FIRST Trust ADVISORS L.P.

Quarterly Market Overview

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Mr. Carey has appeared as a guest on such programs as Bloomberg TV and CNBC and has been quoted by several publications, including *The Wall Street Journal, The Wall Street Reporter, Bloomberg News Service, and Registered Rep*.

When it comes to technology...we believe the future is now

Tech Returns

The Dow Jones Industrial Average is setting new highs, but that doesn't mean all stocks are participating. In fact, at the start of October 2006 only 10 out of the 30 constituents in the index were trading above their respective highs set in 2000, according to Ned Davis Research. The tech-heavy Nasdaq 100 Index, for example, closed trading on 9/29/06 some **65%** below its all-time high established back on 3/27/00. So there is plenty of room for the broader market to run, particularly tech issues.

From *12/94–9/06* (141 mos.), the S&P 500 Index and S&P Information Technology Index posted annualized returns of 11.4% and 11.3%, respectively. Tech stocks should trade at a premium to the overall market due to their inherent growth potential, especially in the aforementioned time period since it included the tech-driven Internet Revolution. From *3/00–9/06* (78 mos.), measuring from the peak in the market to date, the S&P 500 Index and S&P Information Technology Index posted annualized returns of -0.1% and -14.0%, respectively. The gross spread over that span was **62.4 percentage points** in favor of the S&P 500. Tech stocks, in our opinion, are due.

The two charts below show the rebound in tech spending and earnings. High-tech spending began to rise shortly after tax reform was passed in May 2003. Companies were able to exploit such incentives as accelerated depreciation schedules on equipment purchased prior to the end of 2004. High-tech earnings started recovering right after the recession ended in 2001. Estimated earnings growth for tech companies in the S&P 500 is expected to be **18.2%** in 2007, well above the next best sector (see chart on back) and over 2.5x the S&P 500 Index at 6.9%.

Drags on Tech

Corporate America spent a great deal of money upgrading hardware and software due to Y2K at the end of the 1990s. Companies have historically upgraded their hardware, for example, about every four years, once it has been fully depreciated. But that did not happen on a mass scale this time around post Y2K. Many firms have put off such spending. We believe such a strategy will not work for much longer for competitive/productivity reasons. On top of the Y2K fallout, the expensing of options and the options scandal involving the practice of backdating options to more favorable start dates made tech stocks even less attractive. With these issues already on the table, we expect better days ahead for tech.

Tech stats reveal there is a growth story in progress...

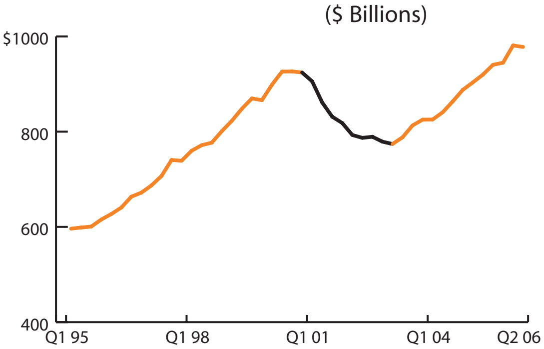
In the first 30 years of the PC industry (1975-2004), total PC sales surpassed 1.4 billion units. PC sales are expected to total 1.3 billion units over the next five years (2006-2010).

The number of Internet users worldwide surpassed *one billion* in 2005, up from only 45 million in 1995. The U.S. led all countries with an 18.3% share. The *two billion* user milestone is expected to be reached by 2011.

As recently as 2000, 3G wireless technology was still in its trial stages. Fast forward to 2006: Sales of smartphones and PDAs combined are expected to total 83.2 million worldwide – 210 million by 2011

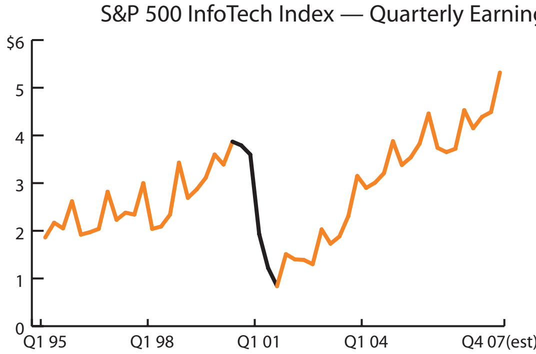
Source: eTForecasts.com

High-Tech Spending
($ Billions)



Source: Bureau of Economic Analysis

High-Tech Earnings
S&P 500 InfoTech Index — Quarterly Earnings Per Share



Source: Baseline

Continued

A snapshot of the four major tech industries...

Chips

Worldwide semiconductor sales totaled $20.5 billion in August, +10.5% from August 2005, and an all-time monthly high, according to the Securities Industry Assoc. (SIA). VLSI Research estimates that capacity utilization will remain at 95% for the remainder of 2006. The SIA upwardly revised its sales forecast for 2006 due to strong demand for consumer electronics. It believes chip sales will grow by 9.8% in '06, 11.0% in '07 and 12.0% in '08.

Software

Perhaps the launch of Microsoft's newest version of Windows (Vista), currently scheduled for November (businesses) and January '07 (consumers), can act as a catalyst for the industry. The software industry involves some 50,000 companies with annual revenues totaling $180 billion, according to First Research. The largest vendors (> $1 billion a yr. in revenues) account for a 40% share of the overall market. The avg. firm takes in less than $5M a year.

PCs

Worldwide PC shipments totaled 54.9 million in Q2'06, according to Gartner. Growth rates are clearly highest in the emerging markets – around 40% of PC sales now come from emerging countries, according to CNET.com. The top five manufacturers combined account for nearly 50% of total global market share. The average price of a PC is down 30% in 2006, much more than the average 12% annual dip, according to CNET.com.

Communications Equip.

Growth in the adoption of broadband and the need to upgrade equipment is breathing some life into this sector. Over 360 million households worldwide will utilize broadband by 2010, up from 205M in '05, according to Parks Associates. Home networking products will fuel demand for such products as routers with built-in DSL modems. The cellular modem market, for example, will grow more than 500% over the next 5 years, according to ZDNet.

S&P Semiconductor Index	
09'06	-7.2%
2005	12.1%
2004	-20.9%
2003	97.5%
2002	-51.2%
2001	-15.8%
2000	-21.6%
1999	56.9%
1998	67.6%
1997	7.6%
1996	80.1%
1995	35.8%
AVG. ('94-'05)	13.2%

Source: Bloomberg

S&P Systems Software Index	
09'06	11.5%
2005	-4.5%
2004	8.4%
2003	16.7%
2002	-24.9%
2001	5.2%
2000	-49.7%
1999	87.6%
1998	86.2%
1997	39.6%
1996	57.0%
1995	41.0%
AVG. ('94-'05)	16.1%

Source: Bloomberg

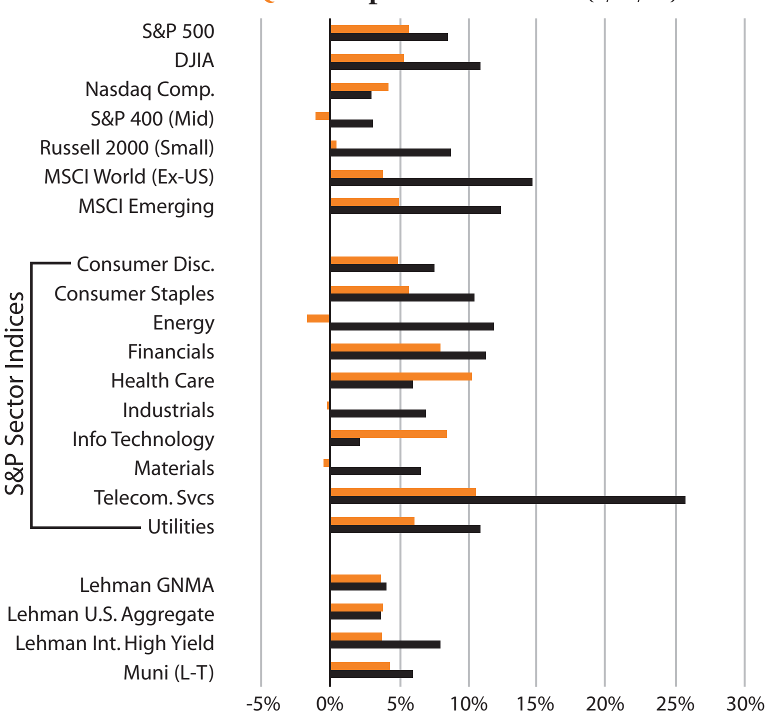
S&P Computers & Per. Index	
09'06	3.8%
2005	-3.4%
2004	15.5%
2003	31.5%
2002	-31.0%
2001	-23.1%
2000	-26.4%
1999	55.5%
1998	81.5%
1997	42.3%
1996	36.4%
1995	31.9%
AVG. ('94-'05)	13.8%

Source: Bloomberg

S&P Comm. Equip. Index	
09'06	11.7%
2005	2.1%
2004	3.0%
2003	78.9%
2002	-42.6%
2001	-58.5%
2000	-46.7%
1999	120.7%
1998	91.1%
1997	20.0%
1996	26.5%
1995	48.7%
AVG. ('94-'05)	7.7%

Source: Bloomberg

Total returns for *Q3* and past *12 months* (9/30/06)



A Look Ahead:

The outlook for earnings (year-over-year)...

	Q4'06E	Q1'07E	2007E
Financials	22.6%	4.8%	5.5%
Technology	**1.7%**	**11.0%**	**18.2%**
Health Care	3.5%	5.4%	10.4%
Consumer Staples	**9.1%**	**12.1%**	**10.9%**
Consumer Discretionary	12.8%	3.4%	13.3%
Industrials	**16.5%**	**10.5%**	**13.5%**
Telecommunications Services	11.3%	11.2%	7.0%
Energy	**-3.9%**	**13.5%**	**4.1%**
Utilities	9.7%	1.8%	13.1%
Materials	**41.6%**	**6.8%**	**2.2%**
S&P 500 Index	**6.8%**	**2.9%**	**6.9%**
S&P 400 Index (Mid-Cap)	**15.4%**	**8.3%**	**15.5%**
S&P 600 Index (Small-Cap)	**14.4%**	**9.8%**	**16.7%**

Source: Thomson First Call/Baseline (10/6/06)