

Perspectives
Fourth Quarter – 2005
January 1, 2006

Market Snapshot

	Close on 12/30/05	Quarterly Performance	Year to Date
Dow Jones Industrial Average	10,568.70	+1.40%	-0.61%
S&P 500 Index	1,254.42	+1.58%	+3.00%
NASDAQ Index	2151.69	+2.49%	+1.40%
Lehman Bros. Aggregate Bond		-.068%	+1.83%
Crude Oil (WTI)	\$61.04	-8.70%	+%
T-Bill Rate	3.48%		

Market Summary and Opinion

2005 was a grinding year for stocks, which produced mediocre returns. The DJIA produced a slight negative return and the S&P and NASDAQ came in well below historical averages. Much of the focus of the market was related to the Fed raising rates, high energy prices and the sustainability of consumer spending.

What gains there have been last year have been focused in a narrow group of companies: energy-related (+32.4%), utilities (+11.18%) and some health-care (+6.26%) stocks. The losers for the year include telecoms (-7.21%) and consumer services (-2.72%).

The performance witnessed in the stock market was somewhat surprising. There were a number of positive factors that should have indicated stronger markets. The economy was booming, growing at over 3.5%, corporate profits were surging despite the effects of two hurricanes and stocks look cheap based on their P/E ratios. Interest rates remain at historical lows. Nonetheless, it was a lackluster year.

It was a different story abroad, with the Dow Jones World Index (ex-US) rising 14.4%. The Nikkei was up over 40%. These stronger markets were driven by corporate profit growth, low interest rates, and company restructures. These were all relevant factors in the U.S. that are seemingly not being recognized by investors.

The headwind to a firmer market continues to be the Fed and the bond Market. Investors want to see some signs that the Fed is nearing an end to the tightening in this interest rate cycle. Oddly enough, the Treasury market has inverted, with 10 year rates lower than the two year rates. This is typically an indication that the economy is going to slow, and possibly go into a recession. It could also simply be high demand from foreigners for the 10 yr bond, which would drive down yields. This could be motivated by lower interest rates abroad.

The picture for 2006 remains unclear. Energy prices remain high and the resiliency of the consumer is in question. Ben Bernake will take the helm of the Fed from Allan Greenspan and it is unknown how he will act on inflation. That said, the positives mentioned above remain intact, but it is unknown if they will finally be recognized by investors. The economy continues to grow at a steady 4% pace, corporate profits remain strong, inflation is low, and interest rates remain at low levels relative to historical norms. These factors typically portend a strong stock market. 2006 could shape up to be a very interesting year in the markets.

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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