



Introducing Exchange-Traded Funds

by Walter S. Frank, Chief Investment Officer

With this issue we are introducing Exchange-Traded Funds (ETFs) into our fund lists—Domestic Stock, International Stock, Specialty, and Bond Funds. (See page 7 for a brief introduction to ETFs and their world.) We will be treating the ETFs not as some exotic creation, but as just another fund, which differs from the others by trading on an exchange, just like a stock. Whether traded on an exchange or bought from the fund (through brokers), ETFs and mutual funds are sisters under the skin.

Why are we bothering to add this new layer of funds? We are doing so because ETFs provide us both with flexibility in making fund recommendations and the opportunity to extend the range of fund choices available to us. We are *not* adding ETFs because of some of their heralded advantages on the cost and tax efficiency side. We think these latter virtues, such as they are, have been hyped to a fare-the-well by the ETF industry.

An important feature of ETFs is that they are all index funds. But that word, index, has been stretched almost to the breaking point as more and more ETFs are created and the creators work overtime to offer something different. (See the discussion of two PowerShares ETFs on page 8 as an example). Nevertheless, ETFs so far *are* index funds.

Given our druthers we favor active management, as is the case with mutual funds (except for index funds), over passive management. Oh, yes, we know all the arguments—"most funds don't beat the averages, blah, blah, blah." But some do, and enough do, at least for any period of time that is relevant to the ordinary investor. If there were no actively managed funds that beat the averages, how could fund newsletters such as *MONEYLETTER* outper-

form over a significant time period? (See any issue of the *Hulbert Financial Digest*.)

Flexibility

Still, we believe ETFs have their uses. Our chief reason for introducing ETFs into our fund lists is the flexibility they afford us in choosing funds for our portfolios. Let us put the point in another way. As time has passed, and especially since the insider trading scandal of a few years ago, obstacles have been created by the mutual fund industry, including the discount brokers, that narrow the ability of investors to move easily from one fund to another.

For example, fees have been introduced for buying and selling a no-transaction fee fund within a period of less than six months. The fee is not onerous, but we know that many of you object to any paying any fee for an NTF fund. In the case of international funds, where insider trading was most attractive (and profitable) almost all international funds now charge a redemption fee for holding a fund less than 60 days, and sometimes the period is longer.

Aside from fees, there is the not trivial matter of fund closings. Just go down our fund lists and notice how many funds—domestic and international—are now closed. The closed fund list has been growing apace over the last few years as world markets have risen. We applaud the fund families' reaction to asset bloat, but it does make life harder for us, since obviously the growing funds are generally the very performers we favor.

Here is where ETFs provide a welcome alternative. First of all, ETFs are sold by one investor to another on some exchange. The ETF is never closed. Second, if the demand for an ETF drives the price far enough away from the underlying value of the stocks held by the ETF (its NAV) there is a mechanism that will create new shares to bring the market price of the ETF close to the NAV. If we want to recommend a particular ETF, we will not be stymied by finding it closed.

Broader range

As the popularity of ETFs has grown, the industry has turned itself inside out to provide funds that would attract investors. When one normally thinks of index funds in the mutual fund universe, we think of the S&P 500 index funds or the index funds offered by Vanguard such as European Stock or Emerging Market.

But those are your grandfather's index funds. The ETF industry has sliced and diced the investment universe into an incredible array of funds that cover all the domestic and foreign indexes and subsectors thereof. If there has been an

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Market Trends

	Trailing 12-Mo Trend	Forward 6-Mo Estimate
Economy	Higher	Higher
Interest Rates	Higher	Flat/Higher
Dollar	Flat	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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index created somewhere by somebody, there is sure to be an ETF that represents it.

Here are some examples. Morningstar created its nine style boxes so it could classify funds to better inform you about the nature of the funds you were investing in. There are now ETFs for each of the style boxes. Again, small cap funds tend to use the Russell 2000 index as their benchmark. Why not invest directly in the benchmark? There is a Russell 2000 ETF. The Russell in turn has been subdivided into value and growth subindexes. You guessed it, there are ETFs for the subindexes.

Then there are the PowerShares ETFs. PowerShares is pushing the envelope in creating "indexes." As the article on page 8 describes, PowerShares shuffles the securities in its index every quarter. However we describe the ETF universe, it certainly adds to the range of what has been offered by the mutual fund industry. And we haven't even discussed the very broad range of international ETFs.

The hype factor

We do not want you to conclude from this that ETFs are preferable to mutual funds. They are not, at least in our opinion. They simply are alike, but different. ETFs are being touted because they have low management fees as well as other expenses, implying they will then provide better performance. We have done study after study over the years showing there was no statistical relationship between performance and fund expenses over different three year periods for stock funds. (Bond funds are different). Expenses may matter over a 5- or 10-year period, but who cares? The investment world does not hold still for 5 or 10 years.

Another virtue of ETFs that is touted is that they are tax-efficient. Unlike mutual funds, ETFs so far have not in general hit their investors with large capital gains. There is good reason for this in the very structure of the way ETF shares are redeemed. As Don Culloton, Morningstar's point man on ETFs and editor of Morningstar's excellent publication, *ETFs 100*, writes, "In most cases ETFs are more tax efficient than conventional mutual funds in the same asset classes or categories. Nevertheless, ETFs can surprise you."

We should add, that we have never believed that the tax tail should wag the investment dog.

Using ETFs

We will be treating ETFs the same as any other fund in our lists. The ETFs will be ranked along with other funds and our advice will flow from the same guidelines we have used in offering advice on traditional funds. Since we are not traders, the prices we will use for ETFs are the closing prices for the day, just as with mutual funds.

In addition, we will be offering an all-ETF portfolio in *MONEYLETTER Plus*. We are creating the portfolio because we know there are ETF enthusiasts among the *MONEYLETTER* subscribers. This is our response to them. The portfolio will follow the Moderate investor allocation. It will be instructive to see how the portfolio performs.

Mark Hulbert wrote an article in the Sunday, March 26th *New York Times* titled "It Looks So Good On Paper:

Why Doesn't It Work?" The title gives you the flavor of the article. Hulbert found 25 all-ETF newsletter model portfolios and compared their average performance with similar non-ETF portfolios offered by the newsletters. He found the ETF portfolios lagged by a considerable amount, while their risk level was higher. As Hulbert says, his results may be a fluke "representing too small a sample over too few years to be valid." We just don't know, but his results do point to caution in your expectations for our new all-ETF portfolio.

In the end, it is the convenience and flexibility that ETFs offer that attracts us the most. But we are not unmindful of the coverage of the investment universe the ETFs offer. We believe that we will find that coverage most useful when it comes to overseas funds. We look forward to working with you in this wider investment universe. \$

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market capitalization breakdown is: 51% large-cap, 35% mid-cap, and 14% small-cap.

Top Five Sectors & Holdings (% of Assets)

Financials	19.3	Burlington Resources	3.5
Information Technology	16.3	Exxon Mobil	3.5
Consumer Discretionary	13.0	General Mills	3.1
Health Care	11.9	Reynolds American	3.0
Industrials	10.8	Nucor	2.8

As of March 31, 2006

PowerShares Dynamic OTC (PWO)

The Dynamic OTC portfolio is up 9.0% for the year-to-date, and ahead by 23.2% and 22.7% for the trailing one- and three-year (annualized) periods through May 11. By market cap, the portfolio is divided: 18% large-cap, 53% mid-cap, and 29% small-cap. \$

Top Five Sectors & Holdings (% of Assets)

Information Technology	53.5	Nvidia	3.7
Consumer Discretionary	13.8	Citrix Systmes	3.6
Health Care	13.0	Paychex	3.3
Financials	9.5	Qualcomm	3.2
Industrials	5.1	Tellabs	3.2

As of March 31, 2006

PowerShares Dynamic Funds (PWC, PWO)
PowerShares Capital Management
301 West Roosevelt Road, Wheaton, IL 60187
(800) 843-2639

HOTLINE

(410) 528-1804

Call for Updates Every
Tuesday and Friday at 7:00pm (ET)

ETFs—A Primer

After one look at *MONEYLETTER*'s performance record, a logical question comes to mind: why change anything? True, we are very pleased with the results of our advice, particularly since 1999. (For details, check out page 7 of the April 21, 2006 issue. Or, for a complete history of our portfolio performance, send a self-addressed, stamped envelope with your request to *MONEYLETTER*, P.O. Box 6020, Holliston, MA 01746). But with the popularity of Exchange-Traded Funds (ETFs) growing by the day, it only made sense to consider whether these vehicles would be useful for *MONEYLETTER*'s investment program.

The answer is "yes."

ETFs—the basics

What exactly are ETFs? Simply put, they are certificates of ownership over a portion of a basket of stocks. An institutional investment firm such as Vanguard, Barclays, or PowerShares Capital Management typically manages the ETF's stocks, and in most cases the basket is designed to track a particular market index. Also involved are a "market maker" who actually assembles the basket of stocks, and a custodial bank which holds the stocks in the fund's account. Stocks and ETF certificates trade through the Depository Trust Clearing Corp., which also oversees all stock transactions in the U.S.

Although ETFs fall under many of the same SEC rules that traditional mutual funds do, there are significant differences. For example, traditional mutual funds take orders for purchase and sale during the day, and the trades are actually executed after the close of the market. The Net Asset Value of the fund is thus calculated based on the closing prices of the securities owned at the end of the trading day. With an ETF, you can trade intra-day and receive a price immediately, just like an individual stock. Shares of ETFs may be purchased and sold on the American Stock Exchange (with the associated brokerage fee) at any time. Of course, using a discount broker can reduce transaction costs. Mutual funds, while predominantly no-load, are available with a lengthy list of conditions that restrict access at the expense of flexibility. While warehouse platforms that include Schwab OneSource, TD Ameritrade, and Fidelity FundsNetwork offer NTF (no transaction fee) trading programs for mutual funds, they require minimum holding periods extending up to six months. Fund imposed contingent redemption fees must also be considered when weighing buy/sell decisions.

The advantages

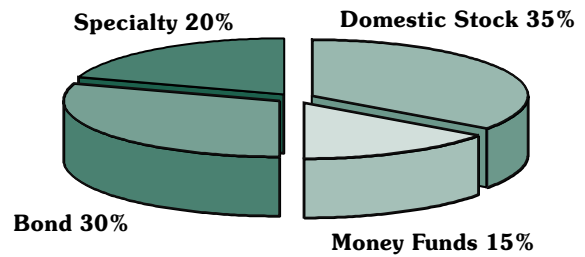
So, ETFs are different than traditional mutual funds. But what are the key advantages offered by ETFs? Let's take a look:

- ETFs charge extremely low fees, making them very attractive to the long-term, buy-and-hold investor. Fees typically range from 0.10% to 0.60%, well below the average mutual fund expense ratio of 1.4%.

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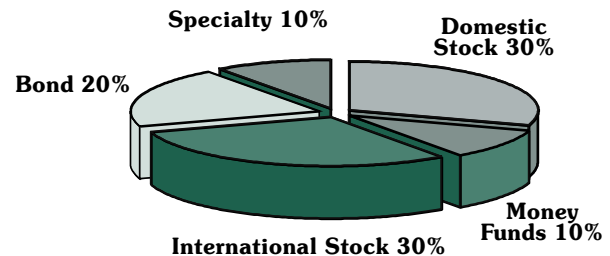
CONSERVATIVE

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



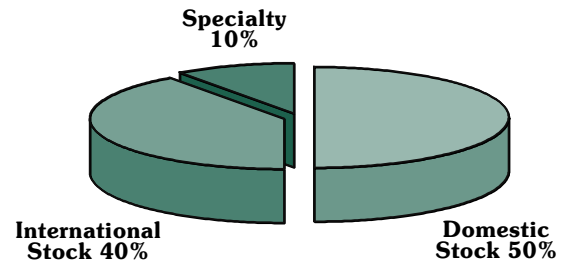
MODERATE

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



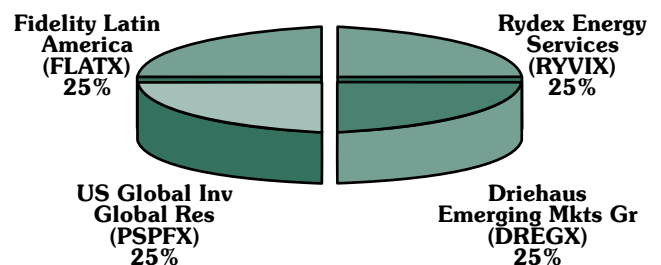
VENTURESOME

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	5/15 2006	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME	Fund Type	Conservative Moderate Venturesome			TOTAL RETURN			PRICE	RISK		NTF/ w/f
							*	B	B	1 mo.	6 mo.	12 mo.	PER SHARE	Std. Dev.	Beta	
1	1	—	—	HDPMX	Hodges Fund	MC	*	B	B	-0.4%	24.2%	52.6%	\$25.59	19.0	1.85	FSA
2	13	32	—	CGMFX	CGM Focus	SCVal	B	B	B	2.1	22.2	43.1	39.38	22.4	1.50	sa
3	6	5	—	TWHIX	American Century Heritage	MCGro	B	B	B	0.5	20.8	46.0	16.47	13.4	1.31	FSA
4	8	49	—	FMILX	Fidelity New Millennium (closed)	MCGro	B	B	B	-0.3	21.2	43.1	39.20	15.8	1.46	Fsa
5	9	7	—	BRSVX	Bridgeway Small Cap Value	SCVal	B	B	B	0.2	19.4	46.4	16.43	—	—	fsa
6	16	31	—	MNSCX	WellsFargo Montgomery Small Cap (closed)	SCGro	B	B	B	1.2	19.8	41.5	13.92	17.1	1.53	fS
7	2	254	—	HENLX	Hennessy Cornerstone Growth II (1%r<30d)	SCGro	B	B	B	-2.8	24.2	35.9	33.43	30.9	1.19	FSA
8	33	141	—	USCGX	USAA Capital Growth	MCGro	*	(B)	(B)	2.2	20.2	33.7	8.89	15.0	1.52	fSA
9	—	—	—	RYVPX	Royce Value Plus	SCGro	*	(H)	(H)	-2.7	19.1	43.7	13.43	16.9	1.54	—
10	3	51	—	RYLPX	Royce Low Priced Stock (closed, 1%r<180d)	SCVal	B	B	B	-2.3	20.1	40.1	17.47	15.4	1.38	fSA
11	21	121	—	RYPNX	Royce Opportunity (1%r<180d)	SCVal	B	B	B	-1.3	19.9	36.5	14.09	18.4	1.74	fSA
12	35	—	—	ATASX	ABN AMRO/TAMRO Small Cap N	SC	*	B	B	-0.3	20.3	33.4	18.93	15.8	1.52	FSA
13	27	—	—	HRTVX	Heartland Value	SCVal	*	(B)	(B)	-0.1	19.4	35.3	51.94	16.9	1.57	FSA
14	11	16	—	FMCSX	Fidelity Mid-Cap Stock (closed, .75%r<30d)	MCGro	B	B	B	-0.9	18.2	39.0	29.71	13.8	1.29	Fsa
15	14	—	—	RIMSX	Rainier Small/Mid Cap Port (closed)	MCGro	*	B	B	-0.7	17.6	40.2	37.34	15.2	1.42	FSA
16	28	71	—	WWNPX	Kinetics Paradigm (2%r<30d)	MC	H	H	H	-0.3	19.6	34.5	23.26	10.8	1.05	FSA
17	7	2	—	BRSGX	Bridgeway Small Cap Growth	SCGro	B	B	B	-0.1	16.7	41.3	15.41	—	—	fSA
18	5	8	—	BRAIX	Bridgeway Aggressive Investors 2	MCGro	*	B	B	-2.7	17.3	41.5	18.15	19.9	1.74	fSA
19	42	43	—	JSVAX	Janus Contrarian	MC	*	(B)	(B)	0.4	17.2	36.3	16.68	13.6	1.29	SA
20	19	98	—	IZZYX	ICM/Isabelle Small Cap Value	SCVal	B	B	B	-3.5	18.0	37.6	16.06	17.1	1.60	FSA
21	—	—	—	RYVFX	Royce Value	SC	(H)	(H)	(H)	-2.2	17.0	36.4	10.59	13.1	1.18	—
22	55	70	—	TWCVX	American Century Vista	MCGro	H	H	H	2.0	15.9	32.4	17.75	14.3	1.44	FSA
23	4	23	—	BOGLX	Bogle Small Cap Growth (closed)	SCGro	B	B	B	-2.8	16.6	37.2	29.78	16.2	1.47	a
24	10	24	—	TGSCX	TCW Galileo Small Cap Growth	MCGro	*	B	B	-2.5	15.8	38.7	19.61	18.6	1.71	FSA
25	53	59	—	FLVCX	Fidelity Leveraged Co (\$10k, 1.5%r<90d)	MC	*	H	H	-0.2	16.4	32.8	28.42	18.1	1.75	Fa
26	20	130	—	GSETX	Columbia Small Company Equity CIZ	SCGro	B	B	B	-1.4	17.6	30.8	20.77	16.6	1.56	fa
27	—	—	—	JKJ	Morningstar Small Core (iS)	SC	(H)	(H)	(H)	0.3	16.4	30.4	81.09	—	—	—
28	22	12	—	CLSPX	Columbia Mid Cap Growth CIZ	MCGro	B	B	B	-0.9	14.7	36.1	26.14	14.7	1.32	SA
29	63	11	—	SSMVX	Wells Fargo Adv SC Value CIZ (closed)	SC	H	H	H	-0.6	13.6	38.5	32.64	16.3	1.44	FSA
30	24	17	—	NEEGX	Needham Growth Fund (.75%r<30d)	SCGro	H	H	H	-1.5	14.9	36.4	39.23	25.7	1.19	FSA
31	79	126	—	MPSCX	MSI Small Cap Value (closed)	SCVal	H	H	H	1.6	15.6	29.8	26.03	13.1	1.22	fSA
32	12	1	—	BPTRX	Baron Partners	MCGro	H	H	H	-0.7	13.4	38.7	20.70	13.3	1.15	FSA
33	44	6	—	JORNX	Janus Orion	MC	H	H	H	0.3	13.3	35.6	9.10	13.3	1.37	FSA
34	43	77	—	FIDYX	AIM Dynamics Inv (closed)	MCGro	*	H	H	-0.5	15.4	31.0	20.20	13.1	1.26	FSA
35	52	82	—	FIGEX	INVESCO Small Company Growth	SCGro	*	H	H	0.0	15.0	30.9	14.76	24.2	1.15	FSA
36	49	176	—	JAVTX	Janus Venture (closed)	SCGro	*	H	H	-1.7	16.5	29.5	63.66	16.7	1.55	FSA
37	26	144	—	FBRVX	FBR Small Cap (closed, 1%r<90d)	SCGro	(H)	(H)	(H)	-1.2	17.5	25.4	47.89	12.4	1.11	FSA
38	40	117	—	FSLCX	Fidelity Small Cap Stock (2%r<90d)	SCGro	H	H	H	-1.6	15.4	30.8	20.35	12.8	1.20	Fa
39	67	—	—	FVDFX	Fidelity Value Discovery	MC	H	H	H	0.8	13.9	31.1	16.86	11.6	1.19	F
40	29	4	—	SSMGX	Sit Small Cap Growth (2%r<30d)	MCGro	B	B	B	-1.0	12.8	36.5	34.59	15.6	1.40	FSA
41	126	108	—	MPMVX	MSI Mid Cap Value	SCVal	H	H	H	2.6	14.0	27.6	28.78	11.9	1.25	fSA
42	15	10	—	RYPRX	Royce Premier (closed, 1%r<180d)	SC	(H)	(H)	(H)	-3.4	13.8	36.9	18.03	12.6	1.13	fSA
43	75	128	—	LSCRX	Loomis Sayles Small Cap Value Ret	SC	H	H	H	0.7	14.7	28.3	27.92	12.1	1.18	FSA
44	65	112	—	WMCVX	Wasatch Small Cap Value (closed, 2%r<60d)	SCVal	*	H	H	0.2	14.4	29.5	5.52	14.0	1.47	FSA
45	105	231	—	SCOVX	Wells Fargo Advantage SC Disciplined	SCVal	*	H	H	0.3	16.6	23.7	17.64	16.0	1.41	FSA
46	48	62	—	PRSVX	T. Rowe Price S-C Value (closed, 1%r<1yr)	SCVal	H	H	H	-1.1	13.8	31.7	41.23	12.0	1.13	fSA
47	88	30	—	BWAFX	Brandywine Advisors	MCGro	H	H	H	0.4	12.3	32.8	11.33	13.7	1.17	FSA
48	100	68	—	RSPFX	RS Partners (closed)	SC	H	H	H	0.2	13.2	30.8	36.02	13.0	1.16	FSA
49	—	—	—	IYJ	DJ US Industrial (iS)	LC	(H)	(H)	(H)	2.3	14.9	23.3	64.51	9.9	1.08	—
50	—	—	—	DSV	DJ WI US SmallCap Value (stTr)	SCVal	*	(H)	(H)	0.5	12.6	31.6	66.23	13.5	1.53	—
51	—	—	—	IOLIX	Icon Long/Short	LngShrt	*	H	H	-0.3	15.0	26.5	17.97	12.9	1.57	FSA
52	34	58	—	PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	-1.4	14.0	30.4	11.77	12.9	1.18	fSA
53	101	163	—	FLPSX	Fidelity L.P. Stock (closed, 1.5%r<90d)	SCVal	H	H	H	0.9	14.3	26.1	44.64	11.9	1.20	Fsa
54	122	86	—	LSGIX	Loomis Sayles Value	LCVal	H	H	H	2.4	13.2	26.6	20.06	8.7	0.93	fSA
55	74	90	—	STCSX	Wells Fargo Adv Common Stock Z (closed)	MC	H	H	H	0.6	13.8	27.3	23.62	12.2	1.24	FSA
56	82	66	—	CRMSX	CRM Small Cap Value Inv (closed)	SCVal	H	H	H	1.0	12.9	28.6	27.52	13.6	1.32	FSA
57	56	80	—	FDSCX	Fidelity Small Cap Ind. (1.5%r<90d)	SC	H	H	H	-0.9	13.3	30.1	22.34	12.6	1.08	FSA
58	23	27	—	NMANX	Neuberger Berman Manhattan	MCGro	*	(H)	(H)	-2.3	13.2	32.4	8.58	13.8	1.28	f
59	18	13	—	MXIXX	Marsico 21st Century (2%r<30d)	LC	H	H	H	-2.0	12.7	33.2	14.26	14.2	1.36	FSA
60	41	75	—	VALLX	Value Line Leveraged Growth	LCGro	*	H	H	-1.5	13.2	31.0	24.23	12.4	1.23	FSA
61	147	188	—	FCVXS	Fidelity Convertible Securities	Convrt	H	H	H	2.4	13.3	24.9	24.30	8.9	1.14	Fsa
62	54	196	—	TGONX	TCW Galileo Opportunity N	SC	H	H	H	-3.0	15.3	27.4	15.02	15.9	1.54	FSA
63	36	101	—	ACBGX	USGlobal Holmes Growth (.25%r<30d)	MCGro	H	H	H	-1.8	14.0	29.0	19.12	13.0	1.00	FSA
64	—	—	—	IJS	S&P 600 SmallCap Value (iS)	SCVal	*	(H)	(H)	-0.6	13.6	27.6	71.18	13.9	1.50	—
65	45	106	—	RSMOX	RS MidCap Opportunities	MCGro	H	H	H	-1.6	13.7	28.8	14.52	14.1	1.32	FSA
66	—	—	—	JKH	Morningstar Mid Growth (iS)	MCGro	(H)	(H)	(H)	-0.8	11.9	32.3	83.42	—	—	—
67	183	259	—	AVALX	Aegis Value Fund	SCVal	H	H	H	3.4	15.6	16.6	18.28	11.6	1.01	fa
68	135	—	—	TGLNX	TCW Galileo Equities N	LC	H	H	H	2.7	12.8	24.5	17.07	10.8	1.13	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	5/15 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	38	64	VISGX	Vanguard Small Cap Growth Index	SCGro	H	H	H	-2.1	13.4	29.8	17.97	14.9	1.60	fSa	
70	86	255	NBSX	Neuberger Berman Focus	LCVal	*	H	H	1.7	15.3	19.1	36.37	18.8	1.68	fSa	
71	31	39	PRNHX	T. Rowe Price New Horizons	SCGro	*	(H)	(H)	-2.4	13.3	30.4	34.03	14.5	1.39	fSa	
72	—	—	ICNIX	ICON Core Equity	MC	*	H	H	0.0	12.6	28.3	16.38	13.2	1.33	FSA	
73	25	3	MPEGX	MSI Mid Cap Growth Inst Cl	MCGro	*	H	H	-1.2	10.5	35.0	26.77	12.5	1.14	a	
74	123	142	CBMDX	C&B Mid Cap Value	MCVal	S	S	S	3.1	12.7	23.3	22.25	13.0	1.32	FSA	
75	91	28	BRWIX	Brandywine Fund	MC	H	H	H	-0.3	11.5	31.3	33.67	13.5	1.20	fSa	
76	113	166	SLSSX	Selected Special Shares	MCGro	S	S	S	1.3	13.3	24.2	13.63	12.3	1.28	sA	
77	66	149	BSCFX	Baron Small Cap (closed)	SCGro	S	S	S	-1.2	15.1	23.4	25.10	13.2	1.06	FSA	
78	—	—	DSG	DJ WI US SmallCap Growth (stTr)	SCGro	*	(H)	(H)	-2.1	13.9	27.3	89.93	13.5	1.46	—	
79	—	—	IWN	Russell 2000 Value (fS)	SCVal	*	(H)	(H)	-0.5	13.1	26.6	72.91	13.6	1.50	—	
80	159	178	SMCDX	Wells Fargo Advantage MC Disciplined	MCVal	S	S	S	2.3	12.8	23.2	22.24	10.0	0.96	FSA	
81	30	19	TMGF	Turner Mid Cap Growth	MCGro	*	H	H	-2.0	12.1	30.9	29.84	15.7	1.45	FSA	
82	160	110	RSVAX	RS Value	MC	S	S	S	2.6	11.9	24.4	26.36	12.0	1.01	FSA	
86	68	76	FDFFX	Fidelity Independence	LCGro	H	H	H	0.0	12.0	27.7	21.10	12.2	1.25	Fsa	
92	17	—	USRAX	Undiscovered Small Cap Grwth A LW	SCGro	*	(H)	(H)	-5.1	14.7	27.9	10.90	—	—	f	
99	162	238	VCVLX	Vanguard Capital Value	LCVal	H	H	H	2.8	13.3	19.1	12.61	10.1	1.19	fSa	
108	90	57	VIMSX	Vanguard Mid-Cap Index	MC	H	H	H	0.3	11.4	26.8	18.87	11.2	1.31	fSa	
124	121	136	VISVX	Vanguard Small-Cap Value Index	SCVal	H	S	S	0.1	11.4	24.2	15.83	12.0	1.34	fSa	
128	81	67	VEXMX	Vanguard Extended Market Index	MC	H	H	H	-0.8	10.9	26.3	36.77	12.1	1.38	fSa	
136	62	45	FFTYX	Fidelity Fifty (.75%r<30d)	LC	*	H	H	-1.0	9.9	27.8	24.07	12.5	1.28	Fsa	
139	104	34	FCNTX	Fidelity Contrafund (closed)	LC	(S)	(S)	(S)	0.4	9.1	26.6	67.05	9.2	0.86	Fsa	

Dow Jones
NASDAQ
S&P 500

2.6%
-3.8
0.2

7.0%
2.4
5.1

12.7%
13.2
11.9

indexes do not
include dividends

International Stock Funds

1	—	1	PRLAX	T. Rowe Price Latin America (2%r<90d)	LatinA	*	H	H	5.3%	33.8%	96.7%	\$31.88	20.5	—	fSa
2	—	6	DREGX	Driehaus Emerging Mkts Gr (2%r<60d)	Int'l	*	B	B	3.2	39.8	77.6	35.07	17.9	—	FSA
3	—	5	EUROX	US Global Eastern Europe (2%r<180d)	Europe	*	B	B	4.1	35.8	85.5	48.76	22.0	—	FSA
4	—	2	FLATX	Fidelity Latin Amer. (1.5%r<90d)	LatinA	*	H	H	3.8	32.4	92.1	39.30	19.8	—	Fs
5	—	11	DRIDX	Driehaus Intl Discovery (2%r<60d)	Int'l	*	B	B	3.1	37.9	68.1	48.37	16.3	—	FSA
6	—	3	SLAFX	DWS Latin Amer Equity S (closed,2%r<30d)	LatinA	*	H	H	3.4	29.0	88.6	55.69	21.1	—	Sa
7	—	—	ICSEX	ICON Europe	Europe	*	(B)	(B)	6.2	41.1	53.2	19.30	13.9	—	FSA
8	—	12	JAOSX	Janus Overseas (2%r<90d)	Int'l	*	B	B	3.7	36.1	69.6	39.43	15.1	—	FSA
9	—	7	FEMIX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	*	B	B	1.2	34.3	70.6	21.95	17.8	—	Fsa
10	—	16	AIOIX	Amer.Cent.Intl Opp. (closed,2%r<180d)	Int'l	*	B	B	4.0	34.5	58.6	12.06	14.9	—	—
11	—	—	ILF	S&P 40 Latin America (fS)	LatinA	*	(H)	(H)	3.2	25.2	82.0	146.20	19.2	—	—
12	—	37	ACINX	Columbia Acorn Intl Z (2%r<60d)	Int'l	*	H	H	4.6	33.7	52.0	41.06	11.6	—	Sa
13	—	62	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	*	B	B	3.0	34.0	53.1	24.02	12.6	—	SA
14	—	40	PISR	Forward Intl Small Companies (2%r<180d)	Int'l	*	(B)	(B)	4.6	34.3	49.7	18.08	13.6	—	FSA
15	—	30	FISMX	Fidelity Intl Small Cap (closed,2%r<90d)	Int'l	*	(B)	(B)	3.2	34.1	51.7	32.24	14.2	—	Fa
16	—	22	PRIDX	T. Rowe Price Intl Disc. (2%r<90d)	Int'l	*	(B)	(B)	4.4	32.1	54.2	49.75	12.9	—	fSa
17	—	19	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	B	B	3.6	32.8	52.1	25.22	17.2	—	Fsa
18	—	38	WAIGX	Wasatch Intl Growth (closed,2%r<60d)	Int'l	*	H	H	5.0	32.2	48.3	23.75	11.5	—	FSA
19	—	48	VINEX	Vanguard Intl Expl (closed,\$25k,2%r<60d)	Int'l	*	H	H	5.3	32.4	45.4	21.60	11.4	—	fSa
20	—	—	ADRE	Emerging Mkts 50 ADR (BLDRS)	EmerMkt	*	H	H	1.8	26.2	65.8	134.20	17.9	—	—
21	—	60	FECA	Fidelity Europe Capital App. (1%r<30d)	Europe	*	H	H	4.3	31.8	45.8	27.01	13.3	—	Fa
22	—	—	SSEM	SSGA Emerging Markets	Int'l	*	(B)	(B)	1.4	30.6	52.2	22.34	17.1	—	FA
23	—	15	FPBF	Fidelity Pacific Basin (1.5%r<90d)	Pacific	*	H	H	2.4	29.2	53.9	29.06	14.0	—	Fsa
24	—	35	SCOPX	DWS Pacific Opp Eq. S (closed,2%r<30d)	Pacific	*	H	H	3.7	31.3	46.5	19.16	14.9	—	FSA
25	—	14	VEIEX	Vanguard Emerging Mkts Stk Index (.5%r)	Int'l	*	(H)	(H)	2.4	27.6	54.0	22.16	16.7	—	fSa
26	—	—	ITF	S&P 150 Topix (fS)	Japan	*	(H)	(H)	4.0	26.5	52.0	131.00	15.7	—	—
27	—	—	VVO	Vanguard Emerging Mkts (VIPER)	EmerMkt	*	(H)	(H)	1.7	27.0	54.0	70.09	—	—	—
28	—	64	ACFFX	Columbia Acorn Intl Select Z	Int'l	*	(H)	(H)	4.6	29.2	42.7	24.59	11.5	—	Sa
29	—	42	BJBIX	Julius Baer Intl Equity A (2%r<90d)	Int'l	*	H	H	5.2	27.9	44.2	42.24	11.9	—	FS
30	—	10	FJPNX	Fidelity Japan (1.5%r<90d)	Japan	*	H	H	0.2	25.9	56.0	18.94	19.0	—	Fa
31	—	18	DRFMX	Dreyfus Premier Emerging Market (1%r)	Int'l	*	(H)	(H)	2.2	26.8	50.4	25.14	14.9	—	fSa
32	—	27	HAINX	Harbor International (2%r<60d)	Int'l	*	H	H	3.6	26.6	47.1	58.26	11.2	—	Fsa
33	—	8	HLEM	Harding Loevner Emerg Mkt (2%r<90d)	Int'l	*	(H)	(H)	0.9	24.0	57.7	39.22	16.1	—	FSA
34	—	—	EEM	MSCI Emerging Markets (fS)	EmerMkt	*	(H)	(H)	0.6	25.2	54.8	101.80	17.1	—	—
35	—	—	ADRA	Asia 50 ADR (BLDRS)	Pacific	*	(H)	(H)	3.0	26.3	47.5	95.55	13.7	—	—
36	—	26	NBISX	Neuberger Berman Intl (2%r<60d)	Int'l	*	(H)	(H)	3.2	27.1	45.1	25.20	11.4	—	fSa
37	—	—	EWJ	MSCI Japan (fS)	Japan	*	H	H	3.5	25.1	49.4	14.98	16.0	—	—
38	—	25	WPJGX	CS Warburg Pincus Japan Grth (2%r<30d)	Japan	*	S	S	1.3	27.1	47.3	7.75	17.7	—	FSA
39	—	75	SCGEX	DWS Europe Equity S (closed,2%r<30d)	Europe	*	S	S	3.8	28.4	38.5	35.70	11.3	—	FSA
40	—	23	SCOBX	DWS Global Thematic S (closed,2%r<30d)	Global	*	H	H	2.8	24.7	48.4	35.42	11.1	—	FSA
41	—	39	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	*	S	S	4.3	26.3	42.1	23.37	10.5	—	FSA
42	—	20	VPACX	Vanguard Pacific Stock Index (2%r<60d)	Pacific	*	H	H	4.1	24.8	45.2	12.74	13.8	—	fSa
43	—	59	QFVOX	Quant Foreign Value (1%r<30d)	Int'l	*	S	S	4.4	26.5	40.3	20.75	12.2	—	FSA
46	—	9	PRMSX	T. Rowe Price Emerging Mkts Stk	Int'l	*	H	H	0.1	22.7	54.1	29.11	16.5	—	fSa
54	—	4	TREMX	T. Rowe Price Emg Europe & Med (2%r<90d)	Europe	*	H	H	-2.0	19.6	59.3	28.33	19.4	—	fa

Bond Funds (next issue on page 6: Specialty Funds)
 5/15/2006

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%	0.9%	3.4%	\$3.40	0.68	4.99%	Fa
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	*	*	*	-0.3	4.4	7.2	7.22	3.77	5.78	FSA
CMHYX	Columbia High Yield CIZ (closed)	HighYld	*	*	*	-0.1	1.5	4.0	4.04	3.80	6.56	FSA
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	0.6	5.1	9.7	9.65	5.20	6.08	Fsa
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	0.0	2.9	7.5	7.52	4.12	6.87	Fsa
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	1.0	5.2	8.5	8.54	—	6.93	FSA
NTHEX	Northeast Investors Trust	HighYld	*	*	*	1.8	8.9	12.1	12.12	3.69	7.96	fa
PHYDX	PIMCO High Yield (2%r<30d)	HighYld	*	*	*	0.2	3.7	7.4	7.40	4.36	6.89	FSA
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	0.6	4.5	8.2	8.21	—	7.26	FSA
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.5	2.3	4.8	4.84	1.45	5.11	FSA
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	0.6	3.9	7.9	7.91	3.85	7.54	fsc
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	0.8	5.1	8.7	8.69	4.78	7.26	FSA
VAGIX	Value Line Aggressive Inc (1%r<120d)	HighYld	*	*	*	0.0	1.0	2.4	2.41	3.78	6.23	FSA
VWEHX	Vanguard High Yield Corporate (1%r<1yr)	HighYld	*	B	*	0.4	3.9	7.4	7.41	3.79	7.09	fsc
BEBGX	American Century Int'l Bond	Int'l	*	*	*	5.3	5.9	-1.2	-1.20	9.09	1.94	FSA
SSTGX	DWS Global Bond S (closed,2%r<30d)	Int'l	*	*	*	2.8	3.5	1.1	1.05	5.11	8.77	Sa
FNMIX	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	-0.2	3.9	10.5	10.48	7.52	5.71	Fsa
PYGFX	Payden Global Fixed Income	Int'l	*	*	*	0.0	-0.3	1.2	1.19	3.35	11.34	fsA
RPBIX	T. Rowe Price Int'l Bond (2%r<90d)	Int'l	*	*	*	5.7	7.1	-0.5	-0.50	8.46	2.76	fsc
BGNMX	American Century Ginnie Mae	IntTerm	*	*	*	-0.3	0.0	-0.4	-0.39	2.52	4.84	FSA
CPTNX	American Century Government Bond	IntTerm	*	*	*	0.1	-0.1	-0.6	-0.56	3.14	4.15	FSA
ACITX	American Century Inflation Adj	IntTerm	B	*	*	0.4	-0.7	-1.7	-1.71	—	4.89	FSA
SRINX	Columbia Income CIZ	IntTerm	*	*	*	0.0	-0.4	-0.1	-0.08	4.14	5.52	Fsa
SRBFX	Columbia Intermediate Bond CIZ	IntTerm	*	*	*	0.1	-0.3	-0.5	-0.51	3.71	4.98	FSA
DODIX	Dodge & Cox Income	IntTerm	*	*	*	0.3	0.8	1.6	1.57	2.99	4.60	fsc
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	0.1	0.3	0.4	0.35	4.47	4.92	FSA
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	-0.3	0.2	0.2	0.17	2.97	4.23	FSA
DSINX	Dreyfus Premier Core Bond (closed)	IntTerm	*	*	*	-0.3	-0.5	-0.5	-0.49	4.17	4.57	fSc
SCSBX	DWS Core Plus Income S (closed,2%r<15d)	IntTerm	*	*	*	0.1	0.4	0.6	0.61	4.03	4.92	Sa
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	0.5	-1.1	-2.7	-2.73	6.57	1.58	Fa
AGG	Lehman Aggregate Bond (iS)	IntTerm	*	*	*	-0.2	0.0	-0.3	-0.32	0.00	4.36	—
MBDFX	Managers Fremont Bond	IntTerm	*	*	*	0.4	0.5	-0.1	-0.06	4.27	4.23	fsc
PTIDX	PIMCO Total Return (2%r<7d)	IntTerm	*	*	*	0.3	0.3	-0.6	-0.61	4.16	3.94	FSA
PTMDX	PIMCO Total Return Mortgage (2%r<7d)	IntTerm	*	*	*	0.1	0.7	-0.3	-0.32	2.98	3.84	FSA
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	-0.3	0.1	-0.3	-0.28	2.54	4.82	fsc
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	0.0	-0.3	-0.7	-0.65	3.97	4.38	fsc
TGMNX	TCW Galileo Total Return Bond	IntTerm	*	*	*	0.0	0.6	1.0	1.01	2.91	4.71	FSA
USAIX	USAA Income	IntTerm	*	*	*	0.0	0.0	0.1	0.12	4.28	4.87	A
VALBX	Value Line U.S. Govt Sec	IntTerm	*	*	*	0.2	0.4	0.0	-0.02	3.75	4.55	FSA
VFIIX	Vanguard GNMA	IntTerm	B	*	*	-0.3	0.6	0.9	0.86	3.19	4.87	fsc
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	0.4	-0.9	-1.5	-1.50	6.35	5.67	fsc
MNTRX	Wells Fargo Adv Total Return Bond	IntTerm	*	*	*	0.1	-0.2	-0.9	-0.88	4.11	4.21	fSc
WTBIX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	0.3	1.3	2.7	2.65	3.72	5.55	FSA
KIFIX	FifthThird Bond	LngTerm	*	*	*	0.1	-0.3	-0.8	-0.84	4.11	4.16	fa
MGFIX	Managers Bond	LngTerm	*	*	*	0.3	1.0	2.2	2.18	5.28	3.81	FSA
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	0.1	-0.5	0.7	0.71	5.42	4.99	fsc
FSICX	Fidelity Strategic Income	Multi	B	B	*	1.1	3.5	5.7	5.73	4.42	5.25	Fa
JAFIX	Janus Flexible Bond	Multi	*	*	*	0.1	0.0	-0.5	-0.49	4.11	4.44	FSJA
LSBDX	Loomis Sayles Bond Instl (2%r<60d)	Multi	B	B	*	1.0	5.4	9.6	9.57	6.33	6.06	fsc
LSBRX	Loomis Sayles Bond Retail (2%r<60d)	Multi	B	B	*	1.0	5.3	9.3	9.32	6.30	5.89	FSA
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	1.0	3.0	3.8	3.77	3.74	4.25	fsc
DSTIX	Dreyfus Premier Short-Term Income	ShfTerm	B	*	*	0.0	0.2	0.3	0.26	1.71	4.20	FSA
SCSTX	DWS Short-Term Bond S (closed,2%r<15d)	ShfTerm	B	*	*	0.5	1.6	2.4	2.35	1.47	4.30	Sa
FSGVX	Federated U.S. Govt Sec. 1-3	ShfTerm	B	*	*	0.0	0.3	0.2	0.15	1.09	3.78	fSc
FSHBX	Fidelity Short-Term Bond	ShfTerm	B	*	*	0.1	0.3	0.8	0.77	1.66	3.82	Fsa
JASBX	Janus S-T Bond	ShfTerm	B	*	*	0.3	1.4	1.5	1.54	1.26	3.11	FSA
MGIDX	Managers Int. Duration Govt	ShfTerm	*	*	*	0.1	0.7	0.2	0.21	2.52	3.82	FSA
MGSDX	Managers Short Duration Govt	ShfTerm	B	*	*	0.4	2.2	3.3	3.33	0.55	3.59	FSA
MWLDX	MetroWest Low Duration	ShfTerm	B	*	*	0.0	0.6	1.2	1.20	1.68	4.15	FSA
PTLCX	PIMCO Low Duration (2%r<7d)	ShfTerm	B	*	*	0.6	0.7	0.2	0.24	1.73	2.90	fa
SWBDX	Schwab S-T Bond Mkt Index	ShfTerm	B	*	*	0.2	0.9	1.1	1.05	2.18	3.88	fS
SSTBX	Strong S-T Bond	ShfTerm	B	*	*	0.3	1.1	1.8	1.76	1.65	4.23	FSA
PRWBX	T. Rowe Price S-T Bond	ShfTerm	B	*	*	0.5	1.1	1.5	1.50	1.59	3.67	fsc
VFSTX	Vanguard Short-Term Investment Grade	ShfTerm	B	*	*	0.0	0.8	1.5	1.51	1.66	3.83	fsc
VSGBX	Vanguard S-T Federal	ShfTerm	*	*	*	0.0	0.7	0.8	0.75	1.80	3.53	fsc
VFISX	Vanguard S-T Treasury	ShfTerm	B	*	*	0.0	0.6	0.7	0.73	1.72	3.51	fsc
MNSGX	WellsFargo Montgomery S Dur Govt (closed)	ShfTerm	B	*	*	0.5	1.3	1.3	1.31	1.58	3.75	fSc
BTTNX	American Century Target 2010	ZeroCpn	*	*	*	0.3	0.0	-1.5	-1.47	7.06	4.39	FSA

(continued from page 3)

- Prices can be locked in mid-day, allowing investors increased flexibility and ability to lock-in a price. And as we mentioned above, they can be traded frequently if necessary with very little hassle and only a brokerage fee.
- ETFs usually offer investors good after-tax performance. Their formation is recognized as a trade of equivalent certificates (the ETF for the basket of stocks), thus creating an "in-kind" trade. According to the IRS, a swap of fundamentally identical items does not trigger capital gains. This situation is significantly different for the traditional mutual fund, which must declare and distribute capital gains to investors—annually for most stock funds. Investors, of course, must pay a capital gain on the sale of an ETF, but that allows a considerable delay in the tax bite. \$

An Inevitable Correction

We knew it had to happen. The rip-roaring market this year had to have its comeuppance. At some point profit-taking had to arrive, and it has now with a vengeance.

A good deal of this correction can be tied to the action of the Federal Reserve. Apart from our market, our interest rates affect markets worldwide. We are at a critical point for rates. Happily, we believe the economy is responding to the interest rate castor oil. We are witnessing a very nasty, but limited, correction.

On a brighter note, we are pleased to report that the April 2006 issue of The Hulbert Financial Digest ranks *MONEYLETTER* among the top five mutual fund newsletters for performance over the past five years.

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100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF	4.64%	4.63%	3.45%
Vanguard Treasury MMF	4.46	4.40	3.42
Amer Century Capital Presv Fund/Inv	4.26	4.21	3.21
JPMorgan 100% US Treas MMF/Morgan	4.18	4.13	3.07
T. Rowe Price US Treasury MF	4.13	4.11	3.12
US Treasury MF of America/CI A	4.12	4.12	3.03
RMK Select Treas MMF/CI A	4.05	4.05	3.04
Schwab US Treasury Money Fund	4.03	4.02	3.02
Merrill Lynch CMA Treas Fund RIC	4.01	3.97	2.96
HSBC Investor US Treas MM/CI D	3.98	4.01	2.97

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
TIAA-CREF Money Market Fund	4.75%	4.69%	3.70%
PayPal Money Market Fund	4.73	4.65	3.90
Vanguard Prime MMF/Retail	4.72	4.65	3.69
Harbor Money Market Fund	4.68	4.58	3.60
IXIS Cash Mgmt Tr/MM Series/A	4.65	4.58	3.16
MFS Money Market Fund	4.64	4.57	3.65
TCW Money Market Fund	4.64	4.59	3.60
Dreyfus BASIC MMF	4.61	4.55	3.54
Marshall Prime MMF/Investor Class	4.61	4.56	3.59
Flex-fund Money Market Fund	4.60	4.50	3.53

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Alpine Municipal MMF/Investor	3.61%	3.53%	2.82%
Vanguard Tax-Exempt MMF	3.49	3.44	2.73
Fidelity AMT Tax-Free Money Fund	3.34	3.32	2.57
Fidelity Municipal MMF	3.27	3.20	2.47
Amer Century T-F MMF/Inv Class	3.24	3.16	2.45
Fidelity Tax Free Money Market	3.23	3.16	2.45
USAA Tax Exempt MMF	3.23	3.17	2.44
DWS Tax-Exempt Money Fund	3.21	3.14	2.48
Dreyfus BASIC Muni MMF	3.21	3.14	2.44
Morgan Stanley Active Assets T-F Tr	3.15	3.11	2.35
T-E Portfolio/Managed Shares	3.15	3.11	2.41

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard PA Tax-Exempt MMF	3.51%	3.45%	2.71%
Vanguard OH Tax-Exempt MMF	3.49	3.44	2.71
Vanguard NY Tax-Exempt MMF	3.44	3.40	2.69
Vanguard NJ Tax-Exempt MMF	3.41	3.34	2.67
Vanguard CA Tax-Exempt MMF	3.40	3.36	2.66
Fidelity FL Municipal MMF	3.31	3.21	2.43
Fidelity PA Municipal MMF	3.23	3.13	2.41
Fidelity AZ Municipal MMF	3.21	3.15	2.41
Fidelity MA Municipal MMF	3.19	3.09	2.36
Fidelity MI Municipal MMF	3.18	3.10	2.37

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 5/9/06. 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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PowerShares: ETFs With an Added Twist

AltaVista Independent Research, in a white paper dated December 1, 2005, states, “The inability of most active mutual fund managers to outperform broad market indices contributed to the rise of index investing. The soaring popularity of exchange traded funds has only intensified this trend.” Well, PowerShares, founded by Bruce Bond in August 2002, sought to create a way of indexing that would actually outperform their respective market segment benchmarks—enhanced indexing.

“The goal was to work with one of the major index providers to launch a new generation of indexes that had a valuation component. That component would evaluate the investment merit of securities and incorporate the ones that had more investment merit than others. We had the research, knowledge, and quantitative capabilities, and we chose the AMEX to work with. They ultimately developed the indexes on their own but using some of our research,” explains Bond. The end result: the Dynamic Market Intellidex and the Dynamic OTC Intellidex (short for intelligent index), on which PowerShares Dynamic Market and Dynamic OTC ETFs are based.

It's all in the construction

The Dynamic Market Intellidex is designed to look like the entire stock market. The best benchmark to compare it to is the Russell 3000. Although some investors may consider the S&P 500 to be representative of “the market,” Bond says, “We don't compare it to the S&P because the S&P 500 does not have small caps in it. The Market portfolio will have exposure to some small caps.” The Dynamic Market OTC Intellidex is best compared to the Nasdaq Composite.

The first step in constructing the Dynamic Market Intellidex is to look at the 2,000 largest stocks and break those down by sector. Bond explains, “If financial stocks constitute 17% of the market, the Intellidex itself is going to make sure that it has 17% of itself in financials.” It also identifies how much of its portfolio must be in various capitalization ranges. “It's not designed to tilt at all toward small-cap or large-cap, or tilt toward sectors at all,” states Bond. “Here, we say that we constrain it to the market as best we can from a sector standpoint as well as from a size standpoint. The Intellidex is designed to be very market-like, and then use stock selection to identify stocks that have the best investment merit.” The Dynamic OTC Intellidex is similarly constructed.

What constitutes investment merit? The Intellidex investment methodology uses a series of 25 factors that are calculated into a “model score.” The factors derive from four broad perspectives—seven based on stock valuation, seven considering company fundamentals, six are timeliness measures, and five assess risk. The Intellidex indexes then selects the highest scoring stocks from each sector and size category, for a total of 100 issues.

But, it doesn't stop there. In contrast to a static index, stocks are reassessed and rebalanced at every quarter end. “When the indexes make their changes, everybody knows at the same time. Typically, we get the majority of the rebalancing in the ETFs done on the day of rebalancing,” says Bond.

This characteristic does, however, cause these two ETFs to have a turnover that is not typical for an ETF—around 100% annually—more akin to an actively managed mutual fund. However, while the stocks in the Intellidexes change, Bond says he has not seen sector weightings change much over the past three years. He does say, however, “Because small-cap has performed a bit better than mid- and large-cap, that segment has probably increased its weighting a bit in the overall market.”

A word about volatility

So if these Intellidexes are designed to hold the market's best investments, what happens in a down market? Bond says they have held up well. “If you are rebalancing every quarter, and have a sophisticated methodology that is attempting to select stocks that have investment merit at that moment, you would think these stocks would tend to hold up better when the market goes down. So that is really the goal—to provide downside protection.

Looking at the beta [a measure of the portfolio's volatility] of the two funds, the beta of the Dynamic OTC is 0.92 when compared to the Nasdaq Composite,” meaning it displays slightly less volatility than the Composite. Bond continues, “The Dynamic Market has a beta equal to the S&P 500 or Russell 3000.” Both Intellidexes have outperformed their respective benchmarks over the trailing one- and three-year periods as of March 31.

PowerShares Dynamic Market (PWC)

The Dynamic Market portfolio is ahead by 5.6% for the year through May 11, and sports 20.0% and 21.0% returns for the trailing one- and three-year (annualized) periods. Its

(continued on page 2)

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