

Look East, Young Man First Quarter 2006 Report

by Walter S. Frank, Chief Investment Officer

After last year's powerful market gains by Asian, emerging markets, and natural resources funds, forecasters were wary of projecting anything resembling a repeat when they prepared their year-end forecasts. After all, lightning doesn't strike twice in the same spot, right?

In our own case, we were careful to advise placing a lid on expectations for 2006. Looking at the first quarter results, the market obviously paid no attention to the collective wisdom of Wall Street. The wisdom may still turn out to be correct when we look back at the year as a whole (we suspect it will be), but you cannot prove it by the first quarter numbers.

The numbers game

Just looking at the first quarter Lipper index numbers drives home the point. These very broad indexes show the emerging markets return for the quarter at 12.6% (remember we are only talking about the first three months of the year), Pacific Ex-Japan at 8.9%, and Natural Resources at 10.6%. If you annualize the numbers you can see that you could let your expectations roam where they will. We hasten to add, we do not recommend multiplying by four.

This last quarter did add something new to the list of performing indexes. What was different—and totally unexpected—was that this time there was a domestic sector among the leaders. Small caps, of all varieties, had a great quarter: growth—13.0%, core—12.1% and value—10.9%.

The small cap performance defies (almost) everything we know. Surely small caps cannot continue to perform, or so we all thought. Still, as we wrote earlier this year, there was one exception. A good case could be made for small-cap growth, as opposed to value. What the numbers show though is that the tide lifted all small-cap boats.

Market Trends

	Trailing 12-Mo Trend	Forward 6-Mo Estimate
Economy	Higher	Higher
Interest Rates	Higher	Flat/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

No one was more surprised by this than the small cap managers themselves. The April 10th *Barron's* cites Preston Athey, T. Rowe Price's veteran small-cap manager (Small Cap Value Fund) as being totally surprised by the first quarter performance. John Montgomery, Bridgeway's founder and lead portfolio manager, remarked, "This has certainly been a small-cap quarter, not what I expected."

Fighting City Hall

Aside from the emergence of small cap funds as winners, another remarkable achievement is that these gains were made in the face of rising interest rates here in the U.S., monetary policy tightening beginning in Japan and, of course, rising energy prices everywhere. By all rights, last quarter could well have been flat at best, and quite possibly a loser at worst.

Two forces kept the party going. One was the continued (and expected) rapid growth of China and India. As these two grew, the growth impulse extended to the emerging markets, the suppliers of materials needed for that growth. So far as we can tell, the China/India growth machine will continue running strong for some time to come.

The other force was the strong growth of our own economy. Growth here was expected to be strong in the first half of the year, not least because of Katrina spending. As it turns out, the Katrina effect has been relatively small (so far) but that did not stop the economy. The overall economy's strength translated into continued (relatively) rapid profit growth. It is that profit growth that is filtering its way down to the small cap growth sector and convincing money managers to allocate funds there.

Our numbers

The broadest statement we can make is that all the performance-conscious asset allocation portfolios (Venturesome and Moderate) and the Select Portfolio outperformed the Vanguard 500 by more than a trivial amount. Of course, the Vanguard 500 does not contain international stocks, a handicap in recent years. The relative performance of the portfolios was as expected. In two of three cases, the Venturesome portfolios outperformed the Moderate portfolios. In the case of the Vanguard family portfolios, the reverse occurred. See Table 1 on page two.

As you can see the Conservative portfolios trailed the Moderate and Venturesome portfolios noticeably. Just to remind you, performance is not the objective of the Conservative portfolios. Capital preservation is the foremost consideration in the asset allocation and specific fund decisions for these portfolios. The tradeoff, of course, is safety (high) vs. risk (low).

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(continued from page 1)

When it comes to the individual fund performance, the rankings are not quite what we expected. Perhaps we are too close to the numbers on a daily basis. We expected an emerging market fund to shine and, sure enough, Fidelity Emerging Markets was the top performing fund among all funds held by the portfolios throughout the quarter.

But Fidelity Small Cap, Bridgeway Small Cap Value and Fidelity Mid-Cap as the next three funds came as a surprise. There was performance to be had in the domestic market. These numbers have a dual message. One is to say that performance is alive and well (again) at Fidelity. The

Table 1
Portfolio Performance
First Quarter 2006

<i>MONEYLETTER</i>	
Venturesome	10.3%
Moderate	8.8
Conservative	4.7
Select	11.5
Fidelity	
Venturesome	7.7
Moderate	6.9
Conservative	5.4
Vanguard	
Venturesome	7.0
Moderate	8.3
Conservative	3.8
Vanguard 500 Index	4.2
Asset Allocation Funds	3.5

Table 2
Portfolio Funds Performance
Selected Funds*
First Quarter 2006

Fund	Performance
Fidelity Emerging Markets	14.4%
Fidelity Small Cap	14.1
Bridgeway Small Cap Value	13.8
Fidelity Mid-Cap	13.4
Forward International Small Cap	13.2
Kinetics Paradigm	13.0
Driehaus International Discovery	12.0
T. Rowe Price Emerging Europe & Med.	11.6
T. Rowe Price Emerging Markets	11.5
Marsico 21st Century	11.3

**Note: Includes only funds held throughout the entire quarter*

other is that profit opportunities in the U.S. market have not been exhausted.

It was a terrific quarter. We wish we could say that we see a repeat ahead, but we cannot. We see the hot sectors cooling off as the headwinds increase some. We look for a choppy market during this quarter as interest rates and commodity prices strain Wall Street's nerves.

A Fork in the Road

If you take a moment to think about the sweep of the bull market we have been in since the bear market of 2000–2002, you will quickly realize that we have been a worldwide period of low interest rates. Others would put it in terms of liquidity. Let's just compromise and call it a period of easy money.

The Fed, as you know too well, has raised short-term rates almost to 5%, and we think a move to 5% is a slam-dunk. Japan is on the road to higher rates. Most importantly, the world's central banks have gotten the attention of the world bond markets. The U.S. 10-year Treasury is flirting with 5.0% and Japan's longer-term rates are now moving up from the floor.

So far the markets have bent but not broken as rates have moved up. They have given a vote of confidence to the strength of the worldwide economy (think Asia). But we are getting to the point in the rate move, at least here in the U.S., where any further increase is going to raise questions about valuations.

As we said in an earlier issue, these rate increases are putting a lower lid on expectations for the market here, lowering, in turn, the amount of risk investors are willing to accept.

It all boils down to how much further the Fed has to go. Our answer is not much. But our confidence in that answer is less than 100%. It all depends on how quickly the economy chooses the road to moderation. \$

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Moving Along

We are now into the third week of the second quarter. This quarter is somewhat critical in judging whether the Fed's tightening is having any meaningful effect on the economy. We all better hope that the answer is yes, because otherwise we will be in for another turn or two of the screw.

The point is that the economy has to slow if the Fed is to hold rates at current levels, as is our forecast. We are in one of those periods where good news can be bad news, from the market's point of view, and bad news good, provided it is not too bad. Unfortunately, at the moment, it is hard to separate the good from the bad. The problem is the warm winter, which gave a seasonally adjusted glow to the winter numbers and is just beginning to dim the lights on the spring numbers.

A case in point is the recently released new home building number for March. Housing starts soared in January and have been sliding over the two subsequent months. It is hard to tell how much of the slowing is simply the other side of January or the effect of higher rates squeezing the numbers. Aside from the warm winter, there is the late Easter. The retail sales numbers have also been hard to interpret.

Both the effects of the winter and Easter will shortly be behind us, and the indicators will become more meaningful both for us, and more importantly, for the Fed. Only then will we have a true feel for what is happening here.

Profits

The profit estimates for this year's S&P 500 earnings have been holding up, according to Thomson Financial First Call, which compiles the estimates. This comes as pleasant unexpected news for us.

We looked at the estimates for this year, issued at the end of last year, with some doubt. Our advice at the time was that we needed to keep a close eye on the estimates as this year went along to see if they held up. The point was that we were concerned the market was not as attractively valued as the estimates said.

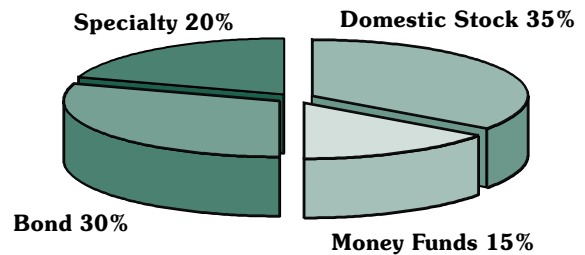
Judging by today's estimates, the market was, and remains, attractively valued. The analysts have not backtracked a bit. And although the S&P 500 is up for the year-to-date, the market's overall price-earnings ratio now is lower than it was at year-end.

Of course, energy has played its part in driving earnings. But energy is not alone. We were amazed the other day to hear a first-rate Wall Street analyst say that he expects profit margins to rise over the coming months this year. Rise? We would have bet they would be lower as this year went on.

This profit outlook explains, to us at least, why the market has held up so well in the face of the Fed and oil. The market, though, is not invulnerable. Oil and the Fed both need to pause around current levels. \$

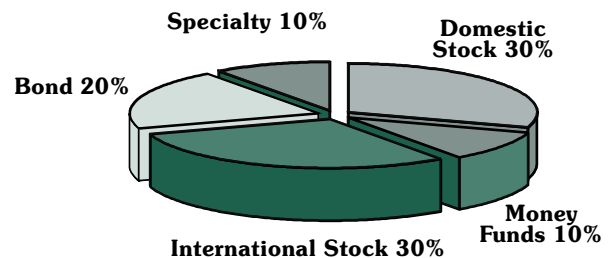
CONSERVATIVE

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



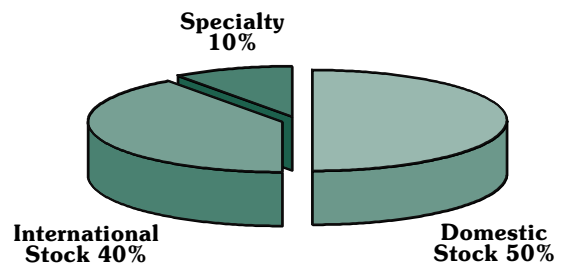
MODERATE

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



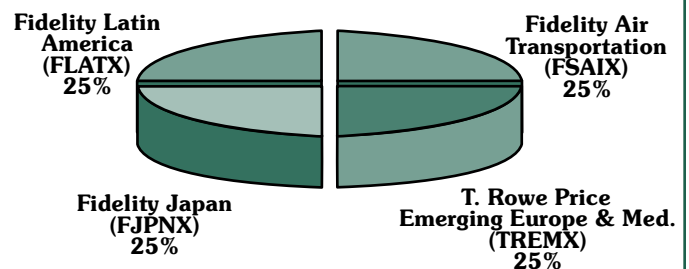
VENTURESOME

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	4/17 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	1	—	—	HDPMX	Hodges Fund	MC	*	B	B	1.3%	31.1%	50.9%	\$25.69	19.4	1.87	FSA
2	3	244	—	HENLX	Hennessy Cornerstone Growth II (1%r<30d)	SCGro	B	B	B	4.0	34.0	38.5	34.61	30.9	1.19	FSA
3	14	125	—	RYPX	Royce Low Priced Stock (closed, 1%r<180d)	SCVal	B	B	B	4.0	27.5	41.6	17.97	27.1	1.10	fsa
4	18	64	—	BOGLX	Bogle Small Cap Growth (closed)	SCGro	B	B	B	3.1	27.1	43.4	30.59	22.3	0.88	a
5	31	8	—	BRAIX	Bridgeway Aggressive Investors 2	MCGro	*	B	B	3.6	25.3	46.9	18.74	18.8	1.21	fsa
6	10	7	—	TWHIX	American Century Heritage	MCGro	B	B	B	4.1	24.7	44.8	16.44	15.4	0.76	FSA
7	21	2	—	BRSGX	Bridgeway Small Cap Growth	ScGro	B	B	B	5.3	23.1	45.1	15.44	—	—	fsa
8	4	67	—	FMLIX	Fidelity New Millennium (closed)	MCGro	B	B	B	2.9	25.0	43.7	39.34	27.3	1.27	Fsa
9	20	1	—	BRVFX	Bridgeway Small Cap Value	SCVal	B	B	B	3.5	23.9	44.7	16.47	—	—	fsa
10	13	30	—	TGSCX	TCW Galileo Small Cap Growth	MCGro	*	B	B	2.3	24.2	43.1	20.16	37.3	1.83	FSA
11	6	42	—	FMCSX	Fidelity Mid-Cap Stock (.75%r<30d)	MCGro	B	B	B	1.4	24.2	43.8	29.90	20.9	1.05	Fsa
12	11	25	—	BPTRX	Baron Partners	MCGro	*	B	B	2.1	26.2	37.4	20.84	28.6	1.26	FSA
13	225	3	—	CGMFX	CGM Focus	SCVal	H	H	H	7.8	20.3	41.7	39.65	37.9	1.03	sa
14	12	—	—	RIMSX	Rainier Small/Mid Cap Port	MCGro	*	B	B	2.4	23.3	42.0	37.65	15.7	1.34	FSA
15	15	28	—	RYPX	Royce Premier (closed, 1%r<180d)	SC	B	B	B	2.8	22.9	41.3	18.70	19.4	0.84	fsa
16	7	54	—	MNSCX	WellsFargo Montgomery Small Cap (closed)	SCGro	B	B	B	2.1	23.7	39.6	13.77	23.3	1.05	fs
17	16	—	—	USRAX	Undiscovered Small Cap Grwth A LW	SCGro	*	B	B	0.7	24.6	36.9	11.41	—	—	f
18	5	46	—	MXIX	Marsico 21st Century (2%r<30d)	LC	B	B	B	2.5	23.9	35.4	14.55	21.1	0.95	fsa
19	2	43	—	IZZYX	ICM/Isabelle Small Cap Value	SCVal	B	B	B	-0.2	24.8	37.0	16.61	29.5	1.04	FSA
20	26	167	—	GSETX	Columbia Small Company Equity CIZ	SCGro	(B)	(B)	(B)	2.4	23.5	35.3	21.06	24.9	1.14	fa
21	37	95	—	RYPNX	Royce Opportunity (1%r<180d)	SCVal	(B)	(B)	(B)	2.9	22.8	35.6	14.20	30.8	1.18	fsa
22	17	9	—	CLSPX	Columbia Mid Cap Growth CIZ	MCGro	B	B	B	1.5	21.0	40.8	26.35	17.7	0.86	Sa
23	30	89	—	NMANX	Neuberger Berman Manhattan	MCGro	H	H	H	2.0	21.0	37.5	8.77	23.4	1.15	f
24	49	19	—	NEEGX	Needham Growth Fund (.75%r<30d)	SCGro	H	H	H	2.2	19.6	39.9	39.72	25.7	1.19	FSA
25	19	6	—	MPEGX	MSI Mid Cap Growth Inst CI	MCGro	*	B	B	1.0	19.7	38.9	26.99	22.2	1.17	a
26	24	255	—	FBRVX	FBR Small Cap (closed, 1%r<90d)	SCGro	(B)	(B)	(B)	1.2	25.0	25.1	48.49	23.4	0.82	FSA
27	—	—	—	HRTVX	Heartland Value	SCVal	H	H	H	2.6	21.6	31.3	52.07	16.9	1.58	FSA
28	32	36	—	WWNPX	Kinetics Paradigm (2%r<30d)	MC	H	H	H	1.9	19.8	36.2	23.41	11.7	0.63	FSA
29	42	4	—	SSMGX	Sit Small Cap Growth (2%r<30d)	MCGro	H	H	H	2.3	17.2	41.9	34.93	21.6	1.10	FSA
30	22	39	—	TMGFX	Turner Mid Cap Growth	MCGro	*	H	H	1.1	20.4	35.7	30.38	29.3	1.45	FSA
31	23	51	—	PRNHX	T. Rowe Price New Horizons	SCGro	*	B	B	0.3	21.0	35.2	34.74	28.3	1.30	fsa
32	34	29	—	FFSCX	Forward Hoover Small Cap	SCGro	H	H	H	1.7	19.8	35.8	21.87	20.1	0.85	FSA
33	33	163	—	USCGX	USAA Capital Growth	MCGro	H	H	H	0.8	21.7	31.0	8.72	23.9	1.13	fsa
34	51	78	—	PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	1.7	20.3	32.8	11.95	20.4	0.80	fsa
35	9	—	—	ATASX	ABN AMRO/TAMRO Small Cap N	SC	*	B	B	-0.1	21.8	31.5	18.91	15.6	1.52	FSA
36	103	105	—	ACBGX	USGlobal Holmes Growth (.25%r<30d)	MCGro	H	H	H	3.7	18.8	33.2	19.53	15.3	0.57	FSA
37	67	48	—	BRISX	Bridgeway Ultra Small Co Mkt	SC	*	H	H	2.2	19.1	34.5	19.97	18.5	1.03	fsa
38	39	87	—	VISGX	Vanguard Small Cap Growth Index	SCGro	H	H	H	1.2	19.9	33.6	18.34	21.6	0.91	fsa
39	45	62	—	SGROX	Wells Fargo Advantage Growth	LCGro	H	H	H	2.4	19.5	32.6	23.07	17.7	0.97	FSA
40	44	121	—	FSLCX	Fidelity Small Cap Stock (2%r<90d)	SCGro	H	H	H	2.2	20.1	31.5	20.65	21.5	0.94	Fa
41	95	53	—	VALLX	Value Line Leveraged Growth	LCGro	*	H	H	2.5	18.4	35.0	24.56	14.9	0.83	FSA
42	27	35	—	JSVAX	Janus Contrarian	MC	(H)	(H)	(H)	1.2	19.1	35.3	16.64	22.3	1.10	SA
43	64	110	—	FIDYX	AIM Dynamics Inv (closed)	MCGro	*	H	H	2.3	19.5	32.3	20.31	28.2	1.48	Fsa
44	8	23	—	JORNX	Janus Orion	MC	(H)	(H)	(H)	-0.2	18.8	37.7	9.10	14.3	1.16	FSA
45	79	144	—	RSMOX	RS MidCap Opportunities	MCGro	H	H	H	1.7	20.2	30.9	14.74	22.6	1.11	FSA
46	41	—	—	OBEHX	Old Mutual Emerging Growth	SCGro	H	H	H	2.1	19.6	32.0	15.55	35.8	1.80	FSA
47	135	18	—	OBEGX	Oberweis Emerging Growth (1%r<180d)	SCGro	*	H	H	3.1	17.2	35.3	29.84	33.2	1.36	FSA
48	36	32	—	PRSVX	T. Rowe Price S-C Value (closed, 1%r<1yr)	SCVal	H	H	H	1.0	18.7	33.3	41.70	18.0	0.69	fsa
49	38	219	—	JAVTX	Janus Venture (closed)	SCGro	*	H	H	-0.3	20.8	29.3	64.46	29.0	1.25	FSA
50	25	—	—	OBHGX	Old Mutual Growth	MCGro	*	H	H	0.8	18.9	32.5	22.98	21.9	1.02	FSA
51	87	68	—	VLIFX	Value Line Fund	LCGro	H	H	H	1.9	17.9	32.8	14.43	13.1	0.73	FSA
52	48	92	—	FIGEX	INVESCO Small Company Growth	SCGro	*	H	H	0.3	19.1	31.7	14.76	24.2	1.15	FSA
53	119	83	—	FLVCX	Fidelity Leveraged Co (\$10k, 1.5%r<90d)	MC	*	H	H	2.0	18.6	29.7	28.54	36.3	1.39	Fa
54	52	204	—	TGONX	TCW Galileo Opportunity N	SC	H	H	H	0.6	20.2	27.9	15.41	22.5	0.90	FSA
55	127	143	—	TWCVX	American Century Vista	MCGro	H	H	H	3.2	18.2	28.3	17.50	15.8	0.68	FSA
56	111	57	—	FDSCX	Fidelity Small Cap Ind. (1.5%r<90d)	SC	H	H	H	2.6	17.4	30.7	22.63	16.7	0.58	Fsa
57	40	98	—	VHCOX	Vanguard Cap Opp (closed, \$25k, 1%r<1yr)	MCGro	*	H	H	0.5	18.6	30.9	36.11	25.3	1.28	fsa
58	29	13	—	BARAX	Baron Asset	MCGro	H	H	H	1.6	18.3	29.8	61.47	21.2	0.94	FSA
59	46	102	—	VEXPX	Vanguard Explorer (closed)	SCGro	H	H	H	0.4	18.6	30.4	82.43	24.2	1.12	fsa
60	124	44	—	RSSGX	RS Smaller Company Growth	SCGro	*	H	H	2.7	16.2	31.8	23.00	28.5	1.23	FSA
61	96	72	—	STDIX	Wells Fargo Advantage Discovery	MCGro	H	H	H	1.9	16.3	32.4	22.40	19.1	0.86	FSA
62	55	49	—	FFTYX	Fidelity Fifty (.75%r<30d)	LC	H	H	H	1.4	16.4	31.9	24.36	19.8	0.85	Fsa
63	175	10	—	SSMVX	Wells Fargo Adv SC Value CIZ (closed)	SC	S	S	S	3.2	14.9	33.1	32.92	18.3	0.88	FSA
64	43	86	—	OTCFX	T. Rowe Price Small Cap Stock Fund	SC	H	H	H	0.1	18.0	29.8	35.97	19.2	0.84	fsa
65	86	148	—	WMCVX	Wasatch Small Cap Value (closed, 2%r<60d)	SCVal	H	H	H	1.3	18.2	27.0	5.51	26.6	0.96	FSA
66	66	249	—	BSCFX	Baron Small Cap (closed)	SCGro	S	S	S	0.5	20.3	22.7	25.35	21.5	0.79	FSA
67	65	—	—	FVDFX	Fidelity Value Discovery	MC	S	S	S	0.3	16.4	31.5	16.73	11.7	1.18	F
68	56	96	—	FDFFX	Fidelity Independence	LCGro	S	S	S	0.5	16.7	30.0	21.12	21.4	1.11	Fsa

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 (A/a) for TD Ameritrade.

Domestic Stock Funds (continued)

RANK	4/17 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	47	118	LMOPX	Legg Mason Opportunity Trust (1%r<1yr)	MC	*	H	H	0.3	16.6	30.5	18.00	35.1	1.48	—	
70	60	99	NAESX	Vanguard SmallCap Index	SC	S	S	S	-0.1	17.4	29.1	31.38	23.2	1.01	fsc	
71	92	126	VSEQX	Vanguard Strategic Equity	MCGro	S	S	S	1.1	17.0	28.1	23.87	17.8	0.83	fsc	
72	76	11	NBNGX	Sit Mid Cap Growth (2%r<30d)	MCGro	*	S	S	1.0	14.5	34.4	13.54	23.5	1.23	FSA	
73	53	70	VALSX	Value Line Special Situations	MCGro	S	S	S	0.4	16.6	29.8	27.92	15.4	0.71	FSA	
74	83	147	STCSX	Wells Fargo Adv Common Stock Z (closed)	MC	H	S	S	0.7	17.9	25.9	23.46	22.6	1.15	FSA	
75	73	103	LSCRX	Loomis Sayles Small Cap Value Ref	SC	S	S	S	0.4	17.7	26.7	27.73	17.2	0.80	FSA	
76	35	94	KAUFX	Federated Kaufmann Fund (0.2%)	MCGro	S	S	S	-0.8	16.9	30.0	6.04	19.5	0.86	FSA	
77	50	50	RPMGX	T. Rowe Price Mid Cap Growth	MCGro	(S)	(S)	(S)	-0.3	16.0	31.3	57.05	22.1	1.11	fsc	
78	104	135	FDCAX	Fidelity Capital Appreciation	LCGro	S	S	S	1.3	16.2	28.2	27.33	26.0	1.28	Fsa	
79	120	111	MPSCX	MSI Small Cap Value (closed)	SCVal	S	S	S	1.4	16.8	26.3	25.58	20.7	0.98	fsc	
80	69	264	VWEGX	Van Wagoner Emerging Growth (closed)	SCGro	S	S	S	2.3	19.1	18.3	4.98	55.0	2.49	FSA	
81	77	65	VEXMX	Vanguard Extended Market Index	MC	H	H	H	0.5	16.2	28.3	37.01	21.5	1.02	fsc	
82	85	100	CRMSX	CRM Small Cap Value Inv (closed)	SCVal	S	S	S	0.8	16.3	26.6	27.27	23.8	0.93	Fsa	
83	75	245	MERDX	Meridian Fund	MCGro	S	S	S	1.1	18.3	21.2	40.22	23.1	0.95	fa	
84	54	40	BUFMX	Buffalo Mid Cap	MCGro	*	S	S	-0.1	15.9	28.9	15.25	17.6	1.34	FSA	
85	28	37	FDGRX	Fidelity Growth Company	LCGro	*	H	H	-1.5	15.7	30.8	66.60	25.6	1.36	Fsa	
86	163	262	NBSSX	Neuberger Berman Focus	LCVal	*	S	S	1.0	18.0	20.9	35.67	37.8	1.80	fsc	
90	80	52	VIMSX	Vanguard Mid-Cap Index	MC	H	H	H	-0.1	15.5	28.2	18.82	20.1	0.97	fsc	
104	115	31	FCNTX	Fidelity Contrafund	LC	H	H	H	1.3	13.7	27.1	67.00	11.4	0.54	fsc	
121	93	117	VISVX	Vanguard Small-Cap Value Index	SCVal	H	S	S	-1.3	14.8	24.6	15.78	22.4	0.90	fsc	
129	72	104	VGEQX	Vanguard Growth Equity	LCGro	*	H	H	-0.9	13.4	24.7	10.96	22.2	1.22	fsc	

Dow Jones
NASDAQ
S&P 500

-1.8% 7.0% 9.8%
0.2 11.6 21.1
-1.7 8.0 12.5

indexes do not
include dividends

International Stock Funds

1	4	8	DREGX	Driehaus Emerging Mkts Gr (2%r<60d)	Int'l	*	B	B	10.2%	37.8%	65.5%	\$34.05	24.9	—	FSA
2	2	1	PRLAX	T. Rowe Price Latin America (2%r<90d)	LatinA	*	H	H	5.4	32.7	83.3	30.22	29.7	—	fsc
3	6	9	FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	*	B	B	9.4	37.0	64.2	21.84	—	—	Fsa
4	1	3	FLATX	Fidelity Latin Amer. (1.5%r<90d)	LatinA	*	H	H	4.3	33.4	79.6	38.04	29.8	—	Fs
5	9	14	DRIDX	Driehaus Intl Discovery (2%r<60d)	Int'l	*	B	B	10.7	36.1	58.7	47.51	21.1	—	FSA
6	5	11	JAOSX	Janus Overseas (2%r<90d)	Int'l	*	B	B	7.7	37.8	59.1	38.76	16.5	—	FSA
7	3	2	SLAFX	DWS Latin Amer Equity S (closed,2%r<30d)	LatinA	*	H	H	4.4	30.9	76.8	54.03	27.3	—	Sa
8	8	13	FJPNX	Fidelity Japan (1.5%r<90d)	Japan	*	B	B	9.4	34.8	51.7	19.29	17.3	—	Fa
9	7	7	EURGX	US Global Eastern Europe (2%r<180d)	Europe	*	B	B	8.8	29.3	61.7	47.65	26.6	—	FSA
10	14	16	FPBFX	Fidelity Pacific Basin (1.5%r<90d)	Pacific	*	B	B	10.3	30.3	45.8	28.74	14.7	—	Fsa
11	17	25	WPJGX	CS Warburg Pincus Japan Grth (2%r<30d)	Japan	*	B	B	10.5	30.8	42.3	7.77	22.7	—	FSA
12	10	4	TREM	T. Rowe Price Emg Europe & Med (2%r<90d)	Europe	*	B	B	6.1	24.5	61.8	29.34	29.2	—	fa
13	12	5	PRMSX	T. Rowe Price Emerging Mkts Stk	Int'l	*	B	B	6.9	26.0	54.2	29.41	18.8	—	fsc
14	18	20	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	B	B	10.0	27.7	44.2	24.41	21.1	—	Fsa
15	21	12	AIOIX	Amer Cent Intl Opp (closed,2%r<180d)	Int'l	*	(B)	(B)	9.7	26.0	48.3	11.74	20.4	—	—
16	11	6	HLEMX	Harding Loevner Emerg Mkt (2%r<90d)	Int'l	*	B	B	6.2	25.2	54.5	39.41	15.5	—	FSA
17	13	26	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	*	B	B	8.8	28.3	42.6	23.59	—	—	SA
18	16	15	VEIEX	Vanguard Emerging Mkts Stk Index (.5%r)	Int'l	*	H	H	7.3	26.7	47.7	21.82	22.6	—	fsc
19	20	24	PRIDX	T. Rowe Price Intl Disc. (2%r<90d)	Int'l	*	H	H	9.0	26.7	43.7	47.99	16.0	—	fsc
20	22	40	SCOPX	DWS Pacific Opp Eq. S (closed,2%r<30d)	Pacific	*	H	H	8.1	27.8	41.0	18.62	19.0	—	FSA
21	31	33	FISMX	Fidelity Intl Small Cap (closed,2%r<90d)	Int'l	*	H	H	9.4	27.6	39.2	31.33	—	—	Fa
22	15	10	PRJJPX	T. Rowe Price Japan (2%r<90d)	Japan	*	H	H	9.0	25.7	44.3	12.25	14.4	—	s
23	25	—	SSEM	SSgA Emerging Markets	int'l	*	H	H	8.6	23.7	45.6	22.16	16.6	—	FA
24	—	—	ICSEX	ICON Europe	Europe	*	H	H	8.1	26.8	36.9	18.35	15.5	—	FSA
25	33	29	FJSCX	Fidelity Japan SC (closed,1.5%r<90d)	Japan	*	H	H	8.5	27.1	35.5	16.41	28.4	—	Fsa
26	34	55	WAIGX	Wasatch Intl Growth (closed,2%r<60d)	int'l	*	H	H	8.3	26.2	36.3	22.86	—	—	FSA
27	26	37	ACINX	Columbia Acorn Intl Z (2%r<60d)	Int'l	*	H	H	7.8	25.6	37.7	39.48	13.3	—	Sa
28	40	17	PRASX	T. Rowe Price New Asia (2%r<90d)	Pacific	*	H	H	8.7	23.4	41.6	13.68	19.7	—	fs
29	30	27	PIRSX	Forward Intl Small Companies (2%r<180d)	Int'l	*	H	H	8.6	25.1	37.2	17.48	—	—	FSA
30	24	19	DRFMX	Dreyfus Premier Emerging Market (1%r)	Int'l	*	H	H	6.8	23.5	43.6	24.74	21.6	—	fsc
31	49	—	USPAX	Excelsior Pacific/Asia	Pacific	*	H	H	10.0	24.7	34.6	11.95	13.6	—	FSA
32	47	68	FECAIX	Fidelity Europe Capital App. (1%r<30d)	Europe	*	H	H	8.5	25.6	33.5	26.07	18.8	—	Fa
33	23	35	HAINX	Harbor International (2%r<60d)	Int'l	*	H	H	7.0	24.9	36.8	56.91	17.9	—	Fsa
34	28	21	VPACX	Vanguard Pacific Stock Index (2%r<60d)	Pacific	*	S	S	8.0	23.8	36.8	12.45	13.7	—	fsc
35	36	38	VINEX	Vanguard Intl Expl (closed,\$25k,2%r<60d)	Int'l	*	S	S	7.9	24.2	35.0	20.75	16.3	—	fsc
36	19	23	SCOBX	DWS Global Thematic S (closed,2%r<30d)	Global	*	H	H	5.2	23.9	39.6	34.73	12.7	—	FSA
37	27	31	SJPNX	Japan Fund (Scudder) (2%r<180d)	Japan	*	S	S	7.4	24.3	33.1	13.59	14.8	—	FSA
38	29	18	PRGSX	T. Rowe Price Global Stock (2%r<90d)	Global	*	S	S	5.0	21.9	37.4	21.12	11.6	—	fsc
39	32	36	WBIGX	Wm. Blair Intl Growth N (closed,1%r<60d)	Int'l	*	S	S	6.1	22.0	34.7	28.13	14.6	—	FSA
40	65	66	ACFFX	Columbia Acorn Intl Select Z	Int'l	*	S	S	8.5	21.6	30.2	23.69	13.1	—	Sa
41	41	43	BJBIX	Julius Baer Intl Equity A (2%r<90d)	Int'l	*	S	S	6.2	21.7	33.2	40.71	12.5	—	FS
42	44	46	FO5FX	Fidelity Overseas (1%r<30d)	Int'l	*	S	S	6.7	21.9	31.9	45.58	15.5	—	Fsa
43	35	53	VTRIX	Vanguard International Value (2%r<60d)	Int'l	*	S	S	6.0	22.0	31.1	39.28	16.8	—	fsc
44	60	22	MAPT	Matthews Pacific Tiger (2%r<90d)	Pacific	*	S	S	7.9	19.2	34.5	21.49	23.6	—	FSA
45	37	32	NBISX	Neuberger Berman Intl (2%r<60d)	Int'l	*	S	S	6.2	20.5	33.8	24.53	16.3	—	fsc

Bond Funds (next issue on page 6: Specialty Funds)
 4/17/2006

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%	1.5%	3.3%	\$9.97	0.76	4.84%	Fa
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	*	*	*	0.1	4.6	7.2	11.14	4.17	5.75	FSA
CMHYX	Columbia High Yield CIZ (closed)	HighYld	*	*	*	-0.6	1.8	3.9	8.42	3.92	6.51	FSA
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	0.1	4.7	8.3	8.52	6.63	6.06	Fsa
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	-0.1	3.3	6.5	8.86	4.94	6.87	Fsa
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	0.6	4.0	6.4	9.60	4.08	6.93	FSA
NTHFX	Northeast Investors Trust	HighYld	*	*	*	1.5	7.0	8.7	7.65	3.85	8.10	fa
PHYDX	PIMCO High Yield (2%r<30d)	HighYld	*	*	*	-0.1	3.6	6.8	9.72	5.00	6.92	FSA
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	0.5	4.3	6.8	7.71	4.46	7.08	FSA
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.2	2.2	4.3	8.51	1.62	5.02	FSA
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	0.5	3.5	6.3	6.92	4.35	7.61	fsc
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	0.4	4.0	6.2	6.95	5.59	7.27	FSA
VAGIX	Value Line Aggressive Inc (1%r<120d)	HighYld	*	*	*	0.0	0.2	1.4	4.99	4.32	6.28	FSA
VWEHX	Vanguard High Yield Corporate (1%r<1yr)	HighYld	*	B	*	0.1	3.6	6.6	6.14	4.17	7.07	fsc
FNMXI	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	-2.0	5.8	13.7	14.52	8.19	5.72	Fsa
PYGFX	Payden Global Fixed Income	Int'l	*	*	*	-1.0	-0.4	2.6	9.02	3.35	11.24	fSa
BGNMX	American Century Ginnie Mae	IntTerm	*	*	*	-0.9	0.3	0.6	10.05	2.50	4.80	FSA
CPTNX	American Century Government Bond	IntTerm	*	*	*	-0.9	-0.4	0.1	10.27	3.14	4.06	FSA
ACITX	American Century Inflation Adj	IntTerm	B	*	*	-1.9	-1.6	-0.9	10.66	6.52	5.22	FSA
SRINX	Columbia Income CIZ	IntTerm	*	*	*	-1.3	-0.4	0.3	9.56	4.30	5.52	Fsa
SRBFX	Columbia Intermediate Bond CIZ	IntTerm	*	*	*	-1.4	-0.5	0.1	8.69	3.80	4.94	FSA
DODIX	Dodge & Cox Income	IntTerm	*	*	*	-0.6	0.5	1.9	12.37	3.06	4.60	fsc
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	-1.0	0.2	1.2	13.26	4.47	4.85	FSA
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	-0.8	0.5	1.1	14.20	2.95	4.12	FSA
DSINX	Dreyfus Premier Core Bond (closed)	IntTerm	*	*	*	-1.3	-0.3	0.3	14.04	4.22	4.50	fSc
SCSBX	DWS Core Plus Income S (closed,2%r<15d)	IntTerm	*	*	*	-1.0	0.3	1.3	12.47	4.05	4.89	Sc
FTRGX	Federated Total Return Govt	IntTerm	*	*	*	-1.0	-0.5	-0.2	10.46	4.78	4.68	fsc
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	-1.7	-1.7	-2.0	10.65	6.58	1.49	Fa
FTHRX	Fidelity Intermediate Bond	IntTerm	*	*	*	-0.9	-0.5	-0.1	10.13	3.55	4.09	Fsa
FSTGX	Fidelity Intermediate Govt	IntTerm	*	*	*	-0.9	-0.6	-0.4	9.88	3.50	3.71	Fsa
MBDFX	Managers Fremont Bond	IntTerm	*	*	*	-1.1	-0.1	0.8	10.16	4.29	4.09	fsc
MWTRX	MetroWest Total Return	IntTerm	*	*	*	-1.2	-0.7	0.2	9.42	4.12	5.73	FSA
PTIDX	PIMCO Total Return (2%r<7d)	IntTerm	*	*	*	-1.1	-0.3	0.3	10.28	4.19	3.88	FSA
PTMDX	PIMCO Total Return Mortgage (2%r<7d)	IntTerm	*	*	*	-0.9	0.1	0.3	10.42	2.98	3.70	FSA
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	-0.7	0.3	0.6	9.29	2.52	4.80	fsc
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	-1.2	-0.4	0.4	8.75	3.98	4.36	fsc
TGMNX	TCW Galileo Total Return Bond	IntTerm	*	*	*	-0.7	0.4	1.8	9.61	2.90	4.70	FSA
USAIX	USAA Income	IntTerm	*	*	*	-1.2	0.0	1.0	11.93	4.27	5.25	A
VALBX	Value Line U.S. Govt Sec	IntTerm	*	*	*	-0.8	0.0	0.6	11.19	3.74	4.54	FSA
VFIIX	Vanguard GNMA	IntTerm	B	*	*	-0.9	0.9	1.8	10.09	3.17	4.81	fsc
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	-1.7	-1.6	-0.8	11.84	6.35	5.66	fsc
VBMFX	Vanguard Total Bond Market Index	IntTerm	*	*	*	-1.1	-0.4	0.4	9.81	4.17	4.62	fsc
MNTRX	Wells Fargo Adv Total Return Bond	IntTerm	*	*	*	-1.1	-0.4	-0.1	11.87	4.12	4.14	fSc
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	-0.7	0.9	3.0	10.35	3.86	5.53	FSA
KIFIX	FifthThird Bond	LngTerm	*	*	*	-1.1	-0.6	-0.2	9.69	4.11	4.02	fa
MGFIX	Managers Bond	LngTerm	*	*	*	-0.9	0.8	2.4	23.83	5.39	3.72	FSA
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	-1.7	-0.2	1.4	9.39	5.53	4.98	fsc
STCBX	Wells Fargo Adv Corporate Bond Inv	LngTerm	*	*	*	-1.4	-0.5	0.1	10.04	5.81	4.79	FSA
FSICX	Fidelity Strategic Income	Multi	B	B	*	-0.3	2.6	5.0	10.39	4.71	5.24	Fa
JAFIX	Janus Flexible Bond	Multi	*	*	*	-1.0	-0.2	0.2	9.26	4.14	4.43	FSA
LSBDX	Loomis Sayles Bond Instl (2%r<60d)	Multi	B	B	*	-0.3	4.5	8.7	13.77	6.66	6.15	fsc
LSBRX	Loomis Sayles Bond Retail (2%r<60d)	Multi	B	B	*	-0.3	4.4	8.5	13.74	6.64	5.98	FSA
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	-0.7	2.4	3.3	11.76	4.02	4.27	fsc
DSTIX	Dreyfus Premier Short-Term Income	ShfTerm	B	*	*	-0.6	0.2	0.7	10.82	1.72	4.20	FSA
SCSTX	DWS Short-Term Bond S (closed,2%r<15d)	ShfTerm	B	*	*	0.0	1.3	2.2	9.91	1.48	4.30	Sc
FSGVX	Federated U.S. Govt Sec. 1-3	ShfTerm	B	*	*	-0.4	0.4	0.4	10.36	1.07	3.66	fSc
FSHBX	Fidelity Short-Term Bond	ShfTerm	B	*	*	-0.3	0.4	1.1	8.81	1.66	3.77	Fsa
JASBX	Janus S-T Bond	ShfTerm	B	*	*	0.0	1.0	1.5	2.86	1.33	3.06	FSA
MGIDX	Managers Int. Duration Govt	ShfTerm	*	*	*	-1.1	0.2	0.6	10.33	2.52	3.59	FSA
MGSDX	Managers Short Duration Govt	ShfTerm	B	*	*	0.4	1.9	3.1	9.63	0.53	3.49	FSA
MWLDX	MetroWest Low Duration	ShfTerm	B	*	*	-0.2	0.9	1.5	9.31	1.76	4.09	FSA
PTLCX	PIMCO Low Duration (2%r<7d)	ShfTerm	B	*	*	-0.4	0.1	0.0	9.89	1.73	2.81	fa
SWBDX	Schwab S-T Bond Mkt Index	ShfTerm	B	*	*	-0.1	0.7	1.2	9.86	2.19	3.81	fS
SSTBX	Strong S-T Bond	ShfTerm	B	*	*	0.0	1.0	1.8	8.48	1.66	4.23	FSA
PRWBX	T. Rowe Price S-T Bond	ShfTerm	B	*	*	-0.1	0.9	1.5	4.65	1.60	3.65	fsc
VFSTX	Vanguard Short-Term Investment Grade	ShfTerm	B	*	*	0.0	1.1	2.0	10.45	1.68	3.77	fsc
VSGBX	Vanguard S-T Federal	ShfTerm	*	*	*	-0.2	0.8	1.2	10.18	1.80	3.46	fsc
VFISX	Vanguard S-T Treasury	ShfTerm	B	*	*	-0.2	0.7	1.2	10.24	1.72	3.42	fsc
MNSGX	WellsFargo Montgomery S Dur Govt (closed)	ShfTerm	B	*	*	-0.1	0.8	1.1	9.83	1.57	3.71	fSc
BITNX	American Century Target 2010	ZeroCpn	*	*	*	-1.0	-0.5	-0.6	86.99	7.06	4.39	FSA

A Long-Term Perspective

Q You provide us with the one-year total return and the cumulative three-year return for your portfolios. It would be valuable to see the year-by-year returns. Can you provide them?

— A.C., Miami, FL

A Below are the annual total return figures for the *MONEYLETTER* portfolios for the last 10 years, shown against the Vanguard 500 Index Fund and the average of all Asset Allocation Funds (our natural benchmark). Space prohibits listing the data for the Fidelity-only, Vanguard-only, and *MONEYLETTER* Select portfolios. If you would like a copy of our complete model history, send a stamped, self-addressed envelope with your request to: *MONEYLETTER*, P.O. Box 6020, Holliston, MA 01746.

Year	Conservative	Moderate	Venturesome	Asset Alloc. Funds	Vanguard 500
2005	+7.6%	+11.0%	+17.8%	+6.0%	+4.8%
2004	+11.4	+16.3	+13.4	+10.3	+10.7
2003	+19.6	+41.7	+45.6	+24.0	+28.5
2002	-2.8	-2.5	-6.4	-12.6	-22.2
2001	+13.5	+0.1	+3.1	-2.0	-12.0
2000	-8.1	-14.2	-21.3	+2.5	-9.1
1999	+34.4	+52.9	+50.2	+9.9	+21.1
1998	+12.2	+13.8	+16.6	+8.2	+28.6
1997	+16.4	+21.0	+19.6	+14.2	+33.2
1996	+12.4	+11.3	+13.7	+12.6	+22.9

HOTLINE

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Tuesday and Friday at 7:00pm (ET)

(continued from page 8)

average annual return was 26.7%. And, this fund has been within the top 10% of its small cap growth category in every calendar year of its existence. \$

Royce Funds (RYVFX, RYVPX)

1414 Avenue of the Americas, New York, NY 10019
(800) 221-4268 • Minimum Investment: \$2,000; \$500 IRA

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF	4.58%	4.48%	3.27%
Vanguard Treasury MMF	4.32	4.27	3.26
Amer Century Capital Presv Fund/Inv	4.14	4.06	3.06
JPMorgan 100% US Treas MMF/Morgan	4.10	3.99	2.91
US Treasury MF of America/CI A	4.08	3.90	2.86
T. Rowe Price US Treasury MF	4.07	4.01	2.96
HSBC Investor US Treas MM/CI D	4.04	3.90	2.81
Schwab US Treasury Money Fund	3.99	3.91	2.86
RMK Select Treas MMF/CI A	3.97	3.89	2.89
Merrill Lynch CMA Treas Fund RIC	3.88	3.81	2.81

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
Harris Insight MF/CI N	4.74%	4.51%	3.33%
TIAA-CREF Money Market Fund	4.62	4.55	3.53
PayPal Money Market Fund	4.59	4.53	3.75
BB&T Prime MMF/Insttit	4.57	4.46	3.41
Vanguard Prime MMF/Retail	4.57	4.54	3.52
SSgA MMF/CI A	4.52	4.40	3.44
TCW Galileo Money Market Fund	4.52	4.44	3.43
Dreyfus BASIC MMF	4.51	4.39	3.37
Harbor Money Market Fund	4.51	4.43	3.43
IXIS Cash Mgmt Tr/MM Series/A	4.51	4.25	2.94
JENNDRY/MoneyMart Assets/CI B	4.51	4.49	0.00
MFS Money Market Fund	4.51	4.46	3.46

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Alpine Municipal MMF/Investor	3.14%	3.16%	2.75%
Vanguard Tax-Exempt MMF	3.02	3.07	2.65
Fidelity AMT Tax-Free Money Fund	2.93	2.93	2.49
Harris Insight T-E MMF/CI N	2.90	2.77	2.22
Fidelity Municipal MMF	2.78	2.82	2.39
Tax-Exempt MF of America/CI A	2.78	2.67	2.25
DWS Tax-Exempt Money Fund	2.77	2.79	2.40
Fidelity Tax Free Money Market	2.76	2.79	2.37
T-E Portfolio/Managed Shares	2.76	2.77	2.33
USAA Tax Exempt MMF	2.74	2.74	2.36

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	3.02%	3.05%	2.63%
Vanguard PA Tax-Exempt MMF	3.00	3.04	2.63
Vanguard NY Tax-Exempt MMF	2.99	3.03	2.60
Vanguard CA Tax-Exempt MMF	2.98	3.00	2.58
Vanguard NJ Tax-Exempt MMF	2.97	3.00	2.59
Fidelity FL Municipal MMF	2.79	2.81	2.35
Fidelity CT Municipal MMF	2.74	2.76	2.31
Fidelity AZ Municipal MMF	2.72	2.74	2.33
Fidelity PA Municipal MMF	2.71	2.75	2.33
Fidelity NJ Municipal MMF	2.66	2.69	2.28
USAA Tax Exempt CA MMF	2.66	2.68	2.28
USAA Tax Exempt VA MMF	2.66	2.69	2.29

Taxable equivalent yield = yield / (1—total effective tax bracket). Funds are ranked by 7-day yield; 7-day and 30-day yields are compound yields as of 4/11/06. 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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A Pair of Royce Funds: Disciplined Value

Large-cap stocks need not apply. That's because Royce Funds' 16 open-end mutual funds are concentrated in micro-, small-, and mid-cap stocks. In fact, Royce & Associates has followed its disciplined value approach to investing in these market capitalization ranges for more than 30 years.

Bottom-up process

Whitney George, senior portfolio manager at Royce, and manager of the two funds we highlight below, says in company literature, "We employ a bottom-up stock selection approach...trying to predict future macroeconomic patterns and their ensuing impact on specific companies is very difficult." The firm's bottom-up approach looks for investments with the following basic characteristics: strong balance sheets, high internal rates of return, and ability to generate cash flow. But strong fundamentals are not enough. The value component calls for Royce managers to buy when a stock is selling at a discount of at least 30%—and preferably 50% or more—below Royce's estimate of the worth of the business.

Any industry is fair game—none is dismissed outright. Once a potential idea is identified, Royce managers run a "systematic, quantitative drill on the company's basic financial information." However, Chuck Royce, president and chief investment officer, notes that the Royce firm adds the most value to the investment process with qualitative research, including meetings with company managements. Royce portfolio managers and analysts assess the management team's plans and vision for the company, and determine whether management's plans are feasible. Royce stresses that honesty is a most important characteristic for a firm's management, whose ideas must be in line with the goals of shareholders.

We are adding two Royce funds to *MONEYLETTER*'s domestic stock funds coverage: Royce Value and Royce Value Plus.

Royce Value (RYVFX)

Royce Value has put up impressive numbers since its June 2001 inception, with an average annual return of 20.4% though March 31. The fund did get hammered in 2002, losing 23%, but in each successive calendar year was well within the top decile of its small blend fund group. Whitney George, along with co-manager Jay Kaplan, aims to own around 60 stocks in the small- and mid-cap range

(\$500 million to \$5 billion). Recently, about 60% of the portfolio was classified as mid-cap and the remainder small-cap. Its small number of holdings and higher weighting in mid-caps set it apart from other Royce funds. Turnover, is low, around 44%, as would be expected.

Top Five Sectors & Holdings (% of Assets)

Natural Resources	21.4	Cimarex Energy	2.5
Consumer Services	16.6	RC2 Corporation	2.5
Technology	14.6	St. Mary Land & Exploration	2.5
Consumer Products	13.1	Applebee's International	2.4
Industrial Products	10.1	Arkansas Best	2.3

As of March 31, 2006

Recently, the fund's natural resource holdings have been the biggest contributors to total returns, followed by industrial products. At the top of the performance list are gold producers Agnico-Eagle Mines (up 61% year-to-date), Meridian Gold (up 38%), and truck maker Thor Industries (39%). All of these stocks are within the top 20 holdings.

Royce Value Plus (RYVPX)

Royce Value Plus puts a growth spin on the family's traditional value discipline. The fund's investing universe ranges from micro- to mid-cap stocks. George and co-manager Chip Skinner look for firms that, in addition to being undervalued, should either be growing currently or capable of turning into a growth company in relatively short order.

Top Five Sectors & Holdings (% of Assets)

Natural Resources	20.0	Adesa	2.0
Technology	19.9	eFunds Corp.	2.0
Health	12.8	IPSCO	1.8
Industrial Products	11.2	Foundry Networks	1.8
Industrial Services	10.8	Knight Capital Group	1.7

As of March 31, 2006

The portfolio contains about 100 names. About one-third of the portfolio is in mid-cap stocks, 45% in small-caps, and 20% in micro-caps. A small percentage of holdings have migrated into the large-cap range. As with Royce Value, energy and industrial holdings have been top contributors to recent portfolio gains.

This fund also sports a great "since inception" average annual total return. From June 2001 though March 31, its

(continued on page 7)

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