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Volume 28, No. 2 January 26, 2007

One Month In

by Walter S. Frank, Chief Investment Officer

It has only been a month since the turn of the year, but so far 2007 seems a lot different than 2006. We were spoiled over the last six months of last year as the market did an about-face and went straight up with new highs becoming daily events. But not this year.

The year, so far, has been dominated by three forces. First, and the most important, has been the price of crude oil. Second has been the growing awareness that the era of double-digit profit growth is most likely coming to an end. Third, Wall Street is finally accepting the fact that the Fed is not about to cut interest rates any time soon.

As the year began and oil continued its tumble, widespread selling of energy and metals swept over the commodity markets. Commodities that had no obvious connection with energy, such as copper and nickel, headed down along with oil.

The commodities plunge had ramifications well beyond the commodity markets themselves. Emerging markets such as Brazil and Russia have attracted the bulls, precisely because they are identified as commodity producers serving primarily Asian growth. As commodity prices fell, so did emerging market stocks on the presumption that emerging market profits were soon to follow. Forgotten, in the haste to sell, was the small fact that growth in the two Asian giants—China and India—was continuing at a highly rapid pace.

The commodity markets have settled down recently, and as they have, the emerging markets have staged a recovery, regaining much of the losses suffered in the opening weeks of the year.

Looking beyond

Beyond commodities, January has brought mostly disappointment to the domestic market. In the case of earnings, Wall Street had put its chips in the last months of last year on technology. The Nasdaq gained almost 20% from the July lows (losing momentum in December).

This year, as the earning season has progressed, company guidance from technology heavyweights such as IBM and Intel has been less than stellar. What we have seen are some pretty sharp selloffs in the Nasdaq with technology leading the way. Overall the Nasdaq selling has not been brutal, but the Nasdaq 100 where many technology issues reside was down more than 2.5% the week of January 15th.

We have been cautious in our outlook for earnings this year. Our year-end outlook was for earnings growth of 7–8%. We see the year-end guidance now coming from companies as lending a bit of weight to that view. We are entering a new phase with regard to earnings for this aging bull market.

Another disappointment, at least to some, has been the Fed. Housing's woes have not, so far, caused the economy to roll over as some expected. In fact, the economy has been remarkably resistant in the face of the downward pressure from housing.

The result, naturally, is that Wall Street, for the most part, has now pushed its expectations for a rate cut out to mid-year. Bond market yields have followed the rethinking. We now have the 10-year Treasury rate at 4 ¾% rather than close to 4 ½% where it was much of last month. The bond market is not betting on a rate cut soon.

Moreover, the talk from the Fed this month, and it has been plentiful, is that the economy so far is well-behaved, BUT. The "but" is that the Fed is uneasy about whether inflation will come down into the Fed's comfort zone. Until the Fed is satisfied about that, getting a rate cut will be difficult.

The upshot, as we see it, is that the opening weeks of the year have been rockier than we expected (emerging markets) but within the range of normal volatility. We did not expect this year to repeat the gains of the past few years, but we did expect a profitable year. We still do.

Market Trends

	Trailing 12-Mo Trend	Forward 6-Mo Estimate
Economy	Higher	Higher
Interest Rates (10-yr Treasury)	Higher	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

The Return of Risk

4th Quarter '06 Review

If you have ever wondered about the oracular pronouncements of institutional investors, wonder no more. Institutional investors are as much influenced by the waves of sentiment that sweep over the market as you are.

Just think back to what many Wall Street pros were saying last Spring as suddenly everything that smacked of risk was furiously sold. Emerging markets, Japan, small

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cap growth, all were dumped. The old neglected standbys, domestic large cap value, indeed value of any sort, were embraced.

We were told by the Wall Street mandarins that risk-taking was over. From then on safety and sobriety would be the order of the day. As Lou Rukeyser was wont to say, “You betcha.”

Just a glance at last year’s fourth quarter results would have you ask, “Did they really say that?” Risk is back. The best performing funds in our portfolios last quarter were the risk-taking ones. The best performing portfolios within our groupings were the higher-risk ones. So it went, right down the line.

The recovery quarter

There was more than one reason for the Street to have undergone a 360-degree swing regarding risk, but certainly a prominent one had to do with interest rates and the Fed. The flight from risk was partially triggered by the Fed’s campaign to convince the financial and business community that the Fed was serious about containing inflation. Wall Street’s reaction was to act first and ask questions afterward.

As the months went by and the economy did not swoon, and inflation fears abated (energy), and the Fed “paused,” the markets relaxed. What was shunned was now purchased, and what had been purchased was now neglected.

As an example of the extreme sentiment swing, consider Driehaus Emerging Markets Growth Fund. From May 9 to June 13, the fund lost more than 24%. In the fourth quarter, the fund gained 17.6%, and ended the year up more than 41%. The Nasdaq’s swings were much less severe, but the Nasdaq lost 14% in the Spring rout, gained 7.0% last quarter, and ended the year up 9.5%.

By the numbers

As Table 1 shows, it was essentially the last quarter that pulled the performance in the last half of the year up from sub-par to above average. We see the last half of the year as one of recovery from the fears of the first half. The recovery gathered steam last quarter. You can see the return of risk-taking in the performance of the Venturesome and Select portfolios compared to the others in the list.

Looking at the top-performing among our portfolio funds, the list is again what you would expect. The emerging market funds were the top-performers among all funds we held throughout the quarter. Even among the developed market funds, it was the international funds that stood out, and the higher risk-taking ones at that.

Last year truly was a Tale of Two Markets. $

Table 1
Portfolio Performance (2006)
% Total Return

Portfolio	4th Quarter	1st Half	Year
MONEYLETTER			
Venturesome	11.4%	4.7%	17.0%
Moderate	8.2	5.9	15.7
Conservative	5.0	3.8	8.6
Fidelity			
Venturesome	10.2	2.3	13.2
Moderate	7.6	1.8	10.5
Conservative	5.2	4.3	10.1
Vanguard			
Venturesome	9.2	1.8	12.6
Moderate	7.2	2.0	11.0
Conservative	4.8.	2.0	10.0
MONEYLETTER Select	13.7	4.7	13.0
Vanguard Index 500	6.7	2.7	15.6
Wilshire 5000	7.0	2.7	14.7
Russell 2000	8.6	7.6	7.0
Asset Allocation Funds (Avg 213 Funds)	5.5	2.7	11.8

Table 2
Top Performing Funds
4th Quarter 2006
(Funds held throughout the quarter)
% Total Return

Guiness-Atkinson China-HongKong	21.0%
Fidelity Latin America	19.9
Metzler/Payden Europe Emerging Market	18.8
Janus Overseas	17.7
Driehaus emerging Markets	17.6
ICON Europe	13.5
Fidelity Europe Capital Appreciation	12.0
Fidelity Natural Resources	11.7

Goldilocks?

It is the beginning of the year, and that means *Barron's* Roundtable is back. In this year's discussion, references to a Goldilocks' economy were bandied about, not by everybody, but by many. The implication was that the economy was just about right. If so, the outlook for the market continues positive.

Very broadly speaking we share the majority's view, but we think the Goldilocks view is a stretch. In particular, we think the panel, with the exception of Goldman Sachs' Abbey Joseph Cohen, was too sanguine about the Fed.

No, we do not see the Fed raising interest rates tomorrow, but we do not see the Fed comfortable with the stiff resistance of the economy to the housing slump. As we see it, and to put it bluntly, the Fed wants the economy to be generating more slack than it has been over the past few months. In particular, the unemployment rate is too low for comfort for the Fed.

How do we get more slack? The obvious way is to have a slower economy. No one on the Fed is saying that directly, but that is the implication of most of the abundant Fedspeak recently. There is optimism by the Fed that it has done enough to cause the additional moderate slowing that it wants. But the facts on the ground are not pointing in that direction.

Wall Street may see the markets in a Goldilocks haze, but the Fed certainly does not.

Weather distortions

It may well be that the unusual (warm) weather in the eastern half of the country is playing havoc with the seasonally adjusted economic numbers being reported, particularly for housing and retail sales.

Although it is difficult to put a number on it, we do know that extreme weather variations do distort our picture of the economy. We have seen this in the past when extraordinarily cold weather crimped activity in the winter months. What we may see this time is that the numbers as we move into the warmer months make the economy look weaker than it actually is. In particular, we could see construction employment take a plunge, which could well be a statistical distortion.

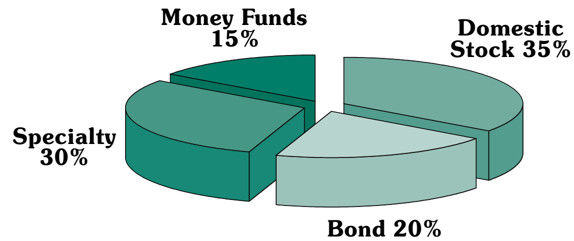
Fund changes

The Hotline of Wednesday, January 24 recommended the sale of Vanguard Equity-Income (VEIPX) in the Vanguard Conservative portfolio. The same Hotline recommended Vanguard Capital Value as a substitute. The Hotline also recommended the sale of Morningstar Large Value, (ETF, Ticker symbol, JKF). The fund is in all three MONEYLETTER portfolios. In the **Venturesome** and **Moderate** portfolios, we will switch the fund into Janus Contrarian. In the **Conservative** Portfolio we will switch the fund into FBR Small Cap, recently reopened.

These new recommendations illustrate what has been happening in the overall market. Large cap Value became the haven for those fleeing risk. But now that risk-taking has returned, Large Cap Value is slowly losing position, being replaced by small and midcap value. We expect the process to continue. $

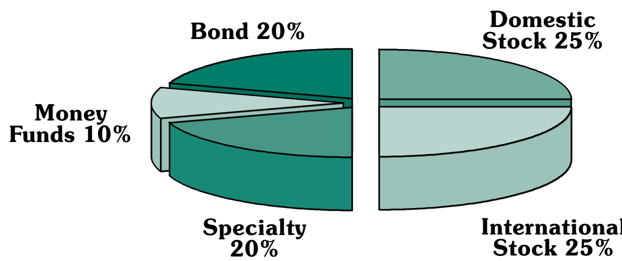
CONSERVATIVE

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



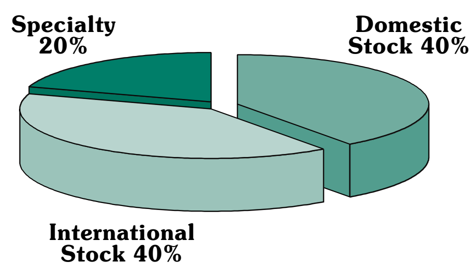
MODERATE

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



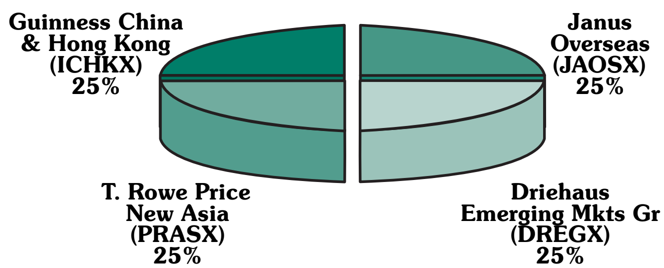
VENTURESOME

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 01/19 2007	1Mo Ago	6Mo Ago	Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN 1 mo.	6 mo.	12 mo.	PRICE PER SHARE	RISK Std. Dev.	Beta	NTF/wtf
1	**3**	**46**	**JSVAX**	**Janus Contrarian**	**LC**	*****	**B**	**B**	**6.1%**	**27.3%**	**26.4%**	**$17.58**	**13.6**	**1.29**	**SA**
2	70	126	BPTRX	Baron Partners	MCGro	H	H	H	4.6	22.3	25.0	23.35	13.3	1.15	FSA
3	**4**	**147**	**FBRVX**	**FBR Small Cap (1%r<90d)**	**SCGro**	**B**	**B**	**B**	**3.9**	**21.7**	**26.4**	**55.40**	**12.4**	**1.11**	**FSA**
4	13	23	WWNPX	Kinetics Paradigm (2%r<30d)	MC	B	B	B	2.8	19.8	25.2	26.42	10.8	1.05	FSa
5	16	230	CHTTX	Aston/Optimum MidCap N	MC	*	B	B	2.5	22.9	17.3	27.48	15.4	1.54	FSA
6	1	80	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	B	B	B	1.7	21.5	20.6	30.72	9.4	1.01	fa
7	21	224	MAVFX	Matrix Advisors Value (1%r<60d)	LC	*	B	B	1.8	23.3	15.4	58.58	13.2	1.43	FSA
8	9	128	WEHIX	Weitz Hickory	MC	*	B	B	1.5	20.4	21.0	40.57	9.7	0.99	fSA
9	**36**	**189**	**VCVLX**	**Vanguard Capital Value**	**LCVal**	**B**	**B**	**B**	**2.1**	**20.5**	**18.9**	**12.96**	**10.1**	**1.19**	**fsa**
10	11	305	JAVTX	Janus Venture (closed)	SCGro	*	B	B	1.7	21.5	16.5	62.80	16.7	1.55	FSA
11	**12**	**56**	**CBMDX**	**Wells Fargo Adv C&B Mid Cap Value**	**MC**	*****	**B**	**B**	**0.8**	**19.7**	**21.3**	**22.31**	**11.9**	**1.32**	**FSA**
12	15	84	WVALX	Weitz Value Fund	LCVal	B	B	B	1.8	18.9	20.6	40.94	7.2	0.69	FSA
13	115	57	MXXIX	Marsico 21st Century (2%r<30d)	LC	*	H	H	4.0	16.7	19.0	15.81	14.2	1.36	FSA
14	2	—	LSVRX	Loomis Sayles Value Retail	LCVal	B	B	B	1.0	17.3	21.9	21.98	7.4	0.90	FA
15	10	159	ATASX	Aston/TAMRO SmallCap N	SC	*	B	B	1.1	17.8	20.4	19.58	15.8	1.52	FSA
16	130	336	LMOPX	Legg Mason Opportunity Trust (1%r)	MCGro	*	H	H	2.1	20.5	11.8	19.20	20.6	1.90	—
17	24	47	VASVX	Vanguard Selected Value ($25k,1%r<1yr)	MCVal	B	B	B	1.6	18.0	18.5	21.35	8.6	0.97	fsa
18	14	238	IZZYX	Ironwood Isabelle Small Company Stock	SCVal	H	H	H	0.0	19.4	16.7	13.39	17.1	1.60	FSA
19	28	39	GABAX	Gabelli Asset (2%r<7d)	MC	H	H	H	1.8	17.0	20.0	48.20	10.2	1.09	FSA
20	33	129	VWNDX	Vanguard Windsor	LCVal	B	B	B	0.9	18.4	17.1	18.85	8.8	1.09	fsa
21	45	89	OAKMX	Oakmark Fund (2%r<90d)	LCVal	H	H	H	1.6	17.5	18.2	46.64	8.2	0.84	FSA
22	7	29	USCGX	USAA Capital Growth	SCGro	*	H	H	0.8	17.8	18.4	8.59	15.0	1.52	fsA
23	53	74	LLPFX	Longleaf Partners (closed)	LC	H	H	H	0.5	17.2	20.1	35.53	9.9	0.95	fa
24	117	216	AVALX	Aegis Value Fund ($10k)	SCVal	H	H	H	4.8	15.9	15.9	14.78	11.6	1.01	fa
25	**179**	**326**	**FOCPX**	**Fidelity OTC Portfolio**	**LCGro**	*****	**H**	**H**	**0.6**	**22.1**	**5.9**	**41.92**	**14.3**	**1.37**	**Fsa**
26	69	107	JORNX	Janus Orion	MCGro	*	H	H	2.0	17.1	16.5	10.09	13.3	1.37	FSA
27	22	45	TRMCX	T. Rowe Price Mid Cap Value (closed)	MCVal	H	H	H	1.1	17.1	17.8	25.68	9.8	1.22	fsa
28	38	63	NOIEX	Northern Income Equity	Convrt	H	H	H	2.0	16.5	17.4	13.10	6.4	0.81	FSA
29	163	86	MERDX	Meridian Fund (2%r<60d)	MCGro	*	H	H	2.9	16.3	16.3	40.39	13.8	1.36	fa
30	123	253	KAUFX	Federated Kaufmann Fund (0.2%r)	MCGro	*	H	H	2.3	18.1	12.4	5.75	13.6	1.35	FSA
31	23	109	HRTVX	Heartland Value (2%r<10d)	SCVal	*	H	H	0.7	15.8	20.4	50.75	16.9	1.57	FSA
32	**6**	**2**	**PWV**	**PowerShares Dyn LC Value**	**LCVal**	**B**	**B**	**B**	**0.0**	**16.0**	**20.5**	**19.79**	**—**	**—**	**—**
33	8	24	PVLDX	Allianz OCC Value D (2%r<7d)	LCVal	H	H	H	0.0	17.2	17.3	17.44	9.8	1.17	FSA
34	108	125	DGRIX	Dreyfus Growth & Income	LC	H	H	H	1.3	17.9	13.4	16.15	9.4	1.05	FSA
35	27	173	BPMCX	Robeco Boston Partners Mid Cap Value	MCVal	H	H	H	0.9	17.7	14.5	10.52	11.7	1.20	FSA
36	148	40	TAVFX	Third Avenue Value ($10k,1%r<60d)	SC	H	H	H	4.0	15.1	15.9	61.09	9.3	0.82	FSA
37	26	—	XLG	Rydex Russell Top 50	LC	H	H	H	0.6	17.1	15.9	108.80	—	—	—
38	120	68	JKD	Morningstar Large Core (iS)	LC	H	H	H	1.4	16.5	16.1	76.94	—	—	—
39	35	44	TWVLX	American Century Value (closed)	LCVal	H	H	H	0.7	16.5	17.1	7.64	7.3	0.88	FSA
40	158	223	JAENX	Janus Enterprise	MCGro	H	H	H	2.2	17.8	11.3	48.75	11.6	1.14	FSA
41	231	242	MFOCX	Marsico Focus (2%r<30d)	LCGro	H	H	H	4.6	16.8	9.9	20.07	10.6	1.04	FSA
42	118	117	NGUAX	Neuberger Berman Guardian	LC	H	H	H	1.7	16.8	13.3	19.25	10.3	1.09	fSa
43	**34**	**21**	**VDIGX**	**Vanguard Dividend Growth**	**LCVal**	**H**	**H**	**H**	**0.8**	**15.7**	**17.5**	**14.72**	**7.1**	**0.87**	**fsa**
44	121	280	BUFSX	Buffalo Small Cap (2%r<180d)	SCGro	*	H	H	2.5	17.1	11.0	27.44	16.0	1.48	FSA
45	61	153	MNSCX	WellsFargo Adv Small Cap Growth (closed)	SCGro	*	H	H	1.0	16.1	15.9	13.04	17.1	1.53	fS
46	253	324	QQQQ	NASDAQ 100	LCGro	*	H	H	0.7	20.8	4.1	44.17	14.7	1.64	—
47	19	10	ELV	DJ WI US LargeCap Value (stTr)	LCVal	H	H	H	0.3	15.2	18.6	83.54	7.4	0.86	—
48	91	165	PRGFX	T. Rowe Price Growth Stock	LCGro	H	H	H	1.4	16.9	12.5	32.12	9.7	1.07	fsa
49	39	17	IVE	S&P 500 Value (iS)	LCVal	H	H	H	0.7	15.0	18.3	77.52	8.6	1.07	—
50	172	268	CAAPX	Ariel Appreciation	MC	H	H	H	2.7	16.5	11.1	49.34	10.0	1.06	FSA
51	187	267	JAMRX	Janus Mercury	LCGro	*	H	H	2.4	17.6	8.8	25.62	10.4	1.09	FSA
52	65	93	CFIMX	Clipper Fund	LCVal	H	H	H	0.3	16.3	15.1	92.71	8.8	0.83	Fsa
53	85	143	SLSSX	Selected Special Shares	MC	*	H	H	0.5	16.3	14.5	13.98	12.3	1.28	SA
54	52	41	OEF	S&P 100 (iS)	LC	H	H	H	0.5	15.7	16.1	66.64	7.2	0.90	—
55	72	53	TGDVX	TCW Diversified Value N	LCVal	H	H	H	1.2	15.1	16.3	16.56	10.4	1.08	FSA
56	**30**	**27**	**FEQIX**	**Fidelity Equity-Income**	**LCVal**	**H**	**H**	**H**	**0.4**	**15.3**	**16.9**	**58.82**	**8.4**	**1.04**	**Fsa**
57	171	287	BGRFX	Baron Growth (closed)	SCGro	H	H	H	2.0	15.2	14.8	50.80	11.3	0.97	FSA
58	46	36	IWS	Russell MidCap Value (iS)	MCVal	H	H	H	1.2	14.7	17.3	148.30	10.0	1.18	—
59	**75**	**78**	**FDGFX**	**Fidelity Dividend Growth**	**LC**	**H**	**H**	**H**	**1.0**	**16.3**	**13.5**	**32.09**	**9.2**	**0.98**	**Fsa**
60	50	33	PRFDX	T. Rowe Price Equity-Income	LCVal	H	H	H	0.7	15.1	17.0	29.80	8.9	0.98	fsa
61	59	51	TGIGX	TCW Dividend Focused N	LCVal	H	H	H	0.9	15.3	16.1	13.38	9.7	1.03	FSA
62	60	31	DODGX	Dodge & Cox Stock (closed)	LCVal	H	H	H	1.3	15.0	16.1	155.90	9.5	1.02	sa
63	126	28	DIA	Dow 30 Industrials (Diamonds)	LCVal	H	H	H	0.9	14.7	17.3	125.60	8.6	1.03	—
64	**18**	**4**	**VTV**	**Vanguard Value ETF**	**LCVal**	**H**	**H**	**H**	**0.1**	**14.6**	**18.7**	**68.25**	**—**	**—**	**—**
65	76	167	FSLSX	Fidelity Value Strategies	MC	*	H	H	1.2	16.3	12.7	32.05	18.5	1.80	F
66	51	209	THPGX	Thompson Plumb Growth	LC	H	H	H	0.0	17.2	12.2	49.21	11.1	1.12	Fsa
67	174	105	BARAX	Baron Asset	MCGro	H	H	H	1.9	14.7	15.5	61.08	10.9	1.00	FSA
68	44	113	SSHFX	Sound Shore ($10k)	LCVal	H	H	H	0.3	16.0	14.1	39.30	10.5	1.07	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 01/19 2007	1Mo Ago	6Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN 1 mo.	6 mo.	12 mo.	PRICE PER SHARE	RISK Std. Dev.	Beta	NTF/ wtf
69	138	174	JKG	Morningstar Mid Core (iS)	MC	S	S	S	1.6	16.1	11.9	83.68	—	—	—
70	20	8	IWD	Russell 1000 Value (iS)	LCVal	S	S	S	0.2	14.4	18.4	82.84	8.0	0.99	—
71	**17**	**5**	**VIVAX**	**Vanguard Value Index**	**LCVal**	**H**	**H**	**H**	**0.0**	**14.4**	**18.5**	**26.59**	**8.2**	**1.00**	**fsa**
72	32	127	BPAVX	Robeco Boston Partners All Cap Value	MCVal	S	S	S	0.8	15.7	14.0	16.07	10.0	1.04	FA
73	29	22	NYC	NYSE Composite (iS)	LC	S	S	S	0.5	14.7	16.7	84.06	—	—	—
74	119	99	YACKX	Yacktman Fund (2%r<30d)	LCVal	S	S	S	1.7	14.3	15.7	16.05	8.8	0.92	FsA
75	193	309	ONEQ	Fidelity NDQ Composite	LCGro	*	H	H	0.8	18.2	7.0	96.34	—	—	—
76	229	182	FDCAX	Fidelity Capital Appreciation	LCGro	*	S	S	3.3	14.8	11.6	27.98	12.6	1.27	Fsa
77	77	50	CRMMX	CRM Mid Cap Value Inv (closed)	MC	S	S	S	0.8	14.8	15.2	29.82	10.0	1.04	FSA
78	37	11	VEIPX	Vanguard Equity-Income	LCVal	S	S	S	0.5	13.8	18.1	25.41	7.6	0.91	fsa
79	74	61	PRDGX	T. Rowe Price Dividend Growth	LC	S	S	S	0.8	14.7	15.1	25.66	8.4	0.94	fsa
80	268	255	MGRIX	Marsico Growth & Income (2%r<30d)	G&I	S	S	S	4.4	15.2	8.2	20.93	10.0	0.99	FSA
81	47	—	HILVX	Harbor Large Cap Value Inv	LCVal	S	S	S	0.6	15.0	14.5	19.35	7.0	0.84	FSA
82	142	208	OAKLX	Oakmark Select (2%r<90d)	LCVal	S	S	S	1.0	14.8	13.7	34.00	8.9	0.82	FSA
83	182	194	NMANX	Neuberger Berman Manhattan	MCGro	*	S	S	1.4	15.3	12.0	9.27	13.8	1.28	fSa
84	5	1	JKF	Morningstar Large Value (iS)	LCVal	S	S	S	-0.7	13.3	19.9	83.21	—	—	—
85	49	9	SAOPX	Barrett Opportunity	MCVal	S	S	S	1.5	12.4	18.7	59.58	8.5	0.93	fa
86	134	133	RSP	Rydex S&P Equal Weight	LC	*	S	S	0.8	15.2	12.6	47.97	10.6	1.31	—
87	64	37	SAIFX	Salomon Brothers Investors	LCVal	S	S	S	1.0	13.7	16.1	21.98	9.9	1.06	fa
88	107	81	IWB	Russell 1000 (iS)	LC	S	S	S	0.8	14.9	13.3	77.79	8.0	1.02	—
100	25	12	IWW	Russell 3000 Value (iS)	LCVal	S	S	S	-0.5	13.7	17.2	108.00	8.3	1.03	—
190	**62**	**20**	**FSLVX**	**Fidelity Large Cap Value**	**LCVal**	**H**	**S**	**S**	**-0.3**	**11.8**	**13.1**	**14.97**	**—**	**1.00**	**Fa**

	1 mo.	6 mo.	12 mo.	
Dow Jones	**0.8%**	**14.1%**	**15.5%**	*indexes do not include dividends*
NASDAQ	**0.9**	**17.8**	**6.5**	
S&P 500	**0.3**	**13.5**	**11.3**	

International Stock Funds

RANK 01/19 2007	1Mo Ago	6Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN 1 mo.	6 mo.	12 mo.	PRICE PER SHARE	RISK Std. Dev.	Beta	NTF/ wtf
1	2	94	PGJ	PowerShares Golden Dragon USX	Pacific	*	B	B	5.6%	36.0%	38.0%	$21.09	—	—	—
2	**11**	**95**	**PRASX**	**T. Rowe Price New Asia (2%r<90d)**	**Pacific**	*****	**B**	**B**	**5.3**	**36.6**	**31.0**	**14.22**	**15.5**	**—**	**fs**
3	**6**	**25**	**JAOSX**	**Janus Overseas (2%r<90d)**	**Int'l**	*****	**B**	**B**	**1.3**	**31.5**	**37.2**	**46.20**	**15.1**	**—**	**FSA**
4	16	47	SCOPX	DWS Pacific Opp Eq. S (closed,2%r<30d)	Pacific	*	B	B	5.6	29.2	31.5	21.69	14.8	—	Sa
5	**18**	**76**	**ICHKX**	**Guinness Atkinson China & HK (2%r<90d)**	**Pacific**	*****	**B**	**B**	**6.6**	**27.7**	**31.8**	**26.86**	**16.9**	**—**	**FSA**
6	**14**	**42**	**FSEAX**	**Fidelity SE Asia (1.5%r<90d)**	**Pacific**	*****	**B**	**B**	**3.5**	**28.6**	**29.8**	**27.25**	**16.9**	**—**	**Fsa**
7	1	2	PRLAX	T. Rowe Price Latin America (2%r<90d)	LatinA	*	*	B	2.0	26.9	35.9	37.49	20.5	—	fsa
8	26	31	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	*	B	B	2.8	26.9	31.2	23.18	10.8	—	FSA
9	38	83	MAPTX	Matthews Pacific Tiger (closed,2%r<90d)	Pacific	*	H	H	6.3	27.7	23.4	23.98	15.1	—	FSA
10	27	65	EPP	MSCI Pacific Ex-Japan (iS)	Pacific	*	H	H	4.6	25.2	29.9	127.60	11.8	—	—
11	22	51	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	*	H	H	3.0	27.3	26.6	21.91	12.6	—	SA
12	23	—	FFINX	Forward International Equity (2%r<180d)	Int'l	*	H	H	2.7	26.8	27.7	18.34	12.2	—	FSA
13	13	88	PRMSX	T. Rowe Price Emerging Mkts Stk	Int'l	*	B	B	2.3	29.4	20.9	32.02	16.5	—	fsa
14	28	58	PRESX	T. Rowe Price European (2%r<90d)	Europe	*	B	B	1.8	26.9	27.1	20.44	10.7	—	fsa
15	53	—	FSCOX	Fidelity Int Small Cap Opp	Int'l	*	H	H	3.8	28.1	21.0	16.03	—	—	Fsw
16	**7**	**4**	**FLATX**	**Fidelity Latin America (1.5%r<90d)**	**LatinA**	*****	*****	**B**	**2.3**	**24.9**	**31.3**	**44.41**	**22.1**	**—**	**Fsa**
17	4	44	TREMX	T. Rowe Price Emg Europe & Med (2%r<90d)	Europe	*	B	B	0.9	30.4	18.6	31.69	19.4	—	fa
18	52	93	AIOIX	Amer.Cent.Intl Opp. (closed,2%r<180d)	Int'l	*	H	H	5.4	26.6	20.8	9.39	14.9	—	—
19	**12**	**6**	**DREGX**	**Driehaus Emerg Mkts Gr (closed,2%r<60d)**	**Int'l**	*****	**B**	**B**	**2.4**	**24.7**	**29.7**	**38.59**	**17.9**	**—**	**FSA**
20	41	53	PISRX	Forward Intl Small Companies (2%r<180d)	Int'l	*	H	H	3.1	25.8	25.0	19.16	13.6	—	FSA
21	10	34	ADRE	Emerging Mrkts 50 ADR (BLDRS)	EmerMkt	*	H	H	2.0	24.4	26.7	38.38	17.9	—	—
22	8	11	ILF	S&P 40 Latin America (iS)	LatinA	*	*	H	1.5	24.4	27.2	168.00	19.2	—	—
23	31	21	EZU	MSCI EMU (iS)	Europe	*	H	H	0.8	23.2	30.9	103.60	12.1	—	—
24	**3**	**1**	**MPYMX**	**Metzler/Payden Europe Emg Mkts (2%r<30d)**	**Europe**	*****	**H**	**H**	**1.0**	**23.4**	**29.8**	**32.05**	**21.4**	**—**	**FSA**
25	9	12	SLAFX	DWS Latin Amer Equity S (closed,2%r<30d)	LatinA	*	H	H	1.9	24.2	26.1	56.94	21.1	—	Sa
26	40	29	SCGEX	DWS Europe Equity S (closed,2%r<30d)	Europe	*	H	H	1.6	22.6	29.2	38.08	11.3	—	FSA
27	**29**	**13**	**FECAX**	**Fidelity Europe Capital App (1%r<30d)**	**Europe**	*****	**H**	**H**	**1.4**	**22.7**	**28.7**	**27.39**	**13.7**	**—**	**Fsa**
28	34	18	BJBIX	Julius Baer Intl Eq A (closed,2%r<90d)	Int'l	*	H	H	2.3	23.1	25.9	42.74	11.9	—	FS
29	45	52	PRIDX	T. Rowe Price Intl Disc. (2%r<90d)	Int'l	*	H	H	2.9	23.8	22.6	47.97	12.9	—	fsa
30	**25**	**3**	**ICSEX**	**ICON Europe**	**Europe**	*****	**H**	**H**	**1.0**	**20.9**	**32.7**	**21.16**	**13.9**	**—**	**FSA**
31	33	—	HIINX	Harbor International Inv (2%r<60d)	Int'l	*	H	H	2.1	22.1	26.8	61.84	12.0	—	FSA
32	36	7	VEURX	Vanguard European Stock Index (2%r<60d)	Europe	*	H	H	1.0	21.7	29.1	36.37	10.6	—	fsa
33	60	85	PRGSX	T. Rowe Price Global Stock (2%r<90d)	Global	*	H	H	2.9	24.3	19.4	23.11	9.8	—	fsa
34	20	62	HLEMX	Harding Loevner Emerg Mkt (2%r<90d)	Int'l	*	H	H	1.2	25.3	18.9	43.96	16.1	—	FSA
35	**37**	**10**	**VGK**	**Vanguard European ETF**	**Europe**	*****	**H**	**H**	**0.8**	**20.9**	**29.8**	**68.61**	**—**	**—**	**—**
36	32	39	QFVOX	Quant Foreign Value (1%r<30d)	Int'l	*	S	S	1.4	21.9	26.2	21.77	12.2	—	FSA
37	35	5	ARTKX	Artisan Intl Value (2%r<90d)	Int'l	*	H	H	1.4	20.6	29.3	28.07	10.6	—	FSA
38	39	—	EFV	MSCI EAFE Value (iS)	Int'l	*	S	S	1.4	21.4	26.7	72.30	—	—	—
39	15	35	FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	*	S	S	1.1	23.6	21.1	23.91	17.8	—	Fsa
40	**24**	**73**	**VEIEX**	**Vanguard Emerging Mkts Stk Index (.5%r)**	**Int'l**	*****	**H**	**H**	**1.8**	**23.4**	**19.8**	**23.99**	**16.7**	**—**	**fsa**
41	42	8	IEV	S&P 350 Europe Plus (iS)	Europe	*	H	H	0.8	20.5	28.6	105.40	10.6	—	—
42	78	90	MPACX	Matthews Asia Pacific (2%r<90d)	Pacific	*	S	S	5.4	22.4	15.6	17.17	—	—	FSA
43	54	9	OAKIX	Oakmark International (2%r<90d)	Int'l	*	S	S	1.8	19.9	26.9	25.57	9.0	—	FSA
56	5	15	EUROX	US Global Eastern Europe (2%r<180d)	Europe	*	S	S	0.2	24.6	13.6	44.11	22.0	—	FSA
58	**55**	**26**	**VWIGX**	**Vanguard International Growth (2%r<60d)**	**Int'l**	*****	**H**	**H**	**2.0**	**19.9**	**22.4**	**24.04**	**10.7**	**—**	**fsa**

Bond Funds ***(next issue on page 6: Specialty Funds)***
01/19/2007

Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN 1 mo.	6 mo.	12 mo.	PRICE PER SHARE	Std. Dev.	Yield	NTF/ wtf
FFRHX	Fidelity Floating Rate High Inc (1%r<60d)	BnkLoan	S	*	*	0.3%	2.8%	5.1%	$9.97	0.71	6.16%	Fa
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	*	*	*	1.4	6.9	9.0	11.30	3.41	6.15	FSA
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	0.5	9.1	11.7	8.94	4.61	6.04	Fsa
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	0.4	7.5	9.8	9.08	3.56	6.94	Fsa
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	1.4	8.7	11.6	9.89	3.63	7.29	FSA
NTHEX	Northeast Investors Trust	HighYld	*	*	*	1.2	6.6	12.2	7.83	3.42	6.83	fa
PHYDX	PIMCO High Yield (2%r<30d)	HighYld	*	*	*	0.2	7.0	7.8	9.90	3.76	6.72	FSA
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	1.1	7.1	9.6	7.84	3.24	7.20	FSA
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.6	3.5	5.5	8.55	1.29	5.56	FSA
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	1.2	8.0	10.1	7.07	3.47	7.33	fsa
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	1.1	8.1	9.5	7.06	4.26	7.14	FSA
VAGIX	Value Line Aggressive Inc (1%r<120d)	HighYld	*	*	*	0.2	6.0	7.1	5.06	3.44	6.39	FSA
VWEHX	**Vanguard High Yield Corporate (1%r<1yr)**	**HighYld**	*	**B**	*	**0.9**	**7.3**	**8.2**	**6.23**	**3.41**	**7.03**	**fsa**
FNMIX	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	-0.5	8.1	9.5	14.77	6.78	5.65	Fsa
BGNMX	American Century Ginnie Mae	IntTerm	*	*	*	-0.2	4.4	3.2	10.13	2.23	4.87	FSA
CPTNX	American Century Government Bond	IntTerm	*	*	*	-0.2	3.9	3.6	10.40	2.72	4.52	FSA
SRBFX	Columbia Intermediate Bond ClZ	IntTerm	*	*	*	0.0	5.2	4.7	8.83	2.92	5.03	FSA
DODIX	Dodge & Cox Income	IntTerm	*	*	*	0.1	4.8	4.9	12.58	2.38	4.90	fsa
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	0.1	4.6	3.9	13.49	3.26	4.59	FSA
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	-0.2	3.9	2.8	14.29	2.57	4.39	FSA
DSINX	Dreyfus Premier Core Bond (closed)	IntTerm	*	*	*	-0.1	4.7	4.4	14.30	3.20	4.68	fSa
SCSBX	DWS Core Plus Income S (closed,2%r<15d)	IntTerm	*	*	*	-0.2	4.7	4.2	12.66	3.18	4.94	Sa
FGMNX	Fidelity GNMA	IntTerm	*	*	*	-0.6	3.5	2.6	10.74	2.33	4.76	Fsa
FBNDX	Fidelity Investment Grade	IntTerm	*	*	*	-0.8	3.4	3.2	7.35	3.07	4.55	Fsa
IEF	Lehman 7-10 Year Treasuries (iS)	IntTerm	*	*	*	-0.9	4.0	2.1	82.20	5.24	4.24	—
AGG	Lehman Aggregate Bond (iS)	IntTerm	*	*	*	-0.2	4.4	3.6	99.84	3.28	4.70	—
MBDFX	Managers Fremont Bond	IntTerm	*	*	*	-0.6	3.6	2.5	10.19	3.33	4.72	fsa
MWTRX	MetroWest Total Return	IntTerm	*	*	*	0.6	5.0	5.5	9.71	2.87	5.04	FSA
PTMDX	PIMCO Total Return Mortgage (2%r<7d)	IntTerm	*	*	*	-0.5	4.4	4.0	10.63	2.51	4.30	FSA
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	-0.2	4.2	3.2	9.35	2.24	4.95	fsa
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	-0.3	4.5	3.6	8.89	3.14	4.58	fsa
TGMNX	TCW Galileo Total Return Bond	IntTerm	*	*	*	-0.3	4.7	4.7	9.81	2.74	4.49	FSA
USAIX	USAA Income	IntTerm	*	*	*	-0.2	4.5	3.9	12.12	3.20	4.79	A
VALBX	Value Line U.S. Govt Sec	IntTerm	*	*	*	-0.4	3.6	3.1	11.32	2.79	4.15	FSA
VFIIX	**Vanguard GNMA**	**IntTerm**	**B**	*	*	**-0.1**	**4.7**	**3.6**	**10.19**	**2.51**	**5.09**	**fsa**
VFITX	Vanguard Intermediate Term U.S. Treasury	IntTerm	*	*	*	-0.6	3.8	2.7	10.72	3.91	4.65	fsa
VBMFX	Vanguard Total Bond Market Index	IntTerm	*	*	*	-0.3	4.5	3.8	9.96	3.31	4.85	fsa
STVSX	Wells Fargo Adv Govt Sec Inv	IntTerm	*	*	*	-0.3	3.7	3.0	10.30	3.06	4.73	FSA
MNTRX	Wells Fargo Adv Total Return Bond	IntTerm	*	*	*	-0.3	4.4	3.7	12.06	3.18	4.56	fSa
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	0.0	5.1	5.4	10.56	2.92	5.26	FSA
DRGBX	Dreyfus 100 Treasury L-T	LngTerm	*	*	*	-1.4	4.9	0.5	15.69	6.91	4.42	FA
KIFIX	FifthThird Bond	LngTerm	*	*	*	-0.3	4.1	3.3	9.79	3.16	4.41	fa
LQD	GS InvestTop Corp Bond (iS)	LngTerm	*	*	*	-0.3	5.7	3.7	106.80	4.86	5.06	—
TLT	Lehman 20+ Year Treasuries (iS)	LngTerm	*	*	*	-1.5	5.6	-0.1	87.99	8.98	4.52	—
MGFIX	Managers Bond	LngTerm	*	*	*	-0.3	6.4	7.3	24.87	3.53	4.43	FSA
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	-0.3	6.0	4.5	9.63	4.23	5.06	fsa
VWESX	Vanguard Long-Term Investment-Grade	LngTerm	*	*	*	-0.8	7.3	2.6	9.21	7.59	5.63	fsa
VUSTX	Vanguard L-T U.S. Treasury	LngTerm	*	*	*	-1.1	5.2	1.1	11.06	7.40	4.89	fsa
STCBX	Wells Fargo Adv Corporate Bond Inv	LngTerm	*	*	*	-0.3	5.1	3.6	10.22	4.24	4.79	FSA
FSICX	**Fidelity Strategic Income**	**Multi**	**B**	**B**	*	**0.1**	**6.1**	**6.8**	**10.62**	**3.54**	**5.20**	**Fa**
JAFIX	Janus Flexible Bond	Multi	*	*	*	-0.1	4.6	3.8	9.40	3.21	4.65	FSA
LSBDX	Loomis Sayles Bond Instl ($100k,2%r<60d)	Multi	B	B	*	0.1	7.6	10.1	14.33	4.70	5.36	fsA
LSBRX	**Loomis Sayles Bond Retail (2%r<60d)**	**Multi**	**B**	**B**	*	**0.1**	**7.4**	**9.9**	**14.29**	**4.67**	**5.15**	**FSA**
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	0.1	6.8	7.2	12.17	2.85	4.45	fsa
DSTIX	Dreyfus Premier Short-Term Income	ShtTerm	H	*	*	0.1	3.4	4.0	10.90	1.54	4.32	FSA
SCSTX	DWS Short-Term Bond S (closed,2%r<15d)	ShtTerm	H	*	*	0.2	2.6	4.2	9.90	1.27	4.75	Sa
JASBX	Janus S-T Bond	ShtTerm	H	*	*	0.4	2.7	4.2	2.88	1.08	3.77	FSA
SHY	Lehman 1-3 Year Treasuries (iS)	ShtTerm	H	*	*	0.1	2.6	3.6	79.99	1.27	4.14	—
MGIDX	Managers Int. Duration Govt	ShtTerm	*	*	*	-0.1	4.3	4.2	10.52	2.40	4.41	FSA
MGSDX	Managers Short Duration Govt	ShtTerm	H	*	*	0.3	2.4	4.5	9.66	0.56	4.10	FSA
MWLDX	MetroWest Low Duration	ShtTerm	H	*	*	0.6	3.2	5.1	9.45	1.41	4.58	FSA
SWBDX	Schwab S-T Bond Mkt Index	ShtTerm	H	*	*	0.1	3.2	4.2	9.91	1.70	4.55	fS
SSTBX	Strong S-T Bond	ShtTerm	H	*	*	0.2	2.9	4.2	8.50	1.28	4.62	FSA
PRWBX	T. Rowe Price S-T Bond	ShtTerm	H	*	*	-0.1	3.0	3.9	4.68	1.37	4.06	fsa
VFSTX	Vanguard Short-Term Investment Grade	ShtTerm	H	*	*	0.1	3.4	4.7	10.55	1.43	4.38	fsa
VSGBX	Vanguard S-T Federal	ShtTerm	*	*	*	0.1	3.2	4.1	10.27	1.58	4.02	fsa
MNSGX	WellsFargo Montgomery S Dur Govt (closed)	ShtTerm	H	*	*	0.1	2.8	3.9	9.86	1.31	4.23	fSa
BTFTX	American Century Target 2015	ZeroCpn	*	*	*	-1.1	5.2	1.5	77.93	7.87	4.89	FSA
BTTTX	American Century Target 2020	ZeroCpn	*	*	*	-1.5	6.2	-0.6	58.88	10.89	4.41	FSA
BTTRX	American Century Target 2025	ZeroCpn	*	*	*	-1.8	6.9	-2.1	51.22	13.66	4.38	FSA

Understanding the Advice

Below are a couple of excellent questions from subscribers who are getting to the heart of our advice:

Q ***I recently took advantage of your trial subscription for new subscribers, and have reviewed the archived MONEYLETTER and MONEYLETTER Plus newsletters. I am impressed and very happy with your service. I tend to favor the ETF mutual funds over the traditional funds, and I do have a question concerning a discrepancy that I noticed when comparing the December 8th MONEYLETTER and the December 15th MONEYLETTER Plus recommendations. In the 12/8 MONEYLETTER, iShares MSCI EAFE Value Index (EFV) is recommended as "Sell" for the Moderate and Venturesome portfolios. However, in the 12/15 MONEYLETTER Plus, this same fund EFV is being held in the ETF Model Portfolio with no changes recommended. This seems like an inconsistency. I would appreciate a good explanation because I really do think the Model ETF Portfolio meets my needs.***

—R.B., Cincinnati, OH

A Good question. The answer is two-fold:

1) EFV represents a segment of the market that we want to represent in the ETF model portfolio. We already own EMU (Europe) and wanted a broadly based international fund, preferably with Value flavor. We are keeping a close eye on EFV (which is still in the upper 40% of our International Funds list as we go to press), and if its performance deteriorates further we would consider a trade.

2) We cannot make a direct connection of the fund advice in MONEYLETTER to the MONEYLETTER Plus ETF Portfolio because they each have a different fund universe. Specifically, the number of funds available for purchase in the ETF portfolio is much smaller, so we have to use the MONEYLETTER fund selection system as a guide rather an absolute.

Q ***Your 12/22/06 issue of MONEYLETTER Plus indicated a sell rating for Vanguard International Value (VTRIX), which is a 5-star fund in Morningstar. Your replacement recommendation is Vanguard Emerging Markets Stock Index (VEIEX), a 3-star fund. Is this correct? What is the basic rational?***

—C.A., Millville, MA

A The switch was called by our momentum-based fund ranking system, which is pointed more to the last 6 months performance of the fund. The system is designed to select funds that are in tune with current market conditions, keeping in mind the desire to avoid unnecessary trading. This has proven to provide the best results in concert with our Asset Allocation approach to investing.

Morningstar long-term ratings are based on 3-, 5-, and 10-year returns. Our view discounts the performance of a fund in the distant past.

If you have a question for this feature, please contact us via email (service@moneyletter.com) or by U.S. Mail at MONEYLETTER, P.O. Box 6020, Holliston, MA 01746. $

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF	5.06%	5.05%	4.77%
Vanguard Treasury MMF	4.91	4.90	4.55
Amer Century Capital Presv Fund/Inv	4.72	4.72	4.36
T. Rowe Price US Treasury MF	4.68	4.61	4.26
HSBC Investor US Treas MM/Cl D	4.58	4.57	4.12
JPMorgan 100% US Treas MMF/Morgan	4.54	4.55	4.24
RMK Select Treas MMF/Cl A	4.53	4.52	4.21
Schwab US Treasury Money Fund	4.51	4.52	4.18
Wells Fargo Adv 100% Treas MMF/Cl A	4.44	4.44	4.13
Citi US Treasury Reserves	4.41	4.41	4.07

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
Vanguard Prime MMF/Investor	5.23%	5.24%	4.88%
Transamerica Premier Cash Res/Inv	5.21	5.22	4.91
TIAA-CREF Money Market Fund	5.20	5.21	4.88
MFS Money Market Fund	5.18	5.18	4.83
Harbor Money Market Fund	5.17	5.20	4.83
PayPal Money Market Fund	5.17	5.17	4.88
SSgA MMF/Cl A	5.14	5.08	4.76
TCW Money Market Fund	5.12	5.14	4.77
DWS Money Market Prime Ser/DWS MMF	5.10	5.10	4.71
Amer Beacon MMF/Plan Ahead	5.07	5.08	4.69
GE Money Market Fund	5.07	5.06	4.73

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Alpine Municipal MMF/Investor	3.59%	3.71%	3.43%
Vanguard Tax-Exempt MMF	3.51	3.66	3.37
DWS Tax-Exempt Money Fund	3.33	3.42	3.11
Dreyfus BASIC Muni MMF	3.29	3.38	3.09
Fidelity AMT Tax-Free Money Fund	3.27	3.47	3.20
Marshall Tax Free MMF/Class Y	3.27	3.41	3.11
T-E Portfolio/Managed Shares	3.24	3.34	3.06
T. Rowe Price Summit Muni MMF	3.23	3.32	3.03
Fidelity Municipal MMF	3.22	3.38	3.12
USAA Tax Exempt MMF	3.20	3.34	3.06

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard PA Tax-Exempt MMF	3.50%	3.67%	3.37%
Vanguard OH Tax-Exempt MMF	3.48	3.65	3.36
Vanguard NJ Tax-Exempt MMF	3.46	3.60	3.31
Vanguard NY Tax-Exempt MMF	3.46	3.63	3.33
Vanguard CA Tax-Exempt MMF	3.37	3.54	3.29
Fidelity PA Municipal MMF	3.16	3.32	3.05
Dreyfus FL Municipal MMF	3.15	3.23	2.94
Fidelity AZ Municipal MMF	3.14	3.32	3.05
Fidelity FL Municipal MMF	3.14	3.32	3.08
Fidelity OH Municipal MMF	3.14	3.30	3.01
Lehman Bros NY Muni MF/Inv	3.14	3.24	2.95
USAA Tax Exempt VA MMF	3.14	3.22	2.97

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 1/16/07. 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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Next Issue: Volume 28, No. 3

Mails: February 9, 2007

Internet: February 7, 2007, 12:00pm (ET)

Three of the Best New Funds of 2006

New funds to *MONEYLETTER*, that is. We reviewed the funds that we added to *MONEYLETTER*'s stock fund lists in 2006 and found that more than a third had total returns last year that topped 20%. Most of those were international funds of one type or another. In this issue we'll look at three that exceeded 30% in total returns.

iShares MSCI EAFE Value Index (EFV)

Added to *MONEYLETTER*'s coverage in October, this ETF sported a total return of 30.3% in 2006. The fund invests in the value components of the EAFE index, as determined by an eight-factor MSCI (Morgan Stanley Capital International) model. Hence, it is most heavily skewed toward financial firms (39% of assets), followed by consumer discretionary (11%), energy (11%), industrials (8%), and telecommunications services (7%). And while it is more heavily tilted toward financials compared to the broad EAFE index, its country weightings are close to those of the index. The portfolio continues to be dominated by large-cap stocks, and has no exposure to emerging markets (or Canada). Many of its holdings, though headquartered in another nation, would be familiar to US investors, including BP, Toyota Motor, Nestle, and Royal Dutch Shell.

iShares are listed on the major exchanges and can be purchased through any brokerage account.

Forward International Equity (FFINX)

A 34.4% total return in 2006 placed the Forward International Equity fund within the top 5% of the Morningstar foreign large growth category. And looking longer term, three- and five-year annual average returns of 20.3% and 16.9%, respectively, place it within the top 15% of its peers. The fund, which the managers termed "opportunistic" back in July, invests in all market capitalizations (except micro-caps) using a true bottom-up investment process.

Stocks likely to wind up in the portfolio could be traditional value stocks, but also those that provide a blend of attractive valuation and growth. The managers recently noted the weaker US dollar has been attributed to the US trade deficit and changes in relative economic growth rates (US expected to be slower than Europe this year). This has led the dollar to look increasingly cheap vs. the Euro and Sterling. But, looking out six months, they expect the dollar to recover. Meanwhile, they are maintaining an overweight position in Japan (19% of assets) as valuations look attractive despite "recent dull economic data." They note an acceleration of global M&A (merger and acquisition) activity in recent months. This has pushed up valuations in Europe. Combined with an expensive Euro, this has caused the team to underweight Europe. As was true earlier, the managers continue to overweight financials, along with industrials, consumer discretionary, information technology, and health care. In contrast, the fund is underweight utilities, consumer staples, materials, and energy.

Forward International Equity (FFINX)
P.O. Box 1345, Denver, CO 80201
(800) 999-6809 • Minimum Investment: $4,000

SsgA Emerging Markets (SSEMX)

Emerging markets' return of 17.6% in 2006 (MSCI Emerging Markets Index) was the fourth consecutive year of growth—the first time since the index's inception that has happened. SSgA believes that emerging markets can continue to rally in 2007, absent a major shock, although returns are likely to moderate from those of recent years. Emerging markets earnings growth is forecast at 14% in 2007, and growth in these markets will exceed that of the developed world, leading to increasing funds flows into emerging markets in the quest for greater returns.

The management team notes that many emerging markets now have more market-oriented macroeconomic policies, and more "truly competitive firms" are emerging in these markets. Still, managers note the high political risks still present—terrorism, nuclear proliferation, public health risks and environmental degradation, and ongoing violence in the Middle East and Southwest Asia, saying, "Even as emerging markets become more mainstream, they still are highly subject to global risk appetite and inexorably linked to developments in the world economy." Since its January inclusion in *MONEYLETTER*, the fund has slightly increased its exposure to its top sectors of financials and energy, while significantly boosting materials, and putting less emphasis on information technology. It has trimmed exposure to South Korea and Taiwan, while increasing China and Russia. Manager Brad Aham recently noted that the fund overweights equities from Brazil, Russia, and Turkey. Overall, however, the fund's country weightings stay relatively close to the index. SSgA Emerging Markets had a total return of 33.5% in 2006, and an annualized ten-year return of 11.5%, which puts it in the top 20% of the diversified emerging markets category. $

SSgA Emerging Markets (SSEMX)
2 International Place, Boston, MA 02110
(800) 647-7327 • Minimum Investment: $1,000

MONEYLETTER® (ISSN:1526-5110) is published twice each month for $150 per year (24 issues) by PRI Financial Publishing Inc., 479 Washington St., P.O. Box 6020, Holliston, MA 01746-6020. First Class Postage paid at Holliston, MA and at additional mailing offices. POSTMASTER: send address changes to *MONEYLETTER*, 479 Washington St., P.O. Box 6020, Holliston, MA 01746-6020. President: Bruce W. Hardy. Chief Investment Officer/Chief Economist: Walter Frank. Contributing Editor: Cynthia Andrade. Publisher: Brian W. Kelly. Address all subscription and editorial inquiries to PRI Financial Publishing Inc., 479 Washington St., P.O. Box 6020, Holliston, MA 01746-6020, (800) 890-9670.