

The Japan Effect

by Walter S. Frank, Chief Investment Officer

Some readers undoubtedly know about chaos theory, the theory that depicts how an insignificant event, such as a butterfly moving its wings in Costa Rica can set off a chain of events that lead to a major catastrophe elsewhere in the world. In a less heightened way, the Japanese Central Bank's announcement that its monetary policy was changing set off ripples that affected markets worldwide.

Setting off

What did Japan do? Japan's central bank has been working hard for some years to stimulate the economy. The bank set its short-term target interest rate at zero, and in turn flooded the Japanese banks with yen to encourage lending at extremely low rates.

The extraordinarily low rates in Japan acted like nectar to honeybees for the international financial community. A "sure thing" profit opportunity opened up: borrow from Japan and lend in high interest rate markets. A favorite—and obvious—place to lend was in emerging markets, where bond yields were high and risks "tolerable."

Within the last month, the Japanese Central Bank announced that it was finally reversing policy. The Japanese economy no longer needed the extreme measures taken, according to the bank. The first step would be to slowly drain off the large pool of funds injected into the banking system. The zero interest rate policy was to be preserved for some time.

The Japanese announcement created a reaction throughout the financial world. The fear, of course, is that borrowing in Japan would become more expensive and some of the borrowers would unwind their positions, selling bonds and repaying loans. Actually the effects on the markets so far have been quite mild, but they have occurred. For example, Leslie Norton, in this week's *Barron's* (March

20) cites Joe Lo, a Citigroup economist, to the effect that "Hong Kong shares sold off on fears the yen carry trade would reverse." ("The yen carry trade" is jargon for the process of borrowing yen and investing in higher interest rate markets.)

While the markets reactions have been relatively mild, the commentary has been anything but. From our perspective, the issue is what does the Bank's new policy imply for the emerging market stock funds?

Emerging markets

Readers might ask, "The carry trade appears to have concentrated on emerging market bonds. Why would stocks be affected?" The answer is simple. The same relationship between stocks and bonds holds in emerging markets as it does here. When interest rates rise (fall) in emerging markets, stocks fall (rise) in response.

One of the major strands in the argument for emerging market stock funds was the fact that interest rates had fallen in many emerging markets, and the stock markets had not yet caught up to the lower rates, and were accordingly cheap. This was a telling argument, in our opinion.

How much has changed? The first thing to point out is that emerging market bond yields had come down considerably. There was a sense, before the Japanese decision, that bond yields could hardly go much lower. Also, Japan had put the markets on notice that a turn in policy was coming.

Along these lines, Howard B. Sandler, Managing Director, Emerging Markets Fixed Income for TCW, was interviewed on February 22 and he believes that a more defensive approach to emerging market debt is warranted. His basic reason is that a turn in the carry trade is increasing the risks, and investors would probably have to settle for lesser returns (our words, not his). Put another way, he implied that the flow of funds from yen borrowing going to emerging market debt was going to weaken.

At the same time he rejected the suggestion that emerging market debt is overvalued. As he put it, "Emerging markets fundamentals remain strong and broad reforms have given them a resilience they didn't have before." He concluded, "None of this suggests an overvalued market. But I think the case can be made for a fully valued market."

So far the discussion has been about the emerging markets debt market. How about the Japan Effect and stocks? There is a difference. The difference is that none of this affects the strong growth rates of the emerging market economies. The fundamental reason for investing in emerging markets, their superior growth rates, continues.

At the same time, the lower interest rate push from the bond markets is disappearing. Emerging market stocks,

(continued on page 2)

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

(continued from page 1)

while remaining attractive going forward, are not going to be as attractive as they were. But who thought they would be? As we said in our year-end outlook, investor expectations have to be realistic.

Still, with Asian growth providing the best growth in the world, and with Japan adding to that growth, the emerging market stock funds should continue to provide superior, if not spectacular, returns.

The Rate Whirligig

If you have a queasy stomach then the loop-de-loop ride of Wall Street opinion on interest rates must have given you a very bad time over the past few weeks. When the employment report for February was released on October 10th, Wall Street gulped. The strong job gains inspired more than one ratcheting up of forecasts, including that of Lehman's Ethan Harris who led the way on predicting 5 ¼% as the next stop for the Fed. The consensus had looked for and still looks for 5%, and we have agreed and still agree with the consensus.

The tougher talk from some on the Street influenced the bond market and the 10-year Treasury moved up briskly, approaching 4.8%, amid talk of 5% round the corner. Of course, the stock market did not take kindly to these bond market moves.

One week later, the bond market appeared to be asking, "What me worry?" What happened? Some soothing economic numbers offset some of the earlier concerns. The Consumer Price Index came out with benign numbers. Housing indicators spoke weakness. Even the Industrial Production numbers were soft, when one looked under the hood.

The Fed chimes in

Then there was Fed speak, and once again as has been the case recently, there was no sense that the Fed was on the warpath. For example, Janet Yellen, President of the San Francisco Fed, in a speech given on March 15, summarized her view of the economy by opening with, "while we face a great deal of uncertainty, the economy appears to be approaching a highly desirable glide path."

As other Fed speakers have done lately, Mrs. Yellen made the point that interest rate policy going forward will be "quite data-dependent." The bond vigilantes, we believe, are going to interpret this phrase as requiring an instant reaction to every new indicator release. We expect the bond market will become more volatile than it has been.

On the other hand, we see the Fed as having a longer horizon. The Fed has given every indication that it is aware that monetary policy acts with a lag. In fact, Mrs. Yellen of late has referred more than once to being "sensitive" to the possibility that the Fed may overshoot.

Finally, we have heard from Mr. Bernanke. In the end, this is the view that counts the most. Chairman Bernanke spoke about monetary policy on March 20th. He gave very little away which is par for the course, when the economy is acting well. For the most part, the talk sounded like many he must have given to his economic seminars at Princeton.

But the talk was more than an academic exercise. We are not going to go through his analysis, but we interpret Mr. Bernanke as coming down on a softer view of where short-term rates will settle, at least over much of this year. At the very least, there was nothing in his talk to suggest an urgent need to rein in the economy.

The split economy

As we look at the numbers, we see an economy where forces that will be driving growth going forward will be different, and perhaps somewhat weaker, than those that have driven growth the past few years. Housing is weakening. The Fed interest rate increases certainly have something to do with that.

Mortgage rates have risen. The effect extends not only to housing but to consumer spending via home equity loans as well. The "wealth effect" coming from housing is losing its punch.

On the other side, all the signs say business, especially manufacturing, is thriving. As housing wanes, manufacturing is waxing. We do not see the two exactly balancing each other off. We believe the housing effect was stronger than the manufacturing effect will be.

This why we expect that the next stop for the Fed will be 5%. \$

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The Split-Level Economy

There is general agreement that housing is weakening. The argument is not about whether, but how much. It is also generally agreed that as fallout from the weakening of housing we should see some effect on consumer spending, as home price increases slow and mortgage refinancing costs rise.

While all the concentration is on housing, something else is happening that seems to have slipped under the radar. The manufacturing sector appears to be picking up steam after a slight pause earlier this year. Two regional Fed bank surveys of manufacturing have recently been released: New York and Philadelphia. Both were very strong, and we mean very.

We tend to focus on new orders and in New York's case, while new orders had been holding up, they rose another notch above the level of the last six months. In the case of Philadelphia, the headline number of the Survey has been weak for some months. But the headline number has picked up the last two months. It is this month's soaring new orders number that caught our eye.

Having both New York and Philadelphia showing such new order strength suggests that something is happening in the manufacturing sector. If this is the case, and we believe it is, then the economy is performing as drawn up in the year-end script. As housing weakened, the expectation (hope) was that business investment (and exports) would pick up the slack. That appears to be happening.

The markets

The U.S. stock market has recovered from its bout of the jitters caused by the bond market's reaction to the employment report. Since then the broad averages have hit multi-year highs, before retreating after Chairman Bernanke's speech. As we said in another article in this issue, we expect the bond market's volatility to increase going forward, and, of course, this volatility will be transmitted to the stock market. We are now in a data-dependent world.

Much of the new volatility will be sheer noise. As we see it, the Fed is very close to the end of its rate-raising. At the same time, if we are right about manufacturing, we should see some very good earnings coming from that sector. All in all, we remain positive about the U.S. market.

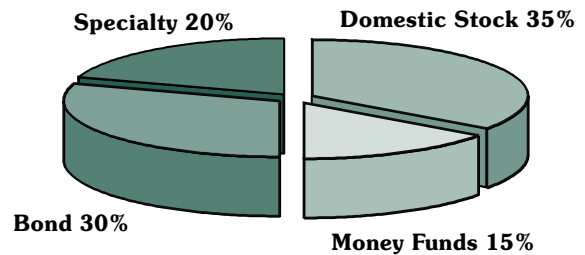
Fund changes

The Hotline of March 7th recommended a change in the domestic stock allocation for Venturesome investors. The recommendation then appeared in the March 10th issue of *MONEYLETTER*.

Here are the details of the changes in the model portfolios. **MONEYLETTER Venturesome:** Sold 13,368 shares of Charles Schwab Money Fund. Purchased 1,504 shares of Janus Orion @ \$8.89 per share. **Fidelity Venturesome:** Sold 11,783 shares of Fidelity Cash Reserves and purchased 722 shares of Fidelity Value Discovery @ \$16.33 per share. **Vanguard Venturesome:** Sold 11,437 shares of Vanguard Prime Portfolio. Purchased 227 shares of Vanguard Small Cap Growth @ \$17.60 share and 689 shares of Vanguard Growth Equity @ \$10.79 per share. \$

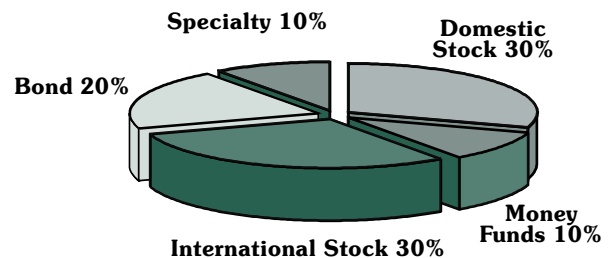
CONSERVATIVE

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



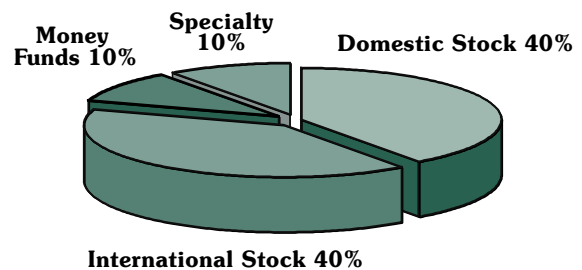
MODERATE

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



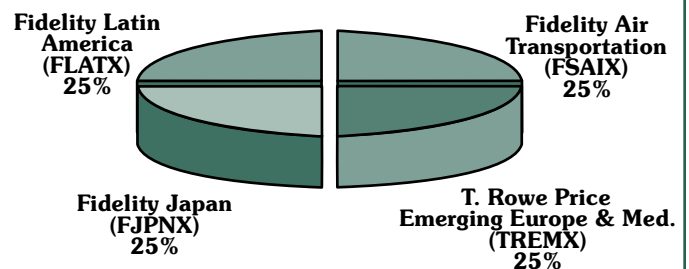
VENTURESOME

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					Fund Type	Conservative Moderate Venturesome			TOTAL RETURN			PRICE	RISK		NTF/wtf
3/20 2006	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME		1 mo.	6 mo.	12 mo.	PER SHARE	Std. Dev.	Beta				
1	1	—	HDPMX	Hodges Fund	MC	*	B	B	2.5%	24.3%	38.4%	\$25.31	19.4	1.87	FSW
2	7	74	IZZYX	ICM/Isabelle Small Cap Value	SCVal	B	B	B	6.1	22.3	28.1	16.82	29.5	1.04	FSW
3	13	220	HENLX	Hennessy Cornerstone Growth II (1%r<30d)	SCGro	H	H	H	3.9	25.0	23.7	33.30	30.9	1.19	FSW
4	27	54	FMILX	Fidelity New Millennium (closed)	MCGro	B	B	B	5.6	19.0	27.9	38.29	27.3	1.27	Fsw
5	10	108	MXXIX	Marsico 21st Century (2%r<30d)	LC	B	B	B	3.1	20.6	24.9	14.19	21.1	0.95	fsw
6	9	27	FMCSX	Fidelity Mid-Cap Stock (.75%r<30d)	MCGro	B	B	B	2.2	18.2	32.0	29.33	20.9	1.05	Fsw
7	16	57	MNSCX	WellsFargo Montgomery Small Cap (closed)	SCGro	B	B	B	3.1	17.2	30.1	13.52	23.3	1.05	fS
8	14	9	JORNJ	Janus Orion	MC	B	H	B	4.0	16.0	31.6	9.14	14.3	1.16	FSW
9	—	—	ATASX	ABN AMRO/TAMRO Small Cap N	SC	*	H	H	4.4	18.8	23.6	18.88	15.6	1.52	FSW
10	2	8	TWHIX	American Century Heritage	MCGro	B	B	B	2.2	17.3	30.5	15.78	15.4	0.76	FSW
11	46	73	BPTRX	Baron Partners	MCGro	*	(B)	(B)	4.2	17.9	25.4	20.37	28.6	1.26	FSW
12	6	—	RIMSX	Rainier Small/Mid Cap Port	MCGro	*	B	B	2.3	17.6	29.0	36.80	15.7	1.34	FSW
13	8	23	TGSCX	TCW Galileo Small Cap Growth	MCGro	*	B	B	2.1	16.3	32.1	19.79	37.3	1.83	FSW
14	15	159	RYLPX	Royce Low Priced Stock (closed,1%r<180d)	SCVal	B	B	B	3.1	18.3	25.0	17.24	27.1	1.10	Fsw
15	19	40	RYPRX	Royce Premier (closed,1%r<180d)	SC	B	B	B	3.2	17.1	27.5	18.21	19.4	0.84	Fsw
16	—	—	USRAX	Undiscovered Small Cap Grwth A LW	SCGro	*	(B)	(B)	2.2	17.7	27.0	11.34	—	—	f
17	5	14	CLSPX	Columbia Mid Cap Growth CIZ	MCGro	B	B	B	0.9	17.3	29.2	25.90	17.7	0.86	Sw
18	4	28	BOGLX	Bogle Small Cap Growth (closed)	SCGro	B	B	B	1.9	16.6	29.0	29.77	22.3	0.88	w
19	26	15	MPEGX	MSI Mid Cap Growth Inst Cl	MCGro	*	B	B	2.1	16.8	28.1	26.65	22.2	1.17	w
20	22	11	BRVFX	Bridgeway Small Cap Value	ScVal	H	H	H	3.3	15.4	27.9	15.92	—	—	fsw
21	12	5	BRSGX	Bridgeway Small Cap Growth	ScGro	B	B	B	0.7	15.5	30.0	14.62	—	—	fsw
22	20	38	TMGFX	Turner Mid Cap Growth	MCGro	*	B	B	1.4	16.9	25.2	30.05	29.3	1.45	FSW
23	18	51	PRNHX	T. Rowe Price New Horizons	SCGro	*	B	B	1.5	16.2	26.6	34.62	28.3	1.30	fsw
24	159	231	FBRVX	FBR Small Cap (closed,1%r<90d)	SCGro	H	H	H	5.5	17.1	18.1	47.79	23.4	0.82	FSW
25	50	—	OBHGX	Old Mutual Growth	MCGro	*	H	H	2.0	16.5	23.6	22.76	21.9	1.02	FSW
26	29	139	GSETX	Columbia Small Company Equity CIZ	SCGro	H	H	H	2.4	15.7	23.8	20.57	24.9	1.14	fw
27	28	4	JSVAX	Janus Contrarian	MC	B	B	B	3.5	13.6	27.4	16.45	22.3	1.10	SW
28	40	31	FDGRX	Fidelity Growth Company	LCGro	*	(B)	(B)	2.1	14.3	27.5	67.65	25.6	1.36	Fsw
29	116	71	BARAX	Baron Asset	MCGro	H	H	H	4.8	15.1	21.4	60.80	21.2	0.94	FSW
30	24	36	NMANX	Neuberger Berman Manhattan	MCGro	*	B	B	1.7	15.3	25.4	8.58	23.4	1.15	f
31	11	7	BRAIX	Bridgeway Aggressive Investors 2	MCGro	*	B	B	0.8	14.5	28.5	18.07	18.8	1.21	fsw
32	42	6	WWNPX	Kinetics Paradigm (2%r<30d)	MC	H	H	H	4.8	12.4	27.3	22.92	11.7	0.63	FSW
33	71	124	USCGX	USAA Capital Growth	MCGro	H	H	H	3.3	15.9	20.5	8.66	23.9	1.13	fsW
34	21	37	FFSCX	Forward Hoover Small Cap	SCGro	H	H	H	1.6	15.1	25.2	21.54	20.1	0.85	FSW
35	48	65	KAUFX	Federated Kaufmann Fund (0.2%)	MCGro	H	H	H	2.4	14.8	24.7	6.09	19.5	0.86	FSW
36	30	61	PRSVX	T. Rowe Price S-C Value (closed,1%r<1yr)	SCVal	H	H	H	3.1	14.4	23.4	41.32	18.0	0.69	fsw
37	17	152	RYPNX	Royce Opportunity (1%r<180d)	SCVal	H	H	H	1.3	16.2	21.7	13.82	30.8	1.18	fsw
38	75	140	JAVTX	Janus Venture (closed)	SCGro	*	H	H	4.1	14.4	21.8	64.77	29.0	1.25	FSW
39	41	63	VISGX	Vanguard Small Cap Growth Index	SCGro	H	H	H	2.2	14.5	24.0	18.15	21.6	0.91	fsw
40	63	123	VHCOX	Vanguard Cap Opp (closed,\$25k,1%r<1yr)	MCGro	*	H	H	2.1	14.7	23.4	35.92	25.3	1.28	fsw
41	25	—	OBHFX	Old Mutual Emerging Growth	SCGro	H	H	H	0.5	15.5	23.8	15.35	35.8	1.80	FSW
42	23	2	SSMGX	Sit Small Cap Growth (2%r<30d)	MCGro	H	H	H	1.6	11.9	31.0	34.08	21.6	1.10	FSW
43	47	114	OTCFX	T. Rowe Price Small Cap Stock Fund	SC	H	H	H	2.7	14.9	21.5	35.93	19.2	0.84	fsw
44	37	95	FSLCX	Fidelity Small Cap Stock (2%r<90d)	SCGro	H	H	H	2.3	14.5	22.7	20.28	21.5	0.94	Fw
45	38	106	SGROX	Wells Fargo Advantage Growth	LCGro	H	H	H	1.0	15.1	22.8	22.53	17.7	0.97	FSW
46	51	90	VEXPX	Vanguard Explorer (closed)	SCGro	H	H	H	2.1	14.6	22.3	82.12	24.2	1.12	fsw
47	107	19	LMOPX	Legg Mason Opportunity Trust (1%r<1yr)	MC	*	H	H	3.7	12.5	24.9	18.07	35.1	1.48	—
48	49	127	FIGEX	INVESCO Small Company Growth	SCGro	*	H	H	1.9	14.1	23.7	14.73	24.2	1.15	FSW
49	3	16	NEEGX	Needham Growth Fund (.75%r<30d)	SCGro	(H)	(H)	(H)	-0.9	13.8	28.3	38.74	25.7	1.19	FSW
50	33	35	RPMGX	T. Rowe Price Mid Cap Growth	MCGro	H	H	H	1.4	13.5	25.3	57.12	22.1	1.11	fsw
51	39	96	PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	2.3	14.1	22.3	11.74	20.4	0.80	Fsw
52	31	207	TGONX	TCW Galileo Opportunity N	SC	H	H	H	0.9	15.4	20.5	15.32	22.5	0.90	FSW
53	62	62	VALSX	Value Line Special Situations	MCGro	H	H	H	2.7	13.7	21.5	27.79	15.4	0.71	FSW
54	82	66	BUFMX	Buffalo Mid Cap	MCGro	*	H	H	2.3	13.2	22.5	15.28	17.6	1.34	FSW
55	78	70	FFTYX	Fidelity Fifty (.75%r<30d)	LC	H	H	H	2.0	13.5	21.7	24.02	19.8	0.85	Fsw
56	76	82	FDFFX	Fidelity Independence	LCGro	H	H	H	2.1	13.4	21.1	21.03	21.4	1.11	Fsw
57	103	52	JAOLX	Janus Olympus	LCGro	H	H	H	2.6	11.8	23.8	34.15	19.1	1.04	FSW
58	67	59	JAENX	Janus Enterprise	MCGro	H	H	H	2.1	12.9	21.7	44.96	21.4	1.09	FSW
59	93	154	VPMCX	Vanguard PRIMECAP (closed,\$25k,1%r<1yr)	LC	H	H	H	2.1	13.5	19.9	70.01	21.7	1.13	fsw
60	61	76	NAESX	Vanguard SmallCap Index	SC	H	H	H	2.1	12.8	21.3	31.36	23.2	1.01	fsw
61	90	84	MPMVX	MSI Mid Cap Value	MCVal	H	H	H	3.1	12.6	20.1	28.24	23.1	1.18	fsw
62	58	46	ARTSX	Artisan Small Cap (closed)	SCGro	H	H	H	1.1	12.4	22.9	19.02	26.7	1.19	FSW
63	73	229	VCVFX	Vanguard Convertible Securities (closed)	Convrt	H	H	H	2.1	13.6	18.2	14.44	11.6	0.51	fsw
64	54	86	FIDYX	AIM Dynamics Inv (closed)	MCGro	H	H	H	1.3	12.8	21.3	19.80	28.2	1.48	FSW
65	32	—	FVDFX	Fidelity Value Discovery	MC	H	H	H	0.5	12.8	22.6	16.64	11.7	1.18	F
66	96	176	BSCFX	Baron Small Cap (closed)	SCGro	S	S	S	2.1	14.2	16.7	25.27	21.5	0.79	FSW
67	35	94	BRSIX	Bridgeway Ultra Small Co Mkt	Sc	*	S	S	0.4	12.4	23.5	19.59	18.5	1.03	fsw
68	99	192	CBMDX	C&B Mid Cap Value	MCVal	S	S	S	2.4	13.7	17.1	21.70	19.5	0.83	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	3/20 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/wff
										1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
69	251	265	VWEGX	Van Wagoner Emerging Growth (closed)	SCGro	*	S	S	7.3	14.6	7.5	4.88	55.0	2.49	FSW	
70	135	170	FDSVX	Fidelity Discovery	LC	S	S	S	3.0	12.2	19.2	12.31	16.1	0.89	Fsw	
71	100	132	WBG SX	William Blair Growth (1%r<60d)	LCGro	S	S	S	2.1	12.5	19.6	11.95	19.5	1.09	sW	
72	89	103	VGEQX	Vanguard Growth Equity	LCGro	*	H	H	1.3	12.4	21.0	11.07	22.2	1.22	fsw	
73	57	138	LSCRX	Loomis Sayles Small Cap Value Ret	SC	S	S	S	1.8	12.9	18.7	27.62	17.2	0.80	FSW	
74	114	196	BUFSX	Buffalo Small Cap (closed)	SCGro	*	S	S	2.5	12.4	18.8	27.95	31.2	1.25	SW	
75	117	255	MERDX	Meridian Fund	MCGro	S	S	S	2.2	14.0	15.1	39.66	23.1	0.95	fw	
76	59	10	NBNGX	Sit Mid Cap Growth (2%r<30d)	MCGro	*	(S)	(S)	0.5	11.0	25.1	13.35	23.5	1.23	FSW	
77	74	58	VEXMX	Vanguard Extended Market Index	MC	H	S	S	1.6	11.7	21.5	36.79	21.5	1.02	fsw	
78	85	129	ARTMX	Artisan Midcap (closed)	MCGro	S	S	S	1.6	12.6	19.2	32.84	23.1	1.17	FSW	
79	36	68	RSMOX	RS MidCap Opportunities	MCGro	(S)	(S)	(S)	0.5	12.3	21.1	14.42	22.6	1.11	FSW	
80	83	39	VIMSX	Vanguard Mid-Cap Index	MC	H	H	H	1.6	11.6	21.0	18.74	20.1	0.97	fsw	
81	166	122	SAOPX	Salomon Brothers Opportunity	MCVal	S	S	S	4.1	11.4	17.6	54.79	13.0	0.67	sw	
82	147	83	FOCPX	Fidelity OTC Portfolio	LCGro	*	S	S	1.8	11.1	21.3	39.53	28.0	1.31	Fsw	
83	77	150	STCSX	Wells Fargo Adv Common Stock Z (closed)	MC	H	S	S	1.5	12.2	18.5	23.20	22.6	1.15	FSW	
84	79	107	LSGIX	Loomis Sayles Value	LCVal	H	H	H	2.0	11.3	19.8	19.66	16.4	0.89	fsw	
85	66	109	CRMSX	CRM Small Cap Value Inv (closed)	SCVal	S	S	S	0.6	12.6	18.5	27.01	23.8	0.93	FSW	
86	87	118	WMCVX	Wasatch Small Cap Value (closed,2%r<60d)	SCVal	S	S	S	1.5	11.6	19.6	5.43	26.6	0.96	FSW	
87	55	49	VLIFX	Value Line Fund	LCGro	S	S	S	0.7	11.6	20.5	14.17	13.1	0.73	FSW	
88	156	244	BGRFX	Baron Growth (closed)	SCGro	S	S	S	3.7	12.6	13.4	49.80	18.4	0.72	FSW	
93	94	97	VISVX	Vanguard Small-Cap Value Index	SCVal	H	S	S	2.0	11.1	18.6	15.93	22.4	0.90	fsw	
115	91	47	FCNTX	Fidelity Contrafund	LC	H	H	H	1.1	10.1	19.8	66.15	11.4	0.54	Fsw	

Dow Jones
NASDAQ
S&P 500

1.4%
1.4
1.4

7.6%
8.6
6.9

6.1%
15.3
9.7

indexes do not
include dividends

International Stock Funds

1	2	3	FLATX	Fidelity Latin Amer. (1.5%r<90d)	LatinA	*	H	H	0.9%	34.3%	75.6%	\$38.07	29.8	—	Fs
2	1	1	PRLAX	T. Rowe Price Latin America (2%r<90d)	LatinA	*	H	H	-0.5	31.9	78.9	30.04	29.7	—	fsw
3	3	2	SLAFX	DWS Latin Amer Equity S (closed,2%r<30d)	LatinA	*	H	H	0.4	31.2	74.2	54.43	27.3	—	Sw
4	6	9	DREGX	Driehaus Emerging Mkts Gr (2%r<60d)	Int'l	*	B	B	2.2	31.9	53.2	32.27	24.9	—	FSW
5	8	12	JAOSX	Janus Overseas (closed,2%r<90d)	Int'l	*	B	B	5.9	30.8	49.1	37.17	16.5	—	FSW
6	7	8	FEMIX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	*	B	B	1.3	30.5	54.1	20.83	—	—	Fsw
7	12	13	DRIDX	Driehaus Intl Discovery (2%r<60d)	Int'l	*	B	B	5.8	26.3	46.9	44.98	21.1	—	FSW
8	4	5	EUROX	US Global Eastern Europe (2%r<180d)	Europe	*	B	B	-0.8	23.4	60.1	46.41	26.6	—	FSW
9	15	15	FJPNX	Fidelity Japan (1.5%r<90d)	Japan	*	B	B	7.6	26.2	39.5	18.22	17.3	—	Fw
10	5	4	TREMX	T. Rowe Price Emg Europe & Med (2%r<90d)	Europe	*	B	B	-2.0	21.6	58.0	28.40	29.2	—	fw
11	9	6	HLEMX	Harding Loevner Emerg Mkt (2%r<90d)	Int'l	*	B	B	0.8	21.6	48.6	38.40	15.5	—	FSW
12	20	18	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	*	B	B	6.4	23.7	34.6	22.51	—	—	SW
13	18	10	AIOIX	Amer.Cent.Intl Opp. (closed,2%r<180d)	Int'l	*	H	H	5.9	20.4	40.4	11.28	20.4	—	—
14	33	47	WPJGX	CS Warburg Pincus Japan Grth (2%r<30d)	Japan	*	H	H	7.2	23.0	31.1	7.33	22.7	—	FSW
15	10	7	PRMSX	T. Rowe Price Emerging Mkts Stk	Int'l	*	B	B	0.0	21.0	46.4	28.41	18.8	—	fsw
16	28	21	FPBFX	Fidelity Pacific Basin (1.5%r<90d)	Pacific	*	H	H	5.8	21.5	33.7	26.88	14.7	—	Fsw
17	30	17	PRJPX	T. Rowe Price Japan (2%r<90d)	Japan	*	H	H	6.3	20.8	34.3	11.64	14.4	—	s
18	11	11	VEIEI	Vanguard Emerging Mkts Stk Index (.5%r)	Int'l	*	B	B	0.6	21.6	40.3	21.12	22.6	—	fsw
19	—	—	ICSEX	ICON Europe	Europe	*	H	H	5.6	21.6	31.2	17.84	15.5	—	FSW
20	17	25	SCOBX	DWS Global Thematic S (closed,2%r<30d)	Global	*	H	H	3.9	20.9	35.1	34.17	12.7	—	FSW
21	16	19	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	B	B	2.1	21.7	35.3	22.97	21.1	—	Fsw
22	27	22	PRIDX	T. Rowe Price Intl Disc. (2%r<90d)	Int'l	*	H	H	6.6	19.7	33.6	45.81	16.0	—	fsw
23	19	34	HAINX	Harbor International (2%r<60d)	Int'l	*	H	H	4.7	21.4	31.2	55.42	17.9	—	Fsw
24	22	29	ACINX	Columbia Acorn Intl Z (2%r<60d)	intl	*	H	H	5.5	20.3	30.8	38.15	13.3	—	Sw
25	23	38	SCOPX	DWS Pacific Opp Eq. S (closed,2%r<30d)	Pacific	*	H	H	2.8	20.5	32.2	17.72	19.0	—	FSW
26	21	27	PISR X	Forward Intl Small Companies (2%r<180d)	Int'l	*	H	H	5.1	19.7	30.5	16.87	—	—	FSW
27	39	32	VINEX	Vanguard Intl Expl (closed,\$25k,2%r<60d)	Int'l	*	H	H	6.5	19.2	29.1	20.27	16.3	—	fsw
28	13	—	SSEM X	SSGA Emerging Markets	int'l	*	(H)	(H)	0.7	18.4	38.5	21.27	16.6	—	FW
29	14	14	DRFMX	Dreyfus Premier Emerging Market (1%r)	Int'l	*	(H)	(H)	0.9	19.2	36.1	23.90	21.6	—	fsw
30	67	40	SPJNX	Japan Fund (Scudder) (2%r<180d)	Japan	*	H	H	6.8	19.9	23.7	13.06	14.8	—	FSW
31	36	20	FISMX	Fidelity Intl Small Cap (closed,2%r<90d)	Int'l	*	H	H	6.5	17.6	29.2	29.80	—	—	Fw
32	45	61	SCGEX	DWS Europe Equity S (closed,2%r<30d)	Europe	*	H	H	6.2	19.3	25.3	34.59	16.8	—	FSW
33	25	43	WAIGX	Wasatch Intl Growth (closed,2%r<60d)	int'l	*	H	H	3.8	18.8	29.3	22.01	—	—	FSW
34	24	—	PRGSX	T. Rowe Price Global Stock (2%r<90d)	Global	*	H	H	2.4	18.0	33.4	20.75	11.6	—	fsw
35	41	60	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	*	H	H	6.0	18.6	26.0	22.37	20.4	—	FSW
36	31	53	FECA X	Fidelity Europe Capital App. (1%r<30d)	Europe	*	S	S	5.1	18.6	27.1	25.31	18.8	—	Fw
37	29	30	WBI GX	Wm. Blair Intl Growth N (closed,1%r<60d)	Int'l	*	H	H	4.2	17.9	29.8	27.55	14.6	—	FSW
38	40	26	VPACX	Vanguard Pacific Stock Index (2%r<60d)	Pacific	*	H	H	5.9	17.9	26.7	11.92	13.7	—	fsw
39	32	62	QFVOX	Quant Foreign Value (1%r<30d)	Int'l	*	S	S	5.5	18.9	23.7	20.02	19.9	—	FSW
40	35	44	VTRIX	Vanguard International Value (2%r<60d)	Int'l	*	H	H	4.5	18.4	26.6	38.61	16.8	—	fsw
41	73	55	FJSCX	Fidelity Japan SC (closed,1.5%r<90d)	Japan	*	H	H	5.6	17.4	26.5	15.58	28.4	—	Fsw
42	54	74	ARTKX	Artisan Intl Value (2%r<90d)	Int'l	*	S	S	5.8	18.7	21.5	25.13	—	—	FSW
43	26	28	BJBIX	Julius Baer Intl Equity A (2%r<90d)	Int'l	*	S	S	3.7	17.1	28.3	39.95	12.5	—	FS
44	51	48	FOSFX	Fidelity Overseas (1%r<30d)	Int'l	*	S	S	4.5	17.4	25.5	44.32	15.5	—	Fsw
45	48	46	ARTIX	Artisan International (2%r<90d)	Int'l	*	S	S	4.5	17.5	24.4	27.66	16.4	—	FSW

Bond Funds (next issue on page 6: Specialty Funds)
 3/20/2006

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	*	*	0.4%	1.4%	3.3%	\$9.98	0.77	4.69%	Fw
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	*	*	*	1.5	3.4	4.6	11.14	4.19	5.05	FSW
CMHYX	Columbia High Yield CIZ (closed)	HighYld	*	*	*	0.2	1.1	2.8	8.48	3.96	6.43	FSW
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	1.0	2.8	5.4	8.52	6.86	6.06	Fsw
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	0.6	2.1	4.4	8.87	5.04	6.87	Fsw
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	0.6	1.9	3.5	9.60	4.13	6.86	FSW
NTHSX	Northeast Investors Trust	HighYld	*	*	*	0.9	4.7	5.2	7.55	3.84	8.21	fw
PHYDX	PIMCO High Yield (2%r<30d)	HighYld	*	*	*	0.4	2.4	5.0	9.82	5.06	6.64	FSW
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	0.4	2.8	3.9	7.73	4.55	7.06	FSW
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.3	1.6	3.3	8.53	1.68	4.93	FSW
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	0.5	1.3	3.4	6.93	4.42	7.56	fsw
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	0.7	2.6	2.8	6.97	5.66	7.29	FSW
VWEHX	Vanguard High Yield Corporate (1%r<1yr)	HighYld	*	B	*	0.4	2.7	4.6	6.18	4.17	7.03	fsw
FNMIK	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	0.3	5.5	14.2	14.81	8.04	5.62	Fsw
PYGFIX	Payden Global Fixed Income	Int'l	*	*	*	-0.7	-0.1	4.8	9.16	3.28	11.02	fsw
BGNMX	American Century Ginnie Mae	IntTerm	*	*	*	-0.1	0.3	2.4	10.18	2.45	4.74	FSW
CPTNX	American Century Government Bond	IntTerm	*	*	*	-0.1	-0.2	2.2	10.41	3.09	3.94	FSW
ACITX	American Century Inflation Adj	IntTerm	B	*	*	-0.9	-0.6	2.0	10.87	6.45	5.18	FSW
SRINX	Columbia Income CIZ	IntTerm	*	*	*	-0.1	-0.5	1.7	9.70	4.24	5.46	Fsw
SRBFX	Columbia Intermediate Bond CIZ	IntTerm	*	*	*	-0.1	-0.3	1.9	8.81	3.73	4.87	FSW
DODIX	Dodge & Cox Income	IntTerm	*	*	*	0.2	0.9	2.7	12.61	3.04	4.37	fsw
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	0.0	0.4	3.1	13.45	4.41	4.70	FSW
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	0.0	0.8	2.8	14.38	2.92	4.01	FSW
DSINX	Dreyfus Premier Core Bond (closed)	IntTerm	*	*	*	0.0	-0.1	2.6	14.23	4.17	4.38	fSw
SCSBX	DWS Core Plus Income S (closed,2%r<15d)	IntTerm	*	*	*	0.0	0.4	3.2	12.66	4.00	4.83	Sw
FTRGX	Federated Total Return Govt	IntTerm	*	*	*	0.0	-0.6	2.1	10.62	4.75	4.58	fsw
FGMNX	Fidelity GNMA	IntTerm	*	*	*	0.0	-0.1	1.9	10.78	2.33	4.74	Fsw
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	-0.9	-1.0	0.8	10.85	6.52	1.38	Fw
FTHRX	Fidelity Intermediate Bond	IntTerm	*	*	*	0.2	-0.5	1.6	10.23	3.59	3.89	Fsw
FBNDX	Fidelity Investment Grade	IntTerm	*	*	*	0.0	0.0	1.9	7.33	3.95	4.01	Fsw
MBDFX	Managers Fremont Bond	IntTerm	*	*	*	0.1	0.1	2.9	10.32	4.23	3.84	fsw
PTTDX	PIMCO Total Return (2%r<7d)	IntTerm	*	*	*	0.0	-0.5	2.4	10.44	4.12	3.66	FSW
PTMDX	PIMCO Total Return Mortgage (2%r<7d)	IntTerm	*	*	*	0.2	0.0	2.2	10.56	2.90	3.58	FSW
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	0.0	0.3	2.3	9.41	2.49	4.70	fsw
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	-0.1	-0.4	2.3	8.89	3.91	4.22	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	*	*	*	0.1	0.7	3.7	9.72	2.88	4.67	FSW
USAIX	USAA Income	IntTerm	*	*	*	0.0	0.5	3.3	12.13	4.22	5.14	W
VALBX	Value Line U.S. Govt Sec	IntTerm	*	*	*	0.1	0.2	2.4	11.41	3.74	4.60	FSW
VFIX	Vanguard GNMA	IntTerm	B	*	*	-0.1	1.3	3.7	10.23	3.13	4.73	fsw
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	-0.7	-0.8	2.1	12.05	6.30	5.58	fsw
VBMFX	Vanguard Total Bond Market Index	IntTerm	*	*	*	0.0	0.0	2.7	9.97	4.11	4.53	fsw
MNTRX	Wells Fargo Adv Total Return Bond	IntTerm	*	*	*	0.0	-0.4	2.0	12.06	4.08	4.04	fSw
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	0.1	1.0	3.3	10.48	3.80	5.52	FSW
FGOVX	Fidelity Government Income	LngTerm	*	*	*	0.0	-0.6	2.0	10.04	4.63	3.73	Fsw
KIFIX	FifthThird Bond	LngTerm	*	*	*	0.2	-0.1	2.1	9.81	4.06	3.89	fw
MGFIX	Managers Bond	LngTerm	*	*	*	-0.1	1.0	3.0	24.11	5.34	3.66	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	-0.2	-0.1	2.5	9.60	5.39	4.83	fsw
FSICX	Fidelity Strategic Income	Multi	B	B	*	0.5	1.9	4.2	10.48	4.68	5.19	Fw
JAFIX	Janus Flexible Bond	Multi	*	*	*	-0.1	-0.4	1.7	9.39	4.09	4.30	FSW
LSBDX	Loomis Sayles Bond Instl (2%r<60d)	Multi	B	B	*	0.3	3.6	7.0	13.97	6.56	5.95	fsw
LSBRX	Loomis Sayles Bond Retail (2%r<60d)	Multi	B	B	*	0.2	3.4	6.7	13.93	6.54	5.78	FSW
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	0.0	1.3	3.0	11.89	3.99	4.19	fsw
DSTIX	Dreyfus Premier Short-Term Income	ShfTerm	B	*	*	0.2	0.1	1.7	10.88	1.73	4.13	FSW
SCSTX	DWS Short-Term Bond S (closed,2%r<15d)	ShfTerm	B	*	*	0.4	1.3	2.8	9.95	1.48	4.29	Sw
FSGVX	Federated U.S. Govt Sec. 1-3	ShfTerm	B	*	*	0.3	0.3	1.4	10.40	1.07	3.51	fSw
FSHBX	Fidelity Short-Term Bond	ShfTerm	B	*	*	0.4	0.4	2.0	8.85	1.66	3.68	Fsw
JASBX	Janus S-T Bond	ShfTerm	B	*	*	0.2	0.3	1.7	2.87	1.33	2.97	FSW
MGIDX	Managers Int. Duration Govt	ShfTerm	*	*	*	0.2	0.8	2.8	10.49	2.46	3.41	FSW
MGSDX	Managers Short Duration Govt	ShfTerm	B	*	*	0.3	1.7	3.0	9.63	0.51	3.44	FSW
MWLDX	MetroWest Low Duration	ShfTerm	B	*	*	0.5	0.7	1.8	9.34	1.76	3.93	FSW
PTLCX	PIMCO Low Duration (2%r<7d)	ShfTerm	B	*	*	0.3	-0.1	1.3	9.96	1.72	2.64	fw
SWBDX	Schwab S-T Bond Mkt Index	ShfTerm	B	*	*	0.3	0.2	1.9	9.91	2.19	3.67	fS
SSTBX	Strong S-T Bond	ShfTerm	B	*	*	0.3	0.6	2.1	8.51	1.66	4.18	FSW
PRWBX	T. Rowe Price S-T Bond	ShfTerm	B	*	*	0.3	0.3	2.0	4.67	1.59	3.55	fsw
VFSTX	Vanguard Short-Term Investment Grade	ShfTerm	B	*	*	0.3	0.6	2.5	10.49	1.68	3.71	fsw
VSGBX	Vanguard S-T Federal	ShfTerm	*	*	*	0.3	0.4	2.0	10.23	1.80	3.39	fsw
VFISX	Vanguard S-T Treasury	ShfTerm	B	*	*	0.3	0.3	2.1	10.29	1.72	3.31	fsw
MNSGX	WellsFargo Montgomery S Dur Govt (closed)	ShfTerm	B	*	*	0.4	0.4	1.7	9.87	1.57	3.65	fSw
BTINX	American Century Target 2010	ZeroCpn	*	*	*	0.2	-0.6	2.3	87.94	7.06	4.36	FSW
BTFTX	American Century Target 2015	ZeroCpn	*	*	*	-0.8	-1.1	4.3	75.38	11.64	4.29	FSW

Scudder Changes Name

In an effort to align their U.S. mutual fund brand with their other brands in Europe and Asia, Deutsche Bank has changed the name of Scudder Investments to DWS Scudder.

In addition to the overall name change to DWS Scudder, several of the funds in the *MONEYLETTER* database have changed names to better reflect their investment objective:

- Scudder Global Fund is now known as **DWS Global Thematic Fund (SCOBX)**
- Scudder Global Discovery Fund is now **DWS Global Opportunities Fund (SGSCX)**
- Scudder Greater Europe Fund is now **DWS Europe Equity Fund (SCGEX)**
- Scudder Latin American Fund is now **DWS Latin America Equity Fund (SLAFX)**
- Scudder Pacific Opportunities Fund is now **DWS Pacific Opportunities Equity Fund (SCOPX)**
- Scudder Income Fund was renamed **DWS Core Plus Income Fund (SCSBX)**

For more information on DWS Scudder Funds, call (800) 621-1148.

In other fund news:

- JP Morgan has changed the format of **Undiscovered Managers Small Cap Growth**. The ticker we have been tracking—USRLX—is now an institutional tranche with a \$3 million minimum. We have replaced it with USRAX, which is a Class A tranche that has a \$1,000 minimum. Be sure to ask for the “load-waiver” which will allow you to purchase the fund without a 5.25% front-end load. You can purchase the fund directly from JP Morgan at (800) 480-4111 or at Fidelity FundsNetwork at (800) FIDELITY.
- TD Waterhouse and Ameritrade have joined together and, effective April 21, 2006 their new name will be **TD Ameritrade**. In our issue of the same date, we will replace the “W or w” in our NTF/wtf column with “A or a.” For more information call (800) TDWATERHOUSE.
- Vanguard closed two popular mutual funds recently to new investors to “protect shareholders”: **Vanguard Explorer Fund (VEXPX, \$25,000 annual investment for current shareholders)** and **Vanguard Precious Metals and Mining (VGPMX)**. That brings the number of closed funds at Vanguard to six. In addition to the two above, (Vanguard) PRIMECAP, Health Care, Capital Opportunity, and International Explorer are closed. Vanguard also announced that they would be launching a Strategic Small-Cap Equity Fund sometime this quarter, pending SEC review. For more information, call Vanguard (800) 662-7447.
- Fidelity recently closed its Japan Smaller Companies Fund to new investors. For more information, call Fidelity (800) FIDELITY. \$

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	4.21%	4.13%	3.09%
T. Rowe Price US Treasury MF	3.95	3.84	2.78
Amer Century Capital Presv Fund/Inv	3.93	3.86	2.89
JPMorgan 100% US Treas MMF/Morgan	3.84	3.76	2.73
Schwab US Treasury Money Fund	3.83	3.73	2.69
HSBC Investor US Treas MM/CI D	3.81	3.70	2.65
US Treasury MF of America/CI A	3.80	3.70	2.70
Dreyfus 100% US Treas MMF	3.77	3.62	2.60
RMK Select Treas MMF/CI A	3.77	3.72	2.73
Citi US Treasury Reserves	3.75	3.65	2.62

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
DWS MM Series Premium/AARP	4.51%	4.44%	3.47%
TIAA-CREF Money Market Fund	4.44	4.40	3.36
Vanguard Prime MMF/Retail	4.42	4.38	3.35
DWS MM Series Prime Reserve/AARP	4.40	4.35	3.38
Harbor Money Market Fund	4.37	4.35	3.26
MFS Money Market Fund	4.37	4.30	3.27
PayPal Money Market Fund	4.35	4.48	3.60
TCW Galileo Money Market Fund	4.32	4.30	3.25
Marshall MMF/Investor Class	4.30	4.27	3.25
SSgA MMF/CI A	4.30	4.28	3.27

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Alpine Municipal MMF/Investor	3.08%	3.13%	2.65%
Vanguard Tax-Exempt MMF	2.98	3.03	2.55
Fidelity AMT Tax-Free Money Fund	2.82	2.86	2.38
Fidelity Municipal MMF	2.76	2.78	2.28
DWS Tax-Exempt Money Fund	2.73	2.78	2.30
Amer Century T-F MMF/Inv Class	2.71	2.76	2.26
Fidelity Tax Free Money Market	2.71	2.77	2.27
T-E Portfolio/Managed Shares	2.69	2.73	2.22
Dreyfus BASIC Muni MMF	2.68	2.75	2.26
T. Rowe Price Summit Muni MMF	2.66	2.71	2.24
Tax-Exempt MF of America/CI A	2.66	2.65	2.15

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard NY Tax-Exempt MMF	2.96%	3.00%	2.50%
Vanguard OH Tax-Exempt MMF	2.96	3.02	2.53
Vanguard PA Tax-Exempt MMF	2.96	3.02	2.52
Vanguard NJ Tax-Exempt MMF	2.95	2.98	2.49
Vanguard CA Tax-Exempt MMF	2.93	2.99	2.48
Fidelity FL Municipal MMF	2.72	2.79	2.24
Fidelity CT Municipal MMF	2.69	2.69	2.21
Fidelity PA Municipal MMF	2.68	2.72	2.23
Fidelity AZ Municipal MMF	2.67	2.73	2.23
USAA Tax Exempt VA MMF	2.65	2.73	2.19

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

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places it in the top 4% of its Morningstar category, and a 30.5% gain for the trailing year ranks in the top 10%.

Looking forward, ICON anticipates that international stocks will continue to move higher to catch up with value. The managers see the economic climate as favorable for corporate earnings growth. They note that industries from the materials, industrials, and information technology sectors are leading the way—a theme they view as sustainable. \$

ICON Funds

5299 DTC Blvd., Ste. 1200, Englewood, CO 80112,
(800) 764-0442 • Minimum Investment: \$1,000, \$1,000 IRA

ICON Europe Fund: Thinking Outside the Box

ICON fund managers literally think outside the box—the mutual fund style box, that is. Craig Callahan, founder and president of ICON Advisors, contends that, “In order to produce superior returns, managers must be allowed to pursue their unique styles and have access to the entire equity universe.” A portfolio resulting from this wide-ranging style would hence “drift” from one style box to another, as its underlying stock holdings migrate through the grid, an occurrence that is sometimes criticized by industry observers. (By style box, we are referring to the six- to nine-box graphic used by Morningstar and others, labeling funds as a combination of large-, mid-, and small-cap, and value, growth, and sometimes blend or core.)

Hence, ICON Europe fund manager Scott Snyder is free to roam the market capitalization spectrum in search of investments, which sets the fund apart from many of its peers. Recently, ICON Europe’s holdings were relatively evenly dispersed across capitalization ranges. About 39% of its stocks were large or giant cap, 35% were mid-cap, with the remainder considered small cap.

Top Five Sectors & Industries (% of Assets)

Industrials	24.1	Diversified Banks	7.2
Financial	23.9	Diversified Metals & Mining	5.0
Materials	13.0	Industrial Machinery	4.8
IT	12.2	HR & Employment Services	4.3
Energy	6.4	Steel	4.2

As of December 31, 2005

Stripping away the emotion

What differentiates the fund even more is its investment technique. And that technique definitely would not be described as exciting. No jetting off to Europe to meet with company managers. No meetings with competitors or customers. Rather, ICON employs a “disciplined, non-emotional methodology to identify industries and sectors that are underpriced.” That’s right—industries and sectors first. Not stocks. Why industries first? ICON manager J.C. Waller (ICON Energy and ICON Healthcare) stated recently in *Bloomberg Markets Magazine*, “Industry strength and industry rotation is where we can make money. It’s very difficult to gain an informational advantage on an individual stock.”

ICON aims to “buy underpriced securities in specific industries, sectors, and countries when our system indicates they are on sale and poised to assume market

leadership.” That system has its roots in legendary value investor Benjamin Graham’s philosophy of buying undervalued companies. ICON founder Callahan took Graham’s approach a few steps further by focusing on industries and by adding a relative strength indicator to uncover leading market themes, in which certain industries assume leadership roles, generally for a time frame of one to two years.

Step by step

The first step is to calculate an intrinsic value for its universe of European stocks. Using raw data from independent sources (as opposed to brokers), ICON considers a variety of financial measures, earnings per share and future earnings growth estimates to generate an intrinsic value for each stock; and by combining stocks of each industry, an intrinsic value for each industry; and by combining industries, for each sector. This is compared to current market price, creating a value-to-price ratio (V/P). Typically, they want only industries selling below their estimate of fair value. The same process holds for selecting which countries to focus on.

The second step is to consider relative strength. They compare each company, industry, and sector price performance to the benchmark (MSCI Europe Index) over the past six months, looking for those that are overperforming. The decision to overweight a specific industry and/or sector is based on both a favorable relative strength and a favorable valuation.

Top Five Holdings & Countries (% of Assets)

Vallourec SA	2.4	Germany	17.4
United Services Group	2.4	Switzerland	14.2
Oest Elektrizit AG	2.0	United Kingdom	13.8
Credit Suisse Group	2.0	France	9.3
Vedanta Resources PLC	2.0	Netherlands	9.0

Holdings as of February 28, 2006; Countries as of December 31, 2005

Once it’s been decided to focus on a particular industry, stock selection comes into play. ICON wants high-quality stocks, with characteristics such as high cash position, low debt, and good management (as measured by a combination of financial ratios indicating good control, planning, and efficiency.)

Recent performance

The fund has generally stacked up well vs. others in the Europe Stock fund category in recent years, placing in the top third or higher for the calendar years 2002 through 2005. More recently, its performance has ratcheted up a notch. For the year-to-date through March 17, the fund’s 20.0% gain

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