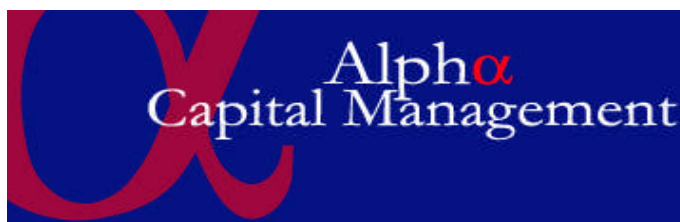


Perspectives

December 31, 2006



Perspective on the 4th Quarter

The markets finished the year with a rally that pushed the Dow Jones Industrial Average past 12,000 for the first time. Large cap stocks lead the way this year and the Dow, an index of 30 of the nation's biggest companies, hit record levels dozens of times. 2006 marks the fourth straight year of gains for equities after the brutal 2000-'02 bear market. At the sector level, strong gains were seen in telecom, utility, energy, and industrial materials stocks. Weakness was observed in healthcare, consumer services, and computer hardware stocks.

2006 saw an end to the two-year campaign of interest rate hikes by the Federal Reserve. The Fed left short-term rates alone at its December meeting. Oil prices stabilized in the low \$60s and the once-hot housing market continued to soften, further easing inflationary pressures felt earlier in the year. The Fed's decision to stop raising rates in August is looking like a good one. The economy seems to have slowed enough to lower the likelihood of growing inflation, but not so much to sound the alarms of recession.

The bond yield curve plots Treasury securities, showing the range of yields from the 3 month Treasury bill to the 30 year bond (see diagram). The bond yield curve remains inverted as many investors are strangely willing to accept lower yields on longer-term bonds than shorter-term bonds. We feel that the market is not compensating investors for the additional risks of long-term bonds. Our clients' portfolios include mostly shorter-term bonds for this reason. One good outcome of the inverted yield curve is that it has kept mortgage rates low.

Thank you for the trust you continue to place with us in our management of your portfolio. Please feel free to call us if you have any questions or concerns.

Buddie Ballard, CFA **Michael Turner, CFA** **Richard Archer, CFA**

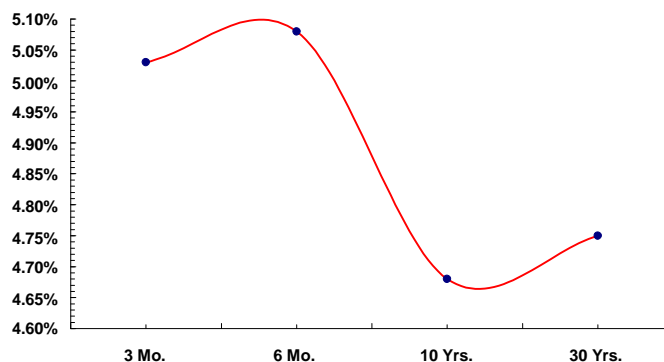
Index Returns

	4th Quarter	Year To Date
S&P 500 Index	6.70%	15.79%
Dow Jones Industrial Avg.	6.71%	16.29%
Morningstar Mid Core	8.28%	14.72%
Morningstar Small Core	8.67%	21.16%
Lehman Bros. Agg. Bond	1.24%	4.33%
MSCI EAFE Int'l Index	10.35%	26.34%

Economic Data

	4th Quarter	3rd Quarter
Fed Funds Rate	5.25%	5.25%
Oil Price Per Barrel	\$61.05	\$62.91
6 Month Treasury Bill	5.08%	4.82%
10 Year Treasury Note	4.68%	4.63%

U.S. Bond Yield Curve



Our Outlook for 2007

As we begin the new year, we see a number of noteworthy phenomena occurring in the financial markets. The bond yield curve remains inverted (see graph above) and the slowdown in the housing sector remains a concern. Many market participants view this inversion as a precursor to an overall economic slowdown. Also, they expect the weakness in the housing market to exacerbate whatever economic slowdown that may be underway. In contrast, everything from the recent Fed's Beige Book release to recent retail sales numbers would indicate otherwise.

In spite of the numerous cross currents that exist, one thing is clear: the advance of the major equity market indices in the 4th quarter was abnormally strong and is unlikely to continue at such a pace. Therefore, as you may have noticed, we have taken the opportunity to raise portfolio cash positions in anticipation of the market consolidating some of its gains. While we are exercising caution in the equity market over the very near term, corporate earnings remain relatively strong and interest rates are historically low, both of which are normally prime ingredients for strong equity markets. We would look to any near term pullback in the equity market as an opportunity to add to positions or initiate new positions across market sectors. We expect the Fed to be successful in curtailing inflation and the equity market to resume its upward advance, albeit at a more nominal pace in 2007.

1501 S. MoPac Expressway, Suite 160 • Austin, Texas 78746 • (512) 322-9318 • (800) 622-4885 • Fax (512) 322-9364

For use by Alpha Capital Management and its clients and prospects only. All data is deemed to be from reliable sources though no assumption can be given as to its accuracy or validity.