

Squeezing The Orange The 2007 Outlook

by Walter S. Frank, Chief Investment Officer

2007 outlooks are flying thick and fast. The world really does not need one more, but who are we to turn our backs on a well-entrenched ritual. As this year ends, optimism on Wall Street can be cut with a knife. *Business Week*, which is the self-designated (and useful) scorekeeper of market and economic forecasts, titled its round-up article on the market outlook "Where Optimism Reigns."

It is amazing what some weeks of the averages hitting highs can do for Wall Street's outlook. Pundits who were gloomy about the market only a few short weeks ago are now raising their forecasts right up to the very last days.

The optimistic forecasters one year ago finally won the day as this year ends, because they held to their optimism despite the clear prospect that the Fed was raising short-term rates. Now with Wall Street convinced about the "certainty" of interest rate cuts as 2007 unfolds, the optimists have a clear field when it comes to 2007.

There is only one slight problem with the optimism, and that is we may not get interest rate cuts next year. In fact, it is possible that by this time next year we may be talking about interest rate increases. In fact, we give an interest rate increase later next year a higher probability than we give an interest rate cut earlier in the year. We suspect that *MONEYLETTER* and the optimists disagree about where interest rates are headed here in the U.S.

The U.S.

Two principal forces will be driving the U.S. economy next year. The first is that the economy is going through an economy-wide inventory correction. Though widespread, the center of the correction is concentrated in autos and housing. The corrections in these two sectors have slowed the economy, and will continue to slow it. The auto cor-

rection is relatively short-lived. Another three months or so? By midyear, the auto correction will be behind us. The housing correction is another matter.

The estimates of the length and depth of the housing correction range all over the lot. But there are signs that the demand for housing is bottoming as we write. Alan Greenspan, who knows a thing or two about housing, recently offered that demand has hit bottom. Our own view, for what it is worth, is that we are now experiencing the maximum downward pressure from housing. As 2007 goes on, the pressure will lessen. In other words, by the later months of next year the housing drag will be mild. For all practical purposes, the corrections will end within 2007.

That brings us to the second force. The economy is now at full-employment. The means any growth above the economy's speed limit will set off alarm bells at the Federal Reserve about inflation risks. The economy now has a governor on its speed limit.

Estimating the speed limit is a mix of art and science and is, therefore, imprecise. The speed limit has been inevitably coming down as our long expansion continues, and is now estimated to be in the 2³/₄%-3.0% range. That is how fast the economy can grow without worrying the Fed.

There are two implications for the market from the lower growth rate. First, as the auto and housing drags dissipate, the economy may well start growing above its speed limit. It will be allowed to do so by the Fed only if the slowing we are now undergoing moves us below full employment. So far that has not been the case.

Second, the now slower speed limit and double-digit profit growth just do not go together. We are now looking for profit growth next year in the 7-8% range.

That is far from a tragedy. If the economy behaves, and does not try to race (our view), the Fed will hold its hand, and the new profit range will leave room for further U.S. market gains. The market is starting '07 somewhat undervalued. With interest rates still relatively low, and credit available, we can see a 10% gain for the S&P 500 between now and this time next year. Not bad, for an aging bull market.

International-Asia and emerging markets

We have pounded the table for international funds for some years, pointing to the growth of the global economy, driven by the growth coming from China, and lately, India. That growth will continue this year, if maybe shaved a bit. But who will notice China going from 10% to 8-9%? The Asian beat goes on.

Market Trends

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

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So long as the U.S. economy stays away from stagnation or recession—and we believe it will—we see the smaller Asian economies continuing their rapid growth. With demand for their products coming from both the U.S. and the twin boom economies of China and India, the Asian markets continue to look attractive.

As David Harding, Managing Director of Matthews International Capital Management wrote recently “...fundamentals across the region generally remain supportive: earnings are robust, bank lending, especially to the corporate sector, is strong and overall valuations remain reasonable.” Harding is referring directly to Asia ex-Japan, but we believe his observations can be extended to emerging markets in general.

However, we need to be careful. After several straight years of outperformance, no one expected the superb performance we have seen again this year from the non-developed world. This will not, this cannot, go on year after year.

One warning voice is T. Rowe Price’s Raymond Mills, who, among other things, heads the firm’s Non-U.S. Value Strategy. Mills said recently that by now emerging market stocks, “no longer look undervalued compared with developed markets, if anything appearing relatively expensive.”

Along these lines, sharp-eyed readers must have noticed that we have been diversifying our international exposure by adding Europe to our portfolios.

International-Europe

To paraphrase Donald Rumsfeld, there is old Europe and there is new Europe. We have both in our portfolios. Old Europe is developed Europe, the UK and the original Common Market. We picked Old Europe as our “dark horse” market last year, and the horse came through. Europe is no longer a dark horse but we think next year will be another good year for the stocks of developed Europe. As Raymond Mills observed, “The outlook for European equities is supported by high levels of M&A activity, inexpensive debt financing and stock buybacks.” Even more importantly, we would add that the traditional economies are coming to life, led by Germany. Europe is coming out of its growth funk, and that can only make European stocks even more attractive.

The real surprise is New Europe, usually called Emerging Europe. This encompasses Eastern Europe (the old Soviet bloc), Turkey, and Russia. These emerging markets are growing rapidly, not as rapidly as most of their Asian counterparts, but at 4%–6% we are still talking rapid growth. The appeal of many of the countries in the region is that they have applied for membership in the European Union, e.g., Romania and Turkey. This is a new and different breed of emerging country.

The world has not passed these markets by. Performance of the Metzler/Payden European Emerging Markets Fund has been very strong for four years running now. Still, portfolio manager Marcus Brueck remains positive on the 2007 outlook for his fund. We think that Brueck’s case for the region is a convincing one.

In this quick tour of the investing outlook, we have neglected to discuss natural resources, international real estate, and Latin America to name sectors in our portfolios. We intend to discuss all three in subsequent issues. In addition, we have avoided Japan, which deserves more space than we could devote this month. In fact, Japan once again is our dark horse performance candidate of the year.

As we look at the world markets today, we do not see any “cheap” markets. Cheap now is a relative, not an absolute, term. You can thank the hedge funds and years of abundant credit for that. While that is true, stocks still represent the best game in town. The same abundant credit that has kept bond yields low, keeps equities attractive. And then there are the Asian dynamos, regardless of world credit conditions, whirring away at 8%–9% growth.

We strongly doubt that the 40%-plus growth we saw in some of our funds this year will be repeated anytime soon. But we still expect equities to provide good returns after accounting for inflation, particularly international equities. Throw in some but not undue risk, and we see solid double-digit real returns in 2007. \$

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The Phoenix Rises

As this month proceeded, it became apparent that the economy was simply not following the script. December was supposed to round out a weak fourth quarter. Next quarter was to be equally weak. When the two quarters were over, the Fed was expected to bend and rate-cutting would begin, marking the end of the long rate-increase period.

There is one problem with that script. The economy, as we said, is not cooperating. It started with the November employment report. The job increase was better than expected, and there were revisions to earlier reports which told us the jobs picture was not as bleak as previously depicted. The economy was doing OK. Then along came the November retail sales report. The consumer was expected to be the source of first-half weakness of the economy. It may turn out that way, but somebody forgot to tell the consumer.

Last month consumer spending was robust, coming in at 0.9%, when autos and gas sales are factored out. Wal-Mart may have struggled last month, but many others did not, including electronic and appliance retailers. It may be that a fully employed labor force, where wages are rising faster than the rate of inflation, will continue to spend no matter what is happening to home prices. In any case, forget about any near-term rate cut. Wall Street is going to find that the Goldilocks economy everyone was talking about a few weeks ago is really a fairy tale.

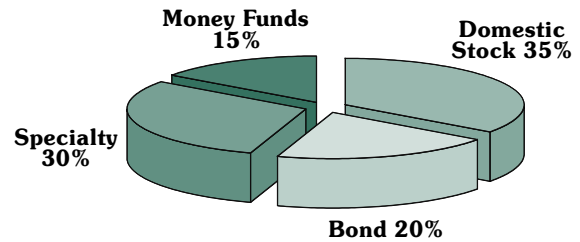
Fund changes

The Hotline of Wednesday, December 6th recommended the purchase of a 10% position in an international real estate fund in all portfolios where possible. In the case of the Vanguard family portfolios, other recommendations had to be made. Here are the changes as of Monday, December 18th. (The delay was due to year-end payout considerations.)

MONEYLETTER Venturesome—Sold 15,399 shares of Schwab Money Fund. Purchased 960 shares of Fidelity International Real Estate @ \$16.04 per share. **MONEYLETTER Moderate**—Sold 19,326 shares of Schwab MMF. Purchased 1,205 shares of Fidelity International Real Estate. **MONEYLETTER Conservative**—Sold 2,382 shares of American Century Inflation Adjusted Bond Fund @ \$10.68 per share. Purchased 935 shares of Fidelity International Real Estate. Also purchased 731 shares of Loomis Sayles Bond Fund Retail @ \$14.28 per share.. **Fidelity Venturesome**—Sold 15,794 shares of Fidelity Cash Reserves. Purchased 985 shares of International Real Estate. **Fidelity Moderate**—Sold 15,359 shares of Cash Reserves. Purchased 953 shares of International Real Estate. **Fidelity Conservative**—Sold 1,156 shares of Fidelity Inflation-Protected Bond Fund @ \$10.88 per share. **Vanguard Venturesome**—Sold 13,382 shares of Prime Portfolio. Purchased 172 shares of Vanguard REIT Index Fund ETF @ \$77.86 per share. **Vanguard Moderate**—Sold 14,560 shares of Prime Portfolio. Purchased 187 shares of REIT Index ETF. **Vanguard Conservative**—Sold 1,215 shares of Vanguard Inflation Protected Securities @ \$11.88 per share. Purchased 208 shares of Vanguard European ETF.

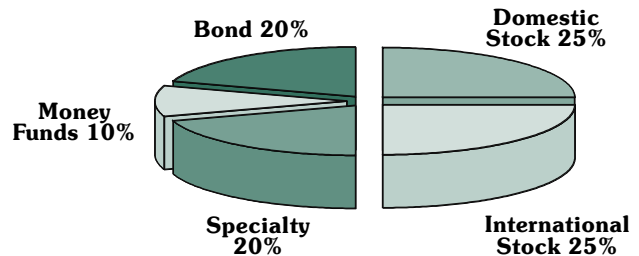
CONSERVATIVE

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



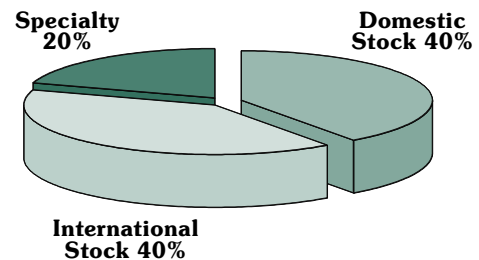
MODERATE

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



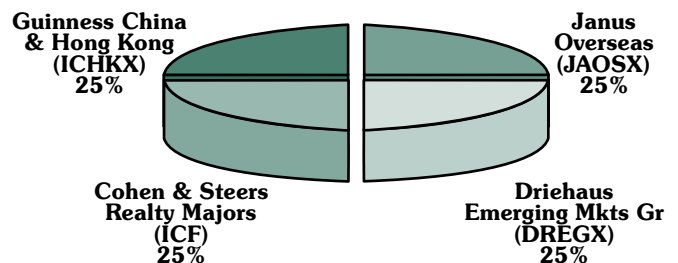
VENTURESOME

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	12/15 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	37	7		WWNPX	Kinetics Paradigm (2%r<30d)	MC	(B)	(B)	(B)	3.5%	21.1%	26.4%	\$25.91	10.8	1.05	FSA
2	30	40		JSVAX	Janus Contrarian	LC	(B)	(B)	(B)	3.7	21.1	25.3	16.73	13.6	1.29	SA
3	3	208		LLSCX	Longleaf Partners Smallcap (closed)	SCVal	B	B	B	1.8	21.3	23.2	31.00	9.4	1.01	fa
4	1	—		LSVRX	Loomis Sayles Value Retail	LCVal	B	B	B	3.0	17.2	30.9	22.82	7.4	0.90	FA
5	4	47		JKF	Morningstar Large Value (iS)	LCVal	B	B	B	3.6	18.8	23.2	84.30	—	—	—
6	68	63		USCGX	USAA Capital Growth	SCGro	*	(B)	(B)	3.5	19.2	22.3	8.58	15.0	1.52	fsA
7	11	73		JAVTX	Janus Venture (closed)	SCGro	*	B	B	1.6	19.6	23.7	62.62	16.7	1.55	FSA
8	50	4		HDPMX	Hodges Fund (2%r<90d)	MC	*	(B)	(B)	2.3	17.9	26.5	26.34	19.0	1.85	FSA
9	4	62		PWW	PowerShares Dyn LC Value	LCVal	B	B	B	3.1	18.4	22.8	19.75	—	—	—
10	6	173		WEHIX	Weitz Hickory	MC	*	B	B	2.8	18.8	22.1	40.41	9.7	0.99	fsA
11	255	6		TWHIX	American Century Heritage	MCGro	H	H	H	4.2	19.8	17.2	16.97	13.4	1.31	FSA
12	20	9		ATASX	Aston/TAMRO SmallCap N	SC	*	B	B	1.7	17.3	26.7	19.61	15.8	1.52	FSA
13	27	18		FBRVX	FBR Small Cap (closed,1%r<90d)	SCGro	H	H	H	2.0	17.5	25.6	52.62	12.4	1.11	FSA
14	21	324		MAVFX	Matrix Advisors Value (1%r<60d)	LC	*	H	H	2.6	21.2	15.3	57.57	13.2	1.43	FSA
15	8	22		IZZYX	Ironwood Isabelle Small Company Stock	SCVal	*	B	B	0.7	17.9	25.2	13.57	17.1	1.60	FSA
16	9	86		CBMDX	Wells Fargo Adv C&B Mid Cap Value	MC	*	B	B	2.3	16.7	24.3	22.36	11.9	1.32	FSA
17	15	82		VTV	Vanguard Value ETF	LCVal	H	H	H	3.1	17.2	20.9	68.69	—	—	—
18	39	200		WWALX	Weitz Value Fund	LCVal	H	H	H	3.7	16.5	21.3	42.74	7.2	0.69	FSA
19	17	97		VIVAX	Vanguard Value Index	LCVal	H	H	H	3.2	17.0	20.8	26.78	8.2	1.00	fsa
20	32	66		LLPFX	Longleaf Partners (closed)	LC	(B)	(B)	(B)	1.7	17.5	21.1	35.80	9.9	0.95	fa
21	18	99		IWD	Russell 1000 Value (iS)	LCVal	H	H	H	3.2	16.8	20.6	83.22	8.0	0.99	—
22	28	84		IWW	Russell 3000 Value (iS)	LCVal	H	H	H	2.9	16.8	20.7	108.60	8.3	1.03	—
23	7	257		CHITX	Aston/Optimum MidCap N	MC	*	B	B	2.4	17.6	19.1	26.98	15.4	1.54	FSA
24	69	19		JORNX	Janus Orion	MCGro	*	H	H	2.8	16.9	19.3	9.96	13.3	1.37	FSA
25	40	219		VCLVL	Vanguard Capital Value	LCVal	H	H	H	2.6	16.7	19.0	13.89	10.1	1.19	fsa
26	2	193		VASVX	Vanguard Selected Value (\$25k,1%r<1yr)	MCVal	B	B	B	1.7	17.4	18.6	22.44	8.6	0.97	fsa
27	36	192		VWNDX	Vanguard Windsor	LCVal	H	H	H	2.9	16.5	18.9	20.35	8.8	1.09	fsa
28	12	123		ELV	DJ WI US LargeCap Value (stTr)	LCVal	B	B	B	2.2	16.7	19.4	83.35	7.4	0.86	—
29	25	183		VHCOX	Vanguard Cap Opp (closed,\$25k,1%r<1yr)	MCGro	*	B	B	1.8	17.4	18.3	37.38	13.8	1.53	fsa
30	48	179		VDIGX	Vanguard Dividend Growth	LCVal	H	H	H	3.4	16.2	18.5	14.75	7.1	0.87	fsa
31	10	2		HRTVX	Heartland Value (2%r<10d)	SCVal	*	B	B	1.3	13.9	27.1	56.94	16.9	1.57	FSA
32	19	124		TRMCX	T. Rowe Price Mid Cap Value (closed)	MCVal	H	H	H	2.8	15.9	19.7	28.20	9.8	1.22	fsa
33	31	5		BPTRX	Baron Partners	MCGro	H	H	H	1.6	15.8	21.2	22.48	13.3	1.15	FSA
34	44	133		FEQIX	Fidelity Equity-Income	LCVal	H	H	H	2.6	16.2	18.7	58.65	8.4	1.04	Fsa
35	54	181		BPMCX	Robeco Boston Partners Mid Cap Value	MCVal	H	H	H	3.5	16.4	16.8	14.54	11.7	1.20	FSA
36	34	69		GABAX	Gabelli Asset (2%r<7d)	MC	H	H	H	2.1	15.6	20.7	50.16	10.2	1.09	FSA
37	76	221		BIGRX	American Century Income & Growth	LCVal	H	H	H	2.9	17.2	15.5	34.91	9.5	1.06	FSA
38	110	15		FLVCX	Fidelity Leveraged Co (\$10k,1.5%r<90d)	MC	*	H	H	3.9	15.6	17.8	29.66	18.1	1.75	Fa
39	79	83		NYC	NYSE Composite (iS)	LC	H	H	H	2.8	15.7	19.2	84.03	—	—	—
40	41	320		THPGX	Thompson Plumb Growth	LC	H	H	H	1.7	18.3	14.0	49.17	11.1	1.12	Fsa
41	73	180		BPAVX	Robeco Boston Partners All Cap Value	MCVal	H	H	H	3.0	16.1	17.2	17.38	10.0	1.04	FA
42	38	58		IWS	Russell MidCap Value (iS)	MCVal	H	H	H	2.9	15.2	19.4	148.30	10.0	1.18	—
43	168	318		FDEGX	Fidelity Aggressive Growth (1.5%r<90d)	MCGro	*	H	H	3.0	18.6	10.7	19.90	12.2	1.11	Fsa
44	16	—		XLG	Rydex Russell Top 50	LC	H	H	H	2.1	17.3	15.4	108.00	—	—	—
45	43	119		VEIPX	Vanguard Equity-Income	LCVal	H	H	H	2.9	14.9	19.1	25.31	7.6	0.91	fsa
46	22	236		TWVLX	American Century Value (closed)	LCVal	H	H	H	2.2	15.7	18.1	7.64	7.3	0.88	FSA
47	80	174		NOIEX	Northern Income Equity	Convrt	H	H	H	2.8	15.7	17.0	13.38	6.4	0.81	FSA
48	13	25		IWN	Russell 2000 Value (iS)	SCVal	*	H	H	0.5	15.3	21.6	80.70	13.6	1.50	—
49	45	96		IVE	S&P 500 Value (iS)	LCVal	H	H	H	2.6	15.1	18.7	77.33	8.6	1.07	—
50	23	264		CFIMX	Clipper Fund	LCVal	H	H	H	2.5	16.5	15.2	96.91	8.8	0.83	Fsa
51	67	150		VWVFX	Vanguard Windsor II (\$10k)	LCVal	H	H	H	3.1	14.4	19.4	36.54	7.9	0.90	fsa
52	231	11		RIMSX	Rainier Small/Mid Cap Equity (closed)	MCGro	*	H	H	2.2	16.3	15.9	37.25	15.2	1.42	FSA
53	97	107		ICSLX	ICAP Select Equity	LCVal	H	H	H	3.2	14.4	18.8	43.16	9.1	0.94	fsa
54	42	166		PRFDX	T. Rowe Price Equity-Income	LCVal	H	H	H	2.6	15.1	17.9	30.48	8.9	0.98	fsa
55	35	267		OEI	S&P 100 (iS)	LC	H	H	H	2.0	16.2	15.9	66.55	7.2	0.90	—
56	132	29		SAOPX	Barrett Opportunity	MCVal	H	H	H	3.4	14.3	18.2	58.63	8.5	0.93	fa
57	29	163		TWEIX	American Century Equity Income	LCVal	H	H	H	2.1	14.7	18.6	8.68	6.8	0.77	FSA
58	146	248		LMOPX	Legg Mason Opportunity Trust (1%r)	MCGro	*	H	H	3.1	17.1	11.2	19.00	20.6	1.90	—
59	114	78		FSLVX	Fidelity Large Cap Value	LCVal	H	S	S	2.9	15.2	16.1	15.04	—	1.00	Fa
60	214	237		NPRTX	Neuberger Berman Partners	LCVal	*	H	H	4.2	16.0	11.9	31.33	13.0	1.27	fsa
61	112	252		SSHFX	Sound Shore (\$10k)	LCVal	S	S	S	2.6	15.6	15.2	42.57	10.5	1.07	FSA
62	24	227		PVLDX	Allianz OCC Value D (2%r<7d)	LCVal	(H)	(H)	(H)	0.7	16.8	15.1	17.70	9.8	1.17	FSA
63	58	255		OAKMX	Oakmark Fund (2%r<90d)	LCVal	S	S	S	2.5	15.0	16.6	45.89	8.2	0.84	FSA
64	64	94		JKI	Morningstar Mid Value (iS)	MCVal	S	S	S	3.1	14.1	17.7	86.95	—	—	—
65	62	172		TGIGX	TCW Dividend Focused N	LCVal	S	S	S	2.0	14.7	17.5	13.55	9.7	1.03	FSA
66	83	204		FSLSX	Fidelity Value Strategies	MC	*	S	S	2.7	14.5	16.7	32.51	18.5	1.80	F
67	71	222		JAVLX	Janus Twenty (closed)	LCGro	S	S	S	2.8	16.6	11.4	55.37	10.9	0.99	FSA
68	59	249		DGAGX	Dreyfus Appreciation	LC	S	S	S	2.6	15.6	14.1	46.23	7.6	0.79	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	12/15 2006	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	RISK		NTF/wff
										1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
69	14	196	DVY	DJ Select Dividend Index (iS)	MVal	\$	\$	\$	1.9	14.8	17.0	71.12	—	—	—	
70	152	138	KAUF	Federated Kaufmann Fund (0.2%r)	MCGro	*	H	H	2.5	15.0	15.4	5.69	13.6	1.35	FSA	
71	26	291	DGRIX	Dreyfus Growth & Income	LC	S	S	S	1.5	16.4	13.4	16.03	9.4	1.05	FSA	
72	126	91	DODGX	Dodge & Cox Stock (closed)	LCVal	S	S	S	2.6	13.5	18.6	160.90	9.5	1.02	sa	
73	81	135	SAIFX	Salomon Brothers Investors	LCVal	S	S	S	2.4	14.3	16.9	21.87	9.9	1.06	fa	
74	134	214	CAMOX	Cambiar Opportunity	LC	S	S	S	3.1	14.4	15.4	20.58	11.0	1.17	FSA	
75	166	131	FLPSX	Fidelity L P Stock (closed, 1.5%r<90d)	MC	S	S	S	2.6	14.0	17.1	43.39	11.9	1.20	Fsa	
76	226	68	STDIX	Wells Fargo Advantage Discovery	MCGro	*	H	H	1.8	15.6	13.8	22.37	15.7	1.40	FSA	
77	105	201	NY	NYSE 100 (iS)	LCVal	S	S	S	2.9	14.4	15.3	75.42	—	—	—	
78	92	127	CRMMX	CRM Mid Cap Value Inv (closed)	MC	S	S	S	2.2	13.7	17.6	31.47	10.0	1.04	FSA	
79	72	217	VV	Vanguard LargeCap ETF	LC	S	S	S	2.4	14.8	14.5	63.67	—	—	—	
80	169	41	FIDYX	AIM Dynamics Inv (closed)	MCGro	*	H	H	2.7	13.3	17.9	21.57	13.1	1.26	Fsa	
81	90	153	SLASX	Selected American Shares	LC	S	S	S	2.7	14.5	14.4	46.28	8.7	0.93	SA	
82	130	21	MXXIX	Marsico 21st Century (2%r<30d)	LC	* H	H	H	2.2	13.3	18.1	15.20	14.2	1.36	FSA	
83	113	263	DREVX	Dreyfus Fund	LC	S	S	S	2.7	14.8	13.5	11.65	8.9	1.00	FSA	
84	55	52	VBR	Vanguard SmallCap Value ETF	SCVal	S	S	S	1.2	13.8	18.2	72.79	—	—	—	
85	47	108	JKL	Morningstar Small Value (iS)	SCVal	S	S	S	1.2	13.8	18.3	83.56	—	—	—	
86	121	—	HILVX	Harbor Large Cap Value Inv	LCVal	S	S	S	2.6	14.6	14.0	19.53	7.0	0.84	FSA	
87	75	225	FSMKX	Fidelity Spartan 500 (\$10k)	LC	S	S	S	2.3	14.6	14.4	99.59	8.8	1.00	Fa	
88	78	228	VFINX	Vanguard 500 Index	LC	S	S	S	2.3	14.6	14.3	132.00	7.8	1.00	fsa	
98	33	325	FOCPX	Fidelity OTC Portfolio	LCGro	*	H	H	0.9	17.3	9.0	42.15	14.3	1.37	Fsa	
107	103	271	FDGFX	Fidelity Dividend Growth	LC	H	H	H	2.7	14.1	14.1	31.85	9.2	0.98	Fsa	

Dow Jones
NASDAQ
S&P 500

1.6%
0.6
2.2

13.0%
14.6
13.6

14.4%
8.7
12.3

indexes do not
include dividends

International Stock Funds

1	2	1	PRLAX	T. Rowe Price Latin America (2%r<90d)	LatinA	*	*	B	6.3%	39.6%	48.7%	\$37.63	20.5	—	fsa
2	8	—	MPYMX	Metzger/Payden Europe Emg Mkts (2%r<30d)	Europe	*	B	B	8.2	37.9	45.8	33.79	21.4	—	FSA
3	1	5	JAOSX	Janus Overseas (2%r<90d)	Int'l	*	B	B	5.0	35.6	49.5	45.88	15.1	—	FSA
4	82	38	EUROX	US Global Eastern Europe (2%r<180d)	Europe	*	H	B	8.8	38.9	32.8	51.61	22.0	—	FSA
5	10	2	FLATX	Fidelity Latin America (1.5%r<90d)	LatinA	*	*	H	6.1	36.2	42.1	43.93	22.1	—	Fsa
6	15	4	ILF	S&P 40 Latin America (iS)	LatinA	*	*	B	6.1	37.0	37.8	170.90	19.2	—	—
7	29	76	TREMX	T. Rowe Price Emg Europe & Med (2%r<90d)	Europe	*	(B)	(B)	6.5	37.5	34.2	33.14	19.4	—	fa
8	16	3	SLAFX	DWS Latin Amer Equity S (closed, 2%r<30d)	LatinA	*	H	H	5.5	35.8	39.9	63.89	21.1	—	sa
9	5	11	PGJ	PowerShares Golden Dragon USX	Pacific	*	B	B	9.5	31.8	43.5	19.79	—	—	—
10	31	89	PRASX	T. Rowe Price New Asia (2%r<90d)	Pacific	*	(B)	(B)	6.4	34.2	33.3	15.43	15.5	—	fs
11	11	6	DREGX	Driehaus Emerging Mkts Gr (2%r<60d)	Int'l	*	B	H	4.8	30.3	41.4	38.98	17.9	—	FSA
12	34	26	ICHKX	Guinness Atkinson China & HK (2%r<90d)	Pacific	*	H	H	4.9	32.6	32.3	25.24	16.9	—	FSA
13	18	10	ADRE	Emerging Mkts 50 ADR (BLDRS)	EmerMkt	*	(B)	(B)	5.1	31.2	35.2	37.84	17.9	—	—
14	40	61	PRMSX	T. Rowe Price Emerging Mkts Stk	Int'l	*	(B)	(B)	5.6	32.3	31.5	32.96	16.5	—	fsa
15	17	25	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	B	B	5.0	29.6	36.5	26.54	16.9	—	Fsa
16	38	8	FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	*	(B)	(B)	5.3	29.6	34.9	23.89	17.8	—	Fsa
17	19	7	ICSEJ	ICON Europe	Europe	*	H	H	5.1	23.1	45.5	21.16	13.9	—	FSA
18	51	17	SSEM	SSGA Emerging Markets	Int'l	*	H	H	5.2	28.0	32.8	22.85	17.1	—	FA
19	36	51	HLEMX	Harding Loevner Emerg Mkt (2%r<90d)	Int'l	*	H	H	4.2	29.8	29.9	43.99	16.1	—	FSA
20	59	37	VEIEX	Vanguard Emerging Mkts Stk Index (.5%r)	Int'l	*	H	H	5.0	27.9	30.0	24.17	16.7	—	fsa
21	35	43	EEM	MSCI Emerging Markets (iS)	EmerMkt	*	H	H	5.0	27.3	30.8	113.60	17.1	—	—
22	13	28	SCOPX	DWS Pacific Opp Eq. S (closed, 2%r<30d)	Pacific	*	(H)	(H)	3.6	25.8	36.6	21.23	14.8	—	sa
23	49	42	VVO	Vanguard Emerging Mkts (VIPER)	EmerMkt	*	H	H	4.7	27.5	30.0	77.17	—	—	—
24	12	68	PRESX	T. Rowe Price European (2%r<90d)	Europe	*	H	H	4.8	25.0	30.9	22.34	10.7	—	fsa
25	55	23	ARTJX	Artisan Intl Small Cap (closed, 2%r<90d)	Int'l	*	H	H	5.8	23.1	33.4	25.79	12.6	—	sa
26	3	24	EZU	MSCI EMU (iS)	Europe	*	H	H	3.1	24.1	34.6	103.90	12.1	—	—
27	41	32	BJBIX	Julius Baer Intl Eq A (closed, 2%r<90d)	Int'l	*	H	H	5.1	22.9	32.1	46.28	11.9	—	FS
28	23	65	EPP	MSCI Pacific Ex-Japan (iS)	Pacific	*	H	H	5.1	23.3	30.5	127.60	11.8	—	—
29	63	45	QFVOX	Quant Foreign Value (1%r<30d)	Int'l	*	H	H	6.0	22.8	30.0	21.45	12.2	—	FSA
30	58	66	DRFMX	Dreyfus Premier Emerging Market (1%r)	Int'l	*	H	H	3.9	24.4	28.0	27.06	14.9	—	fsa
31	28	18	FECAJ	Fidelity Europe Capital App (1%r<30d)	Europe	*	H	H	4.5	20.8	35.9	26.95	13.7	—	Fsa
32	39	78	MAPTX	Matthews Pacific Tiger (closed, 2%r<90d)	Pacific	*	H	H	2.8	25.6	25.8	23.08	15.1	—	FSA
33	33	—	HINX	Harbor International Inv (2%r<60d)	Int'l	*	S	S	4.1	22.5	31.6	63.59	12.0	—	FSA
34	57	72	TWIEX	American Century Intl Growth (2%r<60d)	Int'l	*	S	S	4.2	25.0	24.7	12.47	10.2	—	FSA
35	7	31	VEURX	Vanguard European Stock Index (2%r<60d)	Europe	*	H	H	3.7	21.8	33.0	36.82	10.6	—	fsa
36	9	35	IEV	S&P 350 Europe Plus (iS)	Europe	*	S	S	3.2	22.0	31.7	106.10	10.6	—	—
37	6	30	VGK	Vanguard European ETF	Europe	*	H	H	3.4	21.5	32.2	69.39	—	—	—
38	4	36	FEZ	DJ Euro Stoxx 50 (stfr)	Europe	*	(S)	(S)	2.4	22.1	31.5	53.90	12.6	—	—
39	20	21	SCGEX	DWS Europe Equity S (closed, 2%r<30d)	Europe	*	S	S	3.9	20.6	32.7	39.33	11.3	—	FSA
40	14	20	OAKEX	Oakmark Intl Small Cap (closed, 2%r<90d)	Int'l	*	H	H	3.0	20.4	31.8	22.44	10.8	—	FSA
41	25	14	SCOBX	DWS Global Thematic S (closed, 2%r<30d)	Global	*	S	S	3.3	20.6	31.0	39.37	11.1	—	FSA
42	86	52	AIOIX	Amer.Cent.Intl Opp. (closed, 2%r<180d)	Int'l	*	S	S	6.2	22.0	23.1	12.09	14.9	—	—
43	26	13	ARTKX	Artisan Intl Value (2%r<90d)	Int'l	*	(S)	(S)	4.1	19.0	33.1	29.35	10.6	—	FSA
45	52	29	VTRIX	Vanguard International Value (2%r<60d)	Int'l	*	H	H	4.1	19.8	28.2	44.15	11.1	—	fsa
50	54	46	VWIGX	Vanguard International Growth (2%r<60d)	Int'l	*	H	H	3.8	19.6	26.5	26.23	10.7	—	fsa

Bond Funds (next issue on page 6: Specialty Funds)
 12/15/2006

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	*	*	*	-0.3%	5.8%	8.7%	\$11.34	3.46	5.63%	FSA
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	1.3	9.0	13.2	8.92	4.74	6.10	Fsa
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	0.6	6.7	9.3	9.06	3.71	7.03	Fsa
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	1.1	7.6	11.1	9.82	3.70	7.29	FSA
NTHFX	Northeast Investors Trust	HighYld	*	*	*	1.6	5.4	12.1	7.73	3.58	6.94	fa
PHYDX	PIMCO High Yield (2%r<30d)	HighYld	*	*	*	0.9	7.1	9.0	9.88	3.94	6.76	FSA
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	0.8	6.4	9.4	7.80	3.41	7.22	FSA
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.6	3.2	5.0	8.54	1.30	5.50	FSA
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	1.0	7.0	9.7	7.03	3.64	7.39	fsc
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	1.1	6.9	9.1	7.01	4.48	7.27	FSA
VAGIX	Value Line Aggressive Inc (1%r<120d)	HighYld	*	*	*	1.8	5.7	8.0	5.05	3.31	6.44	FSA
VWEHX	Vanguard High Yield Corporate (1%r<1yr)	HighYld	*	B	*	0.9	6.7	8.2	6.21	3.51	7.04	fsc
BEGBX	American Century Intl Bond	Int'l	*	*	*	1.6	5.0	7.5	14.06	7.31	1.81	FSA
SSTGX	DWS Global Bond S (closed,2%r<30d)	Int'l	*	*	*	0.8	4.1	5.3	9.70	4.05	8.34	Sa
FNMX	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	0.8	9.3	12.8	15.21	6.98	5.79	Fsa
RPBIX	T. Rowe Price Int'l Bond (2%r<90d)	Int'l	*	*	*	1.9	4.8	6.9	9.72	7.10	3.08	fsc
BGNMX	American Century Ginnie Mae	IntTerm	*	*	*	0.6	4.9	4.6	10.19	2.22	4.85	FSA
CPTNX	American Century Government Bond	IntTerm	*	*	*	0.6	4.7	4.6	10.46	2.68	4.48	FSA
SRBFX	Columbia Intermediate Bond Clz	IntTerm	*	*	*	0.5	6.0	5.7	8.86	2.93	5.02	FSA
DODIX	Dodge & Cox Income	IntTerm	*	*	*	0.6	5.3	5.7	12.73	2.42	4.78	fsc
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	0.5	5.4	4.9	13.55	3.22	5.06	FSA
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	0.6	4.5	4.1	14.38	2.58	4.41	FSA
DSINX	Dreyfus Premier Core Bond (closed)	IntTerm	*	*	*	0.3	5.2	5.2	14.37	3.18	4.61	fsc
SCSBX	DWS Core Plus Income S (closed,2%r<15d)	IntTerm	*	*	*	0.6	5.5	5.3	12.67	3.17	4.84	Sa
FTRGX	Federated Total Return Govt	IntTerm	*	*	*	0.5	4.7	4.4	10.65	3.26	4.74	fsc
FGMNX	Fidelity GNMA	IntTerm	*	*	*	0.2	4.5	4.7	10.80	2.32	5.16	Fsa
FTHR	Fidelity Intermediate Bond	IntTerm	*	*	*	0.2	4.2	4.5	10.30	2.65	4.34	Fsa
FBNDX	Fidelity Investment Grade	IntTerm	*	*	*	0.3	5.2	5.4	7.42	3.04	4.36	Fsa
IEF	Lehman 7-10 Year Treasuries (iS)	IntTerm	*	*	*	0.5	5.9	4.0	83.15	5.16	4.19	—
AGG	Lehman Aggregate Bond (iS)	IntTerm	*	*	*	0.6	5.1	4.9	100.31	3.27	4.64	—
MBDFX	Managers Fremont Bond	IntTerm	*	*	*	0.5	4.9	4.4	10.30	3.26	4.63	fsc
MWTRX	MetroWest Total Return	IntTerm	*	*	*	0.2	5.1	5.7	9.65	2.95	5.12	FSA
PTIDX	PIMCO Total Return (2%r<7d)	IntTerm	*	*	*	0.7	5.2	4.6	10.45	3.14	4.27	FSA
PTMDX	PIMCO Total Return Mortgage (2%r<7d)	IntTerm	*	*	*	0.8	5.6	5.7	10.69	2.51	4.23	FSA
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	0.5	4.8	4.5	9.40	2.23	4.90	fsc
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	0.7	5.7	4.9	8.96	3.13	4.51	fsc
TGMNX	TCW Galileo Total Return Bond	IntTerm	*	*	*	1.1	5.6	5.8	9.88	2.73	4.41	FSA
USAIX	USAA Income	IntTerm	*	*	*	0.7	5.1	5.0	12.20	3.17	4.72	A
VALBX	Value Line U.S. Govt Sec	IntTerm	*	*	*	0.5	4.3	4.4	11.49	2.77	4.38	FSA
VFIIX	Vanguard GNMA	IntTerm	B	*	*	0.6	5.1	5.0	10.24	2.51	5.05	fsc
VFITX	Vanguard Intermediate Term U.S. Treasury	IntTerm	*	*	*	0.6	5.2	4.2	10.83	3.86	4.57	fsc
VBMFX	Vanguard Total Bond Market Index	IntTerm	*	*	*	0.6	5.5	5.1	10.03	3.30	4.78	fsc
STVSX	Wells Fargo Adv Govt Sec Inv	IntTerm	*	*	*	0.6	4.6	4.2	10.38	3.04	4.63	FSA
MNTRX	Wells Fargo Adv Total Return Bond	IntTerm	*	*	*	0.6	5.3	4.8	12.14	3.16	4.47	fsc
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	0.6	5.7	6.4	10.60	2.97	5.33	FSA
DRGBX	Dreyfus 100 Treasury L-T	LngTerm	*	*	*	-0.1	7.1	3.6	15.98	6.73	4.36	FA
FGOVX	Fidelity Government Income	LngTerm	*	*	*	0.1	4.1	4.2	10.08	3.28	4.38	Fsa
KIFIX	FifthThird Bond	LngTerm	*	*	*	0.7	5.0	4.5	9.89	3.14	4.31	fa
LQD	GS InvestTop Corp Bond (iS)	LngTerm	*	*	*	0.7	6.6	5.6	107.59	4.84	4.89	—
TLT	Lehman 20+ Year Treasuries (iS)	LngTerm	*	*	*	0.2	8.7	4.0	89.73	8.77	4.50	—
MGFIX	Managers Bond	LngTerm	*	*	*	0.4	8.5	8.6	25.08	3.51	4.19	FSA
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	0.6	7.1	5.9	9.70	4.25	4.96	fsc
PRULX	T. Rowe Price U.S. Treas. L-T	LngTerm	*	*	*	-0.5	6.4	2.8	11.50	6.66	4.38	fsc
VWESX	Vanguard Long-Term Investment-Grade	LngTerm	*	*	*	0.1	9.2	5.4	9.34	7.42	5.46	fsc
VUSTX	Vanguard L-T U.S. Treasury	LngTerm	*	*	*	0.3	7.6	4.2	11.24	7.25	4.74	fsc
STCBX	Wells Fargo Adv Corporate Bond Inv	LngTerm	*	*	*	0.5	6.1	5.0	10.29	4.26	4.72	FSA
FSICX	Fidelity Strategic Income	Multi	B	B	*	1.0	6.4	8.1	10.72	3.67	5.30	Fa
JAFIX	Janus Flexible Bond	Multi	*	*	*	0.6	5.2	4.8	9.45	3.22	4.56	FSA
LSBDX	Loomis Sayles Bond Instl (\$100k,2%r<60d)	Multi	B	B	*	0.8	8.6	12.1	14.32	4.84	5.98	fsA
LSBRX	Loomis Sayles Bond Retail (2%r<60d)	Multi	B	B	*	0.7	8.4	11.8	14.28	4.80	5.79	FSA
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	1.2	7.3	8.5	12.25	3.18	4.40	fsc
MGIDX	Managers Int. Duration Govt	ShfTerm	*	*	*	0.7	5.1	5.3	10.57	2.39	4.33	FSA
SWBDX	Schwab S-T Bond Mkt Index	ShfTerm	B	*	*	0.5	3.5	4.6	9.94	1.72	4.46	fS
PRWBX	T. Rowe Price S-T Bond	ShfTerm	B	*	*	0.6	3.5	4.6	4.70	1.38	4.02	fsc
VFSTX	Vanguard Short-Term Investment Grade	ShfTerm	B	*	*	0.6	3.7	5.0	10.57	1.44	4.30	fsc
VSGBX	Vanguard S-T Federal	ShfTerm	*	*	*	0.5	3.5	4.6	10.30	1.59	3.95	fsc
BTINX	American Century Target 2010	ZeroCpn	*	*	*	0.6	4.3	3.6	90.95	4.49	4.20	FSA
BTFIX	American Century Target 2015	ZeroCpn	*	*	*	0.6	7.3	4.3	78.79	7.78	4.10	FSA
BITTX	American Century Target 2020	ZeroCpn	*	*	*	0.3	9.4	3.9	59.91	10.69	4.06	FSA
BITRX	American Century Target 2025	ZeroCpn	*	*	*	-0.1	10.7	3.5	52.25	13.38	2.48	FSA

Maximize Your Investment

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100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF	5.19%	5.14%	4.66%
Vanguard Treasury MMF	4.93	4.91	4.45
Amer Century Capital Presv Fund/Inv	4.78	4.76	4.25
T. Rowe Price US Treasury MF	4.73	4.71	4.15
RMK Select Treas MMF/CI A	4.58	4.61	4.10
HSBC Investor US Treas MM/CI D	4.57	4.54	4.01
JPMorgan 100% US Treas MMF/Morgan	4.57	4.57	4.13
Schwab US Treasury Money Fund	4.57	4.55	4.07
Merrill Lynch CMA Treas Fund RIC	4.52	4.46	3.98
Citi US Treasury Reserves	4.48	4.50	3.97

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
Vanguard Prime MMF/Investor	5.24%	5.22%	4.78%
Transamerica Premier Cash Res/Inv	5.23	5.22	4.81
Harbor Money Market Fund	5.22	5.18	4.72
TIAA-CREF Money Market Fund	5.19	5.20	4.78
MFS Money Market Fund	5.17	5.18	4.73
PayPal Money Market Fund	5.15	5.16	4.80
SSgA MMF/CI A	5.11	5.11	4.66
TCW Money Market Fund	5.11	5.11	4.67
JENNDRY/MoneyMart Assets/CI B	5.09	4.97	4.50
DWS Money Market Prime Ser/DWS MMF	5.08	5.09	4.60
Putnam MMF/CI A	5.08	5.08	4.59

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Alpine Municipal MMF/Investor	3.46%	3.58%	3.39%
Vanguard Tax-Exempt MMF	3.43	3.53	3.32
Fidelity AMT Tax-Free Money Fund	3.19	3.32	3.16
DWS Tax-Exempt Money Fund	3.17	3.28	3.06
Marshall Tax Free MMF/Class Y	3.16	3.30	3.06
Fidelity Municipal MMF	3.14	3.25	3.07
Dreyfus BASIC Muni MMF	3.12	3.24	3.04
Amer Century T-F MMF/Inv Class	3.11	3.22	3.03
Fidelity Tax Free Money Market	3.10	3.23	3.03
T. Rowe Price Summit Muni MMF	3.10	3.21	2.98

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard PA Tax-Exempt MMF	3.41%	3.52%	3.31%
Vanguard NY Tax-Exempt MMF	3.40	3.50	3.28
Vanguard OH Tax-Exempt MMF	3.40	3.51	3.30
Vanguard NJ Tax-Exempt MMF	3.36	3.47	3.25
Vanguard CA Tax-Exempt MMF	3.31	3.42	3.24
Fidelity FL Municipal MMF	3.08	3.20	3.02
Fidelity PA Municipal MMF	3.07	3.20	3.01
Fidelity AZ Municipal MMF	3.05	3.19	3.00
Fidelity CT Municipal MMF	3.04	3.16	2.97
Fidelity NY Municipal MMF	3.03	3.16	2.96

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 12/12/06. 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 >\$50 million.

Source: iMoneynet's Money Fund Report (800) 343-5413

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Alpine International Real Estate Equity

When one thinks of real estate investing, REITs may be the first thing that comes to mind. But as this fund shows, investing in real estate can go far beyond real estate investment trusts. True, REITs are in the portfolio, but so are real estate operating companies, homebuilders, other firms with substantial real estate holdings, such as hotel operators and entertainment firms, and others that derive a majority of their income or value from real estate.

Fund manager Sam Lieber, a founder of Alpine Funds, has headed Alpine International Real Estate Equity (EGLRX) since its 1989 inception. It is one of the originals in the field. Lieber runs three real estate funds at Alpine, and also has a significant personal investment in the funds.

The approach

Lieber (and other Alpine managers) use a combination “top down/bottom up” fundamental approach. From the top down, they undertake an economic analysis to estimate future “trends of inflation, employment, productivity, cyclical, interest rates, and financial liquidity.” Within this fund, Lieber uses the analysis of macro-economic trends to base decisions on how to diversify geographically and by property type.

From the bottom up, Lieber undertakes a complete financial analysis of each potential purchase, assessing profitability, balance sheet health, and historic returns on invested capital and equity. Management’s abilities and execution are scrutinized, and growth potential is assessed. Finally, valuation is considered, as stocks are purchased only when they are undervalued by measures such as price to book, price to sales, and P/E (price to earnings) ratios.

This Alpine fund is invested primarily in US, Asian, and European real estate-related firms. Recently, nearly 43% of assets were invested in Europe, 32% in Asia, 21% in North America, and 4% in Latin America. However, Lieber notes that the fund has not been investing in Japanese or Australian REITs because of their high cost and low returns—others are more attractive. Lieber also mixes up the market capitalization in the fund, as is the policy at Alpine. About 17% of assets are in large-cap stocks, 52% in mid-caps, 26% in small-caps, and the remainder in micro-cap stocks. Turnover is very low in this portfolio of 155 stocks.

The fund has a good stake in homebuilding stocks, which, despite having taken some lumps, still have a good outlook, according to Lieber. He also has been favorable to lodging shares. He says most markets have an insufficient number of rooms, demand is rising, and new hotel build-

ings have not been coming online, leading to attractive revenues per room. US hotel companies Hilton and Starwood are in the portfolio, as well as the Bermuda-based owner of boutique luxury hotels, Orient Express Hotels, which is the fund’s largest holding at 3.6% of assets.

The fund’s second-largest holding, JM AB, is a leading builder of high-end condominiums in Stockholm, while also building throughout Sweden and in other Scandinavian markets. Norwegian Properties ASA, the third-largest fund holding, focuses on commercial properties with central locations in Norway, and fourth holding Kaufman & Broad SA is a French homebuilder.

Outlook

Lieber contends that international real estate investing is gaining in popularity because “there’s more growth abroad. There’s more upside potential.” He further noted in an interview in SmartMoney, “These markets have not had as much economic vitality as ours. Their real estate values have only been cranking up since 2003.” Several money management firms launched publicly traded international REIT funds this year, while private money managers are building their own offerings. In part, this has reflected the fact that international real estate stocks are outperforming major international indexes.

Top Five Real Estate Sectors and Countries (% Total Net Assets)

Residential	37.3	Hong Kong	10.3
Lodging	19.5	United Kingdom	10.0
Office	17.7	France	9.5
Retail	17.0	United States	9.5
Industrial	5.3	Japan	8.3

As of September 30, 2006

Lieber sees strong economic growth as a positive backdrop to future attractive returns. He recently stated he expects the dollar to continue to ease against foreign currencies, and thus, stronger foreign economies will draw capital investment. He also expects that a continuing streamlining of businesses by European firms will cause them to get real estate off the books, resulting in new real estate offerings. In Asia, strong economic growth will drive an increased demand for real estate. He sees the potential of 20% annual returns over the next few years. \$

Alpine International Real Estate Equity Fund (EGLRX)
2500 Westchester, Purchase, NY 10577
(888) 785-5578 • Minimum Investment: \$1,000, \$1,000 IRA

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