

The Pause That Refreshes

by Walter S. Frank, Chief Investment Officer

Gaming the Fed the past few weeks has not been easy. For a while we were listening to Dutch Uncle Ben who read us the riot act about inflation. Markets shivered as the 10-year yield rose to 5¼%, and the Fed raised short-term interest rates another notch, also to 5¼%. Forecasts for Fed rate increases, from even the more level-headed Wall Street financial seers, climbed to 6% by year end or a little later. Although we were skeptical of the forecasts, we cut back our stock allocations, on the basis that the odds had risen for rates to go higher than we had been expecting.

Since then, and a month's worth of indicators later, the message from the Fed has softened. Earlier, listening to the Fed, one would think that the economy was booming, driving inflation higher until the juggernaut was to be stopped dead in its tracks by a restrictive Fed policy. As we said in these pages a while ago, we could hardly believe that the Fed would continue to ignore the fact that the economy was slowing considerably.

In the past few weeks the recognition of a slowing has come. The recognition came from Mr. Bernanke himself when he started his review of the economic situation with the words, "The economy appears to be in a period of transition." Equally reassuring, as far as future Fed policy was concerned, were the words of the Monetary Policy Report to the Congress that accompanied Mr. Bernanke's testimony. "Over time," the report reads, "pressures on inflation should abate as the pace of real activity moderates...." Reading the report and the economic projections for the rest of this year as well as the next is to read the report of a group that believes it has the situation well in hand. In other words, the group is ready to pause.

Where does that leave us? Looking at the domestic market, there is a juggling act that needs to be performed. On the one hand, there is the slowing economy. If you take

the Fed's numbers for this year, and account for the fact that the economy was very strong in the first quarter, you are left with an economy running somewhat less than 3% for the rest of this year. This is not disastrous, but it strongly says that the analysts will have to lower their profit projections for this year.

So far they have not done so. Something does not connect. Using the analysts' numbers the market is very good value. Allowing for downside revisions, the U.S. market is still good value, though not the value it now seems. And higher interest rates are here to stay. A pause is not a reversal of policy.

Overseas, the conditions are different. Rising rates here and the correction that followed it, were echoed by the behavior of overseas markets. Even the Japanese market appeared to follow the gyrations of our own. We believe a Fed pause will loosen the ties and reassure markets abroad that the U.S. economy is not about to slip into recession, nor are U.S. interest rates on an indefinite climb. We see the appetite for risk abroad as at least partially, though slowly, returning.

Crossing The 5% Line 2nd Quarter Review

It was all going so well through April and early May (the second quarter we mean) and suddenly Mr. Bernanke blew his inflation trumpet and, for investors, May 10th became a date to remember.

What happened on May 10th? It was the day the Fed raised the fed funds rate to 5% and indicated that they were not done. That was all a disappointed market needed to hear. Virtually everyone had looked at 5% as the point at which the Fed would pause. As this turned out to be incorrect, the markets both here and abroad began to fall apart

Even worse, the Fed also decided, individually or collectively, that the days after May 10th were just the time for the Fed to put on a full court press by warning us all the inflation was now a clear and present danger. Wall Street, of course, got the message. Risk became a four-letter word, and the darlings of yesterday (emerging markets, Japan, Central Europe, high-yield bonds, commodities) became the shunned of today. Only China escaped being trampled in the rush to flee risk. Did someone say hedge funds?

Have no doubt, it was the quarter of the Fed. We are not saying the markets would have continued to move as they had earlier in the quarter. The year until May had been beyond expectations. Rates were about to be raised abroad (Japan, Europe). But the abrupt about-face, the flight from

(continued on page 2)

Market Trends

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

(continued from page 1)

risk, can be laid at the feet of the Fed. There are those who argue no...there is something fundamentally flawed with our economy that is at work. We believe they are wrong.

The numbers game

If you look at the overall numbers for the quarter as a whole, you might wonder what all the grimacing is about. The S&P 500 lost 1.4% over the quarter, hardly worth talking about. The Nasdaq was down 7.2%, a substantial loss, but then this is the Nasdaq, and the index was still up for the year-to-date at quarter's end.

But that misses the dynamics of the quarter. It was not the losses over the quarter that made it so painful. It was the fact that the losses were packed into a few short weeks after May 10th. For example, virtually all the Nasdaq's 7% loss for the quarter came in the weeks after May 10th.

If we look abroad the story is essentially the same. According to Lipper, emerging market funds lost about 5% over the quarter, less than the Nasdaq. But the loss in Driehaus Emerging Market Growth, one of our better acting funds, was 14% from May 10th. Over the quarter, the fund was effectively unchanged. It was not the total pain that was important, but that it was packed into a few short weeks.

The portfolios and funds

Table 1 summarizes the results of our portfolios. All the **Venturesome** portfolios were down about the same amount (fund families made little difference). The Select, going its own way, was down a bit more. The Moderate portfolios performed as they should, keeping the losses contained. The Conservative portfolios came into their own in this loss quarter.

In looking at the portfolios, bear in mind that we remove closed funds from the portfolios. This practice may cost some performance in the interest of being useful to new subscribers.

Table 2 presents the performance of the better performers among funds that were in the portfolios over the entire quarter. (Better is a relative term.) As you can see the top-performers were the natural resources funds. Not only did they gain over the quarter, but they provided first-half double-digit returns. A third fund with (barely) positive returns was Vanguard Small Cap Value.

In general, as you can see from the Table, value funds (Bridgeway, for example) or energy-oriented funds (Kinetics Paradigm) made the cut. Only two overseas funds did, Forward International Small Companies and Vanguard Pacific Stock Index.

It was a most difficult quarter. No one said investing was easy. \$

Table 1
Portfolio Performance
2nd Quarter and 1st Half 2006

Portfolio	2nd Q	1st Half
MONEYLETTER		
Venturesome	-5.1%	4.7%
Moderate	-2.6	5.9
Conservative	-0.8	3.8
Fidelity		
Venturesome	-5.0	2.3
Moderate	-2.2	1.8
Conservative	-1.1	4.3
Vanguard		
Venturesome	-4.9	1.8
Moderate	-3.6	2.0
Conservative	-1.8	2.0
MONEYLETTER Select	-6.2	4.7
Vanguard Index 500	-1.5	2.6
Wilshire 5000	-1.9	2.7
Russell 2000	-5.0	7.6
Asset Allocation Funds (Avg. 300 Funds)	-1.3	2.7

Table 2
Top-Performing Portfolio Stock Funds
2nd Quarter and 1st Half 2006

Fund	2nd Q	1st Half
Fidelity Natural Resources	4.1%	18.5%
RS Global Natural Resources	2.3	10.5
Vanguard Small Cap Value	0.9	6.3
Kinetics Paradigm	-1.1	11.8
Bridgeway Small Cap Value	-1.8	11.8
Forward Intl. Small Cos.	-2.0	11.1
Marsico 21st Century	-2.6	8.3
Vanguard Pacific Stock Ind.	-2.8	3.5
Janus Orion	-3.0	7.7

HOTLINE

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How Slow?

As the economy slows Wall Street is now turning its attention to profits (it is also the earnings season) letting go partially of its worries about interest rates. There is no rest for the worriers, nor should they be.

The forecasts that are now coming from the forecasters are relatively comforting. To be sure, the economy is slowing, say the forecasts, with slow growth lasting about one year, during this last half and the first half of next year. Over that period growth is expected to average about 2.5%. That is below the economy's speed limit and implies a small rise in the unemployment rate.

For the market, the latest forecasts are of the good news/bad news variety. The good news, as we discussed on page one: a high probability that the Fed is done for some time. The bad news: slower profit growth.

Temporarily, the good news has trumped the bad news. The market reaction has been to send most, not all, the broad averages noticeably above their lows. The cover page of the July 24th issue of *Barron's* featured the words, "Time To Buy."

For the immediate-term we agree. Looking out over the next twelve months, we are somewhat wary. We still have to see the effects on profits of the developing slowdown.

Overseas beneficiaries

It is when we look at overseas markets that we see the true beneficiaries of the less-charged outlook. The markets in Asia, Latin America, and Europe all went down along with the U.S. market over the last eight weeks, because they were worried that higher rates here would hobble the U.S. economy and slow activity worldwide. The slower growth overseas markets worried about was keyed on a much slower U.S. economy.

The latest Fed views on our economy means that foreign markets can relax. Slow, yes. Stagnation, no. There is, of course, the aversion to risk that we saw as fear of the Fed mounted. We do not believe attitudes toward risk are going to revert overnight. The *rush* to emerging markets will not return soon, if at all. But the fundamentals have not changed. China and India are still growing rapidly. The demand for commodities continues. Stock prices are now considerably cheaper. The overseas markets continue to look good to us. We believe patience here will be rewarded.

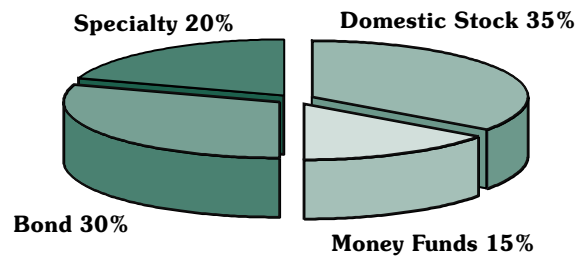
Fund changes

The Hotline of Wednesday, July 25th recommended the sale of Vanguard Small Cap Growth in the Vanguard Venturesome and Vanguard Moderate model portfolios. The fund will be replaced by Vanguard Value Index in both portfolios. The same Hotline also noted that Fidelity Small Cap Stock in the Fidelity Moderate and Fidelity Conservative portfolios is closed. In accordance with our practice, the fund will be replaced by Fidelity Equity-Income in both portfolios.

Finally, there are recommended changes for the Select portfolio. The DJ Transportation Average (ETF) (IYT) is to be sold and replaced by Guinness Atkinson China & Hong Kong. Also Rydex Energy Services is to be sold and replaced by Rydex Utilities. \$

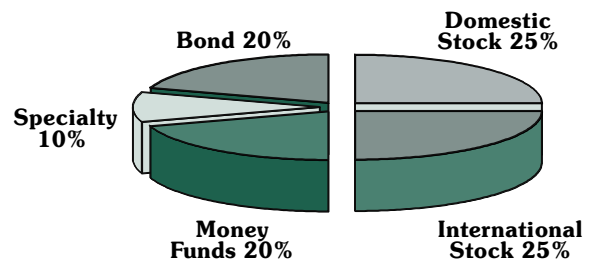
CONSERVATIVE

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



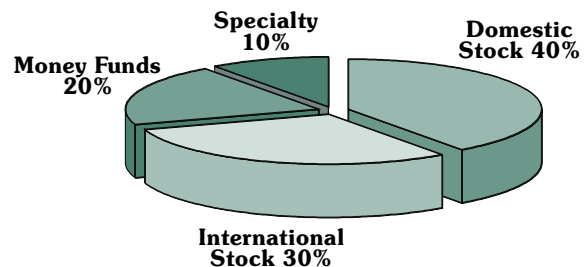
MODERATE

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



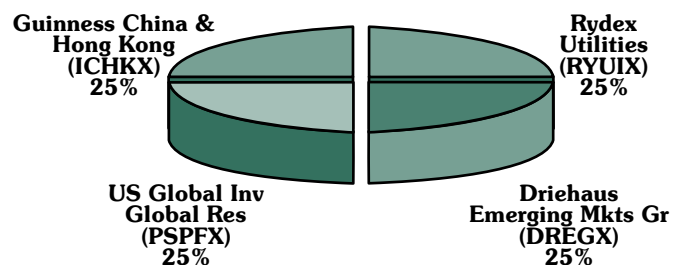
VENTURESOME

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	7/21 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	57	—	—	JKF	Morningstar Large Value (iS)	LCVal	(B)	(B)	(B)	4.0%	6.7%	12.5%	\$73.90	—	—	—
2	7	15	—	NEEGX	Needham Growth Fund (2%r<60d)	SCGro	B	B	B	2.5	3.1	17.2	38.76	25.7	1.19	FSA
3	54	—	—	PWW	Powershares Dynamic LargeCap Value	LCVal	H	H	H	2.3	4.7	11.9	17.11	—	—	—
4	40	149	—	SAOPX	Salomon Brothers Opportunity	MCVal	(B)	(B)	(B)	1.7	5.3	11.1	54.09	0.9	8.54	fa
5	44	119	—	GEVTX	Columbia Disciplined Value CIZ	LCVal	(B)	(B)	(B)	1.8	3.7	11.6	14.91	9.1	0.98	a
6	6	2	—	CGMFX	CGM Focus	MC	*	B	B	2.3	1.0	17.1	36.55	22.4	1.50	sa
7	70	196	—	VIVAX	Vanguard Value Index	LCVal	H	H	H	1.7	4.2	9.4	23.30	8.2	1.00	fsa
8	72	—	—	VTV	Vanguard Value ETF	LCVal	H	H	H	1.7	4.2	9.4	59.73	—	—	—
9	21	101	—	LSGIX	Loomis Sayles Value	LCVal	H	H	H	-0.2	3.9	12.9	19.36	8.7	0.93	fsa
10	75	228	—	VEIPX	Vanguard Equity-Income	LCVal	H	H	H	1.2	4.7	7.8	23.76	7.6	0.91	fsa
11	3	27	—	WWNPX	Kinetics Paradigm (2%r<30d)	MC	B	B	B	-0.5	3.4	12.9	21.95	10.8	1.05	Fsa
12	95	—	—	IWD	Russell 1000 Value (iS)	LCVal	H	H	H	1.6	3.7	9.0	72.36	8.0	0.99	—
13	99	251	—	TWEIX	American Century Equity Income	LCVal	H	H	H	1.6	4.8	5.9	8.19	6.8	0.77	FSA
14	105	—	—	ELV	DJ WI US LargeCap Value (sfTr)	LCVal	H	H	H	1.3	3.9	8.4	72.63	7.4	0.86	—
15	35	133	—	HOVLX	Homestead Value (2%r<30d)	LCVal	(B)	(B)	(B)	0.9	3.0	11.2	34.48	9.2	0.96	A
16	69	—	—	IWW	Russell 3000 Value (iS)	LCVal	H	H	H	1.2	3.2	8.1	94.14	8.3	1.03	—
17	88	143	—	ICSLX	ICAP Select Equity	LCVal	H	H	H	0.9	2.7	9.4	38.03	9.1	0.94	fsa
18	149	—	—	DVY	DJ Select Dividend Index (iS)	MCVal	H	H	H	2.3	4.2	3.4	63.48	—	—	—
19	118	203	—	VWNFX	Vanguard Windsor II (closed,\$10k)	LCVal	H	H	H	1.1	2.5	8.5	32.13	7.9	0.90	fsa
20	94	129	—	MQIFX	Mutual Qualified (2%r<7d) CIZ	MCVal	H	H	H	0.8	2.4	8.5	20.45	8.0	0.82	sa
21	113	193	—	SAIFX	Salomon Brothers Investors	LCVal	H	H	H	0.6	2.4	8.4	20.93	9.9	1.06	fa
22	51	79	—	BRMIX	Laudus Rosenberg Value L/S (2%r<30d)	LngShrt	H	H	H	0.5	3.5	5.6	10.78	5.2	0.03	FSA
23	133	—	—	VDIGX	Vanguard Dividend Growth	LCVal	H	H	H	0.7	2.7	6.7	12.75	7.1	0.88	fsw
24	66	—	—	IVE	S&P 500 Value (iS)	LCVal	H	H	H	-0.5	2.9	7.4	67.01	8.6	1.07	—
25	16	55	—	FAIRX	Fairholme Fund (2%r<60d)	MC	H	H	H	-0.9	1.5	11.3	26.44	8.4	0.71	fsa
26	86	—	—	NYC	NYSE Composite (iS)	LC	H	H	H	0.2	1.8	8.8	72.85	—	—	—
27	109	—	—	FSLVX	Fidelity Large Cap Value	LCVal	H	H	H	1.1	0.9	8.7	13.31	—	1.00	Fw
28	25	—	—	IOLIX	ICON Long/Short	LngShrt	*	H	H	-0.4	0.4	11.7	16.94	12.9	1.57	FSA
29	243	257	—	DGAGX	Dreyfus Appreciation	LC	H	H	H	1.9	2.0	4.2	40.68	7.6	0.79	FSA
30	122	210	—	OAKBX	Oakmark Equity&Income (2%r<90d)	Bal	H	H	H	0.4	1.3	8.1	25.57	6.6	0.78	FSA
31	41	—	—	IWS	Russell MidCap Value (iS)	MCVal	H	H	H	-0.3	2.0	7.4	128.50	10.0	1.18	—
32	196	—	—	NY	NYSE 100 (iS)	LCVal	H	H	H	0.8	2.1	5.1	66.45	—	—	—
33	59	152	—	DODGX	Dodge & Cox Stock (closed)	LCVal	H	H	H	-0.9	1.2	9.8	140.80	9.5	1.02	sa
34	117	195	—	FEQIX	Fidelity Equity-Income	LCVal	H	H	H	-0.1	1.6	7.2	53.05	9.8	1.08	Fsa
35	14	31	—	MXXIX	Marsico 21st Century (2%r<30d)	LC	(H)	(H)	(H)	-2.0	0.5	12.3	13.30	14.2	1.36	FSA
36	145	234	—	PRFDX	T. Rowe Price Equity-Income	LCVal	H	H	H	-0.2	2.1	5.2	26.44	8.9	0.98	fsa
37	47	95	—	VCVXS	Vanguard Convert Sec (\$10k,1%r<1yr)	Convrt	H	H	H	-0.7	0.4	9.9	13.67	7.8	1.02	fsa
38	240	238	—	PVLDX	Allianz OCC Value D (2%r<7d)	LCVal	*	H	H	1.7	1.3	3.8	16.00	11.8	1.25	FSA
39	74	232	—	HSGFX	Hussman Strategic Growth (1.5%r<180d)	LngShrt	H	H	H	-0.3	1.7	4.9	16.12	6.5	0.46	fsa
40	67	—	—	JKI	Morningstar Mid Value (iS)	MCVal	H	H	H	-0.2	1.6	5.3	76.02	—	—	—
41	108	—	—	DIA	Dow 30 Industrials (Diamonds)	LCVal	H	H	H	-1.9	2.9	4.4	108.60	8.6	1.03	—
42	127	146	—	MUTHX	Mutual Shares (1%) CIZ	MCVal	H	H	H	0.0	0.5	7.5	24.33	6.9	0.71	sa
43	91	91	—	USCGX	USAA Capital Growth	SCGro	*	H	H	0.4	0.0	8.1	8.19	15.0	1.52	fsa
44	19	19	—	JORNX	Janus Orion	MCGro	*	(H)	(H)	-0.8	-1.1	11.9	8.51	13.3	1.37	FSA
45	143	144	—	UMBSX	UMB Scout Stock	LC	H	H	H	-0.3	0.5	7.1	14.73	7.7	0.91	FSA
46	97	80	—	TAVFX	Third Avenue Value (\$10k,1%r<60d)	SC	H	H	H	-0.6	0.4	6.9	55.50	9.3	0.82	FSA
47	1	—	—	HRTVX	Heartland Value (2%r<10d)	SCVal	*	(H)	(H)	-4.7	1.4	10.2	47.61	16.9	1.57	FSA
48	157	202	—	PRWCX	T. Rowe Price Cap Appreciation	LCVal	H	H	H	0.0	0.6	5.1	20.43	7.1	0.94	fsa
49	29	132	—	SMCDX	Wells Fargo Advantage MC Disciplined	MCVal	H	H	H	-2.6	0.9	8.2	21.19	10.0	0.96	FSA
50	185	166	—	BEGRX	Mutual Beacon (2%r<7d) CIZ	MCVal	H	H	H	-0.1	0.4	5.7	15.74	7.6	0.76	sa
51	195	244	—	PVFLX	Preferred Value	LCVal	H	H	H	0.0	0.8	4.2	13.96	9.6	1.01	a
52	165	192	—	SLASX	Selected American Shares	LC	S	S	S	-0.2	-0.4	7.2	40.51	8.7	0.93	SA
53	170	220	—	NOIEX	Northern Income Equity	Convrt	S	S	S	0.1	0.5	4.2	11.71	6.4	0.81	FSA
54	63	213	—	GABAX	Gabelli Asset (2%r<7d)	MC	S	S	S	-1.6	1.5	3.9	42.57	10.2	1.09	FSA
55	298	—	—	PEY	PowerShares Hi Yld Eq Dividend Achievers	MCVal	S	S	S	3.2	0.0	-0.4	14.91	—	—	—
56	154	247	—	VASVX	Vanguard Selected Value (\$25k,1%r<1yr)	MCVal	S	S	S	0.2	1.1	1.4	19.12	9.9	1.08	fsa
57	168	255	—	YACKX	Yacktman Fund (2%r<30d)	LCVal	S	S	S	-0.7	1.6	1.3	15.03	8.8	0.92	FSA
58	36	25	—	JSVAX	Janus Contrarian	LC	*	H	H	-2.1	-1.7	11.4	15.19	13.6	1.29	SA
59	194	98	—	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	S	S	S	0.1	-0.8	5.8	27.30	11.2	1.09	fa
60	173	236	—	TWVLX	American Century Value	LCVal	S	S	S	-0.7	0.9	2.9	6.98	7.9	0.94	FSA
61	83	130	—	TRMCX	T. Rowe Price Mid Cap Value (closed)	MCVal	S	S	S	-1.4	-0.1	6.1	23.85	11.1	1.19	fsa
62	233	229	—	TWEBX	Tweedy, Browne American Value (closed)	MCVal	S	S	S	0.4	-0.2	3.3	23.94	6.8	0.82	fsa
63	247	—	—	OEF	S&P 100 (iS)	LC	S	S	S	-0.5	0.9	1.8	57.32	7.2	0.90	—
64	197	239	—	PRDGX	T. Rowe Price Dividend Growth	LC	S	S	S	-1.0	0.5	3.4	22.69	8.4	0.94	fsa
65	76	178	—	LLPFX	Longleaf Partners (closed)	LC	S	S	S	-3.2	0.7	5.8	31.73	9.9	0.95	fa
66	60	—	—	IWN	Russell 2000 Value (iS)	SCVal	*	H	H	-1.0	-0.1	4.3	68.57	13.6	1.50	—
67	48	—	—	FVDFX	Fidelity Value Discovery	MC	H	H	H	-1.2	-2.3	10.1	15.90	11.6	1.19	F
68	65	190	—	TGDVX	TCW Diversified Value N	LCVal	S	S	S	-2.5	0.6	4.2	14.28	10.4	1.08	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	7/21 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	259	258	HAVLX	Harbor Large Cap Value Inst (\$50k)	LCVal	S	S	S	0.1	0.5	0.7	17.00	8.3	0.88	Fsa	
70	129	265	WVALX	Weitz Value Fund (\$10k)	LCVal	S	S	S	-1.7	1.4	1.1	35.98	7.7	0.80	FSA	
71	28	47	FLVCX	Fidelity Leveraged Co (\$10k, 1.5%r<90d)	MC	*	(H)	(H)	-1.7	-1.6	8.2	26.68	18.1	1.75	Fa	
84	58	115	VISVX	Vanguard Small-Cap Value Index	SCVal	H	H	H	-1.3	-0.5	3.3	14.97	12.0	1.34	fsa	
85	22	212	FBRVX	FBR Small Cap (closed, 1%r<90d)	SCGro	(H)	(H)	(H)	-3.1	1.0	2.0	43.97	12.4	1.11	FSA	
87	4	—	RYVPX	Royce Value Plus (1%r<180d)	SCGro	*	(H)	(H)	-3.4	-3.7	14.4	12.13	16.9	1.54	FSA	
97	12	102	SCOVX	Wells Fargo Adv SC Disciplined	SCVal	*	(S)	(S)	-3.6	0.3	3.4	16.38	16.0	1.41	FSA	
124	15	—	ATASX	ABN AMRO/TAMRO Small Cap N	SC	*	(H)	(H)	-4.0	-1.1	4.4	16.78	15.8	1.52	FSA	
133	55	114	WMCVX	Wasatch Small Cap Value (closed, 2%r<60d)	SC	*	(S)	(S)	-2.5	-1.7	2.8	5.10	14.0	1.47	FSA	
134	9	20	FLMLX	Fidelity New Millennium (closed)	MCGro	*	(S)	(S)	-5.1	-3.3	10.5	34.20	15.8	1.46	Fsa	
140	18	12	FMCSX	Fidelity Mid-Cap Stock (closed, .75%r<30d)	MCGro	*	(H)	(H)	-4.6	-3.6	9.4	26.11	13.8	1.29	Fsa	
141	116	79	FDFFX	Fidelity Independence	LCGro	H	H	H	-2.2	-3.9	6.6	19.49	12.2	1.25	Fsa	
145	20	110	BPTRX	Baron Partners	MCGro	(H)	(H)	(H)	-5.8	-1.2	4.8	18.38	13.3	1.15	FSA	
148	205	223	VCVLX	Vanguard Capital Value	LCVal	H	H	H	-3.1	-1.5	1.3	11.53	10.1	1.19	Fsa	
149	126	84	FFTYX	Fidelity Fifty	LCGro	*	H	H	-2.7	-4.1	6.9	22.24	12.5	1.28	Fsa	
165	8	23	BRSVX	Bridgeway Small Cap Value	SCVal	H	(H)	(H)	-4.8	-3.9	6.4	14.39	—	—	fsa	
167	17	8	RIMSX	Rainier Small/Mid Cap Equity (closed)	MCGro	*	(H)	(H)	-4.7	-5.2	9.2	32.79	15.2	1.42	FSA	
170	38	10	RYPRX	Royce Premier (closed, 1%r<180d)	SC	(S)	(S)	(S)	-4.0	-5.5	8.6	16.33	12.6	1.13	fsa	
180	32	—	RYVFX	Royce Value (1%r<180d)	SC	(S)	(S)	(S)	-4.6	-5.4	7.3	9.45	13.1	1.18	FSA	
190	11	34	MNSCX	WellsFargo Adv Small Cap Growth (closed)	SCGro	(S)	(S)	(S)	-6.0	-3.5	3.4	11.95	17.1	1.53	fs	
275	84	62	FSLCX	Fidelity SC Stock (closed, 2%r<60d)	SCGro	(S)	(S)	(S)	-6.5	-7.2	1.0	16.51	12.8	1.20	Fa	
281	163	42	VISGX	Vanguard Small Cap Growth Index	SCGro	(S)	(S)	(S)	-4.9	-7.9	-0.5	15.77	14.9	1.60	fsa	

Dow Jones
NASDAQ
S&P 500

-1.9% 1.9% 2.3%
-5.6 -10.1 -7.3
-1.0 -1.7 1.1

indexes do not
include dividends

International Stock Funds

1	2	1	PRLAX	T. Rowe Price Latin America (2%r<90d)	LatinA	*	H	H	5.5%	3.5%	50.0%	\$29.01	20.5	—	fsa
2	5	7	DREGX	Driehaus Emerging Mkts Gr (2%r<60d)	Int'l	*	B	B	5.4	4.6	45.9	31.52	17.9	—	FSA
3	4	2	FLATX	Fidelity Latin Amer. (1.5%r<90d)	LatinA	*	H	H	4.6	2.2	46.0	35.44	19.8	—	Fs
4	1	—	ICSEJ	ICON Europe	Europe	*	B	B	1.6	9.5	30.7	17.49	13.9	—	FSA
5	3	13	JAOSX	Janus Overseas (2%r<90d)	Int'l	*	B	B	0.7	3.9	36.0	35.13	15.1	—	FSA
6	33	24	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	H	H	5.9	4.4	25.4	22.80	17.2	—	Fsa
7	6	3	SLAFX	DWS Latin Amer Equity S (closed, 2%r<30d)	LatinA	*	H	H	4.3	-1.5	41.6	49.98	21.1	—	Sa
8	17	—	ILF	S&P 40 Latin America (fS)	LatinA	*	H	H	4.9	-1.1	37.8	132.40	19.2	—	—
9	21	—	IEV	S&P 350 Europe Plus (fS)	Europe	*	H	H	1.1	7.6	19.2	88.83	10.6	—	—
10	58	74	ICHKX	Guinness China & Hong Kong (2%r<90d)	Pacific	*	H	H	10.1	4.6	13.1	21.34	16.9	—	FSA
11	25	79	VEURX	Vanguard European Stock Index (2%r<60d)	Europe	*	H	H	1.2	7.5	18.8	30.60	10.7	—	fsa
12	7	67	ARTKX	Artisan Intl Value (2%r<90d)	Int'l	*	B	B	-0.3	6.5	23.2	24.56	10.5	—	FSA
13	14	30	HAINX	Harbor International (2%r<60d)	Int'l	*	B	B	1.0	4.3	25.5	53.22	11.2	—	Fsa
14	23	—	VGX	Vanguard European ETF	Europe	*	H	H	0.6	7.6	17.8	57.92	—	—	—
15	15	70	OAKIX	Oakmark International (2%r<90d)	Int'l	*	H	H	-0.2	7.3	19.5	24.77	9.2	—	FSA
16	12	—	EZU	MSCI EMU (fS)	Europe	*	H	H	0.5	7.6	16.9	85.18	12.1	—	—
17	32	37	BJBIX	Julius Baer Intl Eq A (closed, 2%r<90d)	Europe	*	H	H	2.0	3.7	24.0	38.55	11.9	—	FS
18	43	8	FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	*	(B)	(B)	4.1	-1.9	34.1	19.38	17.8	—	Fsa
19	22	68	SCGEX	DWS Europe Equity S (closed, 2%r<30d)	Europe	*	H	H	0.5	6.1	19.2	32.76	11.3	—	FSA
20	35	63	DODFX	Dodge & Cox Intl Stock	Int'l	*	H	H	0.9	5.3	20.4	37.81	11.2	—	fsa
21	34	36	SCOPX	DWS Pacific Opp Eq. S (closed, 2%r<30d)	Pacific	*	H	H	2.6	3.7	21.8	17.23	14.9	—	FSA
22	16	56	FECAJ	Fidelity Europe Capital App. (1%r<30d)	Europe	*	(H)	(H)	1.1	4.5	21.9	24.33	13.3	—	Fa
23	42	—	ADRJ	Develop Mkts 100 ADR (BLDRS)	Int'l	*	H	H	1.3	6.1	17.7	25.43	10.5	—	—
24	30	—	FEZ	DJ Euro Stoxx 50 (stfr)	Europe	*	H	H	0.3	7.6	15.2	45.06	12.6	—	—
25	28	65	USIFX	USAA International	Int'l	*	H	H	1.3	5.2	19.7	25.31	9.4	—	a
26	11	57	ACFFX	Columbia Acorn Intl Select Z	Int'l	*	(H)	(H)	0.2	5.0	21.6	22.39	11.5	—	Sa
27	9	60	OAKEX	Oakmark Intl Small Cap (closed, 2%r<90d)	Int'l	*	(H)	(H)	0.4	4.3	22.6	21.60	10.5	—	FSA
28	36	55	QFVOX	Quant Foreign Value (1%r<30d)	Int'l	*	H	H	1.7	4.3	20.2	18.96	12.2	—	FSA
29	29	39	VTRIX	Vanguard International Value (2%r<60d)	Int'l	*	H	H	1.2	3.9	21.9	37.32	11.1	—	fsa
30	37	—	ADRU	Europe 100 ADR (BLDRS)	Europe	*	S	S	0.9	6.6	15.2	25.51	11.0	—	—
31	8	35	ACINX	Columbia Acorn Intl Z (2%r<60d)	Int'l	*	(H)	(H)	0.1	3.6	23.4	35.88	11.6	—	Sa
32	46	—	FEU	DJ Stoxx 50 (stfr)	Europe	*	S	S	0.9	6.4	15.0	41.90	10.6	—	—
33	57	—	ADRA	Asia 50 ADR (BLDRS)	Pacific	*	S	S	0.9	2.9	23.0	27.75	13.7	—	—
34	41	69	SWINX	Schwab International Index (1.5%r<180d)	Int'l	*	H	H	0.9	4.7	18.4	18.97	9.6	—	S
35	26	44	ICEUX	ICAP Euro Select Equity (2%r<30d)	Int'l	*	S	S	0.3	3.5	22.0	34.69	10.9	—	fSa
36	48	50	VWIGX	Vanguard International Growth (2%r<60d)	Int'l	*	S	S	1.1	3.3	20.8	22.18	10.1	—	fSa
37	19	29	SCOBX	DWS Global Thematic S (closed, 2%r<30d)	Global	*	(H)	(H)	-0.6	2.8	23.4	32.37	11.1	—	FSA
38	44	—	ADRE	Emerging Mkts 50 ADR (BLDRS)	EmerMkt	*	S	S	2.6	-1.1	27.8	29.86	17.9	—	—
39	20	43	VINEX	Vanguard Intl Expl (closed, \$25k, 2%r<60d)	Int'l	*	(S)	(S)	-0.4	3.1	20.9	19.14	11.4	—	fSa
40	47	45	ARTIX	Artisan International (2%r<90d)	Int'l	*	S	S	0.7	2.5	20.4	26.56	10.6	—	FSA
41	49	62	CMISX	Columbia Intl Stock CIZ (2%r<60d)	Int'l	*	S	S	0.0	2.7	18.5	17.68	10.0	—	fSa
42	100	6	EUROX	US Global Eastern Europe (2%r<180d)	Europe	*	H	H	9.7	-9.9	34.9	40.98	22.0	—	FSA
52	10	28	PISRX	Forward Intl Small Companies (2%r<180d)	Int'l	*	H	H	-1.4	0.1	22.5	15.80	13.6	—	FSA
62	71	21	VPACX	Vanguard Pacific Stock Index (2%r<60d)	Pacific	*	H	H	-0.3	-1.7	21.9	11.12	13.8	—	fSa
69	24	34	WAIGX	Wasatch Intl Growth (closed, 2%r<60d)	Int'l	*	(S)	(S)	-1.7	0.0	17.7	20.55	11.5	—	FSA

Bond Funds (next issue on page 6: Specialty Funds)
 7/21/2006

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	*	*	0.0%	0.4%	2.1%	\$9.91	0.65	5.33%	Fa
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	*	*	*	0.3	1.6	2.1	10.87	3.44	5.72	FSA
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	0.2	0.2	2.0	8.37	5.02	6.27	Fsa
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	0.3	0.2	1.6	8.73	4.03	7.01	Fsa
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	1.0	2.8	2.8	9.46	3.92	7.29	FSA
NTHSX	Northeast Investors Trust	HighYld	*	*	*	0.7	5.6	7.1	7.61	3.74	7.94	fa
PHYDX	PIMCO High Yield (2%r<30d)	HighYld	*	*	*	1.2	0.9	2.1	9.53	4.39	7.13	FSA
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	1.1	2.6	4.0	7.60	3.75	7.29	FSA
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.7	2.0	3.5	8.47	1.44	5.25	FSA
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	0.2	1.4	2.1	6.80	3.83	7.73	fsa
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	0.6	1.4	2.3	6.77	4.73	7.53	FSA
VWEHX	Vanguard High Yield Corporate (1%r<1yr)	HighYld	*	B	*	0.8	0.9	2.7	6.02	3.78	7.22	fsa
BEGBX	American Century Intl Bond	Int'l	*	*	*	0.8	1.4	1.5	13.47	8.44	1.93	FSA
SSTGX	DWS Global Bond S (closed,2%r<30d)	Int'l	*	*	*	0.7	0.5	1.2	9.50	4.71	8.70	Sa
FNMX	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	1.6	-0.3	6.8	14.41	7.52	5.95	Fsa
PYGFX	Payden Global Fixed Income	Int'l	*	*	*	0.7	-0.9	1.2	8.99	3.14	11.27	fSa
RPIBX	T. Rowe Price Int'l Bond (2%r<90d)	Int'l	*	*	*	0.2	0.8	0.5	9.47	8.05	2.88	fSa
BGNMX	American Century Ginnie Mae	IntTerm	*	*	*	0.8	-1.0	0.5	9.97	2.54	4.93	FSA
CPTNX	American Century Government Bond	IntTerm	*	*	*	0.9	-0.4	0.2	10.25	3.09	4.34	FSA
ACTIX	American Century Inflation Adj	IntTerm	B	*	*	1.6	-2.2	0.7	10.59	5.95	4.95	FSA
SRINX	Columbia Income CIZ	IntTerm	*	*	*	1.0	-1.1	-0.9	9.48	3.92	5.56	Fsa
SRBFX	Columbia Intermediate Bond CIZ	IntTerm	*	*	*	1.0	-0.9	-0.3	8.65	3.50	5.06	FSA
DODIX	Dodge & Cox Income	IntTerm	*	*	*	0.9	0.3	1.5	12.33	2.90	4.82	fSa
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	1.2	-0.6	0.9	13.23	4.24	4.97	FSA
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	0.8	-0.9	1.0	14.10	2.97	4.35	FSA
SCSBX	DWS Core Plus Income S (closed,2%r<15d)	IntTerm	*	*	*	1.1	-0.5	0.7	12.43	3.92	4.96	Sa
FTRGX	Federated Total Return Govt	IntTerm	*	*	*	0.9	-1.1	-0.4	10.44	4.51	4.84	fSa
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	1.4	-1.7	1.1	10.76	5.96	1.75	Fa
FTHRX	Fidelity Intermediate Bond	IntTerm	*	*	*	0.6	-1.2	-0.4	10.12	3.37	4.26	Fsa
FSTGX	Fidelity Intermediate Govt	IntTerm	*	*	*	0.5	-1.1	-0.3	9.89	3.37	3.86	Fsa
FBNDX	Fidelity Investment Grade	IntTerm	*	*	*	0.8	-1.4	-0.1	7.24	3.88	4.24	Fsa
AGG	Lehman Aggregate Bond (iS)	IntTerm	*	*	*	0.8	-0.8	0.6	98.02	—	4.47	—
MBDFX	Managers Fremont Bond	IntTerm	*	*	*	1.0	-1.3	-0.4	10.10	4.17	4.47	fSa
PITDX	PIMCO Total Return (2%r<7d)	IntTerm	*	*	*	1.1	-1.1	-0.2	10.24	4.09	4.15	FSA
PTMDX	PIMCO Total Return Mortgage (2%r<7d)	IntTerm	*	*	*	1.2	-0.2	0.5	10.40	3.00	4.08	FSA
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	0.7	-1.2	-0.4	8.72	3.80	4.53	fSa
TGMNX	TCW Galileo Total Return Bond	IntTerm	*	*	*	0.9	0.1	1.9	9.62	2.90	4.62	FSA
USAIX	USAA Income	IntTerm	*	*	*	1.0	-0.6	1.0	11.91	4.12	4.87	A
VALBX	Value Line U.S. Govt Sec	IntTerm	*	*	*	0.8	-0.3	0.8	11.18	3.57	4.64	FSA
VFIIX	Vanguard GNMA	IntTerm	B	*	*	0.8	-1.0	1.4	10.00	3.20	5.00	fSa
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	1.4	-1.6	1.5	11.79	5.77	5.69	fSa
VBMFX	Vanguard Total Bond Market Index	IntTerm	*	*	*	1.0	-1.1	-0.1	9.78	4.05	4.78	fSa
STVSX	Wells Fargo Adv Govt Sec Inv	IntTerm	*	*	*	1.0	-0.6	-0.2	10.19	3.91	4.72	FSA
MNTRX	Wells Fargo Adv Total Return Bond	IntTerm	*	*	*	1.0	-0.6	0.0	11.85	3.96	4.34	fSa
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	1.1	0.3	1.8	10.32	3.55	5.56	FSA
KIFIX	FifthThird Bond	LngTerm	*	*	*	1.0	-0.7	0.1	9.63	4.00	4.29	fa
MGFIX	Managers Bond	LngTerm	*	*	*	1.9	0.9	2.8	23.97	4.86	4.01	FSA
FSICX	Fidelity Strategic Income	Multi	B	B	*	1.0	0.9	3.6	10.36	4.33	5.36	Fa
JAFIX	Janus Flexible Bond	Multi	*	*	*	0.9	-0.7	-0.1	9.22	3.90	4.55	FsJA
LSBDX	Loomis Sayles Bond Instl (2%r<60d)	Multi	B	B	*	1.3	2.3	6.3	13.73	5.97	6.21	fSa
LSBRX	Loomis Sayles Bond Retail (2%r<60d)	Multi	B	B	*	1.2	2.1	6.0	13.69	5.94	6.03	FSA
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	0.3	0.2	1.3	11.68	3.56	4.42	fSa
DSTIX	Dreyfus Premier Short-Term Income	ShfTerm	B	*	*	0.3	-0.4	0.3	10.79	1.68	4.22	FSA
SCSTX	DWS Short-Term Bond S (closed,2%r<15d)	ShfTerm	B	*	*	0.6	1.6	3.0	9.91	1.44	4.32	Sa
FSGVX	Federated U.S. Govt Sec. 1-3	ShfTerm	B	*	*	0.2	-0.1	0.3	10.33	1.08	4.08	fSa
FSHBX	Fidelity Short-Term Bond	ShfTerm	B	*	*	0.2	0.0	0.9	8.81	1.60	3.99	Fsa
JASBX	Janus S-T Bond	ShfTerm	B	*	*	0.4	1.4	2.1	2.86	1.26	3.30	FSA
SHY	Lehman 1-3 Year Treasuries (iS)	ShfTerm	B	*	*	0.2	0.7	2.1	79.71	1.35	3.60	—
MGIDX	Managers Int. Duration Govt	ShfTerm	*	*	*	1.1	0.0	1.3	10.33	2.53	4.13	FSA
MGSDX	Managers Short Duration Govt	ShfTerm	B	*	*	0.4	2.2	3.8	9.65	0.55	3.75	FSA
MWLDX	MetroWest Low Duration	ShfTerm	B	*	*	0.2	0.3	0.6	9.31	1.63	4.29	FSA
PTLCX	PIMCO Low Duration (2%r<7d)	ShfTerm	B	*	*	0.6	0.0	0.4	9.85	1.72	3.15	fa
SWBDX	Schwab S-T Bond Mkt Index	ShfTerm	B	*	*	0.7	1.0	1.8	9.84	2.11	4.11	fS
SSTBX	Strong S-T Bond	ShfTerm	B	*	*	0.6	1.4	2.3	8.47	1.61	4.38	FSA
PRWBX	T. Rowe Price S-T Bond	ShfTerm	B	*	*	0.4	0.7	1.5	4.65	1.52	3.80	fSa
VFSTX	Vanguard Short-Term Investment Grade	ShfTerm	B	*	*	0.7	1.0	2.0	10.45	1.60	3.97	fSa
VSGBX	Vanguard S-T Federal	ShfTerm	*	*	*	0.6	0.7	1.6	10.18	1.78	3.67	fSa
VFISX	Vanguard S-T Treasury	ShfTerm	B	*	*	0.7	0.6	1.4	10.23	1.63	3.72	fSa
MNSGX	WellsFargo Montgomery S Dur Govt (closed)	ShfTerm	B	*	*	0.6	1.2	1.8	9.82	1.57	3.86	fSa
BITNX	American Century Target 2010	ZeroCpn	*	*	*	1.0	-0.8	0.2	87.91	6.52	4.38	FSA

Pattern Continues

The last time we took a close look at our money market funds (*MONEYLETTER*—March 10, 2006 issue) speculation was that the Federal Reserve was nearing the end of its policy of “measured” increases. At that time, the Fed had hiked short-term rates 14 times since the end of June 2004, taking the Fed funds rate from 1.00% to 4.5%. Five percent seemed to be the likely point at which the Fed would achieve its goal of steady economic growth with moderate inflation.

It looks like the speculation may miss the mark, but by how much? Since mid-March, the Fed has met three times and has maintained its two-year pattern, with another three increases of 25 basis points (one quarter of one percent) each, bringing the Fed’s target rate to 5.25%. Based on the statement accompanying the Fed’s June 29th announcement, threats of higher inflation (due in large part to higher energy prices) could continue the pattern. Stay tuned.

Money fund assets—combined taxable and tax-free—increased by \$81 billion (a gain of 4.1%) since our last review, according to data from iMoneyNet’s Money Fund Report. By comparison, assets of all other types of mutual funds increased by only \$67 billion over the March to May period*, according to the Investment Company Institute, a gain of 0.9%. Since assets of stock and bond funds can be affected significantly by market conditions, we report that the S&P 500 decreased by 0.83% over the March ’06–May ’06 period.

Taxable money funds now offer a 1.74% advantage over tax-free funds, on average. As a result, investors in higher tax brackets should calculate the taxable equivalent yield for tax-free funds based on your personal tax bracket. When evaluating money funds, always remember: 1) if you shop, you can find above average funds—see the table of top-yielding funds to the right; 2) double and triple tax-free funds (i.e. exempt from federal, plus state and/or local taxes) can provide an additional edge for investors in certain states or municipalities. \$

Money Fund Yields & Assets

	2/28/06	7/18/06	Change
7-Day All Taxable MFA	3.95%	4.65%	+0.70%
7-Day All Tax-Free MFA	2.60%	2.91%	+0.31%
Taxable Money Fund Assets	\$1.659T	\$1.740T	+\$81B
T-F Money Fund Assets	\$355B	\$358B	+\$3B
Total Money Fund Assets	\$2.015T	\$2.098T	+\$83B
All Other Mutual Funds	\$7.168T	\$7.235T*	+67B

* “All Other Mutual Funds” assets through May ’06; June month-end data not available at press time.

Source: Investment Company Institute

Source for money fund data: iMoneyNet’s Money Fund Report, (800) 343-5413.

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF	4.90%	4.84%	3.81%
Vanguard Treasury MMF	4.69	4.65	3.74
Amer Century Capital Presv Fund/Inv	4.52	4.46	3.54
T. Rowe Price US Treasury MF	4.42	4.36	3.44
JPMorgan 100% US Treas MMF/Morgan	4.41	4.36	3.41
RMK Select Treas MMF/CI A	4.38	4.38	3.36
Schwab US Treasury Money Fund	4.36	4.31	3.35
US Treasury MF of America/CI A	4.35	4.34	3.35
Wells Fargo Adv 100% Treas MMF/CI A	4.32	4.27	3.31
Merrill Lynch CMA Treas Fund RIC	4.23	4.19	3.28

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF	4.90%	4.84%	3.81%
Vanguard Treasury MMF	4.69	4.65	3.74
Amer Century Capital Presv Fund/Inv	4.52	4.46	3.54
T. Rowe Price US Treasury MF	4.42	4.36	3.44
JPMorgan 100% US Treas MMF/Morgan	4.41	4.36	3.41
RMK Select Treas MMF/CI A	4.38	4.38	3.36
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US Treasury MF of America/CI A	4.35	4.34	3.35
Wells Fargo Adv 100% Treas MMF/CI A	4.32	4.27	3.31
Merrill Lynch CMA Treas Fund RIC	4.23	4.19	3.28

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Alpine Municipal MMF/Investor	3.50%	3.75%	2.98%
Vanguard Tax-Exempt MMF	3.42	3.69	2.90
Fidelity Municipal MMF	3.20	3.43	2.64
DWS Tax-Exempt Money Fund	3.19	3.38	2.63
Dreyfus BASIC Muni MMF	3.19	3.43	2.60
T-E Portfolio/Managed Shares	3.16	3.33	2.58
Amer Century T-F MMF/Inv Class	3.15	3.40	2.61
Fidelity AMT Tax-Free Money Fund	3.15	3.46	2.73
Fidelity Tax Free Money Market	3.15	3.40	2.61
Marshall Tax Free MMF/Class Y	3.13	3.41	2.63

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard PA Tax-Exempt MMF	3.41%	3.67%	2.87%
Vanguard OH Tax-Exempt MMF	3.40	3.64	2.87
Vanguard NY Tax-Exempt MMF	3.37	3.62	2.85
Vanguard NJ Tax-Exempt MMF	3.36	3.60	2.83
Vanguard CA Tax-Exempt MMF	3.34	3.57	2.82
Fidelity CA Municipal MMF	3.12	3.31	2.52
Fidelity CT Municipal MMF	3.09	3.31	2.55
Fidelity NJ Municipal MMF	3.09	3.30	2.52
Fidelity FL Municipal MMF	3.08	3.35	2.60
Fidelity MI Municipal MMF	3.08	3.33	2.53

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 7/18/06. 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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Forward International Equity: Opportunistic Investors

One of the principal tenets of the Forward investment philosophy is to offer their investors “access to leading investment managers who are experts in their investment disciplines,” and who have “solid track records of performance in specialty asset classes.” For this international equity fund, Forward has chosen Pictet Asset Management as subadvisor. The firm is the institutional investment management arm of Pictet & Cie, a Swiss private bank that dates to 1805. The investment team for this fund—Richard Heelis and Fabio Paolini—are based in London.

In most of the past five years, Forward International Equity has bested at least a third of its Morningstar category peers (foreign large growth). Thus far in 2006 (through July 21), a 7.2% total return bests 92% of its peers.

A bottom-up process

The Forward funds web site will tell you that the managers “use a bottom-up approach to try to identify international...companies with strong future prospects.” It cites Pictet’s proprietary databases “drawing on 1,500 economic and market data series.” *MONEYLETTER* recently spoke with Richard Heelis and Fabio Paolini, who put a more human light on the process.

Top Five Sectors (% of Assets) & Holdings

Financial Services	34.1	Royal Dutch Shell	2.8
Industrial Materials	14.6	iShares MSCI Canada Index	2.7
Energy	13.5	Hellenic Exchanges	2.3
Consumer Goods	9.9	Hypo Real Estate	2.3
Consumer Services	5.1	National Bank of Greece	2.2

As of May 31, 2006

“We think analyzing companies is easier than analyzing sectors or markets as a whole—there are fewer moving parts. What we are really looking for are companies where growth prospects are mispriced, either because they are understood but nobody seems to care too much, or they are greatly misunderstood,” states Heelis.

Growth and valuation are both important factors in the investment process. Heelis explains, “We’re happy to look for traditional value stocks. We’re happy also to look for stocks that we think give us the right blend of growth and valuation, and that is where most of our ideas come from. When we look at a company, we don’t look so much at what they’ve achieved. We’re not buying the brand or the franchise. We just want to be very clear on where we see the share price going.”

Forward emphasizes the in-depth company analysis performed by Pictet’s analysts and fund managers, including company visits. Heelis says, “We try to visit all the companies. But there are some occasions where we know we have to act in advance of a visit.”

Allocations derive from the bottom

As true bottom-up investors, industry sector and country allocation are a result of the team’s stock selections. There is no real restriction on the percent of assets the fund can invest in any one nation, but there is a limit at the regional level. The managers define their regions as Emerging Markets, Asia, Japan, and Europe. “We allow ourselves a 25% difference against the benchmark, which you can see gives us a pretty broad scope,” contends Heelis.

So how is the fund positioned now? Heelis says the fund currently has a big underweight in the UK. Paolini adds that they are currently working with two important themes. “One is companies which are in restructuring or recovery mode. Another theme is Eastern Europe. In Japan, we are investing in recovering domestic companies,” he says. Heelis adds, “In Japan, we find financials very attractive, as well as real estate and housing. To our mind, Japan’s economy has turned around from being driven by the external side and capital spending, and is now very much driven by domestic forces.”

Paolini notes that by sector, “we have a slight overweight in financials. At the same time we have an underweight in consumer staples and utilities.” Overall, he says, “The portfolio has a lot of situations which are not dependent on the direction of the economic cycle, i.e., we have a lot of companies that are restructuring or selling assets and experiencing improving margins.” He notes that they are also finding good opportunities in the mid-cap range. “The fund is opportunistic. We look at all capitalizations...we don’t buy micro-caps, though.”

Outlook

The Pictet team is positive on the potential for the markets going forward. “We think right now the markets offer great value. At the moment we have no cash position whatsoever. That gives you an idea of where we think the markets are going,” Heelis concludes. \$

Forward International Equity (FFINX)

Forward Funds

433 California St, 11th Floor, San Francisco CA 94104
(800) 999-6809 • Minimum Investment \$4,000/\$4,000 IRA

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