

## Parsing The Fed

by Walter S. Frank, Chief Investment Officer

Members of the policy-making arm of the Federal Reserve have been unusually talkative over the past three weeks, putting on, if not quite a charm offensive, at least a partially relaxed approach to the issues of the day.

In a sense they have been telling the world that their decision to "pause" in raising short-term rates was not cutting and running in the face of inflation, but a prudent step in balancing the risks of overdoing against the risks of underdoing. The economy has obviously slowed even below its newly revised and lowered speed limit. (The economy's widely accepted speed limit was formerly about 3.0%, now the new numbers tell us it is slightly below 3.0%.)

Not only has the economy slowed, but inflation is holding steady, even without considering the slide in oil prices. The speeches have all argued in one form or another that there is no harm in pausing now. We, the Fed argues, have already done a great deal. Not all of that has passed through to the economy. We know what is happening to housing. Also, studies have shown that it takes time for the full effects of interest rate increases to work their way through the economy. As President Janet Yellen of the San Francisco Fed said in a speech delivered on September 7, "So if we kept automatically raising rates until we saw inflation start to respond, we most likely would have gone too far...."

### A New Year surprise?

Wall Street has seized on the pause, and in its usual instant-gratification fashion the pause has been magnified into forecasts of a rate cut later in the first half of next year with further cuts following over the second half. Wall Street is getting gloomier about the economy over the next twelve months. As the gloom mounts, so does talk of a rate cut.

We have resisted the talk of a rate cut until now, and still believe that it is too early to anticipate one. Taking the

late first-half call, much can happen between now and then, particularly in the energy markets. At the same time, there are calls by some for one more rate increase before year-end. We find that call just plain puzzling.

So far as we can see the increase call ignores the fact that the economy will be battling the stiff headwind of major auto production cuts as the domestic industry makes large inventory cuts and restructures (Ford). At the same time, the housing woes will continue. It is not going to be a pretty quarter. Why would the Fed raise rates in the face of all that?

We wind up with the Fed standing pat for the rest of this year, with a good chance of the Fed finding the risk of a slower economy at least equal to the threat of inflation by year-end.

## Why Natural Resources?

We first recommended natural resources funds at the end of last year and followed up with an allocation for all portfolios at the beginning of this year. Since then the funds have had a roller-coaster ride. From January 1 through May 10<sup>th</sup> the funds were winners. The fund we purchased for the *MONEYLETTER* portfolios—RS Global Natural Resources—was up 20% for the year on May 10<sup>th</sup>. The commodity markets were running earlier this year, and the funds benefited.

Then on May 10<sup>th</sup>, the commodity markets cracked (along with many other markets) after a tough speech on inflation by Fed Chairman Bernanke. The commodity world has not been the same since. Speculation drained away from the commodity markets. (Remember the headlines about investors fleeing risk?) Adding to the perils of commodity speculation was the turn in energy. In recent weeks we have had an unexpected slide in oil prices, which only added impetus to the overall slide in commodity prices, and the "flight from risk."

The natural resources funds, of course, have paid the price as commodities prices lost their allure. As of September 15<sup>th</sup>, RS Global Natural Resources has lost all its gain, and the fund is flat for the year-to-date. Naturally enough, this is difficult to swallow for investors in the fund.

In the ordinary course of events, our system would have us out of a fund that was doing so much worse than the broad averages. But we invested in a natural resources fund as a result of an allocation to natural resources funds. The question is not whether this particular fund should stay or go, but whether we want to continue an allocation to natural resources. At the moment, our answer is yes.

(continued on page 2)

### Market Trends

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

(continued from page 1)

### Asian growth

Essentially we continue to advocate an allocation to natural resources because, as far as we can see, the fundamentals concerning commodities have not changed, although prices and speculative interest have. The broad trend of commodity prices remains up, at least for the medium-term.

The movement around the trend, of course, is not smooth, as we have just seen. Speculative fever will come and go. Prices will be bumped up for one reason and another, and then just as quickly deflated. That is essentially noise around the rising trend.

Do not misunderstand. The trend is not going to rise forever, but we are at the fairly early stage of the rise.

By now, almost everyone is fully aware of what is driving the trend, and that is Asian growth, specifically the growth of China and India. The latest issue of *The Economist* (Sept 16–22) contains a survey on the emerging world with the title “The New Titans.” The survey, which has a section on Asian commodity demand, fleshes out the effects of the emerging Asian world on commodity resources.

According to the magazine, “Since 2000 they (emerging economies) have been responsible for 85% of the increase in world energy demand...China’s share of world metal consumption has jumped from less than 10% to around 25% over the past decade. In the three years to 2005, the country accounted for 50% of the increase in world consumption of copper and aluminum, almost all the growth in nickel and tin....”

### How about supply?

We have no doubt that over time supply of many commodities will lessen if not fill the gap between supply and demand (energy?). As prices rise formerly uneconomic sources of supply will be placed into production. Some think that when that happens we will have a commodity slump. Slump predictions exist on Wall Street. We do not claim to be commodity experts, and are agnostic on the matter. But as *The Economist* notes, “Yet China and other emerging economies have only just begun to make an impact on commodity markets. Given the size of their populations, their use of raw materials is still modest.” The point is: there may be a corrective slump ahead, speculation is speculation, but news of the death of a substantial increase in commodity demand for some time ahead is decidedly premature.

### RS Global Natural Resources

One reason we favored RS Global was the somewhat cautious approach taken by the fund’s management toward the commodity boom. Andy Pilara, head of RS’s Value Group and first manager of the fund, kept repeating during the height of the commodities boom that he expected prices to fall. He was investing in companies, he explained, that he believed would return a good profit at prices the fund considered the sustainable trend price for the commodity in question. This approach resulted in the fund carrying a large

(about 20%) cash position all this year, presumably waiting for prices to come down.

Now that prices have fallen some, we talked with Mackenzie Davis, now co-portfolio of the Fund, about the fund’s views now. His reply was that the fund was much more comfortable with current prices looking out over the next 3–5 years. They can now find companies offering excellent investment opportunities that, as he put it, “they could not afford before.” When asked whether the cash position might be lower a few months from now, the answer was “Yes.”

We remain comfortable with the fund. It operates in an area that became a speculative darling, and has fallen out of favor. Good. Now the very positive fundamentals can take over and provide the solid returns we expect. \$



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## Caution Reigns

As the market flirts with new highs, it is apparent that investors are not investing with the usual speculative fervor that accompanies new highs. Maybe it was the pounding that speculators (read: hedge funds) have been taking since May 10<sup>th</sup>, or more general concerns about a slowing economy. But the usual suspects as new highs are hit are not today's performance leaders.

If you take a look at this week's domestic stock list, two things will strike you. First, the list is dominated by value funds, large and mid-cap. Second, over the past month small growth has started to move, after being shunned. As we look ahead it will be interesting to see how far small growth will go.

As we said on page one, the economy will be facing harsh headwinds over the next 3-6 months because of the woes of auto and housing. But other sectors, such as business investment spending and export demand, appear to be much more secure. In market terms, the other sectors translate into technology, broadly speaking, and that is where investors have been going. It may well be that we are at the point of diversion from safety (value) to more adventurous investing (growth) over the coming months.

The caution which has prevailed domestically is not so obvious abroad. Yes, there has been shift away from emerging markets and into Europe, but the shift has not been overly pronounced. Asia has, in general, performed well with the exception of Japan, where the performance has been extremely poor after last year's strong run.

What we find telling is that the difference in performance over the last six months between overseas and domestic funds is almost nil, except for a handful of funds. Last year the gap was huge and pervasive, in favor of the overseas funds. We interpret this as a sign that higher interest rates everywhere have dulled hedge funds' appetite for leveraged investing abroad.

None of this changes our view that the best opportunities still exist in overseas funds, just that the easy pickings are over, at least for now. We doubt that we will see the rush to invest overseas by institutional investors that we saw last year. Superior performance from now on will be on an individual fund basis.

Despite all the caution that has held performance in check recently, the point is that the global economy is expected to continue growing at an historically rapid rate over the next year. Where there is rapid growth, there is certainly opportunity. That is why we continue to favor equities, especially of the overseas variety.

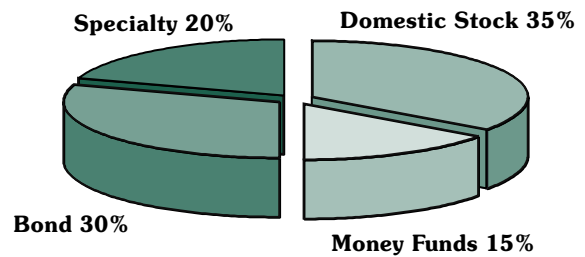
### Fund changes

The Hotline of Wednesday, September 20, recommended the sale of Fidelity Leveraged Company (FLVXX) in the Fidelity Venturesome and Fidelity Moderate portfolios. For the Fidelity Venturesome model portfolio the fund will be switched into Fidelity Equity-Income (FEQIX). For the Fidelity Moderate model portfolio the fund will be switched into Fidelity Dividend Growth (FDGFX).

The same Hotline recommended the sale of Rydex Utilities (RYUIX) in the Select Portfolio to be switched into Vanguard Telecom Service, an ETF, ticker: (VOX). \$

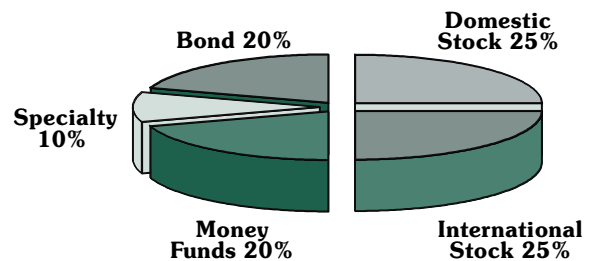
### CONSERVATIVE

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



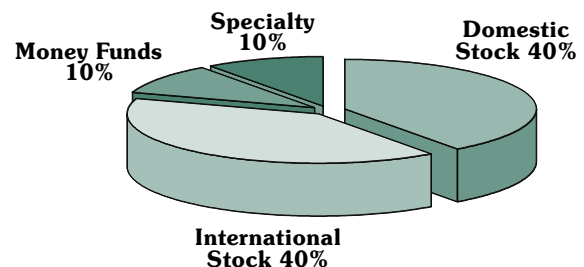
### MODERATE

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



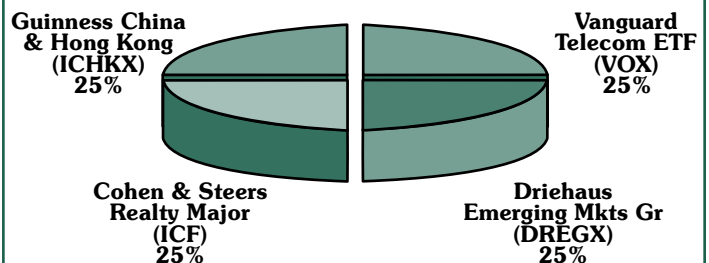
### VENTURESOME

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	9/15 2006	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE	RISK		NTF/wff
										1 mo.	6 mo.	12 mo.	PER SHARE	Std. Dev.	Beta	
1	46	149	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	(B)	(B)	(B)	6.2%	8.0%	17.1%	\$30.05	9.4	1.01	fa	
2	37	66	CBMDX	Wells Fargo Adv C&B Mid Cap Value	MC	(B)	(B)	(B)	7.0	6.6	18.7	22.87	11.9	1.32	FSA	
3	7	82	SAOPX	Salomon Brothers Opportunity	MCVal	B	B	B	3.1	5.7	16.5	57.41	8.5	0.93	fa	
<b>4</b>	<b>1</b>	—	<b>JKF</b>	<b>Morningstar Large Value (iS)</b>	<b>LCVal</b>	<b>B</b>	<b>B</b>	<b>B</b>	<b>0.4</b>	<b>7.5</b>	<b>15.9</b>	<b>77.44</b>	—	—	—	
5	43	249	VASVX	Vanguard Selected Value (\$25k, 1%r<1yr)	MCVal	H	H	H	4.1	7.1	10.6	20.67	9.9	1.08	fsc	
6	5	—	LSVRX	Loomis Sayles Value Ret	LCVal	B	B	B	2.4	5.3	17.1	20.72	7.4	0.90	A	
7	60	255	WVALX	Weitz Value Fund (\$5k)	LCVal	(B)	(B)	(B)	4.0	7.1	9.8	38.22	7.2	0.69	FSA	
8	28	248	PVLDX	Allianz OCC Value D (2%r<7d)	LCVal	*	H	H	4.4	5.9	12.1	17.24	11.8	1.25	FSA	
<b>9</b>	<b>2</b>	—	<b>PWV</b>	<b>PowerShares Dyn LC Value</b>	<b>LCVal</b>	<b>B</b>	<b>B</b>	<b>B</b>	<b>1.7</b>	<b>6.1</b>	<b>15.1</b>	<b>18.15</b>	—	—	—	
10	3	148	GEVTX	Columbia Disciplined Value CIZ	LCVal	B	B	B	1.8	5.5	16.6	15.84	9.1	0.98	a	
11	84	205	WEHIX	Weitz Hickory (\$10k)	MC	*	H	H	4.9	5.7	10.1	35.78	10.5	1.10	fSA	
<b>12</b>	<b>8</b>	—	<b>VTV</b>	<b>Vanguard Value ETF</b>	<b>LCVal</b>	<b>B</b>	<b>B</b>	<b>B</b>	<b>1.9</b>	<b>5.7</b>	<b>13.9</b>	<b>63.17</b>	—	—	—	
<b>13</b>	<b>9</b>	<b>208</b>	<b>VIVAX</b>	<b>Vanguard Value Index</b>	<b>LCVal</b>	<b>B</b>	<b>B</b>	<b>B</b>	<b>1.9</b>	<b>5.6</b>	<b>13.8</b>	<b>24.64</b>	<b>8.2</b>	<b>1.00</b>	<b>fsc</b>	
<b>14</b>	<b>16</b>	<b>235</b>	<b>VEIPX</b>	<b>Vanguard Equity-Income</b>	<b>LCVal</b>	<b>B</b>	<b>B</b>	<b>B</b>	<b>2.5</b>	<b>5.5</b>	<b>13.0</b>	<b>25.12</b>	<b>7.6</b>	<b>0.91</b>	<b>fsc</b>	
15	21	254	TWEIX	American Century Equity Income	LCVal	B	B	B	2.0	6.3	11.5	8.57	6.8	0.77	FSA	
16	53	213	TWVLX	American Century Value	LCVal	(B)	(B)	(B)	3.7	4.9	12.4	7.49	7.3	0.88	FSA	
17	47	142	TRMCX	T. Rowe Price Mid Cap Value (closed)	MCVal	H	H	H	3.5	3.9	13.7	25.68	11.1	1.19	fsc	
18	26	43	JSVAX	Janus Contrarian	LC	*	H	H	4.6	2.2	16.1	16.74	13.6	1.29	SA	
19	48	188	SMCDX	Wells Fargo Advantage MC Disciplined	MCVal	(B)	(B)	(B)	2.9	5.0	11.5	22.58	7.7	0.80	FSA	
20	19	50	NEEGX	Needham Growth Fund (2%r<60d)	SCGro	H	H	H	2.3	2.7	18.2	40.22	25.7	1.19	FSA	
21	12	—	IWD	Russell 1000 Value (iS)	LCVal	B	B	B	1.9	4.8	13.3	76.34	8.0	0.99	—	
22	77	262	YACKX	Yacktman Fund (2%r<30d)	LCVal	H	H	H	4.1	5.2	8.8	16.10	8.8	0.92	Fsa	
23	54	—	IWN	Russell 2000 Value (iS)	SCVal	*	H	H	4.2	2.9	14.4	74.60	13.6	1.50	—	
24	10	—	ELV	DJ WI US LargeCap Value (stTr)	LCVal	B	B	B	1.8	4.9	12.9	76.92	7.4	0.86	—	
<b>25</b>	<b>22</b>	<b>174</b>	<b>FEQIX</b>	<b>Fidelity Equity-Income</b>	<b>LCVal</b>	<b>(B)</b>	<b>(B)</b>	<b>(B)</b>	<b>2.5</b>	<b>4.3</b>	<b>13.2</b>	<b>56.66</b>	<b>8.4</b>	<b>1.04</b>	<b>Fsa</b>	
26	13	—	IWW	Russell 3000 Value (iS)	LCVal	B	B	B	2.0	4.6	13.3	99.68	8.3	1.03	—	
27	24	232	VWNFX	Vanguard Windsor II (closed, \$10k)	LCVal	H	H	H	2.4	4.6	12.1	33.86	7.9	0.90	fsc	
28	30	—	DVY	DJ Select Dividend Index (iS)	MCVal	H	H	H	1.7	6.3	8.8	66.60	—	—	—	
29	35	8	BTRFX	Baron Partners	MCGro	H	H	H	5.1	0.8	16.8	20.44	13.3	1.15	FSA	
30	101	103	LLPFX	Longleaf Partners (closed)	LC	H	H	H	4.0	3.6	11.3	34.03	9.9	0.95	fa	
31	58	217	TGDVX	TCW Diversified Value N	LCVal	H	H	H	3.4	3.9	11.3	15.45	10.4	1.08	FSA	
32	64	253	TGIGX	TCW Dividend Focused N	LCVal	H	H	H	3.3	4.4	10.1	12.60	9.7	1.03	FSA	
33	111	25	FBRVX	FBR Small Cap (closed, 1%r<90d)	SCGro	H	H	H	5.4	1.2	14.7	47.63	12.4	1.11	FSA	
34	50	—	DIA	Dow 30 Industrials (Diamonds)	LCGro	H	H	H	3.0	3.8	11.5	115.60	8.6	1.03	—	
35	27	—	IVE	S&P 500 Value (iS)	LCVal	H	H	H	2.2	3.7	12.9	71.10	8.6	1.07	—	
36	99	241	DGRIX	Dreyfus Growth & Income	LC	H	H	H	4.7	3.2	10.0	16.79	9.4	1.05	FSA	
37	103	251	SSHFX	Sound Shore (\$10k)	LCVal	H	H	H	4.4	3.9	8.6	39.18	10.5	1.07	FSA	
38	166	117	RYSEX	Royce Special Equity (1%r<180d)	SCVal	H	H	H	5.2	2.2	11.1	20.09	10.9	0.96	fsc	
<b>39</b>	<b>23</b>	—	<b>VDIGX</b>	<b>Vanguard Dividend Growth</b>	<b>LCVal</b>	<b>(B)</b>	<b>(B)</b>	<b>(B)</b>	<b>2.2</b>	<b>3.6</b>	<b>11.9</b>	<b>13.53</b>	<b>7.1</b>	<b>0.87</b>	<b>fsc</b>	
<b>40</b>	<b>94</b>	<b>178</b>	<b>FDGFX</b>	<b>Fidelity Dividend Growth</b>	<b>LC</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>4.5</b>	<b>2.4</b>	<b>11.3</b>	<b>30.32</b>	<b>9.2</b>	<b>0.98</b>	<b>Fsa</b>	
41	139	256	OAKMX	Oakmark Fund (2%r<90d)	LCVal	H	H	H	3.7	4.3	7.4	44.10	8.2	0.84	FSA	
42	33	165	DODGX	Dodge & Cox Stock (closed)	LCVal	H	H	H	2.1	3.2	12.7	148.50	9.5	1.02	sa	
43	44	—	OEF	S&P 100 (iS)	LC	H	H	H	2.9	4.0	9.1	61.18	7.2	0.90	—	
44	59	191	SAIFX	Salomon Brothers Investors	LCVal	H	H	H	2.6	2.9	11.9	21.95	9.9	1.06	fa	
45	89	—	JKJ	Morningstar Small Core (iS)	SC	H	H	H	4.3	0.9	14.4	80.11	—	—	—	
46	52	—	IWS	Russell MidCap Value (iS)	MCVal	H	H	H	2.7	2.7	12.3	136.10	10.0	1.18	—	
47	118	264	TWEBX	Tweedy, Browne American Value (closed)	MCVal	H	H	H	2.9	4.1	8.3	25.44	6.8	0.82	fsc	
48	112	—	JKD	Morningstar Large Core (iS)	LC	H	H	H	4.2	2.5	10.1	70.80	—	—	—	
49	36	—	NY	NYSE 100 (iS)	LCVal	H	H	H	2.0	3.6	10.7	70.06	—	—	—	
50	15	107	MQIFX	Mutual Qualified (2%r<7d) CIZ	MCVal	H	H	H	1.8	3.0	12.4	21.63	8.0	0.82	sa	
51	55	219	PRFDX	T. Rowe Price Equity-Income	LCVal	H	H	H	2.4	3.4	10.3	28.02	8.9	0.98	fsc	
52	—	—	XLG	Rydex Russell Top 50	LC	H	H	H	2.4	4.1	8.5	99.08	—	—	—	
53	91	—	JKI	Morningstar Mid Value (iS)	MCVal	H	H	H	2.9	2.9	10.7	79.91	—	—	—	
54	136	—	JKL	Morningstar Small Value (iS)	SCVal	H	H	H	4.1	1.8	11.1	77.37	—	—	—	
55	49	196	GABAX	Gabelli Asset (2%r<7d)	MC	H	H	H	2.4	3.5	9.5	45.42	10.2	1.09	FSA	
56	11	—	NYC	NYSE Composite (iS)	LC	(H)	(H)	(H)	1.2	2.9	12.3	77.02	—	—	—	
57	32	152	HOVLX	Homestead Value (2%r<30d)	LCVal	H	H	H	1.2	3.0	11.9	35.59	9.2	0.96	A	
58	82	109	SLSSX	Selected Special Shares	MC	*	H	H	4.8	1.4	10.5	13.50	12.3	1.28	SA	
59	29	153	TAVFX	Third Avenue Value (\$10k, 1%r<60d)	SC	H	H	H	1.8	2.5	12.1	59.17	9.3	0.82	FSA	
60	226	145	VCLVX	Vanguard Capital Value	LCVal	S	S	S	5.7	1.0	9.9	12.35	10.1	1.19	fsc	
61	65	12	ATASX	ABN AMRO/TAMRO Small Cap N	SC	*	S	S	5.5	-1.3	15.9	18.62	15.8	1.52	FSA	
62	71	74	MERDX	Meridian Fund (2%r<60d)	MCGro	S	S	S	3.9	0.7	12.8	39.86	13.8	1.36	fa	
63	86	214	PRDGX	T. Rowe Price Dividend Growth	LC	S	S	S	3.1	2.5	9.6	24.14	8.4	0.94	fsc	
64	205	62	CRMSX	CRM Small Cap Value Inv (closed)	SC	*	S	S	5.0	0.5	11.7	27.07	13.6	1.32	FSA	
65	17	269	DGAGX	Dreyfus Appreciation	LC	(H)	(H)	(H)	0.6	4.6	8.0	42.75	7.6	0.79	FSA	
66	110	79	STCSX	Wells Fargo Adv Common Stock Z (closed)	MC	S	S	S	3.9	0.7	12.5	23.44	12.2	1.24	fSA	
67	165	266	THPGX	Thompson Plumb Growth	LC	S	S	S	4.7	2.8	6.2	46.92	11.1	1.12	Fsc	
68	133	190	CAMOX	Cambiar Opportunity	LC	S	S	S	3.6	1.9	9.8	18.95	11.0	1.17	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/wff:** 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	9/15 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/wif
										1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
69	126	228	VUVLX	Vanguard U.S. Value	LCVal	S	S	S	3.7	2.3	8.7	14.44	9.0	1.09	fsc	
70	74	—	IVV	S&P 500 (iS)	LC	S	S	S	3.1	2.3	9.7	132.80	7.8	1.00	—	
71	109	250	NOIEX	Northern Income Equity	Convrt	H	H	H	2.3	3.9	6.7	12.28	6.4	0.81	FSA	
72	98	—	PEY	PowerShares HYld Div Achievers	MCVal	S	S	S	1.8	4.8	5.1	15.53	—	—	—	
<b>73</b>	<b>45</b>	<b>86</b>	<b>FVDFX</b>	<b>Fidelity Value Discovery</b>	<b>MC</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>1.9</b>	<b>1.3</b>	<b>13.6</b>	<b>16.36</b>	<b>11.6</b>	<b>1.19</b>	<b>F</b>	
74	123	229	PRWCX	T. Rowe Price Cap Appreciation	LCVal	S	S	S	2.6	2.7	8.9	21.49	7.1	0.94	fsc	
75	135	167	PRGFX	T. Rowe Price Growth Stock	LCGro	S	S	S	4.2	1.4	10.0	29.98	9.7	1.07	fsc	
76	4	68	USCGX	USAA Capital Growth	SCGro	*	(H)	(H)	0.1	1.5	15.5	8.71	15.0	1.52	fsA	
77	76	225	FSMKX	Fidelity Spartan 500 (\$10k)	LC	S	S	S	2.9	2.2	9.5	91.70	8.8	1.00	Fa	
78	186	247	MAVFX	Matrix Advisors Value (1%r<60d)	LC	S	S	S	5.1	1.4	8.1	54.65	13.2	1.43	FSA	
79	80	—	VV	Vanguard LargeCap ETF	LC	S	S	S	2.9	2.0	9.6	58.76	—	—	—	
80	79	226	VFINX	Vanguard 500 Index	LC	S	S	S	2.8	2.2	9.4	122.00	7.8	1.00	fsc	
81	70	24	HRTVX	Heartland Value (2%r<10d)	SCVal	*	S	S	3.6	-0.3	14.4	50.46	16.9	1.57	FSA	
82	39	138	MUTHX	Mutual Shares (1%) CIZ	MCVal	H	H	H	2.3	1.8	10.9	25.80	6.9	0.71	sa	
83	158	212	BPAVX	Robeco Boston Partners All Cap Value	MCVal	S	S	S	3.7	2.3	7.7	15.79	10.0	1.04	FA	
84	42	141	BEGRX	Mutual Beacon (2%r<7d) CIZ	MCVal	H	H	H	2.8	1.8	10.4	16.82	7.6	0.76	sa	
89	83	17	MXIX	Marsico 21st Century (2%r<30d)	LC	S	S	S	3.2	-1.6	17.5	13.88	14.2	1.36	FSA	
<b>118</b>	<b>18</b>	<b>—</b>	<b>FSLVX</b>	<b>Fidelity Large Cap Value @</b>	<b>LCVal</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>0.7</b>	<b>1.6</b>	<b>10.7</b>	<b>13.94</b>	<b>—</b>	<b>1.00</b>	<b>Fa</b>	
<b>139</b>	<b>20</b>	<b>61</b>	<b>WWNPX</b>	<b>Kinetics Paradigm (2%r&lt;30d)</b>	<b>MC</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>1.1</b>	<b>-0.3</b>	<b>13.1</b>	<b>22.96</b>	<b>10.8</b>	<b>1.05</b>	<b>Fsa</b>	
<b>144</b>	<b>14</b>	<b>123</b>	<b>FAIRX</b>	<b>Fairholme Fund (2%r&lt;60d)</b>	<b>MC</b>	<b>H</b>	<b>(H)</b>	<b>(H)</b>	<b>-1.5</b>	<b>1.9</b>	<b>10.9</b>	<b>27.19</b>	<b>8.4</b>	<b>0.71</b>	<b>fsc</b>	
166	25	77	FLVCX	Fidelity Leveraged Co (\$10k,1.5%r<90d)	MC	*	(S)	(S)	0.0	0.2	11.1	26.95	18.1	1.75	Fa	
322	6	182	CGMFX	CGM Focus	MC	*	(S)	(S)	-7.7	-2.7	5.9	35.81	22.4	1.50	sa	

Dow Jones  
NASDAQ  
S&P 500

2.9%  
5.7  
2.7

3.1%  
-3.3  
1.3

9.5%  
4.2  
7.5

indexes do not  
include dividends

International Stock Funds

<b>1</b>	<b>8</b>	<b>—</b>	<b>MPYMX</b>	<b>Metzler/Payden Europe Emg Mkts (2%r&lt;30d)</b>	<b>Europe</b>	<b>*</b>	<b>B</b>	<b>B</b>	<b>-0.2%</b>	<b>13.3%</b>	<b>29.2%</b>	<b>\$29.25</b>	<b>21.4</b>	<b>—</b>	<b>FSA</b>
<b>2</b>	<b>1</b>	<b>1</b>	<b>JAOSX</b>	<b>Janus Overseas (2%r&lt;90d)</b>	<b>Int'l</b>	<b>*</b>	<b>B</b>	<b>B</b>	<b>2.1</b>	<b>5.9</b>	<b>38.5</b>	<b>38.97</b>	<b>15.1</b>	<b>—</b>	<b>FSA</b>
<b>3</b>	<b>4</b>	<b>3</b>	<b>DREGX</b>	<b>Driehaus Emerging Mkts Gr (2%r&lt;60d)</b>	<b>Int'l</b>	<b>*</b>	<b>B</b>	<b>B</b>	<b>1.1</b>	<b>5.4</b>	<b>40.9</b>	<b>33.68</b>	<b>17.9</b>	<b>—</b>	<b>FSA</b>
4	19	15	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	(B)	(B)	2.1	7.1	29.8	24.27	16.9	—	fsc
5	2	6	PRLAX	T. Rowe Price Latin America (2%r<90d)	LatinA	*	*	B	0.0	3.9	40.3	31.26	20.5	—	fsc
6	61	38	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	*	H	(H)	5.2	6.5	24.5	23.53	10.5	—	FSA
7	31	20	SCOXP	DWS Pacific Opp Eq, S (closed,2%r<30d)	Pacific	*	(H)	(H)	2.0	6.6	27.7	18.72	14.9	—	FSA
8	5	44	ACFFX	Columbia Acorn Intl Select Z	Int'l	*	B	B	1.3	8.2	22.7	24.22	11.5	—	sa
9	42	51	ARTKX	Artisan Intl Value (2%r<90d)	Int'l	*	H	H	2.3	6.0	24.5	26.31	10.5	—	FSA
<b>10</b>	<b>6</b>	<b>22</b>	<b>ICSEX</b>	<b>ICON Europe</b>	<b>Europe</b>	<b>*</b>	<b>B</b>	<b>B</b>	<b>0.5</b>	<b>5.5</b>	<b>27.1</b>	<b>18.53</b>	<b>13.9</b>	<b>—</b>	<b>FSA</b>
11	18	69	OAKIX	Oakmark International (2%r<90d)	Int'l	*	H	H	1.0	7.2	21.2	26.41	9.2	—	FSA
<b>12</b>	<b>3</b>	<b>2</b>	<b>FLATX</b>	<b>Fidelity Latin Amer. (1.5%r&lt;90d)</b>	<b>LatinA</b>	<b>*</b>	<b>*</b>	<b>(B)</b>	<b>0.5</b>	<b>0.7</b>	<b>38.0</b>	<b>38.36</b>	<b>22.1</b>	<b>—</b>	<b>Fsa</b>
<b>13</b>	<b>25</b>	<b>29</b>	<b>FECAX</b>	<b>Fidelity Europe Capital App (1%r&lt;30d)</b>	<b>Europe</b>	<b>*</b>	<b>(B)</b>	<b>(B)</b>	<b>1.7</b>	<b>5.7</b>	<b>23.2</b>	<b>26.24</b>	<b>13.7</b>	<b>—</b>	<b>Fsa</b>
14	13	—	EZU	MSCI EMU (iS)	Europe	*	B	B	0.9	6.2	22.7	91.79	12.1	—	—
15	15	75	VEURX	Vanguard European Stock Index (2%r<60d)	Europe	*	(H)	(H)	0.3	7.0	20.7	32.64	10.7	—	fsc
16	12	—	IEV	S&P 350 Europe Plus (iS)	Europe	*	(H)	(H)	-0.1	7.0	21.2	94.75	10.6	—	—
<b>17</b>	<b>14</b>	<b>—</b>	<b>VGK</b>	<b>Vanguard European ETF</b>	<b>Europe</b>	<b>*</b>	<b>B</b>	<b>B</b>	<b>0.2</b>	<b>6.9</b>	<b>21.0</b>	<b>61.70</b>	<b>—</b>	<b>—</b>	<b>—</b>
18	—	—	EFV	MSCI Value (iS)	Int'l	*	H	H	-0.2	6.1	22.1	64.80	—	—	—
19	7	67	USIFX	USAA International	Int'l	*	(H)	(H)	-0.3	6.4	20.8	27.09	9.4	—	—
20	86	56	MAPTX	Matthews Pacific Tiger (closed,2%r<90d)	Pacific	*	H	H	2.4	5.2	18.9	21.25	15.1	—	FSA
21	9	—	FEZ	DJ Euro Stoxx 50 (stfr)	Europe	*	(H)	(H)	-0.7	6.0	21.1	48.16	12.6	—	—
22	47	30	SCOBX	DWS Global Thematic S (closed,2%r<30d)	Global	*	H	H	1.6	3.2	24.0	34.97	11.1	—	FSA
23	23	24	ACINX	Columbia Acorn Intl Z (2%r<60d)	Int'l	*	H	H	1.0	3.4	23.4	38.27	11.6	—	sa
24	16	58	DODFX	Dodge & Cox Intl Stock	Int'l	*	H	H	-0.3	5.4	20.2	39.84	11.2	—	fsc
25	39	47	BUBIX	Julius Baer Intl Eq A (closed,2%r<90d)	Int'l	*	H	H	0.3	4.6	21.2	40.94	11.9	—	FS
26	57	79	USAWX	USAA World Growth	Int'l	*	H	H	1.0	5.9	16.5	20.21	7.8	—	a
<b>27</b>	<b>37</b>	<b>5</b>	<b>FEMKX</b>	<b>Fidelity Emerging Mkts (1.5%r&lt;90d)</b>	<b>Int'l</b>	<b>*</b>	<b>H</b>	<b>H</b>	<b>-0.1</b>	<b>0.6</b>	<b>31.4</b>	<b>20.74</b>	<b>17.8</b>	<b>—</b>	<b>Fsa</b>
28	40	11	PRIDX	T. Rowe Price Intl Disc. (2%r<90d)	Int'l	*	H	H	1.8	2.8	22.2	46.33	12.9	—	fsc
29	—	—	FFINX	Forward International Equity (2%r<180d)	Int'l	*	H	H	0.0	3.1	23.8	17.18	12.2	—	FSA
30	75	23	TREMX	T. Rowe Price Emg Europe & Med (2%r<90d)	Europe	*	H	H	0.8	2.5	23.9	28.58	19.4	—	fa
31	—	—	HINX	Harbor International Inv (2%r<60d)	Int'l	*	H	H	-0.8	3.4	23.9	56.21	12.0	—	FSA
32	52	18	HLEMX	Harding Loevner Emrg Mkt (2%r<90d)	Int'l	*	S	S	1.3	1.8	24.7	38.76	16.1	—	FSA
<b>33</b>	<b>20</b>	<b>43</b>	<b>VTRIX</b>	<b>Vanguard International Value (2%r&lt;60d)</b>	<b>Int'l</b>	<b>*</b>	<b>H</b>	<b>H</b>	<b>-0.5</b>	<b>3.8</b>	<b>22.1</b>	<b>39.61</b>	<b>11.1</b>	<b>—</b>	<b>fsc</b>
34	48	39	SCGEX	DWS Europe Equity S (closed,2%r<30d)	Europe	*	S	S	1.4	2.9	21.0	35.13	11.3	—	FSA
35	24	71	SWINX	Schwab International Index (1.5%r<180d)	Int'l	*	S	S	1.0	4.2	18.2	20.02	9.6	—	S
36	46	26	PISRX	Forward Intl Small Companies (2%r<180d)	Int'l	*	S	S	1.7	2.2	21.3	16.91	13.6	—	FSA
37	70	—	EPP	MSCI Pacific ex Japan (iS)	Pacific	*	S	S	0.9	5.9	13.2	110.60	11.8	—	—
38	26	60	ICEUX	ICAP Euro Select Equity (2%r<30d)	Int'l	*	S	S	-0.8	4.1	19.9	36.54	10.9	—	fsc
39	54	13	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	*	S	S	1.5	1.2	23.7	22.43	12.6	—	SA
40	66	78	OAKGX	Oakmark Global (2%r<90d)	Global	*	S	S	1.4	4.5	15.2	26.11	9.8	—	FSA
41	55	33	VINEX	Vanguard Intl Expl (closed,\$25k,2%r<60d)	Int'l	*	S	S	1.5	2.5	19.8	20.29	11.4	—	fsc
42	22	46	ARTIX	Artisan International (2%r<90d)	Int'l	*	H	H	-0.9	3.4	21.0	28.37	10.6	—	FSA
43	93	25	PRASX	T. Rowe Price New Asia (2%r<90d)	Pacific	*	S	S	3.3	2.4	16.6	13.00	15.5	—	fs
<b>81</b>	<b>100</b>	<b>72</b>	<b>ICHKX</b>	<b>Guinness Atkinson China &amp; HK (2%r&lt;90d)</b>	<b>Pacific</b>	<b>*</b>	<b>H</b>	<b>H</b>	<b>-0.8</b>	<b>1.8</b>	<b>13.0</b>	<b>21.64</b>	<b>16.9</b>	<b>—</b>	<b>FSA</b>
<b>91</b>	<b>36</b>	<b>49</b>	<b>VPACX</b>	<b>Vanguard Pacific Stock Index (2%r&lt;60d)</b>	<b>Pacific</b>	<b>*</b>	<b>H</b>	<b>H</b>	<b>-2.2</b>	<b>-0.9</b>	<b>16.1</b>	<b>11.64</b>	<b>13.8</b>	<b>—</b>	<b>fsc</b>

**Bond Funds (next issue on page 6: Specialty Funds)**  
 9/15/2006

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.				
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	*	*	*	1.6%	2.3%	4.5%	\$11.14	3.45	5.68%	FSA
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	1.2	1.7	3.9	8.56	4.82	6.27	Fsa
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	0.9	1.2	2.7	8.86	3.92	6.99	Fsa
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	1.6	3.5	4.3	9.60	3.80	7.29	FSA
NTHFX	Northeast Investors Trust	HighYld	*	*	*	0.8	4.7	8.2	7.61	3.67	7.73	fa
PHYDX	PIMCO High Yield (2%r<30d)	HighYld	*	*	*	1.5	2.5	3.8	9.67	4.04	6.97	FSA
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	1.1	3.4	5.3	7.68	3.63	7.25	FSA
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.7	2.6	4.1	8.51	1.38	5.33	FSA
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	1.4	2.5	3.1	6.88	3.75	7.60	fsc
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	1.4	2.7	4.4	6.85	4.60	7.60	FSA
<b>VWEHX</b>	<b>Vanguard High Yield Corporate (1%r&lt;1yr)</b>	<b>HighYld</b>	<b>*</b>	<b>B</b>	<b>*</b>	<b>1.4</b>	<b>2.7</b>	<b>4.6</b>	<b>6.10</b>	<b>3.60</b>	<b>7.16</b>	<b>fsc</b>
BGBX	American Century Int'l Bond	Int'l	*	*	*	0.4	4.7	0.7	13.62	8.06	1.88	FSA
SSTGX	DWS Global Bond S (closed,2%r<30d)	Int'l	*	*	*	0.7	2.9	1.4	9.59	4.43	8.45	Sa
FNMX	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	0.7	1.3	6.6	14.81	7.04	5.79	Fsa
PYGF	Payden Global Fixed Income	Int'l	*	*	*	1.1	1.6	1.5	9.05	2.80	10.92	fsc
RPB	T. Rowe Price Int'l Bond (2%r<90d)	Int'l	*	*	*	-0.1	3.3	-0.6	9.49	7.78	2.96	fsc
BGNM	American Century Ginnie Mae	IntTerm	*	*	*	1.0	1.7	1.5	10.11	2.34	4.85	FSA
CPTN	American Century Government Bond	IntTerm	*	*	*	0.9	1.9	1.2	10.37	2.91	4.44	FSA
<b>ACITX</b>	<b>American Century Inflation Adj</b>	<b>IntTerm</b>	<b>B</b>	<b>*</b>	<b>*</b>	<b>-0.2</b>	<b>1.5</b>	<b>0.4</b>	<b>10.68</b>	<b>5.15</b>	<b>5.59</b>	<b>FSA</b>
SRIN	Columbia Income CIZ	IntTerm	*	*	*	1.2	1.2	0.2	9.61	3.50	5.45	Fsa
SRBF	Columbia Intermediate Bond CIZ	IntTerm	*	*	*	1.0	1.4	0.6	8.76	3.25	5.03	FSA
DODIX	Dodge & Cox Income	IntTerm	*	*	*	1.0	2.4	2.7	12.56	2.59	4.70	fsc
DRBD	Dreyfus A Bonds Plus	IntTerm	*	*	*	0.9	2.2	2.0	13.38	3.77	4.92	FSA
DRGM	Dreyfus GNMA	IntTerm	*	*	*	0.9	1.9	2.2	14.27	2.76	4.35	FSA
SCSB	DWS Core Plus Income S (closed,2%r<15d)	IntTerm	*	*	*	1.0	2.2	2.1	12.59	3.46	4.88	Sa
FTRG	Federated Total Return Govt	IntTerm	*	*	*	1.0	1.8	0.5	10.56	3.66	4.81	fsc
<b>FINPX</b>	<b>Fidelity Inflation-Protected Bond</b>	<b>IntTerm</b>	<b>B</b>	<b>*</b>	<b>*</b>	<b>-0.1</b>	<b>1.8</b>	<b>0.5</b>	<b>10.89</b>	<b>5.20</b>	<b>1.88</b>	<b>Fa</b>
AGG	Lehman Aggregate Bond (iS)	IntTerm	*	*	*	1.1	2.3	1.9	99.25	—	4.51	—
MBDF	Managers Fremont Bond	IntTerm	*	*	*	0.8	1.5	0.9	10.22	3.54	4.52	fsc
PTDX	PIMCO Total Return (2%r<7d)	IntTerm	*	*	*	0.9	1.9	0.8	10.37	3.46	4.17	FSA
PTMD	PIMCO Total Return Mortgage (2%r<7d)	IntTerm	*	*	*	1.0	2.4	1.9	10.55	2.56	4.10	FSA
PRGM	T. Rowe Price GNMA	IntTerm	*	*	*	0.9	1.5	1.4	9.33	2.36	4.89	fsc
PRCI	T. Rowe Price New Income	IntTerm	*	*	*	1.0	1.8	0.9	8.84	3.36	4.51	fsc
TGMN	TCW Galileo Total Return Bond	IntTerm	*	*	*	1.0	2.8	3.1	9.75	2.89	4.52	FSA
USAIX	USAA Income	IntTerm	*	*	*	1.1	2.3	2.2	12.05	3.54	4.84	A
VALB	Value Line U.S. Govt Sec	IntTerm	*	*	*	0.8	2.1	1.9	11.37	3.07	4.53	FSA
<b>VFII</b>	<b>Vanguard GNMA</b>	<b>IntTerm</b>	<b>B</b>	<b>*</b>	<b>*</b>	<b>0.9</b>	<b>2.1</b>	<b>3.0</b>	<b>10.15</b>	<b>2.70</b>	<b>4.98</b>	<b>fsc</b>
<b>VIPSX</b>	<b>Vanguard Inflation Protected Sec</b>	<b>IntTerm</b>	<b>B</b>	<b>*</b>	<b>*</b>	<b>-0.2</b>	<b>1.9</b>	<b>0.7</b>	<b>11.98</b>	<b>5.06</b>	<b>5.50</b>	<b>fsc</b>
VFIT	Vanguard Intermediate Term U.S. Treasury	IntTerm	*	*	*	1.0	1.7	0.3	10.71	4.26	4.66	fsc
VBMF	Vanguard Total Bond Market Index	IntTerm	*	*	*	0.9	1.9	1.3	9.91	3.61	4.74	fsc
STVS	Wells Fargo Adv Govt Sec Inv	IntTerm	*	*	*	0.8	2.0	0.9	10.29	3.41	4.65	FSA
MNTR	Wells Fargo Adv Total Return Bond	IntTerm	*	*	*	1.0	2.2	1.2	12.00	3.48	4.37	fsc
WTB	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	1.1	3.0	3.2	10.46	3.31	5.47	FSA
KIFX	FifthThird Bond	LngTerm	*	*	*	0.9	1.9	1.2	9.77	3.48	4.33	fa
LQD	GS InvestTop Corp Bond (iS)	LngTerm	*	*	*	0.8	1.4	0.2	105.74	5.32	4.89	—
MGFI	Managers Bond	LngTerm	*	*	*	1.7	4.1	4.9	24.51	4.09	4.05	FSA
PRPI	T. Rowe Price Corporate Inc	LngTerm	*	*	*	1.4	1.7	0.8	9.51	4.58	5.00	fsc
VWES	Vanguard Long-Term Investment-Grade	LngTerm	*	*	*	2.3	1.4	-1.9	9.09	7.87	5.67	fsc
STCB	Wells Fargo Adv Corporate Bond Inv	LngTerm	*	*	*	1.2	1.9	0.5	10.13	4.72	4.79	FSA
<b>FSICX</b>	<b>Fidelity Strategic Income</b>	<b>Multi</b>	<b>B</b>	<b>B</b>	<b>*</b>	<b>1.0</b>	<b>3.4</b>	<b>4.6</b>	<b>10.52</b>	<b>3.95</b>	<b>5.33</b>	<b>Fa</b>
JAFI	Janus Flexible Bond	Multi	*	*	*	0.9	1.6	0.7	9.33	3.51	4.52	FSJA
LSBD	Loomis Sayles Bond Instl (\$100k,2%r<60d)	Multi	B	B	*	1.8	4.4	8.0	14.22	5.42	5.97	fsc
<b>LSBRX</b>	<b>Loomis Sayles Bond Retail (2%r&lt;60d)</b>	<b>Multi</b>	<b>B</b>	<b>B</b>	<b>*</b>	<b>1.7</b>	<b>4.3</b>	<b>7.8</b>	<b>14.18</b>	<b>5.39</b>	<b>5.80</b>	<b>FSA</b>
RPSI	T. Rowe Price Spectrum Income	Multi	*	*	*	1.1	2.3	3.0	11.91	3.26	4.41	fsc
SCST	DWS Short-Term Bond S (closed,2%r<15d)	ShfTerm	B	*	*	0.6	2.3	3.3	9.94	1.38	4.29	Sa
JASB	Janus S-T Bond	ShfTerm	B	*	*	0.4	1.7	2.0	2.87	1.24	3.48	FSA
SHY	Lehman 1-3 Year Treasuries (iS)	ShfTerm	B	*	*	0.2	1.4	2.2	80.02	1.38	3.82	—
MGID	Managers Int. Duration Govt	ShfTerm	*	*	*	0.8	2.5	2.7	10.46	2.49	4.26	FSA
MGSD	Managers Short Duration Govt	ShfTerm	B	*	*	0.4	2.2	4.1	9.65	0.56	3.76	FSA
PTLC	PIMCO Low Duration (2%r<7d)	ShfTerm	B	*	*	0.5	1.5	1.0	9.91	1.49	3.27	fa
SWBD	Schwab S-T Bond Mkt Index	ShfTerm	B	*	*	0.7	2.3	2.3	9.90	1.96	4.23	fS
SSTB	Strong S-T Bond	ShfTerm	B	*	*	0.5	2.3	2.7	8.50	1.47	4.41	FSA
PRWB	T. Rowe Price S-T Bond	ShfTerm	B	*	*	0.6	1.7	2.1	4.67	1.45	3.90	fsc
VFST	Vanguard Short-Term Investment Grade	ShfTerm	B	*	*	0.7	2.2	2.6	10.51	1.56	4.10	fsc
VSGB	Vanguard S-T Federal	ShfTerm	*	*	*	0.7	2.0	2.2	10.25	1.70	3.78	fsc
VFIS	Vanguard S-T Treasury	ShfTerm	B	*	*	0.6	1.9	1.9	10.28	1.59	3.88	fsc
MNSGX	WellsFargo Montgomery S Dur Govt (closed)	ShfTerm	B	*	*	0.6	2.1	2.3	9.86	1.43	3.97	fsc
BTNX	American Century Target 2010	ZeroCpn	*	*	*	0.9	2.1	0.8	89.38	5.27	4.28	FSA
BTFX	American Century Target 2015	ZeroCpn	*	*	*	1.5	2.2	0.0	76.42	8.77	4.25	FSA
BITX	American Century Target 2020	ZeroCpn	*	*	*	2.2	1.4	-1.4	57.60	11.60	4.27	FSA

## Case Against Heartland Dismissed

Officials at Heartland Advisors breathed a sigh of relief recently as a federal judge dismissed insider trading allegations by the Securities and Exchange Commission (SEC) related to the pricing of two of its junk bond funds in 2000. The SEC accused the founder and president of the firm, William Nasgovitz, of making a client aware of the situation before it became public. Heartland has contested the charges since the civil fraud action was brought in 2003.

Heartland Value (HRVTX) was a top-performer in *MONEYLETTER* for many years, but was removed from our portfolios in December 2003 (the fund was closed) and then from our list in March 2004 due to uncertainty surrounding the case. Our reasoning, at the time, was that there were many alternatives and the risk of the unknown was something we wanted subscribers to avoid. The fund was reinstated in *MONEYLETTER* in April of this year, after more than two years of inaction.

Other claims against Nasgovitz and Heartland remain outstanding, but this was clearly a big win for the Milwaukee-based firm.

For more information on Heartland Funds call (800) 432-7856.

## CGM Focus: Too Hot to Handle?

We had a subscriber who bought CGM Focus (CGMFX) three weeks ago based on our recommendation, and now he is wondering, "what happened?" As you've all seen, the severe market correction in May and early June has raised havoc with our fund selection system, but a fund like CGM Focus is in a league of its own. Over the long term, the fund has been a winner; in three of the last six quarters the fund has returned more than 10% per quarter. But currently the fund is heavily invested in energy and metals, and the fund's fortunes have sagged over the last month as energy prices have dipped.

What should shareholders do with this fund? The fund is listed as a new "sell" for this issue, due mainly to its relatively poor recent performance. We've restricted the fund to Venturesome investors only. And one additional bit of advice: if you are a Venturesome investor interested in this fund, get in as soon as we say "buy." The gains can be substantial, but you have to "get while the gettin's good." \$

For more information on CGM Focus, call (800) 343-5678.

## ATTENTION SUBSCRIBERS

Next Issue: Volume 27, No. 19

Mails: October 6, 2006

Internet: October 4, 2006, 12:00pm (ET)

### 100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF	5.11%	5.07%	4.17%
Vanguard Treasury MMF	4.86	4.84	4.06
Amer Century Capital Presv Fund/Inv	4.73	4.67	3.86
T. Rowe Price US Treasury MF	4.66	4.66	3.75
HSBC Investor US Treas MM/CI D	4.65	4.62	3.59
JPMorgan 100% US Treas MMF/Morgan	4.64	4.61	3.74
RMK Select Treas MMF/CI A	4.61	4.57	3.69
Merrill Lynch CMA Treas Fund RIC	4.55	4.51	3.60
Schwab US Treasury Money Fund	4.53	4.51	3.68
DBAB Cash Reserve Treas/Inv	4.51	4.46	3.55

### GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
Transamerica Premier Cash Res/Inv	5.27%	5.32%	4.42%
Vanguard Prime MMF/Retail	5.24	5.23	4.38
TIAA-CREF Money Market Fund	5.23	5.23	4.38
Harbor Money Market Fund	5.19	5.18	4.30
MFS Money Market Fund	5.17	5.22	4.36
PayPal Money Market Fund	5.15	5.16	4.48
Marshall Prime MMF/Investor Class	5.11	5.10	4.25
Dreyfus BASIC MMF	5.08	5.09	4.23
DWS Money Market Prime Ser/DWS MMF	5.06	5.07	4.20
GE Money Market Fund	5.06	5.07	4.24
Morgan Stanley Active Assets MT	5.06	5.07	4.19
PIF Money Market Fund/Class A	5.06	5.06	4.12
Putnam MMF/CI A	5.06	5.05	4.18
SSgA MMF/CI A	5.06	5.08	4.26
Schwab Value Advantage MF/Inv	5.06	5.06	4.22

### TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Alpine Municipal MMF/Investor	3.37%	3.49%	3.19%
Vanguard Tax-Exempt MMF	3.34	3.46	3.10
DWS Tax-Exempt Money Fund	3.12	3.22	2.84
Fidelity AMT Tax-Free Money Fund	3.11	3.29	2.94
Fidelity Municipal MMF	3.09	3.21	2.85
Dreyfus BASIC Muni MMF	3.07	3.16	2.81
Fidelity Tax Free Money Market	3.04	3.16	2.82
T-E Portfolio/Managed Shares	3.04	3.16	2.79
T. Rowe Price Summit Muni MMF	3.03	3.13	2.76
Amer Century T-F MMF/Inv Class	3.02	3.16	2.81

**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 9/12/06. 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: iMoney.net's Money Fund Report (800) 343-5413

(continued from page 8)

assets in small- and micro-cap holdings, and Opportunities with less than 20% there.

The answer to the clone question: International Small Cap Opportunities generally goes its own way, but is impacted by the same stock market and macroeconomic events as its older sibling. For the year-to-date, International Small Cap Opportunities has gained 7.8% vs. 4.4% for International Small Cap. \$

Fidelity International Small Cap Opportunities (FSCOX)  
Fidelity Investments  
82 Devonshire Street, Boston, MA 02109  
(800) 343-3548 • Minimum investment & IRA: \$2,500

## Fidelity International Small Cap Opportunities: Clone or Just One of the Family?

Fidelity International Small Cap Opportunities seemingly owes its very existence to a sibling: Fidelity International Small Cap (FISMX). Created in August 2005, Fidelity offered the former as an alternative to the closed Fidelity International Small Cap. That fund was launched in September 2002, but closed in May 2005, when assets had hit nearly \$2.1 billion, and the number of stocks in the portfolio had ballooned to nearly 500 from 150. This naturally raises the question, was Small Cap Opportunities created to mimic its older sibling, or would it go its own way?

Fidelity tapped Andy Sassine to run the newer fund, which, by the way, has already attracted more than \$1 billion in assets. Sassine began his Fidelity tenure as a high-yield bond analyst, moved into international equities in 2001, and became a dedicated small-cap analyst there. Of course, he leans on Fidelity's global research team to find attractive investments in the international small cap arena, generally defined as stocks with market capitalizations of \$5 billion or less.

### Portfolio construction

Within the small cap universe, Sassine looks for stocks that have stable returns on capital, a growing cash flow, a strong management team, and valuations that are attractive relative to the stock's history as well as its global peer group. He looks to both developed and emerging markets for ideas. In constructing the portfolio, Sassine puts about one-third of assets into stock ideas generated by Fidelity's international research group. The remainder of the portfolio he devotes to stocks reflecting certain investing themes. These themes currently include potential growth in Japan and Europe, as well as alternative energy and materials stocks.

Sassine says that the high oil price environment drives his interest in alternative energy. "Companies creating innovative alternatives to the world's dependence on oil could be long-term winners," he recently wrote. Within this theme, he cites the fund's investments in alternative energy stocks such as wind and solar power, as well as hybrid vehicles.

He says that the opportunity in materials stocks is more "subtle," but also as relatively long lasting. Sassine notes that traditionally, "steel has been the backbone of automotive and aerospace bodies and components." Increasingly, however, metals and alloys such as titanium and carbon fiber are being used in automobile and airplane manufacturing in place of steel. These materials offer the strength of steel but at less weight, aiding vehicle fuel efficiency

and reducing operating costs. Hence, he sees "companies that successfully create and market oil-reducing alternative products" to be rewarding investments.

### Some similarities, but more differences

By way of comparison, three managers are at the helm of Fidelity International Small Cap, each of them bearing different geographical responsibilities. Like Sassine, they follow a "growth at a reasonable price" investment policy. But, "GARP" and having the largest portion of fund assets in Japan is about where the similarities end. There is no duplication among the two funds' top ten holdings.

#### Top Five Countries (% of Assets)

FSCOX		FISMX	
Japan	36.1%	Japan	34.0%
Germany	12.9	United Kingdom	19.0
France	7.3	Australia	10.4
United Kingdom	7.0	USA	5.5
USA	6.5	Canada	4.3

As of June 30, 2006

#### Top Five Sectors (% of Assets)

FSCOX		FISMX	
Industrials	31.1%	Materials	17.8%
Materials	18.0	Industrials	16.4
Information Technology	17.1	Consumer Discr.	15.6
Financials	9.1	Energy	15.0
Consumer Discr.	8.2	Financials	9.7

As of June 30, 2006

Some of the differences between the two funds stem from their respective sizes. At just over \$1 billion in assets, Small Cap Opportunities is about half the size of its older sibling. Hence, Opportunities has a significantly smaller number of stock holdings (about 180 vs. more than 700), and it also concentrates a bit more heavily in its favorites (14% in its top ten vs. 11% for Small Cap). Meanwhile, Opportunities is also more concentrated in its sector weightings, though some similarity in sector emphasis is certainly evident.

Finally, both funds seem to be challenged as far as maintaining a small cap focus. Both funds have slightly more than 20% of assets in large-cap holdings. Small Cap's mid-cap exposure is at 37%, while Opportunities' is at nearly 60%. That leaves Small Cap with about 43% of

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