

Perspectives
First Quarter – 2006
March 31, 2006

Market Snapshot

	Close on 3/31/06	Quarterly Performance	Year to Date
Dow Jones Industrial Average	11,1109.32	+3.66%	+3.66%
S&P 500 Index	1,294.83	+3.73%	+3.73%
NASDAQ Index	2,339.79	+6.10%	+6.10%
Lehman Bros. Aggregate Bond		-1.00%	-1.00%
Crude Oil (WTI)	\$66.63	+9.16%	+9.16%
T-Bill Rate	4.62%	+1.01%	+1.01%

Market Summary and Opinion

After a lackluster 2005, the first quarter of 2006 saw a strong surge in the market with the Dow Jones Industrial Average near 6 year highs. The Dow was up 3.66% for the period, with investors focusing on a “goldilocks” economy with steady growth, moderate inflation, and historically low interest rates.

Top performing sectors included commodities (+52%), steel (+43%), telecom equipment (+19%) and industrials (+17%). Lagging sectors consisted of internet stocks (-7.5%), home construction stocks (- 5%), tobacco stocks (-4%) and insurance stocks (-3.6%). Small and mid-cap equities also continued to outperform larger stocks. Finally, the yield curve remained flat as the bond market suffered through another losing quarter, falling 1% in reaction to the Federal Reserve raising interest rates again.

Through the end of March, there were a number of positive factors that drove the markets. The economy was booming and grew over 3.5%, corporate profits surged, and interest rates remained at historic lows. Also, the Institute for Supply Management (ISM) *Report on Business* stated that “Economic activity in the manufacturing sector grew in March for the 34th consecutive month, while the overall economy grew for the 53rd consecutive month.” Finally, the Fed indicated that it was coming to the end of its cycle of interest rate hikes.

The Fed holds the wildcard at the moment with its new Chairman, Ben Bernake. He is not proving to be a booster for stocks and the most recent language from their meeting indicates that he is going to be just as “inflation hawkish” as his predecessor, Alan Greenspan. Rates have now been raised 15 times since the end of June 2003 and the expectation is that they will raise them again, once if not twice. The Fed Funds rate is currently 4.75%.

Another issue the market is challenged by is higher oil prices and the effects they might have on consumer spending. Crude oil prices neared \$70 per barrel toward the end of the quarter, up from around \$56 per barrel a year ago. Climbing oil prices combined with higher interest rates could dampen consumers’ appetites for homes, goods, and services. If these factors become too much of a drag on spending, it would be difficult for the market to advance.

Nonetheless, the picture for 2006 remains positive, especially in terms of corporate earnings growth. Analysts are expecting the S&P 500 Index to post double digit gains in profits despite higher interest rates and energy prices. If the Fed does finish its cycle of rate raising, the market could strengthen considerably.

Our team of investment professionals will continue to work diligently to position your portfolio to maximize your return while minimizing risk and are available to answer any questions you have. Thank you for your business and the trust you have placed in our management of your assets.

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