

RS Funds Go Load

by Walter S. Frank, Chief Investment Officer

RS Funds has consummated a deal with Guardian Life by which Guardian has purchased 65% of RS Investments. An unfortunate (from our perspective) fallout from the sale is that the RS funds have become load funds as of October 9. Consequently, we can no longer recommend the RS Funds to anyone who does not already own shares. Current owners of RS shares who purchased the shares under a no-load basis can continue to purchase shares for their account on a no-load basis.

As part of our natural resources allocation, RS Global Natural Resources is in six of our portfolios, the three *MONEYLETTER* all-family portfolios and the three Vanguard family portfolios. We are removing RS Global from all six portfolios so that no *MONEYLETTER* subscriber, existing or new, who does not already own the fund, receives the impression that we are recommending a new purchase of a full-load fund.

For those subscribers who already own the fund, we will continue to carry the RS Global Natural Resources Fund in our fund list. The fund remains a Hold. There is no reason for existing shareholders to sell it now. When the fund becomes a Sell, we will drop our coverage after the Sell advice appears in *MONEYLETTER*. As for the other RS funds, they are being removed from our fund list immediately.

Here are the portfolio changes we will be making. In all three *MONEYLETTER* portfolios we will switch into T. Rowe Price New Era (PRNEX). For the Vanguard portfolios the switch will be into Vanguard Energy ETF (VDE).

Lost in transition

As you can tell by scanning Table 1 on page 2, last quarter was a relatively unrewarding one for our portfolios. We are not accustomed to having our more risk-tolerant portfolios trailing the broad indexes, even on the

artificial basis of a calendar quarter. But such was the case last quarter.

We are tempted to call the quarter "Son of May 10." Remember that May 10th was the day markets worldwide dived following tough talk about inflation by Ben Bernanke. With hopes of lower U.S. interest rates turned into fears of higher rates—and the economic damage that might cause—market psychology turned 180 degrees.

Risk became a four-letter word. The first reaction was simply flight, as seen in the more volatile foreign markets, e.g., emerging markets. In the U.S. the flight was from stocks of all sort, with small stocks doing the worst. The fears of a major slowdown here meant that markets in export-oriented economies, such as Japan and Southeast Asia, also took a dive. Only China was spared.

Finally, and most important for us, investors fled the commodity markets. Virtually all the nonagricultural commodities were dumped, with oil leading the way. What the fierce selling in the commodities showed is that commodities had become a speculative playground for hedge funds. Leverage is very high in the commodities markets, and the persistent selling in commodities undoubtedly came from large positions that were being liquidated.

The large-cap moment

As the quarter developed, investors here and abroad became less and less concerned about the Fed as signs of a slowing U.S. economy became more apparent with every new housing number. It was then that investors turned to a long neglected lower risk segment of the market, large-cap stocks, particularly value. Large-cap portfolio managers, such as Larry Puglia of T. Rowe Price Blue Chip Growth, had been pounding the table for months pointing out the relative cheapness of large-cap stocks (relative to small caps, that is). But investors had turned a deaf ear. Now that risk-avoidance was Priority One, they listened.

There was one other trend which surfaced that was not exactly a follow-on from May 10. In the overseas markets, European stocks came to life. The developed European markets by their very nature are considered less risky. More important, the Western European economies, led by Germany, are showing solid improvement. Stagnation has turned to growth.

You can see what has been happening by looking at the turnover in our portfolios. In our *MONEYLETTER* portfolios we now hold Morningstar Large Value and Powershares Dynamic Large Cap Value. Gone are Bridgeway Small Cap Value, Janus Orion, and Forward International Small

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 on page 2)

(continued from page 1)

Companies. Large Cap Value is sprinkled through the Fidelity and Vanguard portfolios as well.

The question now is will these very short-term trends endure? Looking at the very recent behavior of the markets, we do not find one blanket answer. We have recently written (*MONEYLETTER*, September 22) that we believe the commodity selling was a shorter-term speculative spasm. And the commodity markets have just recaptured some lost ground. Liquidation has apparently ended.

The large-cap revival certainly looks solid as the large-cap averages hit new highs, and the argument for large caps is convincing. The difficulty is large caps just do not get the blood moving. We have argued that there is a lower interest rate ceiling than before on the U.S. market, and that essentially applies to large-caps.

Finally, we see the tilt to Europe as longer lasting. Of course, we are not talking about the explosive growth of China or India here. Nor has Europe just been discovered. But it appears to us that growth is taking hold, and as it does, undiscovered opportunities in neglected stocks will surely arise.

Table 1
Portfolio Performance
3rd Quarter and Year-to-Date 2006

Portfolio	3rd Q	YTD
MONEYLETTER		
Venturesome	0.4%	5.1%
Moderate	0.9	6.9
Conservative	-0.4	3.4
Fidelity		
Venturesome	0.4	2.8
Moderate	0.9	2.7
Conservative	0.3	4.6
Vanguard		
Venturesome	1.4	3.2
Moderate	1.6	3.6
Conservative	2.9	4.9
MONEYLETTER Select	-5.0	0.5
Vanguard Index 500	5.6	8.4
Wilshire 5000	4.1	7.0
Russell 2000	0.1	7.8
Asset Allocation Funds (Avg. 213 Funds)	3.4	6.1

Portfolio funds

As Table 2 shows, among funds held throughout the quarter, the natural resources funds were a heavy drag on performance. Of course, these funds, with large allocations to energy, reflect the selling in energy securities that has since reversed.

The best performing fund over the quarter was Janus Overseas. We have not given the fund suitable mention in these pages. The other top performers were either large cap value funds or a European fund. All of the above outperformed the strong 5.6% total performance of the S&P 500 (a large cap index) during the quarter. Finally, Driehaus Emerging Markets, another solid performer, just managed to equal the S&P 500. \$

Table 2
Top-Performing Portfolio Stock Funds
3rd Quarter and Year-to-Date 2006

Fund	3rd Q	YTD
Janus Overseas	6.6%	25.1%
Vanguard Value ETF	6.5	13.4
Vanguard Equity-Income	6.3	12.9
Fidelity Europe Cap. Appreciation	6.0	20.9
Driehaus Emerging Markets Growth	5.5	20.1
RS Global Natural Resources	-8.6	1.0
Fidelity Select Natural Resources	-10.0	8.6

(Fund Profile, continued from page 8)

and market opportunity.” The firm also cites Seagate’s large two-year stock repurchase program.

In the same interview, Gallagher commented on the fund’s energy exposure. “Three oil stocks are in the top ten holdings of the fund and they’ve earned their way into that position. We feel very comfortable with the names we have...we think energy is a good counterbalance to the weighting in technology.”

Cash and short selling

The fund’s cash position has built to 25% of assets, which aided performance in a choppy market. Gallagher told CNBC, “We were very fortunate in the first quarter when stocks moved up nicely and hit a number of our price targets, we took some of the chips off the table by taking some capital gains.”

Gallagher explains that short selling is a way to protect gains in the portfolio. “When we see the market rallying, we start adding on the short side. Then, if there’s a correction, you’ve protected the gain,” he said in a recent interview. In fact, during the second quarter of this year, five of the fund’s top ten performers were shorts. Going forward, Gallagher said in the CNBC interview on September 1, “Well, we’d like to protect being up 12 ½% so far this year...We’re going to counterbalance the long positions with some short names if this market continues to rally.” \$

Needham Growth Fund (NEEGX)
445 Park Avenue, New York, NY 10022
(800) 625-7071 • Minimum Investment: \$5,000, \$1,500 IRA

Fund Changes

The Hotline of Wednesday, October 4 recommended the sale of Kinetics Paradigm and a switch into Wells Fargo Advantage C&B Midcap Value. Paradigm was in both the *MONEYLETTER* Venturesome and Moderate portfolios. Here are the details as of Thursday, October 5. **Venturesome**—Sold 653 shares of Paradigm @ \$23.54 per share. Purchased 667 shares of C&B Midcap @ \$23.07 per share. **Conservative**—Sold 894 shares of Paradigm, purchased 912 shares of C&B Midcap Value. The same Hotline also recommended the sale of Fidelity Emerging Markets in the Fidelity Venturesome and Moderate portfolios. The replacement fund is Fidelity Southeast Asia. Here are the details as of Thursday, October 5. **Fidelity Venturesome**—Sold 1,407 shares of Emerging Markets @ \$21.12 per share. Purchased 1,191 shares of Southeast Asia @ \$24.96 per share. **Fidelity Moderate**—Sold 855 shares of Emerging Markets, purchased 723 shares of Southeast Asia.

The Hotline of Wednesday, October 11th recommended the sale of Fidelity Value Discovery to be switched into Fidelity Dividend Growth. The fund is in the Fidelity Venturesome and Conservative portfolios. Here are the details as of Thursday, October 12th. **Fidelity Venturesome**—Sold 744 shares of Value Discovery @ \$16.85 per share. Purchased 403 shares of Dividend Growth @ \$31.09 per share. **Fidelity Conservative**—Sold 1,006 shares of Value Discovery, purchased 545 shares of Dividend Growth. \$

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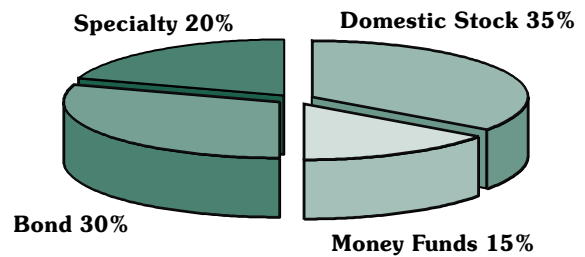
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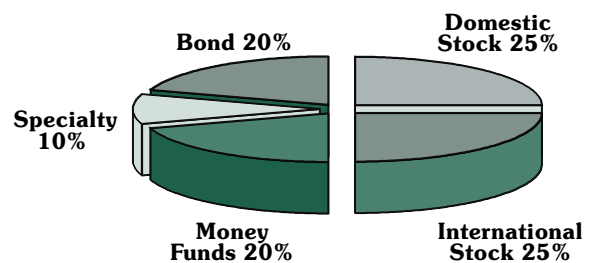
CONSERVATIVE

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



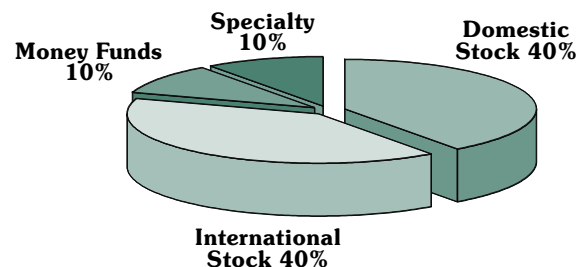
MODERATE

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



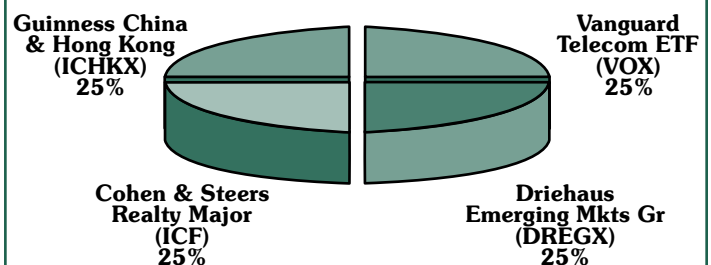
VENTURESOME

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	10/13 2006	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE	RISK		NTF/wtf
										1 mo.	6 mo.	12 mo.	PER SHARE	Std. Dev.	Beta	
1	9	—		PWV	PowerShares Dyn LC Value	LCVal	B	B	B	4.1%	12.8%	25.9%	\$19.00	—	—	—
2	1	181		LLSCX	Longleaf Partners Smallcap (closed)	SCVal	B	B	B	5.3	11.0	26.1	31.30	9.4	1.01	fa
3	4	—		JFK	Morningstar Large Value (fS)	LCVal	B	B	B	3.0	12.4	25.7	79.72	—	—	—
4	6	—		LSVRX	Loomis Sayles Value Retail	LCVal	B	B	B	4.4	10.2	27.9	21.59	7.4	0.90	FA
5	11	249		WEHIX	Weitz Hickory	MC	*	B	B	4.9	11.1	22.7	37.64	9.7	0.99	fSA
6	2	109		CBMDX	Wells Fargo Adv C&B Mid Cap Value	MC	*	B	B	3.7	9.3	26.9	23.60	11.9	1.32	FSA
7	10	117		GEVTX	Columbia Disciplined Value Clz	LCVal	B	B	B	4.0	9.2	26.7	16.40	9.1	0.98	a
8	12	—		VTV	Vanguard Value ETF	LCVal	B	B	B	3.6	10.4	24.1	65.11	—	—	—
9	13	162		VIVAX	Vanguard Value Index	LCVal	B	B	B	3.6	10.4	23.9	25.38	8.2	1.00	fSA
10	5	218		VASVX	Vanguard Selected Value (\$25k, 1%r<1yr)	MCVal	B	B	B	3.9	11.1	21.4	21.35	8.6	0.97	fSA
11	24	—		ELV	DJ WI US LargeCap Value (stTr)	LCVal	B	B	B	3.9	10.4	22.7	79.73	7.4	0.86	—
12	33	32		FBRVX	FBR Small Cap (closed, 1%r<90d)	SCGro	H	H	H	8.2	4.3	31.5	50.46	12.4	1.11	FSA
13	7	260		WWALX	Weitz Value Fund	LCVal	B	B	B	3.7	11.2	19.1	39.64	7.2	0.69	FSA
14	21	—		IWD	Russell 1000 Value (fS)	LCVal	B	B	B	3.6	9.4	23.5	78.79	8.0	0.99	—
15	35	—		IVE	S&P 500 Value (fS)	LCVal	H	H	H	4.3	8.6	23.8	73.80	8.6	1.07	—
16	28	—		DVY	DJ Select Dividend Index (fS)	MCVal	H	H	H	2.9	11.2	19.1	67.88	—	—	—
17	26	—		IWW	Russell 3000 Value (fS)	LCVal	B	B	B	3.4	8.9	23.5	102.80	8.3	1.03	—
18	25	151		FEQIX	Fidelity Equity-Income	LCVal	B	B	B	3.9	9.0	22.6	58.56	8.4	1.04	FSA
19	14	195		VEIPX	Vanguard Equity-Income	LCVal	B	B	B	2.8	9.9	21.8	25.64	7.6	0.91	fSA
20	16	222		TWVLX	American Century Value	LCVal	B	B	B	3.6	9.7	20.5	7.74	7.3	0.88	FSA
21	15	243		TWEIX	American Century Equity Income	LCVal	B	B	B	3.0	10.1	19.4	8.82	6.8	0.77	FSA
22	23	—		IWN	Russell 2000 Value (fS)	SCVal	*	H	H	4.0	6.4	27.1	77.40	13.6	1.50	—
23	30	135		LLPFX	Longleaf Partners (closed)	LC	H	H	H	6.4	6.9	22.4	36.14	9.9	0.95	fa
24	52	—		XLG	Rydex Russell Top 50	LC	H	H	H	4.1	10.3	17.1	103.00	—	—	—
25	32	194		TGIGX	TCW Dividend Focused N	LCVal	H	H	H	4.1	8.9	20.0	13.08	9.7	1.03	FSA
26	27	176		VWNFX	Vanguard Windsor II (closed, \$10k)	LCVal	H	H	H	3.0	9.2	20.8	34.86	7.9	0.90	fSA
27	42	145		DODGX	Dodge & Cox Stock (closed)	LCVal	H	H	H	4.0	7.9	22.1	154.00	9.5	1.02	sa
28	29	56		BPTRX	Baron Partners	MCGro	H	H	H	5.8	2.7	32.2	21.40	13.3	1.15	FSA
29	8	186		PVLDC	Allianz OCC Value D (2%r<7d)	LCVal	*	B	B	3.3	9.2	19.5	17.75	9.8	1.17	FSA
30	17	127		TRMCCX	T. Rowe Price Mid Cap Value (closed)	MCVal	B	B	B	3.3	7.2	23.7	26.50	9.8	1.22	fSA
31	39	—		VDIGX	Vanguard Dividend Growth	LCVal	B	B	B	3.3	8.7	20.1	13.96	7.1	0.87	fSA
32	43	—		OEF	S&P 100 (fS)	LC	H	H	H	3.9	9.2	17.7	63.51	7.2	0.90	—
33	116	229		BIGRX	American Century Income & Growth	LCVal	H	H	H	4.8	8.4	17.5	33.14	9.5	1.06	FSA
34	46	—		IWS	Russell MidCap Value (fS)	MCVal	H	H	H	3.2	6.9	23.3	140.00	10.0	1.18	—
35	34	—		DIA	Dow 30 Industrials (Diamonds)	LCVal	H	H	H	3.6	8.2	19.4	119.60	8.6	1.03	—
36	41	248		OAKMX	Oakmark Fund (2%r<90d)	LCVal	H	H	H	4.0	8.6	17.8	45.88	8.2	0.84	FSA
37	104	—		PWP	PowerShares Dynamic MC Value	MCVal	H	H	H	4.2	7.0	21.3	18.00	—	—	—
38	37	208		SSHFX	Sound Shore (\$10k)	LCVal	H	H	H	4.2	8.6	16.9	40.76	10.5	1.07	FSA
39	78	239		MAVFX	Matrix Advisors Value (1%r<60d)	LC	*	H	H	6.0	7.2	17.6	57.56	13.2	1.43	FSA
40	55	157		GABAX	Gabelli Asset (2%r<7d)	MC	H	H	H	4.1	7.4	19.9	47.25	10.2	1.09	FSA
41	118	—		FSLVX	Fidelity Large Cap Value	LCVal	H	H	H	4.0	6.7	21.8	14.57	—	1.00	Fa
42	51	196		PRFDX	T. Rowe Price Equity-Income	LCVal	H	H	H	3.4	7.7	19.8	28.83	8.9	0.98	fSA
43	31	161		TGDIVX	TCW Diversified Value N	LCVal	H	H	H	3.2	7.5	20.6	15.95	10.4	1.08	FSA
44	44	173		SAIFX	Salomon Brothers Investors	LCVal	H	H	H	3.6	7.2	20.4	22.59	9.9	1.06	fa
45	49	—		NY	NYSE 100 (fS)	LCVal	H	H	H	3.4	8.1	18.4	71.95	—	—	—
46	53	—		JKI	Morningstar Mid Value (fS)	MCVal	H	H	H	3.5	6.7	21.9	82.09	—	—	—
47	91	85		VHCOX	Vanguard Cap Opp (closed, \$25k, 1%r<1yr)	MCGro	*	H	H	6.2	3.7	25.3	37.64	13.8	1.53	fSA
48	48	—		JKD	Morningstar Large Core (fS)	LC	H	H	H	4.5	7.8	17.4	73.19	—	—	—
49	45	—		JKJ	Morningstar Small Core (fS)	SC	H	H	H	4.4	4.0	27.1	83.79	—	—	—
50	88	—		VBR	Vanguard SmallCap Value ETF	SCVal	H	H	H	3.9	5.6	23.6	69.68	—	—	—
51	57	137		HOVLX	Homestead Value (2%r<30d)	LCVal	H	H	H	3.1	7.0	21.1	36.81	9.2	0.96	A
52	54	—		JKL	Morningstar Small Value (fS)	SCVal	H	H	H	3.5	5.5	23.8	79.64	—	—	—
53	94	112		VISVX	Vanguard Small-Cap Value Index	SCVal	H	H	H	3.9	5.4	23.4	16.67	12.0	1.34	fSA
54	129	—		DSV	DJ WI US SmallCap Value (stTr)	SCVal	*	H	H	3.8	5.0	24.4	68.30	13.5	1.53	—
55	86	146		VWNDX	Vanguard Windsor	LCVal	H	H	H	4.6	6.2	19.7	18.97	8.8	1.09	fSA
56	102	—		SPY	S&P 500 (SPDR)	LC	H	H	H	3.8	7.1	18.5	136.60	7.8	1.00	—
57	56	—		NYC	NYSE Composite (fS)	LC	H	H	H	3.1	6.3	21.4	79.18	—	—	—
58	62	100		MERDX	Meridian Fund (2%r<60d)	MCGro	H	H	H	4.9	4.0	24.3	41.90	13.8	1.36	fa
59	70	—		IVV	S&P 500 (fS)	LC	H	H	H	3.8	7.0	18.4	136.90	7.8	1.00	—
60	71	225		NOIEX	Northern Income Equity	Convrt	H	H	H	3.9	8.0	15.8	12.78	6.4	0.81	FSA
61	170	172		FDEQX	Fidelity Disciplined Equity	LC	S	S	S	4.8	5.7	19.5	30.75	9.1	0.97	fSA
62	77	217		FSMKX	Fidelity Spartan 500 (\$10k)	LC	H	H	H	3.7	6.9	18.2	94.98	8.8	1.00	Fa
63	110	—		KLD	KLD Select Social (fS)	LC	S	S	S	5.0	6.5	17.3	57.62	—	—	—
64	80	219		VFINX	Vanguard 500 Index	LC	H	H	H	3.7	6.9	18.1	125.90	7.8	1.00	fSA
65	76	20		USCGX	USAA Capital Growth	SCGro	*	S	S	3.0	3.3	27.9	8.99	15.0	1.52	fSA
66	79	—		VV	Vanguard LargeCap ETF	LC	S	S	S	3.7	6.6	18.5	60.66	—	—	—
67	3	124		SAOPX	Salomon Brothers Opportunity	MCVal	H	H	H	1.8	6.0	22.8	58.21	8.5	0.93	fa
68	67	268		THPGX	Thompson Plumb Growth	LC	H	H	H	3.8	7.9	14.8	48.52	11.1	1.12	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	10/13 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	103	—	—	IWB	Russell 1000 (iS)	LC	S	S	S	3.8	6.3	18.3	74.07	8.0	1.02	—
70	162	200	—	FEQTX	Fidelity Equity-Income II	LCVal	S	S	S	4.5	6.2	17.6	24.70	10.5	1.16	Fsa
71	124	214	—	VQNPX	Vanguard Growth & Income	LC	S	S	S	4.5	6.1	17.9	34.80	8.3	1.04	Fsa
72	181	192	—	CHITX	ABN Amro Mid Cap	MC	*	S	S	4.9	5.6	18.4	26.52	15.4	1.54	FSA
73	40	242	—	FDGFX	Fidelity Dividend Growth	LC	H	H	H	2.7	7.1	17.7	31.10	9.2	0.98	Fsa
74	97	—	—	VTI	Vanguard Total Stock Mkt ETF	LC	S	S	S	3.8	5.9	18.9	135.00	8.5	1.08	—
75	69	233	—	VUVLX	Vanguard U.S. Value	LCVal	S	S	S	2.8	6.8	18.3	14.84	9.0	1.09	fsc
76	96	—	—	IYY	DJ US Total Market (iS)	LC	S	S	S	3.8	6.1	18.4	66.30	8.3	1.06	—
77	101	—	—	IWW	Russell 3000 (iS)	LC	S	S	S	3.9	5.9	18.7	78.99	8.4	1.07	—
78	117	—	—	HILVX	Harbor Large Cap Value Inv	LCVal	S	S	S	4.0	7.4	14.8	18.56	7.0	0.84	FSA
79	123	—	—	TMW	DJ WI Total Market (stTr)	LC	S	S	S	3.9	6.0	18.3	98.21	7.6	0.96	—
80	73	47	—	FVDFX	Fidelity Value Discovery	MC	Ⓢ	Ⓢ	Ⓢ	3.2	4.3	23.7	16.91	11.6	1.19	F
81	142	267	—	CFIMX	Clipper Fund	LCVal	S	S	S	4.6	8.0	12.2	90.80	8.8	0.83	Fsa
82	90	—	—	ISI	S&P 1500 (iS)	LC	S	S	S	3.7	6.1	18.2	121.50	—	—	—
83	38	152	—	RYSEX	Royce Special Equity (1%r<180d)	SCVal	S	S	S	4.7	4.8	19.9	21.00	10.9	0.96	fsc
84	95	205	—	SNXFX	Schwab 1000 Fund (2%r<30d)	LC	S	S	S	3.7	6.2	18.0	40.00	8.8	1.00	fsc
85	130	220	—	OAKLX	Oakmark Select (2%r<90d)	LCVal	S	S	S	5.4	5.4	17.4	35.67	8.9	0.82	FSA
86	36	232	—	DGRIX	Dreyfus Growth & Income	LC	H	H	H	3.3	6.5	17.6	17.20	9.4	1.05	FSA
96	19	158	—	SMCDX	Wells Fargo Advantage MC Disciplined	MCVal	Ⓢ	Ⓢ	Ⓢ	2.3	6.3	19.0	23.12	7.7	0.80	FSA
102	65	261	—	DGAGX	Dreyfus Appreciation	LC	Ⓢ	Ⓢ	Ⓢ	1.9	8.2	14.0	43.61	7.6	0.79	FSA
110	18	23	—	JSVAX	Janus Contrarian	LC	*	Ⓢ	Ⓢ	3.0	3.4	23.3	17.17	13.6	1.29	SA
122	20	24	—	NEEGX	Needham Growth Fund (2%r<60d)	SCGro	*	Ⓢ	Ⓢ	2.0	2.8	24.7	40.95	15.1	1.55	FSA

Dow Jones
NASDAQ
S&P 500

3.6%
5.8
3.6

7.4%
1.3
5.9

17.1%
15.2
16.0

indexes do not
include dividends

International Stock Funds

1	5	1	—	PRLAX	T. Rowe Price Latin America (2%r<90d)	LatinA	*	*	Ⓟ	7.1%	10.5%	51.7%	\$33.45	20.5	—	fsc
2	12	3	—	FLATX	Fidelity Latin Amer. (1.5%r<90d)	LatinA	*	*	H	6.8	8.3	48.5	41.02	22.1	—	Fsa
3	75	—	—	ILF	S&P 40 Latin America (iS)	LatinA	*	H	H	8.7	8.0	41.5	152.90	19.2	—	—
4	60	6	—	SLAFX	DWS Latin Amer Equity S (closed,2%r<30d)	LatinA	*	*	H	7.6	6.4	43.5	57.31	21.1	—	SA
5	2	8	—	JAOSX	Janus Overseas (2%r<90d)	Int'l	*	B	H	4.3	6.9	45.7	40.65	15.1	—	FSA
6	21	—	—	FEZ	DJ Euro Stoxx 50 (stTr)	Europe	*	Ⓟ	Ⓟ	3.6	12.0	28.4	50.04	12.6	—	—
7	14	—	—	EZU	MSCI EMU (iS)	Europe	*	B	B	3.7	10.9	29.9	95.38	12.1	—	—
8	16	—	—	IEV	S&P 350 Europe Plus (iS)	Europe	*	B	B	3.8	10.9	29.5	98.47	10.6	—	—
9	17	—	—	VGK	Vanguard European ETF	Europe	*	B	B	3.5	10.7	29.9	64.10	—	—	—
10	15	64	—	VEURX	Vanguard European Stock Index (2%r<60d)	Europe	*	B	B	3.6	10.5	29.9	33.89	10.6	—	fsc
11	65	—	—	ADRE	Emerging Mkts 50 ADR (BLDRS)	EmerMkt	*	H	H	6.7	5.3	38.3	34.05	17.9	—	—
12	3	2	—	DREGX	Drieheaus Emerging Mkts Gr (2%r<60d)	Int'l	*	B	H	4.4	2.8	45.8	34.94	17.9	—	FSA
13	1	—	—	MPYMX	Metzler/Payden Europe Emg Mkts (2%r<30d)	Europe	*	H	H	1.9	7.5	37.2	29.86	21.4	—	FSA
14	18	—	—	EFV	MSCI EAFE Value (iS)	Int'l	*	H	H	4.0	8.9	29.0	67.39	—	—	—
15	6	35	—	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	*	B	B	3.8	7.8	31.1	24.15	10.8	—	FSA
16	9	43	—	ARTKX	Artisan Intl Value (2%r<90d)	Int'l	*	B	B	4.1	7.5	30.2	27.12	10.6	—	FSA
17	10	11	—	ICSEX	ICON Europe	Europe	*	B	B	3.2	5.2	37.0	19.12	13.9	—	FSA
18	51	—	—	FEU	DJ Stoxx 50 (stTr)	Europe	*	H	H	3.1	9.8	25.0	45.61	10.6	—	—
19	11	63	—	OAKIX	Oakmark International (2%r<90d)	Int'l	*	Ⓟ	Ⓟ	3.0	9.2	26.6	27.17	9.0	—	FSA
20	7	22	—	SCOPX	DWS Pacific Opp Eq. S (closed,2%r<30d)	Pacific	*	Ⓟ	Ⓟ	4.0	4.5	36.4	19.31	14.8	—	SA
21	26	79	—	USAWX	USAA World Growth	Int'l	*	H	H	3.2	9.4	24.2	20.88	7.8	—	a
22	19	66	—	USIFX	USAA International (2%r<5d)	Int'l	*	Ⓟ	Ⓟ	2.6	8.2	27.7	27.79	9.8	—	a
23	22	32	—	SCOBX	DWS Global Thematic S (closed,2%r<30d)	Global	*	H	H	4.1	5.7	31.4	36.42	11.1	—	FSA
24	49	—	—	ADRU	Europe 100 ADR (BLDRS)	Europe	*	H	H	3.1	8.8	24.6	27.69	11.0	—	—
25	40	77	—	OAKGX	Oakmark Global (2%r<90d)	Global	*	H	H	4.3	8.6	22.8	27.21	9.8	—	FSA
26	78	—	—	PGJ	Power Shares Golden Dragon USX	Pacific	*	H	H	6.9	3.8	30.2	17.20	—	—	—
27	33	38	—	VTRIX	Vanguard International Value (2%r<60d)	Int'l	*	H	H	4.0	5.7	29.9	41.16	11.1	—	fsc
28	30	10	—	TREMX	T. Rowe Price Emg Europe & Med (2%r<90d)	Europe	*	H	H	5.6	3.9	31.7	30.03	19.4	—	fa
29	8	33	—	ACFFX	Columbia Acorn Intl Select Z	Int'l	*	Ⓟ	Ⓟ	2.8	6.0	30.2	24.86	11.5	—	SA
30	4	14	—	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	Ⓟ	Ⓟ	4.3	2.9	34.6	25.04	16.9	—	Fsa
31	34	36	—	SCGEX	DWS Europe Equity S (closed,2%r<30d)	Europe	*	S	S	3.3	5.3	29.9	36.23	11.3	—	FSA
32	63	—	—	DGT	DJ WI Global Titans (stTr)	Global	*	H	H	3.1	10.1	18.0	72.75	7.0	—	—
33	29	—	—	FFINX	Forward International Equity (2%r<180d)	Int'l	*	S	S	3.4	4.5	31.3	17.74	12.2	—	FSA
34	31	—	—	HINX	Harbor International Inv (2%r<60d)	Int'l	*	S	S	3.4	4.4	30.0	58.34	12.0	—	FSA
35	47	—	—	VHGEX	Vanguard Global Equity	Global	*	S	S	4.2	6.1	24.8	22.61	10.7	—	fsc
36	32	15	—	HLEMXX	Harding Loevner Emerg Mkt (2%r<90d)	Int'l	*	S	S	4.1	3.1	31.5	40.07	16.1	—	FSA
37	48	—	—	IOO	S&P 100 Global (iS)	Global	*	S	S	3.3	8.7	18.4	71.59	8.3	—	—
38	35	69	—	SWINX	Schwab International Index (1.5%r<180d)	Int'l	*	S	S	3.1	6.4	24.3	20.70	9.6	—	S
39	44	50	—	VWIGX	Vanguard International Growth (2%r<60d)	Int'l	*	H	H	3.5	4.9	27.1	24.42	10.7	—	fsc
40	58	—	—	ADRD	Develop Mkts 100 ADR (BLDRS)	Int'l	*	S	S	3.4	6.5	23.3	27.46	10.5	—	—
41	25	31	—	BJBIX	Julius Baer Intl Eq A (closed,2%r<90d)	Int'l	*	S	S	2.9	4.7	28.4	42.05	11.9	—	FS
42	27	5	—	FEMKXX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	*	S	S	4.2	-0.8	39.1	21.51	17.8	—	Fsa
43	37	—	—	EPP	MSCI Pacific ex Japan (iS)	Pacific	*	S	S	4.3	5.9	22.0	115.00	11.8	—	—
50	13	25	—	FECAX	Fidelity Europe Capital App (1%r<30d)	Europe	*	H	H	1.4	3.2	31.9	26.73	13.7	—	Fsa
80	81	62	—	ICHKX	Guinness Atkinson China & HK (2%r<90d)	Pacific	*	H	H	3.9	0.0	20.5	22.55	16.9	—	FSA

Bond Funds (next issue on page 6: Specialty Funds)
 10/13/2006

Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	Std. Dev.	Yield	NTF/wff
						1 mo.	6 mo.	12 mo.				
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	*	*	*	1.4%	2.8%	8.4%	\$11.12	3.46	5.77%	FSA
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	1.2	2.7	7.9	8.66	4.74	6.25	Fsa
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	0.7	1.8	5.5	8.92	3.79	6.98	Fsa
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	0.5	3.1	7.7	9.66	3.72	7.28	FSA
NTHFX	Northeast Investors Trust	HighYld	*	*	*	0.4	3.3	11.6	7.65	3.63	7.70	fa
PHYDX	PIMCO High Yield (2%r<30d)	HighYld	*	*	*	0.2	2.7	7.0	9.71	3.96	6.87	FSA
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	0.4	3.0	8.1	7.71	3.48	7.23	FSA
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.1	2.5	4.8	8.52	1.30	5.40	FSA
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	1.4	3.2	7.1	6.93	3.69	7.50	fsc
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	1.3	3.1	7.7	6.89	4.53	7.50	FSA
VWEHX	Vanguard High Yield Corporate (1%r<1yr)	HighYld	*	B	*	1.1	3.5	7.5	6.13	3.51	7.12	fsc
BEGBX	American Century Int'l Bond	Int'l	*	*	*	-1.3	4.7	2.1	13.45	7.26	1.89	FSA
SSTGX	DWS Global Bond S (closed,2%r<30d)	Int'l	*	*	*	-0.4	3.6	2.8	9.52	4.03	8.50	Sc
FNMX	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	0.3	3.5	9.6	14.85	6.96	5.83	Fsa
PYGF	Payden Global Fixed Income	Int'l	*	*	*	-0.1	2.6	1.9	9.00	2.69	10.79	fsc
BGNMX	American Century Ginnie Mae	IntTerm	*	*	*	-0.1	2.7	2.7	10.09	2.21	4.81	FSA
CPTNX	American Century Government Bond	IntTerm	*	*	*	0.1	3.0	2.5	10.36	2.72	4.44	FSA
ACITX	American Century Inflation Adj	IntTerm	B	*	*	-0.6	3.3	1.4	10.60	4.86	5.45	FSA
SRBF	Columbia Intermediate Bond Clz	IntTerm	*	*	*	-0.1	2.7	2.0	8.76	2.90	5.03	FSA
DODIX	Dodge & Cox Income	IntTerm	*	*	*	0.4	3.6	4.2	12.47	2.40	4.88	fsc
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	0.2	3.5	3.3	13.37	3.27	4.96	FSA
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	0.0	2.9	3.2	14.25	2.57	4.38	FSA
SCSBX	DWS Core Plus Income S (closed,2%r<15d)	IntTerm	*	*	*	0.2	3.5	3.6	12.58	3.19	4.87	Sc
FTRGX	Federated Total Return Govt	IntTerm	*	*	*	0.1	3.2	2.2	10.55	3.34	4.79	fsc
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	-0.7	3.3	1.2	10.82	4.88	1.96	Fa
IEF	Lehman 7-10 Year Treasuries (iS)	IntTerm	*	*	*	0.1	4.3	2.5	82.01	5.30	4.17	—
AGG	Lehman Aggregate Bond (iS)	IntTerm	*	*	*	0.1	3.3	3.3	99.09	3.31	4.54	—
TIP	Lehman TIPS Bond (iS)	IntTerm	B	*	*	-0.7	3.5	1.6	99.34	—	5.50	—
MBDFX	Managers Fremont Bond	IntTerm	*	*	*	-0.1	2.7	2.3	10.20	3.29	4.55	fsc
PTDX	PIMCO Total Return (2%r<7d)	IntTerm	*	*	*	-0.4	2.9	2.2	10.36	3.16	4.21	FSA
PTMDX	PIMCO Total Return Mortgage (2%r<7d)	IntTerm	*	*	*	-0.3	3.3	3.1	10.55	2.47	4.14	FSA
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	0.1	2.5	2.7	9.32	2.24	4.88	fsc
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	0.2	3.2	2.7	8.84	3.14	4.51	fsc
TGMNX	TCW Galileo Total Return Bond	IntTerm	*	*	*	0.2	3.8	4.2	9.75	2.75	4.45	FSA
USAIX	USAA Income	IntTerm	*	*	*	0.3	3.7	3.5	12.05	3.18	4.84	A
VALBX	Value Line U.S. Govt Sec	IntTerm	*	*	*	0.0	3.1	2.9	11.29	2.82	4.45	FSA
VFIX	Vanguard GNMA	IntTerm	B	*	*	0.0	3.1	3.8	10.13	2.52	5.01	fsc
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	-0.6	3.4	1.6	11.77	4.80	6.11	fsc
VFITX	Vanguard Intermediate Term U.S. Treasury	IntTerm	*	*	*	-0.3	2.8	1.7	10.71	3.94	4.62	fsc
VBMFX	Vanguard Total Bond Market Index	IntTerm	*	*	*	-0.2	2.9	2.3	9.91	3.34	4.76	fsc
STVFX	Wells Fargo Adv Govt Sec Inv	IntTerm	*	*	*	-0.3	2.8	2.0	10.28	3.12	4.64	FSA
MNTRX	Wells Fargo Adv Total Return Bond	IntTerm	*	*	*	-0.3	3.2	2.6	11.99	3.20	4.40	fSc
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	0.3	4.0	5.1	10.46	2.94	5.42	FSA
KIFIX	FifthThird Bond	LngTerm	*	*	*	0.1	3.2	2.4	9.76	3.18	4.34	fa
LQD	GS InvestTop Corp Bond (iS)	LngTerm	*	*	*	-0.2	3.9	2.5	105.38	4.88	4.87	—
TLT	Lehman 20+ Year Treasuries (iS)	LngTerm	*	*	*	-0.3	5.7	1.2	87.16	8.96	4.68	—
MGFIX	Managers Bond	LngTerm	*	*	*	0.3	5.3	6.1	24.50	3.48	4.10	FSA
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	0.3	3.8	3.8	9.52	4.20	4.98	fsc
PRULX	T. Rowe Price U.S. Treas. L-T	LngTerm	*	*	*	-0.1	4.6	0.5	11.35	6.75	4.56	fsc
VWESX	Vanguard Long-Term Investment-Grade	LngTerm	*	*	*	-0.4	4.5	0.7	9.07	7.45	5.60	fsc
VUSTX	Vanguard L-T U.S. Treasury	LngTerm	*	*	*	-0.5	4.3	0.4	11.00	7.42	4.84	fsc
STCBX	Wells Fargo Adv Corporate Bond Inv	LngTerm	*	*	*	-0.1	3.2	2.6	10.13	4.28	4.77	FSA
FSICX	Fidelity Strategic Income	Multi	B	B	*	0.4	4.2	6.8	10.53	3.64	5.34	Fa
LSBDX	Loomis Sayles Bond Instl (\$100k,2%r<60d)	Multi	B	B	*	0.7	5.3	10.1	14.09	4.88	6.17	fsc
LSBRX	Loomis Sayles Bond Retail (2%r<60d)	Multi	B	B	*	0.7	5.2	9.9	14.06	4.85	5.97	FSA
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	0.8	3.9	6.5	11.97	3.10	4.41	fsc
SCSTX	DWS Short-Term Bond S (closed,2%r<15d)	ShfTerm	B	*	*	0.6	2.8	3.9	9.96	1.32	4.31	Sc
JASBX	Janus S-T Bond	ShfTerm	B	*	*	0.0	2.1	3.1	2.88	1.10	3.56	FSA
SHY	Lehman 1-3 Year Treasuries (iS)	ShfTerm	B	*	*	0.3	2.5	3.6	79.98	1.31	3.89	—
MGIDX	Managers Int. Duration Govt	ShfTerm	*	*	*	0.1	3.7	3.8	10.46	2.37	4.25	FSA
MGSDX	Managers Short Duration Govt	ShfTerm	B	*	*	0.4	2.4	4.3	9.66	0.57	3.84	FSA
SWBDX	Schwab S-T Bond Mkt Index	ShfTerm	B	*	*	-0.1	2.4	3.0	9.90	1.77	4.31	fS
SSTBX	Strong S-T Bond	ShfTerm	B	*	*	-0.1	2.2	3.2	8.50	1.34	4.46	FSA
PRWBX	T. Rowe Price S-T Bond	ShfTerm	B	*	*	0.2	2.4	2.9	4.67	1.38	3.94	fsc
VFSTX	Vanguard Short-Term Investment Grade	ShfTerm	B	*	*	0.0	2.3	3.3	10.52	1.44	4.16	fsc
MNSGX	WellsFargo Montgomery S Dur Govt (closed)	ShfTerm	B	*	*	-0.1	2.2	2.9	9.86	1.34	4.02	fsc
BTINX	American Century Target 2010	ZeroCpn	*	*	*	0.1	3.2	2.5	89.62	4.69	4.25	FSA
BTFIX	American Century Target 2015	ZeroCpn	*	*	*	0.2	5.1	2.6	76.71	8.03	4.20	FSA
BITTX	American Century Target 2020	ZeroCpn	*	*	*	-0.2	6.2	1.5	57.67	10.96	4.19	FSA
BITRX	American Century Target 2025	ZeroCpn	*	*	*	-0.5	7.3	0.4	49.99	13.62	2.57	FSA

Trading ETFs (Part 1): Bank of America Shakes Things Up

Now that Exchange-Traded Funds (ETFs) are an important part of the *MONEYLETTER* landscape, it's logical to ask, "where's the best place to trade them?" Bank of America (BofA) threw their hat in the ring on October 11 by offering up to 30 free online equity trades per month for investors with a combined balance of \$25,000 or more in BofA deposit accounts. The program started in northeastern cities such as New York, Philadelphia, and Boston, and is expected to expand nationwide early in 2007.

Since ETFs are traded like stocks on a major stock exchange, investors typically have to pay a commission to a registered broker to execute the trade. We'll look closer at the fees charged by the individual discount brokers for online trades in Part 2 of this feature, but \$10 per trade is a good working estimate. BofA, in an effort to build and consolidate their relationships with existing banking customers, is willing to forego an undisclosed amount of brokerage revenue to achieve their goal.

The stock prices of several discount brokers fell between 5 and 12 percent on the news, as the prospect of free trading across the industry threatened the profits of these firms. But the major players such as Charles Schwab and E*Trade did not immediately change their rates, and attempted to change the course of the discussion by highlighting "quality of service" issues. However, regardless of whether or not the big wheels in discount brokerage follow their lead, BofA has helped out the active traders among *MONEYLETTER* subscribers. \$

For more information regarding Bank of America self-directed investing services, call (800) 926-1111 or visit www.bankofamerica.com.

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100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF	5.02%	5.03%	4.33%
Vanguard Treasury MMF	4.88	4.89	4.20
Amer Century Capital Presv Fund/Inv	4.69	4.71	4.00
RMK Select Treas MMF/CI A	4.53	4.55	3.84
Schwab US Treasury Money Fund	4.51	4.52	3.82
T. Rowe Price US Treasury MF	4.48	4.54	3.91
JPMorgan 100% US Treas MMF/Morgan	4.42	4.50	3.89
Wells Fargo Adv 100% Treas MMF/CI A	4.39	4.43	3.77
HSBC Investor US Treas MM/CI D	4.35	4.45	3.75
Citi US Treasury Reserves	4.29	4.34	3.73

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
Vanguard Prime MMF/Retail	5.24%	5.26%	4.53%
Fremont Money Market Fund	5.22	4.95	4.05
TIAA-CREF Money Market Fund	5.21	5.25	4.53
Transamerica Premier Cash Res/Inv	5.21	5.23	4.57
MFS Money Market Fund	5.20	5.21	4.51
Harbor Money Market Fund	5.19	5.20	4.46
PayPal Money Market Fund	5.15	5.17	4.60
Amer Beacon MMF/Plan Ahead	5.11	5.07	4.31
Marshall Prime MMF/Investor Class	5.09	5.12	4.40
DWS Money Market Prime Ser/DWS MMF	5.08	5.08	4.35

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Alpine Municipal MMF/Investor	3.45%	3.55%	3.27%
Vanguard Tax-Exempt MMF	3.42	3.53	3.19
Fidelity AMT Tax-Free Money Fund	3.22	3.34	3.02
DWS Tax-Exempt Money Fund	3.20	3.30	2.92
Amer Century T-F MMF/Inv Class	3.16	3.24	2.90
Fidelity Municipal MMF	3.16	3.27	2.93
Dreyfus BASIC Muni MMF	3.15	3.25	2.90
Fidelity Tax Free Money Market	3.12	3.22	2.90
T-E Portfolio/Managed Shares	3.12	3.23	2.87
Excelsior T-E MF	3.10	3.08	2.74
Phoenix Insight T-E MMF/CI A	3.10	3.09	2.78
USAA Tax Exempt MMF	3.10	3.20	2.88

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard PA Tax-Exempt MMF	3.42%	3.52%	3.17%
Vanguard OH Tax-Exempt MMF	3.40	3.51	3.17
Vanguard NY Tax-Exempt MMF	3.38	3.50	3.15
Vanguard NJ Tax-Exempt MMF	3.36	3.46	3.12
Vanguard CA Tax-Exempt MMF	3.31	3.43	3.11
Fidelity PA Municipal MMF	3.12	3.19	2.87
Fidelity AZ Municipal MMF	3.09	3.23	2.87
Fidelity CA Municipal MMF	3.09	3.18	2.82
Fidelity FL Municipal MMF	3.09	3.22	2.88
Fidelity OH Municipal MMF	3.08	3.16	2.82

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 10/10/06. 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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Please note change to 3:00 pm for this issue only so we can include month-end portfolio data.

The Long and Short of Needham Growth Fund

Editor's note: you may notice that this issue's featured fund, Needham Growth, is rated "Sell" on page five. While it is not often that this occurs, in this case the fund has been a good long-term performer that has slipped only recently. Its strategy of shorting the market has hurt the fund as the market recovers from the blues of the second quarter. Despite its current ranking in MONEYLETTER, we think it is worthy of the attention of all long-term investors.

Needham Growth Fund truly marches to its own drummer. Long equity positions, short equity positions, small-cap, mid-cap, large-cap, substantial cash—Needham has it all. It also has one simple goal: to garner positive after-tax returns.

Vince Gallagher and Jim Kloppenburg took the helm of this fund in April 2003 from Peter Trapp, who guided the fund to well-above average returns in most years. And when, in 2004, the new management team landed the fund in the bottom quartile of the small-cap growth category, the doubters were many. Yet, the naysayers have since been silenced. In 2005, a 14.5% total return put Needham Growth above 96% of its peers. And for 2006 through October 13, a 14.7% return outpaces 92% of its Morningstar peers.

A retail hedge fund

Needham Growth began its life as a retail alternative to Needham Investment Management's hedge funds. That explains its wide-open investing mandate. The fund can invest throughout all market capitalization ranges, and can utilize options and short sales up to 25% of assets.

Top Five Holdings & Sectors (% of Assets)

Motorola	5.2	Technology	24.4
Talisman Energy	3.3	Energy & Industrial	15.2
Global SantaFe	2.7	Health Care	13.2
Chesapeake Energy	2.7	Telecommunications	9.3
Seagate Technology	2.4	Cable/Media/Software	6.8

As of June 30, 2006

Needham Investment Management's specialty is growth areas—the technology, health care, specialty retailing, oil services, media, leisure, cable, and entertainment industries. Within that framework, the managers and the Needham research team first assess macroeconomic trends worldwide looking for ongoing changes in the new economy. They seek to identify growth areas within their

specialty sectors, analyze rotation between these sectors, and look for dominant companies.

Next, they employ bottom-up analysis, based on growth at a reasonable price (GARP). They use a variety of quantitative tools to find firms that have "earnings growth of at least 15%–20%, product and market dominance, and the ability to consolidate their market positions. The firms may also have a competitive advantage by acquiring or retaining customers, or driving costs down and profits up." Beyond quantitative tools, the Needham group undertakes an analysis of business fundamentals, which includes company visits, and discussion with management, employees, customers, and competitors. Above all, the Needham team values a seasoned management that is dedicated to building shareholder value.

Looking long-term

At the basis of Needham's strategy is the premise that equity markets often incorrectly value stocks in the short term. High-quality firms may be value priced because of a disappointing quarter of earnings or industry-wide pessimism, creating buying opportunities. On the flip side, lower-quality firms may be bid up significantly in price due to short-term factors such as earnings spikes, hot press from Wall Street, or an overly optimistic outlook about a new technology or product. The latter become overvalued, creating short opportunities.

Gallagher does stress that, "Needham Growth will showcase our best ideas, no matter what the market cap size they fill." In recent years, the managers have moved up the market cap ladder, and recently, the fund had 12% of assets in micro caps, 33% in small-cap stocks, and 19% and 36% in mid- and large-cap issues, respectively. Typically, the fund holds 60 to 70 stocks. The managers are patient in waiting for their stock picks to pay off, as the full portfolio turns over once every five to six years.

Positioning

Starting in late 2004, Gallagher and Kloppenburg began to cut the fund's technology weighting which had been as high as 55% of assets. Still, Gallagher has stated that he thinks the sector will benefit from improving investor sentiment. Of top holding Motorola, Gallagher recently stated in an interview on CNBC, "We think they [Motorola] are leading the pack rather than following as they were four or five years ago." The team bought Motorola in early 2002 after the firm posted its fifth straight quarterly loss. Seagate Technology is another favorite in the area. Needham likes the stock for its "technological advantage, product breadth,

(continued on page 2)

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