period of time—only three months.

Table 2
Portfolio Fund Performance
Selected Funds-4th Quarter 2005

Fidelity Japan	21.4%
Driehaus Intl Discovery	14.7
Fidelity Emerging Mkt	11.8
Vanguard Pacific Stk Indx	8.2
Vanguard Emg Mkts Stks Indx	7.1
Forward Intl Small Cos	6.6
T. Rowe Price Emg Mkts	6.6

Another minor surprise is that this was a relatively quiet quarter for one of the outstanding funds of the year, T. Rowe Price Emerging Europe and Mediterranean. We say quiet, when the fund gained 5% for the quarter. But the fund gained 59% for the year. Clearly, there was some rotation occurring last quarter by investors as they chose among favored emerging market areas.

Last quarter was simply not a quarter for domestic funds. The October selloff hurt their performance for the quarter, although some, such as Fidelity Growth Company had a vigorous recovery in the last two months of the year. In sum, it was an odd conclusion to a very good year. \$

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100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF	3.92%	3.86%	2.70%
Vanguard Treasury MMF	3.81	3.78	2.77
Amer Century Capital Presv Fund/Inv	3.62	3.54	2.57
JPMorgan 100% US Treas MMF/Morgan	3.51	3.40	2.39
Schwab US Treasury Money Fund	3.48	3.38	2.36
T. Rowe Price US Treasury MF	3.46	3.33	2.47
US Treasury MF of America/CI A	3.43	3.32	2.37
RMK Select Treas MMF/CI A	3.41	3.36	2.41
HSBC Investor US Treas MM/CI D	3.33	3.25	2.35
Merrill Lynch CMA Treas Fund RIC	3.32	3.27	2.33

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	4.39%	4.35%	3.27%
Scudder MM Series Premium/AARP	4.24	4.24	3.14
TIAA-CREF Money Market Fund	4.17	4.10	3.01
MFS Money Market Fund	4.13	4.12	2.91
Thrivent Money Market Portfolio	4.13	4.05	2.86
Scudder MM Series Prime Reserve/AARP	4.12	4.12	3.06
TCW Galileo Money Market Fund	4.11	4.07	2.90
Vanguard Prime MMF/Retail	4.10	4.09	3.01
SSgA MMF/CI A	4.08	4.04	2.92
Harbor Money Market Fund	4.05	4.02	2.91
Wells Fargo Adv Heritage MF/Admin	4.05	4.02	2.90

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Alpine Municipal MMF/Investor	2.95%	3.16%	2.46%
Vanguard Tax-Exempt MMF	2.88	3.10	2.35
Fidelity AMT Tax-Free Money Fund	2.64	2.95	2.18
Scudder Tax-Exempt Money Fund	2.63	2.84	2.09
Fidelity Municipal MMF	2.62	2.85	2.07
Dreyfus BASIC Muni MMF	2.61	2.82	2.06
Fidelity Tax Free Money Market	2.60	2.81	2.06
Amer Century T-F MMF/Inv Class	2.58	2.82	2.05
T. Rowe Price Summit Muni MMF	2.58	2.75	2.04
USAA Tax Exempt MMF	2.57	2.80	2.07

(Milestone, continued from page 1)

in Real Estate Funds, and 20% in Money Funds, while Venturesome investors remained fully invested (45% Domestic, 55% International); the Signal was "all-out" but hovering precariously close to a buy signal; the 7-day average yield for taxable money funds was 5.01%; Walter Frank asked the question, "Will This Economy Ever Slow?"; and money market funds hit the \$1 Trillion mark.

Issue #500 (November, 2001): Looking to take advantage of the developing recovery after the burst of the Bubble in 2000, Conservative investors were 70% in Stock Funds, 15% Bond Funds, and 15% Money Funds, with Venturesome investors 100% in Domestic Stock Funds; the Signal Strategy was about to be discontinued due to prolonged low interest rates, to be replaced in September 2002 by the Select Model; the 7-day average yield for taxable money funds was 2.16%; Walter Frank was preaching caution as the speed and strength of the economic recovery was "surprising"; Buffalo Small Cap and Westport Small Cap were the feature funds that issue.

As we recognize this milestone, all of us at *MONEYLETTER* would like to take this opportunity to say "Thank You" to all our subscribers. Your constant support has kept us going. It's all downhill from here! \$

SSgA Emerging Markets

As the article on page one argues, emerging markets are now a serious investor category. Because of that, we are adding another emerging market fund, SsgA Emerging Markets, to our international stock funds list.

The fund has been a steady performer in the category. In 2005, its 37.3% return outpaced more than 80% of its peers in the Morningstar diversified emerging markets category. Looking further back, the SSgA fund bested three-quarters of its peers for the trailing five years through January 18, and 85% for the trailing ten years.

You may not be familiar with SSgA, but that name indicates a very good pedigree. SSgA is the investment management arm of State Street Corporation. State Street, the fourth largest money manager in the world, has \$1.4 trillion in assets under management, and serves a broad client base comprising institutional, individual, and third party investors. How does this benefit the fund? It has a deep and experienced management team. Lead manager Brad Aham has headed the fund since 1999, and prior to that was an analyst with the firm for more than five years. Behind Aham stands a team of eight veteran professionals. This team has steered the fund on a consistent path.

Why emerging markets?

When we talk about emerging markets, some people may flash back to a number of crises that occurred in the mid- to late-1990s, culminating in Russia's default on its own Treasury bills in 1998. Some investors equate emerging markets with extreme volatility. And to be sure, these markets are more risky than established ones. However, SSgA points out that from such crises often comes positive change, which can create dynamic opportunities.

Emerging markets nations range from smaller ones such as Peru and Columbia to large ones such as China and India, and include those with higher per capita incomes such as Israel and Korea. Generally, these nations are experiencing rapid economic growth, and financial and economic changes driven by policy reforms. They may be going through political and social transformation. As these economies develop, demand related to infrastructure growth, plus consumer demand for products and services, will grow at a rate in excess of that of the developed nations, resulting a favorable investment environment.

Emerging markets still attractive

According to SSgA, in each of the past three calendar years, emerging markets have risen sharply, resulting in returns averaging 37.9% annually. However, ever since

the MSCI Emerging Market Index has been in existence, the emerging markets have never recorded four consecutive years of positive returns. Could 2006 be the year that breaks that pattern? SSgA asserts that the answer is yes—absent a major shock to the world economy. Global trade will continue to expand, and earnings growth in emerging markets is forecast at 14.3% this year, while returns on equity are also projected to rise. The firm also cites improving macroeconomic policies in emerging markets overall, along with emerging markets' growing share of the world economy, and select improvements in corporate governance as positives going forward.

Top Five Countries & Sectors (% of Assets)

Korea	23.2	Financials	18.6
Brazil	13.4	Energy	17.0
Taiwan	12.4	Information Tech.	15.6
South Africa	10.3	Telecom. Services	12.3
Russia	8.1	Industrials	9.8

As of December 31, 2005

Fund details

The management team here keeps the fund more diversified than its peers, and also manages the fund for risk. They employ a quantitative strategy that evaluates countries' economic and political climates, along with prospects for sustained economic growth. They use traditional fundamental analysis to select individual stocks for the portfolio, with particular attention to valuation—price in relation to earnings, assets, cash flows, etc. The team states that the fund is “designed to outperform in any, but not the most extreme, market environment.”

The resulting portfolio will be spread among at least ten nations, and about 250 stocks. Aham and his team generally keep the portfolio's country weightings relatively close to that of the MSCI EM Index. Turnover, at about 50% annually, is lower than its typical peer (at around 100%). The portfolio is skewed toward large-cap stocks, at nearly 80% of the portfolio. Well-known names dot the top portfolio holdings, including Samsung Electronics (South Korea), Russian oil firm Lukoil, Israeli drug company Teva Pharmaceuticals, and Hyundai Motor (South Korea). Recently, its overexposure to the energy sector has aided results. \$

SsgA Emerging Markets

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