

The Fed's Balancing Act

by Walter S. Frank, Chief Investment Officer

Chairman Bernanke presented the Fed's semiannual report to Congress on Valentine's Day, and when it was over the market applauded. When the Chairman ended there was no meaningful threat of tighter Fed policy in the economic outlook presented. Oh, yes, there were the usual caveats about inflation risk, and that the Fed's bias leaned toward higher, not lower, interest rates. But these warnings are standard.

Moreover the Monetary Policy Report that accompanied the talk was about as market-friendly as could be hoped for, at least with regard to interest rates. Naturally, no interest rate projection was offered. The only mention of rates came in the conclusion of the Monetary Policy Report when the phrase "assuming an appropriate course for monetary policy" among the economic projections.

Perfect harmony?

Stripping it down, the Fed told us that it expects the economy to grow close to its speed limit this year and next (about 3.0%), while inflation holds steady or comes down a tad. This will be happening, even though we start off this year with the labor market, in the Fed's own view, close to fully employed. (One of the very inflation risks the Fed is worried about is pressure on prices from too-rapid wage increases.)

The Fed has an answer for that risk and the answer is twofold: one, increasing productivity and two, business profit margins (now very high) absorbing some part of the wage increases. Nothing says the answer is unrealistic, but just how realistic it is raises doubts. Aside from doubts, this part of the outlook does have obvious downside implications for the market outlook.

Yes, the market celebrated the interest rate message, but did it fully appreciate the profits message? The Fed is

expecting lower profit margins to be one of the buffers in keeping inflation tame. Good news for bondholders, not good news for stockholders.

The reaction of the markets does depends on the time horizon of the investors involved. Even though the Fed implicitly presented a bleaker outlook for profits growth, the reality of slower profits growth as margins absorb higher labor costs is an issue for later this year. For the trading community, "later this year" is light-years away. For the institutional investor, it is almost here. On a day-to-day basis, it is the traders who count.

There was another, though not so direct, cautionary implication for profits in the Fed's outlook. The Fed just does not expect the economy to be growing all that rapidly this year and next. Profits thrive on growth and that will be missing. We are not saying anything new, but we believe our concerns over U.S. profit growth are about to be realized. While the year-over-year profit numbers for last quarter are still in the double-digits, last quarter's profit gain over the previous quarter were not (annualized), according to the economists at JP Morgan Chase. In fact, their estimate is that profits actually fell.

As we see it, the market was receptive to the overall picture presented by Chairman Bernanke, but when investors look at the details, they will notice that it is less rosy than it seemed. Yes, everything is in balance, and the growth projections extend right through 2008. But for stock investors the message bearing on profit growth was not so positive. For U.S. stocks we see a more turbulent period ahead.

International: Is The Party Over?

Not to keep you in suspense, the answer is no, though it is quieting down. Do not expect the same booming performance we saw last year, and the year earlier, to be repeated this year. Last year simply added to the string. For example, the *developed markets* gained 26.9% last year (MSCI EAFE Index), while the *emerging markets* tacked on a neat 32.6% (MSCI Emerging Markets Index). After 2-3 years of such performance (particularly in the emerging markets), it is logical to think that prices are at least close to catching up with value (no matter how value is measured). Such appears to be the *general* message from a sampling of opinion from the T. Rowe Price international funds managers as presented in the Winter 2007 issue of the *T. Rowe Price Report*.

A further message from the managers is that they still expect the international funds to outperform (our interpretation). We are sympathetic to that view, namely that the

(continued on page 2)

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

(continued from page 1)

international funds remaking the place to be for performance, with two provisos. First, expectations need to be ratcheted down. The low-hanging fruit has been plucked. Second, investment opportunities are dynamic. Yesterday's favorites may not be the place to be today, while the less regarded may be exactly the right choice for 2007. As valuations have risen worldwide, portfolio flexibility is an absolute requirement.

Along these lines, the words of Ray Mills, manager of the T. Rowe Price International Growth & Income Fund, make the point (indirectly). "Corporate profitability in international markets has been robust the past few years...As a result we have seen a convergence in profitability around the world. We expect most companies to continue generating positive earning growth, unless the U.S. or Chinese economies slow significantly more than expected. However, we do not expect corporations to sustain the large year-over-year percentage earnings gains in earnings growth that we have seen lately. Developed international markets are approaching fair value in absolute terms, but they generally remain less expensive than the U.S. market."

Even though valuations are on a par, we firmly believe that growth prospects, looking out over the next twelve months, are in favor of the international markets. Just confining ourselves to Europe for the moment, a better growth outlook is the reason we have tilted toward Europe in recent months.

Europe

We have been attracted to Europe mainly because of the revival of activity in Germany. We see Germany as the locomotive of the developed European economies. The Price managers, point out that other factors are at work as well. For one, Europe's currencies, the euro and the pound, have been responsible for part of Europe's strong (34.4%) performance last year. Over the next six months, as the Fed holds its hand (our expectation) and the European Central Bank raises rates (generally expected) we would expect the European currencies to hold their own or continue to appreciate against the dollar.

Aside from currency, which we always consider a wild card, there is also a wave of merger and acquisition activity that is currently occurring. As Ray Mills observes, "The pace of merger and acquisition activity should continue to bolster the markets...Top management also recognizes that European companies—as opposed to national companies—stand a much better chance of competing successfully in the global markets."

European equities will continue to have the wind at their backs this year. The economies of the core countries, Germany, Italy and France, are all expected to show moderate economic growth. We expect the stock markets to respond in kind.

Emerging markets

One of the best emerging market funds in our list is T. Rowe Price's Emerging Markets Stock Fund run by Chris

Alderson. The main point that he, as well as Ray Mills, are now driving home is, as the Report puts it, "emerging market stocks no longer look undervalued compared with developed markets, even though valuations remain at a discount and still seem reasonable."

We take this to mean that in the future, the better returns from emerging markets will come from picking the spots carefully. In general, emerging markets remain attractive. You know the drill. To quote Alderson, "Stronger—albeit slowing—earnings and sales growth compared with the developed world." He then notes attractively valued currencies and improving company balance sheets.

As we read the opinions of Alderson and the various Price regional emerging market managers, we are beginning to change our mind about how to approach emerging market investing after the boom of the last few years. It may be that aside from the more broadly diversified funds, which we have favored as a risk measure, it is time to look at the less diversified funds, such as the Latin America funds or a China fund for inclusion in our portfolios. This is what we meant by flexibility earlier.

In any case, we come away from the brief but inclusive review of the emerging markets with our outlook still positive about the chances for outperformance in *selected* emerging market funds. We believe this is the year when fund selection will be more important than ever in dealing with emerging market funds.

Overall we are comfortable with our continued view that a sizeable allocation to overseas funds will be the key to performance this year. \$



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Inventory Drag

No, we are not talking about a new dance craze, but rather the major force that is working on the economy right now. Business is working hard now to pare inventories of autos and homes. When we say homes, we should also add inventories of all the items that go into home construction.

Business is making progress in tackling the inventory overhang, but obviously the end is not here. The “progress” was evident in January’s industrial production report. Manufacturing production dropped 0.7%, led by motor vehicles which dropped an astonishing 6.0%. The automakers are wasting no time tackling their inventory problem.

The progress will continue as long as the consumer cooperates. The consumer did cooperate in the final months of last year, but January retail sales were weak. What with the terrible weather in the eastern half of the country this month, retail sales should again be weak. Sales will march uphill until the spring thaw arrives. We look for the numbers to appear downbeat for the next few months.

The markets

The U.S. market does not have a great deal to go on at the moment. What it does have though is valuation. Wall Street’s profit estimates, despite the iffy profit outlook, have managed to keep up with the gains so far. The market remains at least reasonably valued.

The economic news continues better overseas, in particular Europe and Japan. The European Commission has just raised its forecast for this year’s growth. Japan reported an unexpectedly strong last quarter, but we may see some slowing there immediately ahead. Inventories may bedevil the Japanese too. In the overall market picture, Europe and the Asian dynamos, China and India, now stand out.

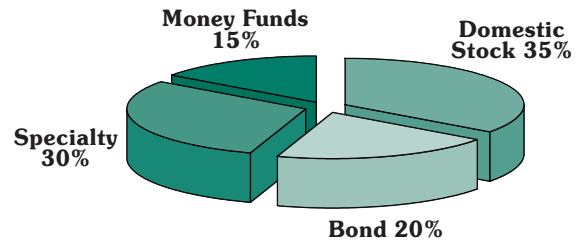
Fund changes

New Advice—The Hotline of Wednesday, February 7 recommended the sale of Fidelity Dividend Growth in all three Fidelity family model portfolios. The Hotline also noted that in the **Fidelity Venturesome** and **Moderate** portfolios, Dividend Growth will be replaced by Fidelity Value Strategies. In the **Fidelity Conservative** Portfolio, the replacement will be Fidelity Value. The same Hotline recommended the sale of Vanguard Value ETF in all three Vanguard family model portfolios. In the **Vanguard Venturesome** and **Moderate** portfolios, we will switch the fund into Vanguard Capital Value. In the **Vanguard Conservative** Portfolio, we will switch the fund into Vanguard Windsor. Also recommended was the sale of Vanguard Value Index in the **Vanguard Venturesome** and **Moderate** portfolios. We will switch Value Index into Windsor in both portfolios.

The Hotline of Wednesday, February 14 recommended the sale of Powershares Dynamic Large Cap Value in all three **MONEYLETTER** portfolios. The fund will be switched into Legg Mason Opportunity in the **Venturesome** and **Moderate** portfolios. It will be switched into Weitz Hickory in the **Conservative** Portfolio. The Hotline also recommended the sale of Fidelity Equity-Income in all three **Fidelity** family model portfolios. The fund will be replaced by Fidelity Small Cap Independence in all three portfolios. Details will appear in subsequent issues. \$

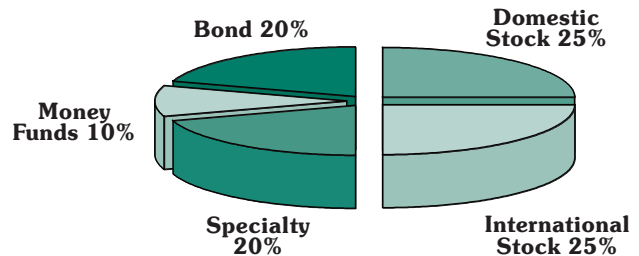
CONSERVATIVE

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



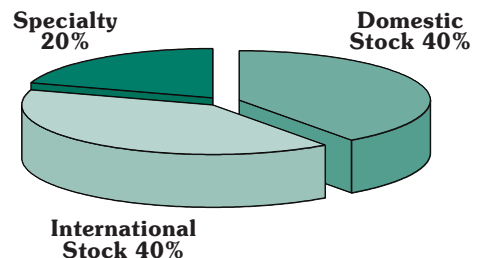
MODERATE

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



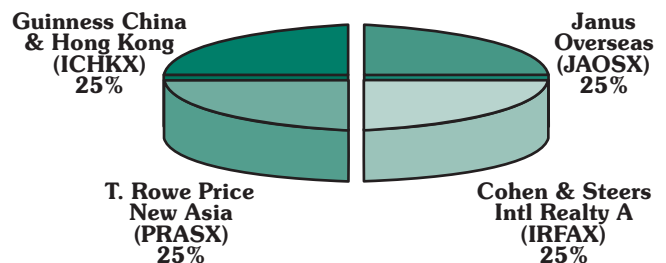
VENTURESOME

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	02/16	1 Mo	6 Mo	Ticker	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	16	325	LMOPX	Legg Mason Opportunity Trust (1%r)	MCGro	*	B	B	6.1%	32.2%	18.5%	\$20.60	20.6	1.90	—	
2	10	272	JAVTX	Janus Venture (closed)	SCGro	*	B	B	5.5	28.0	19.6	66.42	16.7	1.55	FSA	
3	1	26	JSVAX	Janus Contrarian	LC	*	B	B	4.1	25.4	27.6	18.16	13.6	1.29	SA	
4	9	132	VCLVL	Vanguard Capital Value	LCVal	B	B	B	4.2	25.3	23.0	13.60	10.1	1.19	fSA	
5	3	142	FBRVX	FBR Small Cap (1%r<90d)	SCGro	B	B	B	2.6	24.3	25.4	56.81	12.4	1.11	FSA	
6	5	201	CHITX	Aston/Optimum MidCap N	MC	*	B	B	4.8	24.3	20.1	28.74	15.4	1.54	FSA	
7	18	70	IZZYX	Ironwood Isabelle Small Company Stock	SCVal	H	H	H	5.3	23.9	16.8	14.03	17.1	1.60	FSA	
8	125	313	LMASX	Legg Mason Special Investment Trust	MC	*	H	H	5.7	24.7	12.8	42.04	16.3	1.54	a	
9	24	218	AVALX	Aegis Value Fund (\$10k)	SCVal	(B)	(B)	(B)	5.5	22.5	17.6	15.53	11.6	1.01	fa	
10	65	143	FSLSX	Fidelity Value Strategies	MC	*	B	B	6.5	21.1	18.8	34.18	18.5	1.80	F	
11	35	135	BPMCX	Robeco Boston Partners Mid Cap Value	MCVal	(B)	(B)	(B)	4.5	20.8	20.1	11.03	11.7	1.20	FSA	
12	8	34	WEHIX	Weitz Hickory	MC	*	B	B	1.0	20.5	24.7	41.22	9.7	0.99	fSA	
13	45	129	MNSCX	WellsFargo Adv Small Cap Growth (closed)	SCGro	*	(B)	(B)	5.2	20.3	18.3	13.83	17.1	1.53	fS	
14	2	59	BPTRX	Baron Partners	MCGro	B	B	B	1.4	21.0	22.4	23.87	13.3	1.15	FSA	
15	170	194	TWHIX	American Century Heritage	MCGro	*	H	H	5.2	20.5	16.8	16.90	13.4	1.31	FSA	
16	15	78	ATASX	Aston/TAMRO SmallCap N	SC	*	B	B	3.1	20.7	19.2	20.47	15.8	1.52	FSA	
17	17	27	VASVX	Vanguard Selected Value (\$25k,1%r<1yr)	MCVal	B	B	B	4.4	18.4	22.9	22.25	8.6	0.97	fa	
18	31	48	HRTVX	Heartland Value (2%r<10d)	SCVal	*	H	H	3.3	19.8	20.8	52.65	16.9	1.57	FSA	
19	104	168	ARTQX	Artisan Mid Cap Value (closed)	MCVal	H	H	H	5.4	19.5	17.9	21.49	11.0	1.00	FSA	
20	6	7	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	B	B	B	1.3	20.1	22.7	31.29	9.4	1.01	fa	
21	58	51	IWS	Russell MidCap Value (IS)	MCVal	H	H	H	5.3	18.0	21.6	155.80	10.0	1.18	—	
22	11	14	CBMDX	Wells Fargo Adv C&B Mid Cap Value	MC	*	B	B	2.8	19.4	21.8	23.04	11.9	1.32	FSA	
23	4	60	WWNPX	Kinetics Paradigm (2%r<30d)	MC	B	B	B	1.7	18.7	24.5	26.92	10.8	1.05	FSA	
24	23	43	LLPFX	Longleaf Partners (closed)	LC	B	B	B	2.1	19.2	21.4	36.55	9.9	0.95	fa	
25	27	37	TRMCX	T. Rowe Price Mid Cap Value (closed)	MCVal	H	H	H	4.1	18.0	21.0	26.71	9.8	1.22	fSA	
26	105	318	BSCFX	Baron Small Cap (closed)	SCGro	(B)	(B)	(B)	3.7	22.1	11.2	24.24	13.2	1.06	FSA	
27	30	231	KAUFX	Federated Kaufmann Fund (0.2%r)	MCGro	*	(B)	(B)	3.5	21.1	13.5	5.97	13.6	1.35	FSA	
28	19	35	GABAX	Gabelli Asset (2%r<7d)	MC	H	H	H	3.6	17.5	22.1	49.73	10.2	1.09	FSA	
29	12	15	WVALX	Weitz Value Fund	LCVal	B	B	B	0.7	18.4	24.1	41.42	7.2	0.69	FSA	
30	69	174	JKG	Morningstar Mid Core (IS)	MC	H	H	H	5.0	19.0	15.9	87.69	—	—	—	
31	26	139	JORNX	Janus Orion	MCGro	*	H	H	3.9	18.3	19.4	10.48	13.3	1.37	FSA	
32	150	256	FDSCX	Fidelity Small Cap Ind. (1.5%r<90d)	SCGro	H	H	H	5.2	19.2	14.6	22.23	12.6	1.08	FSA	
33	89	69	JKI	Morningstar Mid Value (IS)	MCVal	H	H	H	4.6	17.1	20.4	90.67	—	—	—	
34	20	94	WVNDX	Morningstar Windsor	LCVal	B	B	B	2.0	19.0	19.0	19.31	8.8	1.09	fSA	
35	161	295	ARGFX	Ariel Fund	MC	H	H	H	5.7	19.9	10.7	55.68	9.8	0.95	FSA	
36	51	186	JAMRX	Janus Research	LCGro	*	H	H	4.9	18.4	15.0	26.87	10.4	1.09	FSA	
37	223	260	WMCVX	Wasatch Small Cap Value (closed,2%r<60d)	SC	*	H	H	5.5	17.9	14.8	5.35	14.0	1.47	FSA	
38	159	144	PWP	PowerShares Dynamic MC Value	MCVal	H	H	H	5.3	16.8	17.9	19.76	—	—	—	
39	261	326	BERWX	Berwyn Fund (closed,1%r<180d)	SCVal	H	H	H	5.4	20.6	8.1	30.48	12.6	1.20	fSA	
40	40	243	JAENX	Janus Enterprise	MCGro	H	H	H	3.9	18.9	14.6	50.63	11.6	1.14	FSA	
41	83	225	NMANX	Neuberger Berman Manhattan	MCGro	*	H	H	4.1	18.6	15.0	9.69	13.8	1.28	fSA	
42	94	115	FDVLX	Fidelity Value	MCVal	H	H	H	4.9	17.6	16.1	85.64	11.1	1.16	FSA	
43	22	10	USCGX	USAA Capital Growth	SCGro	*	H	H	4.3	15.8	21.2	8.94	15.0	1.52	fSA	
44	28	61	NOIEX	Northern Income Equity	Convrt	H	H	H	3.3	16.8	20.3	13.46	6.4	0.81	FSA	
45	96	220	OBSWX	Old Mutual Small Cap (2%r<10d)	SC	H	H	H	3.4	18.1	15.8	27.95	14.0	1.39	FSA	
46	101	147	IWR	Russell MidCap (IS)	MC	*	H	H	4.2	17.2	16.2	106.20	10.8	1.27	—	
47	146	160	VO	Vanguard MidCap ETF	MC	H	H	H	4.8	17.0	15.7	77.18	—	—	—	
48	113	206	FIDYX	AIM Dynamics Inv (closed)	MCGro	*	H	H	4.3	17.5	15.3	22.52	13.1	1.26	FSA	
49	144	164	VIMSX	Vanguard Mid-Cap Index	MC	H	H	H	4.7	16.9	15.6	21.05	11.2	1.31	fSA	
50	141	161	RYPNX	Royce Opportunity (1%r<180d)	SCVal	H	H	H	4.6	18.0	12.8	13.75	18.4	1.74	fSA	
51	50	259	CAAPX	Ariel Appreciation	MC	H	H	H	2.6	18.8	13.7	50.80	10.0	1.06	FSA	
52	77	82	CRMMX	CRM Mid Cap Value Inv (closed)	MC	H	H	H	4.6	15.8	18.2	31.14	10.0	1.04	FSA	
53	178	—	PZI	PowerShares Zacks MicroCap	SC	*	H	H	4.0	18.1	13.2	18.56	—	—	—	
54	177	216	VSEQX	Vanguard Strategic Equity	MCGro	H	H	H	4.8	16.9	14.9	25.22	12.4	1.39	fSA	
55	14	5	LSVRX	Loomis Sayles Value Retail	LCVal	(H)	(H)	(H)	2.7	15.5	21.7	22.43	7.4	0.90	FA	
56	147	196	BPSCX	Robeco Boston Ptnrs SCV (closed,1%r<1yr)	SCVal	H	H	H	3.6	18.3	13.1	22.01	13.9	1.38	FSA	
57	145	179	VXF	Vanguard Extended Mkt ETF	MC	*	H	H	4.1	17.4	14.5	108.10	12.1	1.38	—	
58	29	99	MERDX	Meridian Fund (2%r<60d)	MCGro	*	H	H	3.5	16.8	16.6	42.09	13.8	1.36	fa	
59	121	107	JKL	Morningstar Small Value (IS)	SCVal	H	H	H	4.1	16.4	16.5	86.10	—	—	—	
60	262	228	TGSCX	TCW Galileo Small Cap Growth	MCGro	*	H	H	5.3	18.1	10.5	21.39	18.6	1.71	fSA	
61	208	176	IJJ	S&P 400 MidCap Value (IS)	MCVal	*	H	H	5.7	15.9	15.1	84.69	11.7	1.37	—	
62	143	200	DNLDX	Dreyfus New Leaders	MCGro	S	S	S	3.8	17.5	13.8	50.58	11.4	1.16	fSA	
63	148	188	VEXMX	Vanguard Extended Market Index	MC	*	H	H	3.9	17.2	14.3	40.93	12.1	1.38	fSA	
64	135	85	JMCVX	Janus Mid Cap Value	MCVal	H	H	H	4.3	15.8	17.3	25.10	10.2	1.06	FSA	
65	57	263	BGRFX	Baron Growth (closed)	SCGro	H	H	H	2.1	18.4	14.1	52.10	11.3	0.97	FSA	
66	181	155	CRMSX	CRM Small Cap Value Inv (closed)	SC	*	H	H	4.6	16.9	13.8	26.45	13.6	1.32	FSA	
67	33	31	PVLDX	Allianz OCC Value D (2%r<7d)	LCVal	H	H	H	3.1	15.6	19.3	17.79	9.8	1.17	FSA	
68	61	50	TGIGX	TCW Dividend Focused N	LCVal	H	H	H	3.7	15.5	18.7	13.88	9.7	1.03	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	02/16 2007	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	RISK		NTF/wif
										1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
69	13	117	MXIX	Marsico 21st Century (2%r<30d)	LC	*	(H)	(H)	0.5	18.1	17.0	15.96	14.2	1.36	FSA	
70	167	95	DSV	DJ WI US SmallCap Value (stTr)	SCVal	*	H	H	4.5	15.5	17.0	74.23	13.5	1.53	—	
71	91	157	FLPSX	Fidelity L.P Stock (closed,1.5%r<90d)	MC	H	H	H	3.7	16.8	15.0	45.10	11.9	1.20	Fsa	
72	189	148	RYVFX	Royce Value (1%r<180d)	SC	H	H	H	4.4	16.5	14.8	11.51	13.1	1.18	FSA	
73	157	54	RYVPX	Royce Value Plus (1%r<180d)	SCGro	*	H	H	3.8	16.6	14.9	14.75	16.9	1.54	FSA	
74	236	45	FLVXC	Fidelity Leveraged Co (\$10k,1.5%r<90d)	MC	*	H	H	6.1	14.1	17.8	30.69	18.1	1.75	Fa	
75	7	184	MAVFX	Matrix Advisors Value (1%r<60d)	LC	*	(H)	(H)	-0.2	18.9	15.3	58.74	13.2	1.43	FSA	
76	67	98	BARAX	Baron Asset	MCGro	H	H	H	2.7	16.2	17.4	63.19	10.9	1.00	FSA	
77	85	4	SACPX	Barrett Opportunity	MCVal	S	S	S	4.1	13.7	21.4	61.36	8.5	0.93	fa	
78	114	53	INWN	Russell 2000 Value (fS)	SCVal	*	H	H	3.5	15.7	17.5	82.77	13.6	1.50	—	
79	72	90	BPAVX	Robeco Boston Partners All Cap Value	MCVal	S	S	S	2.6	16.5	16.7	16.43	10.0	1.04	FA	
80	169	122	VBR	Vanguard SmallCap Value ETF	SCVal	H	H	H	4.2	15.6	16.4	74.35	—	—	—	
81	21	83	OAKMX	Oakmark Fund (2%r<90d)	LCVal	(H)	(H)	(H)	1.7	16.3	18.5	47.41	8.2	0.84	FSA	
82	32	2	PWV	PowerShares Dyn LC Value	LCVal	(S)	(S)	(S)	2.6	14.0	22.3	20.27	—	—	—	
83	245	222	CIPSX	Champlain Small Company	SCGr	S	S	S	4.1	16.8	13.0	12.87	—	—	FSW	
84	164	121	VISVX	Vanguard Small-Cap Value Index	SCVal	*	H	H	4.1	15.5	16.0	17.80	12.0	1.34	fsc	
85	39	22	TWVLX	American Century Value (closed)	LCVal	(S)	(S)	(S)	2.2	15.0	18.7	7.80	7.3	0.88	FSA	
96	56	21	FEQIX	Fidelity Equity-Income	LCVal	(S)	(S)	(S)	2.9	14.6	18.9	60.37	8.4	1.04	Fsa	
107	47	11	ELV	DJ WI US LargeCap Value (stTr)	LCVal	(S)	(S)	(S)	2.5	13.9	20.2	85.56	7.4	0.86	—	
138	25	261	FOCPX	Fidelity OTC Portfolio	LCGro	*	H	H	-0.5	18.5	10.3	42.93	14.3	1.37	Fsa	
148	190	56	FSLVX	Fidelity Large Cap Value	LCVal	H	S	S	4.1	12.7	16.6	15.52	—	1.00	Fa	
165	43	19	VDIGX	Vanguard Dividend Growth	LCVal	H	H	H	1.9	13.1	17.6	14.93	7.1	0.87	fsc	

Dow Jones
NASDAQ
S&P 500

1.5%
-0.1
1.7

12.7%
16.1
12.4

14.8%
8.8
12.9

indexes do not
include dividends

International Stock Funds

1	1	97	PGJ	PowerShares Golden Dragon USX	Pacific	*	H	H	0.2%	31.6%	37.8%	\$21.35	—	—	—
2	2	87	PRASX	T. Rowe Price New Asia (2%r<90d)	Pacific	*	B	B	3.0	30.9	33.1	14.68	15.5	—	fs
3	—	—	TWMIX	American Century Emerging Mkts	EmerMkt	*	(B)	(B)	6.3	27.3	37.1	9.49	18.3	—	FSA
4	3	1	JAOSX	Janus Overseas (2%r<90d)	Int'l	*	B	B	5.0	25.9	38.9	48.40	15.1	—	FSA
5	22	56	ILF	S&P 40 Latin America (fS)	LatinA	*	*	B	8.4	28.0	28.4	180.10	19.2	—	—
6	7	3	PRLAX	T. Rowe Price Latin America (2%r<90d)	LatinA	*	*	B	7.2	26.4	34.1	39.66	20.5	—	fsc
7	6	17	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	B	B	5.3	26.0	35.5	28.69	16.9	—	Fsa
8	5	91	ICHKX	Guinness Atkinson China & HK (2%r<90d)	Pacific	*	B	B	4.8	26.4	33.8	27.80	16.9	—	FSA
9	10	39	EPP	MSCI Pacific Ex-Japan (fS)	Pacific	*	B	B	5.8	24.8	35.7	132.10	11.8	—	—
10	25	45	SLAFX	DWS Latin Amer Equity S (closed,2%r<30d)	LatinA	*	(B)	(B)	7.8	26.8	27.5	60.91	21.1	—	Sa
11	18	102	AIOIX	Amer.Cent.Intl Opp. (closed,2%r<180d)	Int'l	*	B	B	6.5	27.8	25.7	9.90	14.9	—	—
12	8	28	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	*	B	B	4.5	25.4	34.5	23.99	10.8	—	FSA
13	16	8	FLATX	Fidelity Latin America (1.5%r<90d)	LatinA	*	*	B	7.1	25.2	29.1	47.10	22.1	—	Fsa
14	19	2	DREGX	Driehaus Emerg Mkts Gr (closed,2%r<60d)	Int'l	*	B	B	5.2	23.3	32.6	40.50	17.9	—	FSA
15	21	44	ADRE	Emerging Mkts 50 ADR (BLDRS)	EmerMkt	*	B	B	6.5	23.9	29.0	40.50	17.9	—	—
16	11	60	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	*	B	B	5.9	23.7	29.9	22.89	12.6	—	SA
17	15	—	FSCOX	Fidelity Int Small Cap Opp	Int'l	*	B	B	6.9	23.6	27.8	16.82	—	—	Fsw
18	12	33	FFINX	Forward International Equity (2%r<180d)	Int'l	*	B	B	5.8	22.2	31.0	19.26	12.2	—	FSA
19	4	30	SCOPX	DWS Pacific Opp Eq. S (closed,2%r<30d)	Pacific	*	B	B	3.0	22.8	32.0	22.21	14.8	—	Sa
20	36	55	QFVOX	Quant Foreign Value (1%r<30d)	Int'l	*	H	H	6.9	21.3	29.2	23.02	12.2	—	FSA
21	14	46	PRESX	T. Rowe Price European (2%r<90d)	Europe	*	H	H	5.0	22.1	28.4	21.20	10.7	—	fsc
22	20	50	PISRX	Forward Intl Small Companies (2%r<180d)	Int'l	*	H	H	4.7	21.7	27.8	19.87	13.6	—	FSA
23	23	7	EZU	MSCI EMU (fS)	Europe	*	H	H	4.8	19.0	32.1	107.50	12.1	—	—
24	29	34	PRIDX	T. Rowe Price Intl Disc. (2%r<90d)	Int'l	*	H	H	4.7	20.5	28.0	49.89	12.9	—	fsc
25	45	66	WAIGX	Wasatch Intl Growth (closed,2%r<60d)	Int'l	*	H	H	7.2	20.4	23.9	22.03	11.5	—	FSA
26	27	15	FECAX	Fidelity Europe Capital App (1%r<30d)	Europe	*	H	H	5.0	19.2	30.1	28.39	13.7	—	Fsa
27	13	83	PRMSX	T. Rowe Price Emerging Mkts Stock	Int'l	*	(H)	(H)	3.3	22.7	22.8	33.16	16.5	—	fsc
28	17	77	TREMX	T. Rowe Price Emg Europe & Med (2%r<90d)	Europe	*	(H)	(H)	5.2	21.9	22.1	33.35	19.4	—	fa
29	30	6	ICSEX	ICION Europe	Europe	*	H	H	5.0	18.1	31.6	21.99	13.9	—	FSA
30	61	92	SGSCX	DWS Gbl Opportunities S (closed,2%r<30d)	Int'l	*	H	H	5.5	21.5	22.0	45.24	12.2	—	FSA
31	39	31	FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	*	H	H	5.2	20.1	24.4	25.06	17.8	—	Fsa
32	24	11	MPYMX	Metzler/Payden Europe Emg Mkts (2%r<30d)	Europe	*	H	H	5.0	16.6	32.5	33.04	21.4	—	FSA
33	46	80	SSEMEX	SSgA Emerging Markets	Int'l	*	H	H	5.4	19.9	23.7	24.15	17.1	—	FA
34	28	42	BUBIX	Julius Baer Intl Eq A (closed,2%r<90d)	Int'l	*	H	H	4.8	18.6	27.7	44.27	11.9	—	FS
35	33	82	PRGSX	T. Rowe Price Global Stock (2%r<90d)	Global	*	H	H	4.4	20.3	23.8	23.99	9.8	—	fsc
36	40	72	VEIEX	Vanguard Emerging Mkts Stk Index (.5%r)	Int'l	*	H	H	5.2	20.2	22.6	25.08	16.7	—	fsc
37	31	18	HIINX	Harbor International Inv (2%r<60d)	Int'l	*	S	S	4.8	18.0	28.2	64.09	12.0	—	FSA
38	9	63	MAPTX	Matthews Pacific Tiger (closed,2%r<90d)	Pacific	*	(H)	(H)	2.6	20.3	25.6	24.37	15.1	—	FSA
39	59	73	EEM	MSCI Emerging Markets (fS)	EmerMkt	*	S	S	5.1	20.7	21.0	118.00	17.1	—	—
40	32	10	VEURX	Vanguard European Stock Index (2%r<60d)	Europe	*	H	H	3.9	17.1	31.0	37.52	10.6	—	fsc
41	35	9	VGK	Vanguard European ETF	Europe	*	H	H	3.8	17.1	30.7	70.84	—	—	—
42	51	70	VWO	Vanguard Emerging Mkts (VIPER)	EmerMkt	*	H	H	5.2	19.7	21.3	79.72	—	—	—
43	47	29	SCOBX	DWS Global Thematic S (closed,2%r<30d)	Global	*	S	S	4.4	18.5	25.4	34.66	11.1	—	FSA
44	55	19	DODFX	Dodge & Cox Intl Stock	Int'l	*	S	S	4.8	16.9	28.4	45.88	11.2	—	fsc
65	58	26	VWIGX	Vanguard Intl Growth (2%r<60d)	Int'l	*	H	H	4.3	14.3	25.2	24.85	10.7	—	fsc

Bond Funds (next issue on page 6: Specialty Funds)
 02/16/2007

Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	Std. Dev.	Yield	NTF/wft
						1 mo.	6 mo.	12 mo.				
FFRHX	Fidelity Floating Rate High Inc (1%r<60d)	BnkLoan	*	*	*	0.9%	2.9%	5.2%	\$9.99	0.73	6.25%	Fa
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	*	*	*	0.7	7.1	9.1	11.39	3.44	6.07	FSA
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	2.1	9.2	12.9	9.06	4.57	6.03	Fsa
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	1.5	7.5	10.4	9.15	3.53	6.98	Fsa
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	1.6	8.7	12.1	9.97	3.64	7.28	FSA
NTHSX	Northeast Investors Trust	HighYld	*	*	*	3.0	8.3	13.4	7.90	3.39	6.73	fa
PHYDX	PIMCO High Yield (2%r<30d)	HighYld	*	*	*	1.4	6.9	8.4	9.98	3.76	6.72	FSA
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	1.8	7.4	10.0	7.92	3.21	7.00	FSA
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.6	3.2	5.5	8.55	1.29	5.62	FSA
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	1.7	8.4	11.0	7.14	3.42	7.27	fsa
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	1.8	8.4	10.2	7.13	4.25	7.03	FSA
VAGIX	Value Line Aggressive Inc (1%r<120d)	HighYld	*	*	*	1.0	6.0	7.0	5.10	3.37	6.44	FSA
VWEHX	Vanguard High Yield Corporate (1%r<1yr)	HighYld	*	B	*	1.6	7.6	9.1	6.28	3.40	7.04	fsa
BEGBX	American Century Intl Bond	Int'l	*	*	*	1.4	2.4	7.9	13.70	7.00	2.27	FSA
SSTGX	DWS Global Bond S (closed,2%r<30d)	Int'l	*	*	*	1.0	2.2	4.8	9.66	3.94	2.73	Sa
FNMX	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	1.2	5.7	8.6	14.87	6.80	5.68	Fsa
RPIBX	T. Rowe Price Int'l Bond (2%r<90d)	Int'l	*	*	*	1.4	1.9	6.9	9.60	6.83	3.38	fsa
BGNMX	American Century Ginnie Mae	IntTerm	*	*	*	0.5	3.2	4.6	10.16	2.24	4.89	FSA
CPINX	American Century Government Bond	IntTerm	*	*	*	0.7	3.2	5.0	10.44	2.72	4.54	FSA
SRFBX	Columbia Intermediate Bond CIZ	IntTerm	*	*	*	1.0	4.7	6.2	8.88	2.89	5.06	FSA
DODIX	Dodge & Cox Income	IntTerm	*	*	*	0.9	4.4	6.1	12.69	2.37	4.89	fsa
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	0.8	4.0	5.4	13.54	3.26	4.59	FSA
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	0.6	2.9	4.2	14.34	2.57	4.40	FSA
DSINX	Dreyfus Premier Core Bond (closed)	IntTerm	*	*	*	1.0	4.1	5.9	14.38	3.20	4.74	fSa
SCSBX	DWS Core Plus Income S (closed,2%r<15d)	IntTerm	*	*	*	0.9	4.1	5.5	12.72	3.17	4.97	Sa
FTRGX	Federated Total Return Govt	IntTerm	*	*	*	0.6	2.7	4.1	10.60	3.30	4.83	fsa
FBNDX	Fidelity Investment Grade	IntTerm	*	*	*	0.8	2.7	4.7	7.39	3.06	4.65	Fsa
IEF	Lehman 7-10 Year Treasuries (iS)	IntTerm	*	*	*	0.7	3.2	4.4	82.60	5.22	4.25	—
AGG	Lehman Aggregate Bond (iS)	IntTerm	*	*	*	0.8	3.8	5.2	100.21	3.28	4.70	—
MWTRX	MetroWest Total Return	IntTerm	*	*	*	0.8	4.5	6.9	9.76	2.72	5.00	FSA
PTMDX	PIMCO Total Return Mortgage (2%r<7d)	IntTerm	*	*	*	0.5	3.2	5.3	10.66	2.51	4.35	FSA
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	0.5	3.1	4.5	9.37	2.23	4.98	fsa
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	0.7	3.7	5.1	8.93	3.15	4.64	fsa
TGMNX	TCW Galileo Total Return Bond	IntTerm	*	*	*	0.8	3.9	5.9	9.84	2.72	4.58	FSA
USAIX	USAA Income	IntTerm	*	*	*	0.8	3.8	5.3	12.17	3.19	4.79	A
VALBX	Value Line U.S. Govt Sec	IntTerm	*	*	*	0.6	3.0	4.5	11.40	2.79	4.16	FSA
VFII	Vanguard GNMA	IntTerm	B	*	*	0.5	3.4	4.9	10.21	2.51	5.14	fsa
VFITX	Vanguard Intermediate Term U.S. Treasury	IntTerm	*	*	*	0.7	3.2	4.5	10.77	3.91	4.67	fsa
VBMFX	Vanguard Total Bond Market Index	IntTerm	*	*	*	0.7	3.8	5.3	10.00	3.30	4.90	fsa
STVSX	Wells Fargo Adv Govt Sec Inv	IntTerm	*	*	*	0.6	3.0	4.4	10.33	3.05	4.78	FSA
MNTRX	Wells Fargo Adv Total Return Bond	IntTerm	*	*	*	0.8	3.7	5.3	12.12	3.17	4.63	fSa
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	0.9	4.5	6.5	10.61	2.89	5.25	FSA
DRGBX	Dreyfus 100 Treasury L-T	LngTerm	*	*	*	0.8	3.9	3.1	15.79	6.88	4.51	FA
KIFIX	FifthThird Bond	LngTerm	*	*	*	0.7	3.4	4.8	9.86	3.15	4.44	fa
LQD	GS InvestTop Corp Bond (iS)	LngTerm	*	*	*	1.2	4.7	5.7	107.49	4.84	5.07	—
TLT	Lehman 20+ Year Treasuries (iS)	LngTerm	*	*	*	0.9	4.8	2.9	88.64	8.98	4.56	—
MGFIX	Managers Bond	LngTerm	*	*	*	1.3	5.7	8.6	25.07	3.53	4.49	FSA
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	1.2	5.3	6.2	9.71	4.20	5.10	fsa
VWESX	Vanguard Long-Term Investment-Grade	LngTerm	*	*	*	1.4	6.4	5.2	9.29	7.56	5.70	fsa
VUSTX	Vanguard L-T U.S. Treasury	LngTerm	*	*	*	0.8	4.3	3.5	11.12	7.39	4.95	fsa
STCBX	Wells Fargo Adv Corporate Bond Inv	LngTerm	*	*	*	1.2	4.8	5.5	10.31	4.21	4.83	FSA
FSICX	Fidelity Strategic Income	Multi	B	B	*	0.6	4.7	7.8	10.65	3.54	5.24	Fa
JAFIX	Janus Flexible Bond	Multi	*	*	*	0.7	3.9	5.3	9.44	3.20	4.70	FSA
LSBDX	Loomis Sayles Bond Instl (\$100k,2%r<60d)	Multi	B	B	*	1.8	6.8	10.7	14.56	4.72	5.36	fSa
LSBRX	Loomis Sayles Bond Retail (2%r<60d)	Multi	B	B	*	1.8	6.6	10.3	14.51	4.68	5.15	FSA
RPSEX	T. Rowe Price Spectrum Income	Multi	*	*	*	1.0	5.8	8.3	12.21	2.85	4.49	fsa
DSTIX	Dreyfus Premier Short-Term Income	ShfTerm	H	*	*	0.5	2.9	4.8	10.92	1.54	4.37	FSA
SCSTX	DWS Short-Term Bond S (closed,2%r<15d)	ShfTerm	H	*	*	0.6	2.6	4.8	9.92	1.27	4.78	Sa
JASBX	Janus S-T Bond	ShfTerm	H	*	*	0.7	2.8	4.7	2.89	1.06	3.90	FSA
MGIDX	Managers Int. Duration Govt	ShfTerm	*	*	*	0.7	3.1	5.4	10.55	2.40	4.47	FSA
MWLDX	MetroWest Low Duration	ShfTerm	H	*	*	0.6	3.0	5.5	9.47	1.27	4.59	FSA
SWBDX	Schwab S-T Bond Mkt Index	ShfTerm	H	*	*	0.6	2.9	5.1	9.93	1.70	4.64	fS
SSTBX	Strong S-T Bond	ShfTerm	H	*	*	0.5	2.7	4.8	8.51	1.28	4.67	FSA
PRWBX	T. Rowe Price S-T Bond	ShfTerm	H	*	*	0.6	2.6	4.7	4.69	1.37	4.13	fsa
VFSTX	Vanguard Short-Term Investment Grade	ShfTerm	H	*	*	0.7	3.2	5.5	10.58	1.43	4.46	fsa
VSGBX	Vanguard S-T Federal	ShfTerm	*	*	*	0.6	2.7	4.9	10.29	1.58	4.10	fsa
MNSGX	WellsFargo Montgomery S Dur Govt (closed)	ShfTerm	H	*	*	0.5	2.6	4.7	9.88	1.31	4.30	fSa
BTFIX	American Century Target 2015	ZeroCpn	*	*	*	0.8	3.9	4.3	78.67	7.84	4.92	FSA
BITTX	American Century Target 2020	ZeroCpn	*	*	*	1.1	5.0	2.9	59.60	10.86	4.46	FSA
BITRX	American Century Target 2025	ZeroCpn	*	*	*	1.1	5.7	1.4	51.88	13.66	4.46	FSA

On Hold

The last time we took a close look at our money market funds (*MONEYLETTER*—July 28, 2006 issue) the Federal Reserve—despite speculation since March that it was nearing the end of its policy of “measured” increases—had just increased rates for the 17th time since June, 2004. The action of June 29th 2006 brought the fed funds rate to 5.25% (up from 1.00% over the two years of tightening), and there it has remained. The Fed’s Open Market Committee has had five meetings since, and has held the line at each one, apparently satisfied for now that it has achieved the balance it seeks. The Fed’s most recent statement highlighted firming economic growth (with signs of stabilization in housing), but they continue to keep a close eye on inflation risks. It will be interesting to see if this turns out to be a “pause” in Fed policy. The Federal Reserve has never resumed increasing interest rates after skipping an opportunity to raise them.

Money fund assets—combined taxable and tax-free—increased by \$244 billion (a gain of 11.6%) since our last review, according to data from iMoneyNet’s Money Fund Report. By comparison, assets of all other types of mutual funds increased by only \$838 billion over the July to year-end period*, according to the Investment Company Institute, also a gain of 11.6%. Since assets of stock and bond funds can be affected significantly by market conditions, we report that the S&P 500 increased by 11.7% over the July ’06–December ’06 period.

Taxable money funds now offer a 1.75% advantage over tax-free funds, on average. As a result, investors in higher tax brackets should calculate the taxable equivalent yield for tax-free funds based on your personal tax bracket. When evaluating money funds, always remember: 1) if you shop, you can find above-average funds—see the table of top-yielding funds to the right; 2) double and triple tax-free funds (i.e. exempt from federal, plus state and/or local taxes) can provide an additional edge for investors in certain states or municipalities.

Money Fund Yields & Assets

	7/18/06	2/18/07	Change
7-Day All Taxable MFA	4.65%	4.73%	+0.08%
7-Day All Tax-Free MFA	2.91%	2.98%	+0.07%
Taxable Money Fund Assets	\$1.740T	\$1.960T	+\$220B
T-F Money Fund Assets	\$358B	\$382B	+\$24B
Total Money Fund Assets	\$2.098T	\$2.342T	+\$244B
All Other Mutual Funds	\$7.220T*	\$8.058T*	+\$838B

* “All Other Mutual Funds” assets through June ’06 and December ’06; January ’07 month-end data not available at press time.
Source: Investment Company Institute

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

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF	5.05%	5.04%	4.86%
Vanguard Treasury MMF	4.93	4.91	4.64
Amer Century Capital Presv Fund/Inv	4.73	4.73	4.45
Fidelity US Treasury MMF	4.72	4.75	4.51
HSBC Investor US Treas MM/CI D	4.60	4.60	4.23
T. Rowe Price US Treasury MF	4.58	4.58	4.35
JPMorgan 100% US Treas MMF/Morgan	4.56	4.56	4.32
RMK Select Treas MMF/CI A	4.53	4.53	4.30
Schwab US Treasury Money Fund	4.53	4.52	4.27
Wells Fargo Adv 100% Treas MMF/CI A	4.48	4.46	4.22

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
McMorgan Principal Preservation	5.29%	5.23%	4.96%
Vanguard Prime MMF/Investor	5.23	5.23	4.98
TIAA-CREF Money Market Fund	5.21	5.21	4.96
Transamerica Premier Cash Res/Inv	5.18	5.20	5.00
Harbor Money Market Fund	5.16	5.17	4.92
PayPal Money Market Fund	5.16	5.16	4.94
DWS Money Market Prime Ser/DWS MMF	5.12	5.11	4.80
TCW Money Market Fund	5.11	5.12	4.86
UMB Scout MMF Prime	5.11	4.94	4.61
MFS Money Market Fund	5.10	5.11	4.91

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Alpine Municipal MMF/Investor	3.57%	3.59%	3.48%
Vanguard Tax-Exempt MMF	3.56	3.57	3.43
Pioneer Tax-Free MMF/CI A	3.35	3.20	2.77
Fidelity AMT Tax-Free Money Fund	3.34	3.36	3.25
DWS Tax-Exempt Money Fund	3.33	3.33	3.16
Putnam Tax-Exempt MMF	3.29	3.13	2.97
Marshall Tax Free MMF/Class Y	3.28	3.28	3.16
Dreyfus BASIC Muni MMF	3.26	3.29	3.14
T-E Portfolio/Managed Shares	3.25	3.24	3.11
Fidelity Tax Free Money Market	3.24	3.24	3.13

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard PA Tax-Exempt MMF	3.55%	3.56%	3.42%
Vanguard NY Tax-Exempt MMF	3.53	3.53	3.39
Vanguard OH Tax-Exempt MMF	3.53	3.55	3.41
Vanguard NJ Tax-Exempt MMF	3.51	3.52	3.36
Vanguard CA Tax-Exempt MMF	3.47	3.46	3.34
Fidelity NJ AMT Tax-Free MMF	3.28	3.30	3.20
Dreyfus BASIC NJ Muni MMF	3.27	3.28	3.12
Fidelity CA AMT Tax-Free MMF	3.25	3.26	3.20
Fidelity MA AMT Tax-Free MMF	3.24	3.25	3.15
Fidelity NY AMT Tax-Free MMF	3.24	3.26	3.15

(Money Fund Update continued)

To calculate the taxable equivalent yield of a tax-free fund for comparison purposes, take the tax-free yield and divide it by (1 minus your total effective tax bracket). Be sure to include state and local taxes. For example, if your total effective tax rate is 37%, the taxable equivalent yield of a tax-free fund yielding 2.98% is: 2.98 divided by .63 (same as 1 minus .37) = 4.73%. As you can see, at this tax bracket, on average, it’s tossup. \$

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U.S. Global Investors Global Emerging Markets

In recent issues, we've discussed some of the reasons for investing in emerging markets, which include some of the world's fastest growing economies. Many have undergone significant transitions over the past couple of decades. U.S. Global Investors notes that the world's most populous country, China, has moved from a "command economy to one with a vibrant private sector." In Latin America, the firm notes, "many countries have made the transition from military dictatorship to democracy." This transition has had an interesting side effect—"an increase in the number of talented individuals from emerging economies traveling to the United States and other developed countries to study. Many of these individuals are returning to their home countries and are expected to constitute a new, educated, professional elite. This should, in turn, improve the prospects of the companies they manage and the economies as a whole."

Risk management

Julian Mayo, investment director at Charlemagne Capital (sub advisor and portfolio manager of the Global Emerging Markets fund) says they consider emerging markets to be those that are not developed. He notes in a recent article, that while emerging connotes growing, this progress is not necessarily a straight line—"countries emerge at different rates, if at all." He also states that corporate malfeasance is greater in emerging markets than in the U.S. For these reasons, "risk management is critical in this asset class." Mayo says it's imperative, therefore, to know the regulatory and legal frameworks of the market. One must know investment liquidity, and also the risk levels for nations, industry sectors, and individual holdings in the portfolio. To achieve this level of knowledge, Mayo asserts, "this means getting your hands dirty and going out on the road."

Mayo told *MONEYLETTER*, "Charlemagne Capital is focused solely on emerging markets. Our team is very experienced, with an average of well over 10 years' experience in this area. We seek pricing inefficiencies in emerging markets and run concentrated portfolios: the Fund has around 70 positions/holdings, which is fewer than the 100+ typically seen in international portfolios. Finally, we have a very rigorous, risk-aware, research-driven process, which involves meeting the management in each company held in the fund at least four times a year."

The managers at Charlemagne Capital use a bottom-up stock selection process to invest in the firms offering the best long-term capital gains potential. The team assesses each potential investment in detail. They expect company managements to have a shareholder governance focus,

and they assess track record and business strategy. They want firms with innovative products and market leadership. Profits growth should be consistent, and show astute cost management. In analyzing the balance sheet, they consider solvency risk, and expect the firm to have access to financing. Internally generated cash flow must be strong.

Top Five Sectors and Countries (% Total Net Assets)

Diversified Banks	17.9	Brazil	15.0
Semiconductors	7.8	Russia	14.7
Oil—Explor. & Product.	5.7	Taiwan	10.5
Wireless Telecom. Svcs.	4.4	South Korea	10.3
IT Consulting & Svcs.	3.2	South Africa	7.6

As of December 31, 2006

While the fund can be invested without regard to market capitalization, management will emphasize companies that are large capitalization firms within their local markets. Plus, they will overweight stocks and areas where they have a higher conviction. "We are bottom-up stock pickers, so the sector/stock allocation reflects stock-picking ideas rather than being a starting point. That said, we see good opportunities in Russia, Brazil, and India. There are a number of fast-growing stocks in these markets available at compelling valuations. By contrast, we see fewer cheap stocks in Korea and Taiwan. These markets are more developed and, as a result, there are fewer inefficiencies in those markets than in the first group," Mayo explained to *MONEYLETTER*.

Currently, 18% of fund assets are devoted to the banking sector. Sberbank is the fund's third largest holding at 3.8% of assets. Sberbank, the leading bank in Russia and the largest in Central and Eastern Europe, was also one of the fund's best performers in the fourth quarter of 2006, with a 63% gain. The fund's focus on Russia is also evident in its largest holding, Gazprom (5.7% of assets), that nation's leading energy firm and the biggest extractor of natural gas in the world. Meanwhile, the best performing stock in the fourth quarter came from Brazil, Grupo Famsa (2.3% of assets), which rose 74%. The firm is a leading seller of furniture, electronic equipment, and household appliances, and is expanding into the US. \$

U.S. Global Investors Global Emerging Markets (GEMFX)

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