



October 23, 2006 Newsletter and Commentary

By Will Woodard, CFP®

The model portfolios that I track on an ongoing basis have performed as follows through 10/20/06. (Note: return data is compiled using Morningstar resources. All returns reflect reinvested dividends and, if applicable, capital gains. Returns may vary slightly over time as capital gains distributions take place within the portfolio. Returns are reported before applicable management fees.)

	<u>YTD '06</u>	<u>2005</u>	<u>2004</u>
Modified:	15.13%	18.55%	20.81%
Pure:	15.36%	11.77%	19.57%
Challenge:	13.86%	11.43%	15.75%
Bond Fund:	3.02%	2.99%	4.56%
S&P 500:	11.32%	4.83%	10.70%

“Nobody goes there anymore, it’s too crowded.”-Yogi Berra

Market thoughts-Wow, quite a rally recently! The buying interest in the global equities complex these last couple of months has been impressive. (“Booyah!,” as *CNBC’s* Jim Cramer would say.) As I write this, the Dow is above 12,000 and numerous sectors of the broader global market are in full bull mode. Goes to show that sometimes the best capital return environments are the ones most fraught with peril--as counterintuitive as that may seem.

The old saw about the markets “climbing a wall of worry” has been (perhaps re?-)validated on this recent move higher. Investors have looked past an inverted yield curve, Iraq, North Korea, a \$6 Billion hedge fund implosion, and, more broadly, perhaps overly dire predictions for the collapse of retailers and the US housing market to bid up shares. The underlying data that has provided the fuel for the move suggests that the combination of growing corporate profits and fairly benign inflation in the US will produce a much-desired soft landing for the US economy.

More ominously, the yield curve IS still inverted. Barring some economic anomaly, the bond market has sniffed out economic weakness of an as-yet undetermined magnitude. Also, on the sentiment front, the bulls may be starting to get a little complacent. My “sell hubris” itch has returned a time or two over the last few sessions, and many charts have gone parabolic--that is, up perhaps too steeply. But, the market is entering a historically strong strong seasonal period. It will be wise to monitor U.S. GDP and inflation data for more clarity on the situation. Stay tuned!

New Model Portfolio-The Model Trust Portfolio came into being March 27, 2006. The portfolio was constructed with the objective of generating a good amount of dividend income that could be paid out, while not sacrificing the potential for capital gains in a wide

range of global equity market environments. Since March 27, 2006 the portfolio has returned 8.15 percent, while the S&P 500 has returned 6.10 percent over the same period. The portfolio has a projected annual dividend yield of 3.37 percent, generating dividend income of \$16,850 on a hypothetical \$500,000 portfolio. The portfolio will be tracked on an ongoing basis and will be added to the portfolio-reporting table next year.

Art as it Happens-In tribute to the Monet Exhibit being featured at the NC Museum of Art in Raleigh (through Jan. 14, 2007, <http://www.ncartmuseum.org/monet/>) please find the following investment-related paint to throw at your investing canvas:

-Sign of the times: (Or did we all just dream an awful merger a couple years back?)
"Time Warner mulls options for AOL unit"-*Marketwatch*, 10/22/06,
<http://www.marketwatch.com/News/Story/Story.aspx?guid=%7B725D39AD-5D5A-405A-B127-E4BF8B832840%7D&siteid=mktw>

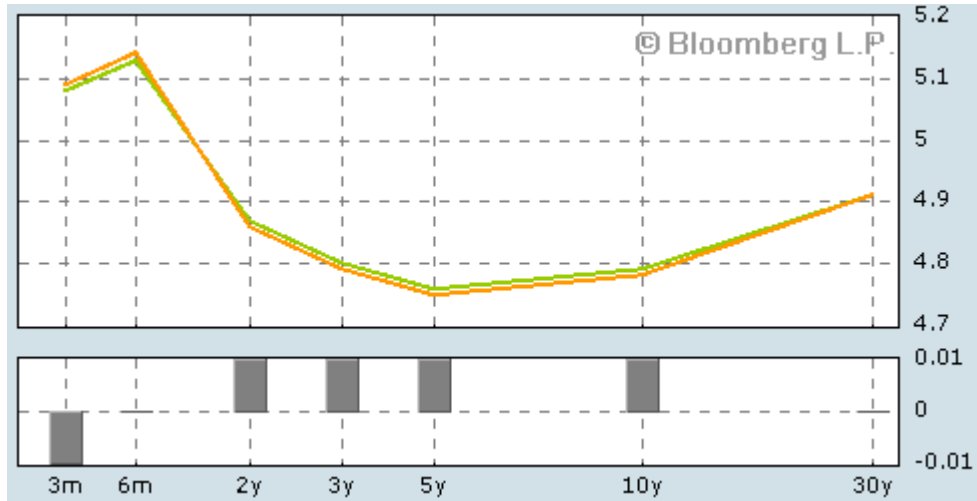
-One for the "Oil prices falling before an election" conspiracy theorists: Goldman Sachs made changes to its benchmark commodities index in August that required the liquidation of \$6 Billion in gasoline futures contracts, resulting in huge amount of forced selling in the futures markets and a large drop in the price of gasoline at the pump. Pundits wondered aloud if Treasury Secretary Paulson, late the CEO of Goldman Sachs, ordered the change to help the Bush Administration in the upcoming midterm-elections. *The New York Times*, 9/30/06.
<http://select.nytimes.com/gst/abstract.html?res=F10E15FA3C540C738FDDA00894DE404482>

-Define "Enough": United Healthcare President and CEO Dr. William McGuire resigned from the healthcare management firm after a company-ordered review of his compensation found that he had been granted \$1.6 Billion in unexercised stock options in addition to his \$520 Million in salary since 1994. As if that weren't enough, the options were backdated to take exquisite advantage of price moves in the company's stock. Dr. McGuire will resign by December 1. His 2006 compensation will be on the order of \$1.1 Billion. *The Street.com*, 10/22/06.
http://www.thestreet.com/_yahoo/newsanalysis/dumbest/10316270.html?cm_ven=YAHOO&cm_cat=FREE&cm_ite=NA

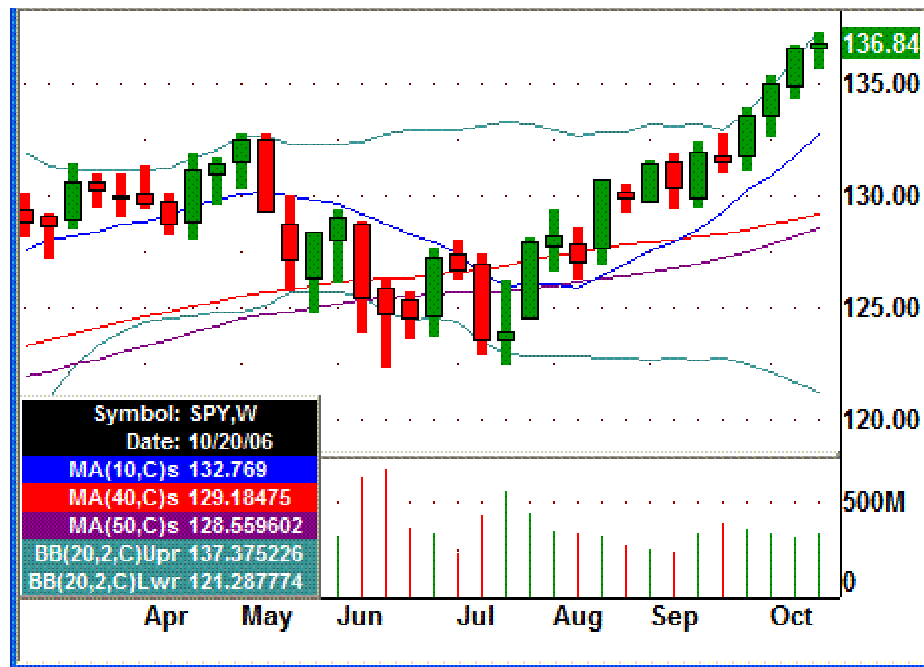
-Update from Detroit: "Ford reports \$5.8 Billion quarterly loss, will restate earnings going back five years. New CEO calls results "unacceptable"- *Marketwatch*, 10/23/06.
<http://www.marketwatch.com/News/Story/Story.aspx?guid=%7BEB0C36FC%2D9FE1%2D4D44%2D96C0%2DB39376E47274%7D&siteid=myyahoo&dist=myyahoo>

-Now, if we could just get our hands on Dr. Bob: Insurer Marsh and McLennan, the owner of the Putnam mutual fund family, confirmed that it was investigating a sale of Putnam Funds. Putnam has suffered outflows in assets under management the last several years due to fund lagging fund performance, fall out from market-timing scandals, and waning interest in "broker sold" mutual funds. *Marketwatch*, 9/23/06
<http://www.marketwatch.com/News/Story/Story.aspx?guid=%7BCF32DCB0%2D22FB%2D403D%2D85BE%2DB683816CF81A%7D&source=blq%2Fyhoo&dist=yhoo&siteid=yhoo>

Charts: Yield curve as of 10/20/06 –still inverted and short end starting to factor in a rate cut



S&P 500, 10/20/06--Breaking out on pretty decent volume



Good investing,

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