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TALKING POINTS

A Recap of December 2006

The Economy

Economic perceptions reached a turning point in December, and the new direction reflects a much more optimistic view of growth. Conventional wisdom had convinced itself that a slowdown in housing and high energy prices would hurt the consumer, slow the economy and force the Fed to cut interest rates in 2007. At first, with the early December release of the November ISM Manufacturing Index - which fell to 49.5 – the pessimistic view looked correct. But from that point forward, the data turned positive. November non-farm payrolls increased by a greater-than-expected 132,000, retail sales jumped 1.0%, the ISM non-manufacturing index stayed very strong, housing starts increased 6.7%, durable goods orders increased 1.9%, and both new and existing home sales exceeded expectations. To top it off, in the first days of January, the ISM manufacturing index rebounded to above 50. The economy looks strong heading into 2007.

Non-Farm Payrolls	*Housing Starts (y-o-y)*	*Retail Sales (m/m)*	*ISM Manufacturing*	*ISM Non-Manufacturing*
132,000 (Nov)	**6.7%** (Nov)	**1.0%** (Nov)	**51.4** (Dec)	**57.1** (Dec)
79,000 (Oct)	-13.7% (Oct)	-0.1% (Oct)	49.5 (Nov)	58.9 (Nov)

The Stock Market

The three major indices were mixed in December with the DJIA, S&P 500 and Nasdaq Composite returning +2.1%, +1.4% and -0.6%, respectively. Small-cap stocks, as measured by the Russell 2000 Index, gained 0.3%. Some of the top performing S&P 500 industry groups in December were as follows: Drug Retail (+11.2%); Health Care Services (+9.6%); Fertilizers & Agricultural Chemicals (+9.3%); Forest Products(+9.2%); Real Estate Management & Development (+8.2%); and Health Care Supplies (+7.5%). The top performing S&P sector was Telecommunication Services (+4.63%). In December, the dividend-payers (383) in the S&P 500 (equal weight) posted a total return of 1.07%, vs. -0.02% for the non-payers (117), according to S&P. In 2006, the payers gained 16.91%, vs. 12.93% for the non-payers. The number of dividend increases (S&P 500) for the year totaled 299, slightly lagging the 306 registered in 2005, but above the 272 increases registered in 2004. The dividend yield on the S&P 500 was 1.81% at the end of December. The amount of stock dividends distributed by companies in the S&P 500 Index grew by 11% in 2006, below the 13% growth analysts had expected, according to Howard Silverblatt of S&P. The bear run for the S&P 500 ended on October 9, 2002. This is the first bull market in 45 years where the price-earnings ratio of the S&P 500 has contracted, according to John Carney, portfolio manager at Pioneer Investments. As we head into 2007, one of the most touted areas of the market is large-cap stocks, particularly large-cap growth. Investors who own them or are considering buying should be pleased to learn that 2006 was the first year in around 50 years that the S&P 500 posted a gain in 11 of the 12 calendar months, according to Doug Kass at the Street.com.

U.S. Dollar (U.S. Trade- Weighted Basket)	*AAII Sentiment Index*	*Short Interest (NYSE)*	*Margin Debt (NYSE)*
+1.5% (Dec)	**46.0% Bullish** (12/31)	Dec: **9.65B** (+0.1%)	Nov: **$270.5B** (+10.8%)
-1.5% (Nov)	40.2% Bullish (11/30)	Nov: 9.64B (-1.0%)	Oct: $244.1B (+3.1%)
$ was down 5.25% in '06			*$278.5B in March 2000*

The Bond Market

The yield on the 10-Yr. T-Note rose 24 basis points in December closing at 4.70% – 31 basis points higher than on December 31, 2005. The returns on seven Lehman Bros. benchmark indices were as follows (December & **2006**): ***U.S. Treasury: Intermediate*** (-0.46% & **3.51%**); ***GNMA*** (30-yr.) (-0.10% & **4.62%**); ***Municipal Bond (22+)*** (-0.51% & **6.82%**); ***U.S. Aggregate*** (-0.58% & **4.33%**); ***U.S. Corporate High Yield*** (1.10% & **11.85%**); ***Global Aggregate*** (-1.33% & **6.64%**); and ***Emerging Markets*** (0.55% & **11.15%**). Due to strong global economic growth, speculative-grade issues such as U.S. high yield corporate bonds and emerging markets debt were by far the best performing groups in 2006, up 11.85% and 11.15%, respectively, as measured by Lehman Bros. indices. The next closest group was L-T municipal bonds, up 6.82%. The demand for non-investment-grade floating-rate bank loans was strong in 2006 as investors continued to take advantage of the sharp rise in short-term lending rates. Bank loans currently pay out about 1.47 percentage points less than high yield corporate bonds, according to Lehman Brothers. The spread has averaged 2.30 percentage points over the past decade.

Key Rates as of December29th

Fed Funds	5.25%
2-Yr. T-Note	4.81%
10-Yr. T-Note	4.70%
30-Yr. Mortgage	6.14%
Bond Buyer 40	4.61%

Key Yield Spread

The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 319 basis points on Dec. 29. The yield on the index was 7.89%. The spread was 388 basis points on Dec. 30, 2005, when the yield was 8.27%.

2006 Debt Issuance through November

(Source: Thomson Financial)

Debt Category	$ Amount	% change over '05
Corporate	$1.33 Trillion	+18.4%
Convertible	$8.3 Billion	+61.7%
Asset-Backed	$1.53 Trillion	-7.1%
Municipal	$334.8 Billion	-10.7%

The Investment Climate

Net cash inflows to equity funds totaled $11.3 billion in November, down from $12.2 billion in October, according to the Investment Company Institute. Bond funds reported inflows totaling $7.3 billion, down from $10.4 billion in October. Money funds reported inflows totaling $55.0 billion, vs. inflows totaling $30.8 billion in October. Y-T-D through November, net cash inflows to equity funds totaled $148.5 billion, vs. $52.5 billion for bond funds.