Market Review and Outlook—December 13, 2005

In our Market Review and Outlook in September we were concerned with the effects Katrina was going to have on the economy. Specifically, the news from the Gulf implied that oil and gas production and refining capacity were impaired in the short run, due to damaged equipment. This was terrible news when it was coupled with the supply squeeze that was building before Katrina, attributed to the strong oil and gas demand by the hot economies in China and India. What has happened since Katrina? A warm Fall for most of the country and increased production by OPEC nations have resulted in greater supply levels (except gasoline) than last year at this time. However, home heating costs are expected to increase for most Americans this winter, despite this improved supply situation.

For the past three months (through November 30th), energy funds stopped surging, while growth, technology, and large US stocks took the lead. Foreign stocks continued their strong showing. For much of the past year, stocks have continued the recovery that began just over three years ago. The US economy has continued its recovery, however gains in corporate sales and profits have not yet resulted in strong job growth. As the Fed continued to increase short-term rates, bond funds during the past three months declined more than 1%, while US stock funds gained more than 2%, and non-US stocks gained over 3%. So far this year, diversification has yielded attractive results.

The US is becoming less and less dependent on manufacturing (the auto industry is a poster child here of a US industry in a sharp decline). The challenge of this shift is that many service economy jobs pay lower wages than a (union) manufacturing job, and should this effect, and further outsourcing continue, the US consumer will find it difficult to continue to carry the US economy. This could be aggravated by any bailout the federal government provides to underfunded automakers' pensions, a bailout that would only add to the already mammoth budget deficit. Our budget deficit only increases our already record level of reliance on our trading partners to fund our debt. We continue to favor a growing role of international stocks and bonds to lessen the impact from growing pressure on the US economy, and the US dollar.

For the future, the portfolio strategies outlined in our last Market Review and Outlook are largely reinforced: invest globally, use general bond funds, balance growth and value, utilize global large-cap stock managers, de-emphasize real estate stocks/funds, and keep a wary eye on the energy sector, in case it gives back some of the tremendous gains produced in the past few years.

Category	**3 Months**	**Past Year**	**3-Yr Avg**	**5-Yr Avg**	**10-Yr Avg**
Money Market—Taxable	+0.75%	+2.37%	+1.23%	+1.79%	+3.45%
Intermediate Term Bond	-1.41%	+1.89%	+4.05%	+5.57%	+5.43%
Intermediate Muni Bond	-0.75%	+2.10%	+3.42%	+4.74%	+4.61%
Large-Cap Core Stock	+2.72%	+8.82%	+11.73%	+0.92%	+8.24%
Mid-Cap Core	+2.12%	+11.96%	+17.90%	+9.05%	+11.68%
Small-Cap Core	+1.83%	+9.82%	+20.09%	+12.10%	+11.21%
International Stock	+3.15%	+13.53%	+17.89%	+2.54%	+6.18%
Real Estate	+2.01%	+16.58%	+26.61%	+19.73%	+15.50%
Natural Resources	+0.58%	+30.88%	+32.68%	+18.70%	+14.81%
Science/Technology	+6.01%	+9.08%	+13.97%	-9.74%	+5.46%
Multi-Cap Growth	+3.65%	+11.17%	+14.84%	+0.57%	+7.87%
Multi-Cap Value	+1.30%	+9.59%	+17.66%	+10.40%	+11.13%
Balanced	+1.03%	+6.27%	+9.21%	+3.48%	+7.19%

The data in this table comes from the Morningstar Principia Pro service.