

Capital Market Review • Fourth Quarter 2005

STOCK MARKET

With the exception of Real Estate and the Commodities market, whose return was mainly driven by escalating energy prices, 2005 was a non-event for the major domestic market indices. Skepticism in the markets was generated by energy and geo-political concerns, and the Fed's continuation of its aggressive rate-tightening agenda. Despite the confidence of the domestic consumer, whose resiliency contributed to the year's modest gains, the aforementioned concerns could continue to provide a fair amount of vulnerability in the broader markets. After being down over 0.8% for the first half of 2005, Blue Chips, as represented by the S&P 500, rallied during the third and fourth quarter to produce a rather modest return of 4.9% for the year. The Dow Jones Industrial Average recovered from its 3.7% loss through the end of June, but finished with only a slightly positive gain of 1.7% for 2005. Technology stocks, as represented by the NASDAQ, were down almost 5.5% after struggling for the first six months of 2005. A strong rally during the third quarter and continued appreciation during the fourth still resulted in the index posting an unimpressive 1.4% gain for the year. Several analysts see a brighter future for technology companies in 2006, as corporations are expected to increase their capital spending on technological improvements.

Market Returns

	3 Months ended 12/31	12 Months ended 12/31
T-Bills	1.0%	3.3%
Lehman Bros. Aggregate Bond Index	0.6%	2.4%
S&P 500	2.1%	4.9%
Dow Jones Industrials	2.1%	1.7%
NASDAQ	2.5%	1.4%
Russell 2000	1.1%	4.6%
EAFE	4.1%	13.5%
Wilshire REIT	2.5%	14.1%

The Russell 2000, a more specific index that tracks small domestic stocks, underperformed large U.S. stocks for the first time in six years.

The Russell 2000 returned only 4.6% for the year, 30 basis points behind the S&P 500. With the price of oil escalating to an all-time high during the third quarter, it is no surprise that the Dow Jones AIG Commodity Index outperformed all of the other major domestic market indices in 2005. Commodities gained nearly 12% over the last six months of 2005 and were up 17.5% for the year. The EAFE Stock Index, representing foreign stocks, returned 13.5% for 2005, outperforming all the domestic equities markets with the exception of Real Estate and Commodities. Despite worries of a looming real estate bubble, the Wilshire REIT index returned 14.1% for 2005, outperforming the S&P 500 for a sixth straight year. During 2005, mortgage rates fell to their lowest levels in four decades making it possible for many consumers to purchase real estate. The continuation of the real estate market's boom is not certain as concerns relating to increasing interest rates and unrealistically high prices of properties exist.

Investment Styles

Examining the markets on a style basis, all of the major equity categories posted positive returns for 2005. After several years of underperformance, Large Growth stocks edged out Large Value stocks by a small margin. Large Growth stocks returned 6.5% for the year versus 5.9% for Large Value stocks. Large stocks as a whole outperformed Small Growth stocks, which happened to be the worst performing category of domestic equities in 2005, with a return of 5.7%. Small Value stocks, the category that has been the best performing equity style four of the previous five years, finished off the year directly behind Large Growth Stocks with a return of 6.1%. Investments in Real Estate continued to be beneficial for one's portfolio, as Real Estate equities outperformed all of the other categories of domestic equities. Despite many analysts cautioning investors of a potential bursting of the housing market bubble, the Real Estate category, which is comprised mainly of commercial real estate, returned an impressive 11.6%. Foreign stocks proved to be the best equity style to be invested in for 2005. With the U.S. Dollar weakening compared to many foreign currencies

for the majority of the year, and with more attractive valuations for stocks of overseas companies, Foreign Stocks outperformed all domestic equities with a return of 16.3%.

Return by Equity Manager Style

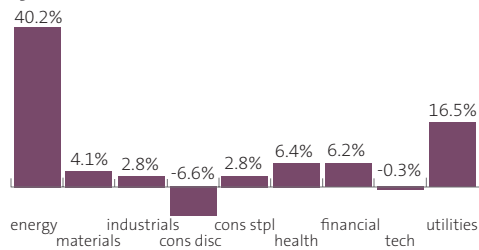
	3 Months ended 12/31	12 Months ended 12/31
Large Value	1.6%	5.9%
Large Growth	3.3%	6.5%
Small Value	0.7%	6.1%
Small Growth	1.7%	5.7%
International	4.7%	16.3%
Real Estate	2.6%	11.6%

Sectors

Natural resource stocks, led by energy, had another strong year in 2005 as the price of oil and other commodities surged. The Energy sector of the S&P 500 was the best performing sector by a wide margin for the year despite a 6.0% decrease during the fourth quarter. The price of crude oil dropped dramatically during the last few months of 2005 after topping the \$70 mark in early September following the devastation in the Gulf of Mexico brought forth by Hurricanes Katrina and Rita. An increase in refining costs following the storms and worries concerning OPEC production contributed to the sectors 40.2% gain for the year. The Utility sector was another sector that suffered losses during the fourth quarter. Despite losing 5.5% for the period, the sector was the second best performer of the year with a return of 16.5%. Following Utility stocks were the Health Care and Financial sectors with gains of 6.4% and 6.2%, respectively. All of the previously mentioned sectors beat the S&P 500's annual return of 4.9%. Underperforming the market were the Raw Materials, Consumer Staples, Industrial, Technology and Consumer Discretionary sectors. Raw materials managed to gain 4.1% in 2005 while the Consumer Staples and Industrial sectors both returned around 2.8%. Technology stocks finished off the year slightly in the red with a loss of 0.3%. The Consumer Discretionary sector significantly underperformed all of the other major sectors of the market and posted a 6.6% loss for 2005.

Stock Market Performance

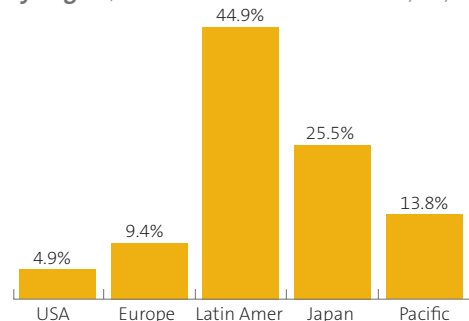
by Sector, for the 12 months ended 12/31/05



Examining the major markets around the globe, the United States was the worst performing major global market in 2005. The S&P 500's performance trailed well behind the 13.5% gain for the international markets represented by the MSCI EAFE Index. After being down nearly 1% after the first half of the year, a mild recovery by our domestic economy moved it into the positive with a year-end return of 4.9%, well below the EAFE's return. The Latin American economies, which do not constitute a portion of the EAFE Index, outperformed the other major stock markets of the world. Latin America was up 44.9% as of December 31, 2005 leading all of the other major global markets. After being the worst performing market through the first half of the year, Japan outperformed all other major markets, except Latin America, with an annual return of 25.5%. The Japanese market represents roughly 25.6% of the EAFE Index. The Pacific and European markets also managed to beat our domestic stock market for 2005. The Pacific Rim, which represents only 7.9% of the EAFE Index, returned 13.8% over the twelve month period. The markets of European countries (including the United Kingdom) make up 66.5% of the EAFE Index. Despite being the second worst performing major global market, European markets nearly doubled the return of our domestic market with a return just over 9.4%.

Stock Market Performance

by Region, for the 12 months ended 12/31/05



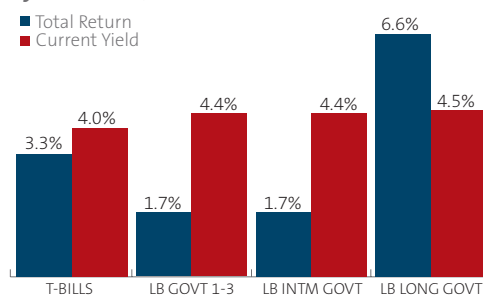
BOND MARKET

Despite a steady rise in short-term interest rates, bonds generally provided positive but modest returns in 2005. Bond prices fell dur-

ing the second half of the year as long-term rates increased, but the yields provided more than offset the price declines. Treasury Bills returned 3.3% for the year, slightly below their long-term historical average. However, when the 3.8% rate of inflation is taken into consideration (measured by the Consumer Price Index) Treasury Bills had a real return of -0.5%. The Lehman Brothers Aggregate Bond index, representing the broader bond market consisting of Government-Issued, Corporate and Mortgage-Backed debt, generated an even weaker return of 2.4%, or a real return of -1.4%.

Bond Market Performance

by Maturities, for the 12 months ended 12/31/05

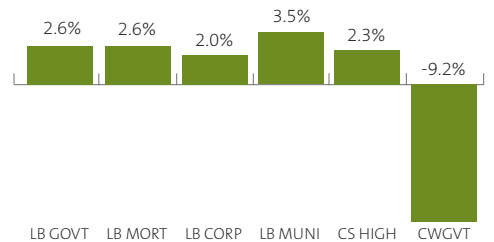


The Federal Reserve raised its Fed funds rate eight times during 2005 for a 2.0% increase over the twelve months. The rate as of December 31st was 4.25%, its highest level since April 2001. The yield on Treasury Bills increased 178 basis points for the year, rising from 2.21% to 3.99%. Short-Term Treasuries also saw their yields increase substantially from 3.07% as of January 1st to 4.39% by year's end, a 132 basis point increase. The total return, however, for Short-Term Government Bonds was only 1.7%. Throughout 2005, the bond market experienced what is known as a "flattening" of its yield curve. This is evident as the yield on Intermediate-Term Government Debt was equal to that of the yield on Short-Term Treasuries. Both ended the year with yields of 4.39% and total returns of 1.7%. Once again accounting for inflation, we see that the "middle" of the yield curve provided the worst outcome for investors in 2005 with a real return around -2.1%. The spread between the yield on Treasury Bills and Short- and Intermediate-Term Government Debt was only 40 basis points; versus 86 basis points between T-Bills and Short-Term bonds at the beginning of the year, and 201 basis points between T-Bills and Intermediate-Term bonds. Long-Term Government Bonds provided the greatest return for the year with a total return of 6.6%. Despite yields dropping 30 basis points down to 4.53% at year's end, Long-Term Government bonds provided investors with the highest yield and greatest price appreciation. The yield spread

between Long-Term government Bonds and Treasury Bills was 54 basis points at the close of 2005.

Bond Market Performance

by Sector, for the 12 months ended 12/31/05



All the various sectors of the bond market, including Corporate and Global Debt, had negative real returns for the year. All sectors of the domestic market posted modestly positive returns, but still fell short of the 3.8% rate of inflation. Municipal Bonds produced the highest return of 3.5%, followed by Government and Mortgage-Backed Debt with 2.6%. High-Yield Bonds returned 2.3% while the Corporate sector performed the worst with a return of only 2.0%. Foreign debt, as represented by the Citigroup World Government Bond Index, significantly underperformed the domestic market with a loss of 9.2%.

COMMODITIES MARKET

After gaining over 16.6% during the third quarter of 2005 alone, the Dow Jones AIG Commodities Index lost 4.0% over the last three months of the year as the price of oil stabilized. For the twelve months the index returned over 17.5%. The price of oil escalated to over \$70 per barrel early in September following the devastation caused by Hurricane Katrina, but has since retreated back to \$61.04 at years-end. This price is still significantly higher than the price of \$43.45 paid at the beginning of the year, resulting in a 40.5% increase in the price of oil during 2005. The price of gold also increased dramatically during 2005. The price per troy ounce rose from \$437.50 as of January 1st to finish the year at \$517.10, an increase of 18.2%.

CURRENCY MARKET

During the course of the year, the U.S Dollar strengthened 12.7% versus the Euro. Against the yen, the U.S. dollar strengthened by 15.2%. Compared to the Canadian Dollar, the U.S. Dollar strengthened by 0.03% during the fourth quarter of 2005 after falling nearly 3.1% during the first nine months. The three basis point gain during the fourth quarter had relatively no effect on the exchange of the two currencies as the U.S. Dollar weakened approximately 3.1% versus the Canadian Dollar for the twelve months.