

Capital Market Review • First Quarter 2006

The first quarter of 2006 has seen the major indices build on gains from 2005. The only exception was Lehman Brothers Aggregate Bond being down 0.7% for the quarter because of the increase in yields and worries of inflation. All the major stock indices had returns of more than 4% for the first 3 months of the year with real estate continuing to lead the pack with a 15.8% return. Most of the stock indices were at or near five-year highs at the end of the quarter. There were some important highlights to note. The Federal Reserve raised the fed funds rate for the 15th consecutive time to 4.75% to control inflation even as Ben Bernanke took over the reins from Alan Greenspan in January. The yield on the 10-year treasury increased almost 50 basis points during the period from 4.37% to 4.85%. The price of oil remained above \$60 a barrel for most of the quarter before closing at \$66.63 on March 31. Real estate continued its strong performance even though the fear of a slowdown exists.

STOCK MARKET

All of the major benchmarks started the year off very strong with the exception of the Dow Jones AIG Commodity Index. The Wilshire REIT Index led the way again with a return of 15.8% for the quarter and an impressive return of 42.2% for twelve months. The Russell 2000, index of domestic small cap stocks, outperformed large caps returning 13.9% for the quarter and 25.9% for the past twelve months. The Russell 2000 bounced back in the first quarter after lagging large caps in 2005 to outperform large caps once again. 2005 was the only year in the last five that large caps had a better return than small caps. The MSCI EAFE, the major index of international stocks, continued to show strength with a 9.4% return for the quarter and a 24.4% return for the past twelve months. The S&P 500 lagged behind the other equity indices, but still showed a gain of 4.2% for

the quarter and 11.7% for the twelve month period from April 2005 through March 2006. The Dow Jones AIG Commodity Index lost 3.5% to start the year after a strong 2005 return of 17.5% and a twelve month return of 1.91%.

Market Returns

	3 Months ended 3/31	12 Months ended 3/31
T-Bills	1.2%	3.8%
Lehman Bros. Aggregate Bond Index	-0.7%	2.3%
S&P 500	4.2%	11.7%
Russell 2000	13.9%	25.9%
EAFE	9.4%	24.4%
Wilshire REIT	15.8%	42.2%

It will be interesting to see how things play out during the next couple of quarters. Will real estate be able to continue to lead the pack with the mortgage rates hitting levels not seen in some time and the Federal Reserve continuing its aggressive rate hikes? How much longer can small cap stocks continue to outperform large-caps?

Equity Styles

Just like the major stock benchmarks, the equity styles were all positive for the quarter. Large caps performed the worst for the first quarter of 2006. Large cap growth funds returned 3.6% for the first three months of the year, trailing the large cap value category's gain of 4.9%. Both small-cap categories out-performed large caps by more than double with growth gaining 12.7% to value's 10.9%. The trend of small caps beating large caps has resumed. International stocks did lag small caps, but still came in with an impressive return of 10.3% for the three month period. International continued to show strength coming off a strong 16.3% return in 2005. And last but certainly not least, real estate funds have been the best performing category for the quarter. The average real estate fund

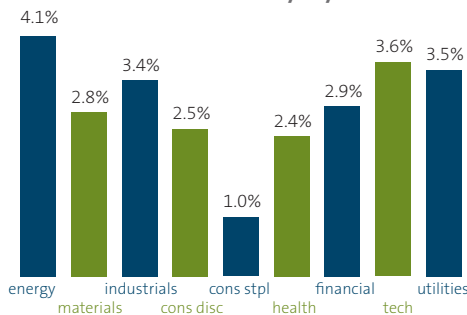
returned 13.7% for three months and a stellar 36.0% for twelve months.

Return by Equity Manager Style

	3 Months ended 12/31	12 Months ended 12/31
Large Value	4.9%	11.7%
Large Growth	3.6%	15.4%
Small Value	10.9%	20.0%
Small Growth	12.7%	25.7%
International	10.3%	28.2%
Real Estate	13.7%	36.0%

Stocks by Sector

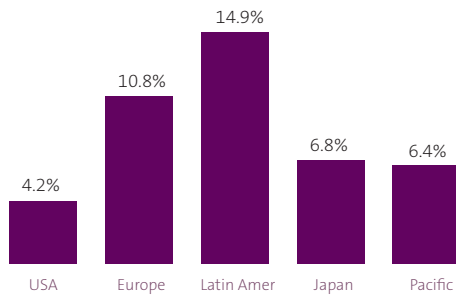
for the 3 months ended 03/31/06



Every major sector of the stock market rose during the first quarter of the year. This is an indication that the upward movement in the stock market has been broad based. The Energy sector has continued to be the best sector in the stock market, returning 4.1% for the quarter, following up its remarkable 40.2% return in 2005. Technology, Utilities, and Industrials all returned about 3.5% for the quarter. Utilities continued to show strength building on a 16.5% return in 2005. The Financial sector moved up 8.2% in the fourth quarter of 2005 and carried the strong performance over to the first quarter of 2006, returning 2.9%. After being in the middle of the pack in 2005, Materials, Consumer Discretionary, and Healthcare have continued that trend in the first quarter, returning 2.8%, 2.5%, and 2.4%, respectively. The worst performing sector, although it was still positive, was Consumer Staples with an upward move of only 1.0%. An interesting thing to note is that none of

the nine major sectors performed better than the S&P500 for the first quarter. This also shows that the overall positive move in the stock market is due to the performance of all sectors.

Stocks by Region for the 3 months ended 03/31/06



The major regions around the world started 2006 in positive territory. The United States continued to be the poorest performing region in the world, returning 4.2% for the first quarter and 11.7% for twelve months. It's coming off a mere 4.9% return in 2005 also trailing every region. The Pacific region and Japan region returned 6.8% and 6.4% for the quarter, placing them behind Europe and Latin America. Japan did return 25.5% for a twelve month period, placing it only behind Latin America during that time period. The Pacific region gained 13.8% for twelve months. Europe's performance for the first quarter was 10.8% outpacing Japan, the Pacific, and the United States. Latin America was the best performing region for the past 3 months, returning 14.9%. The region has far outpaced all other regions of the world for the twelve month period beginning April through March returning 63.5%.

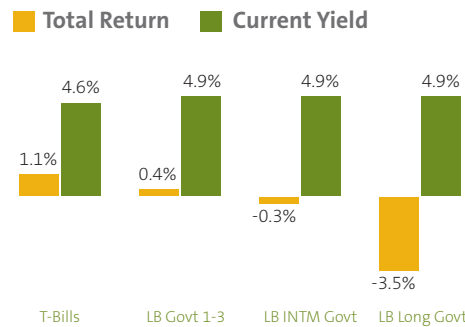
The performance of the other regions of the world makes it clear why diversification into international markets is essential.

BOND MARKET

The Federal Reserve continued its measured pace of raising short-term interest by increasing the fed funds rate twice during the quarter to 4.75%. It was the 15th consecutive time that the Fed has raised rates a quarter point. Most econo-

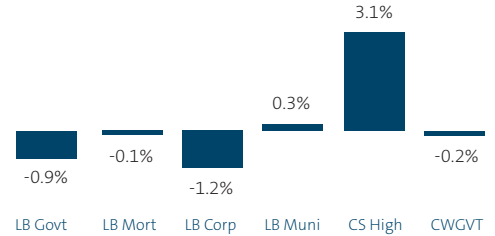
mists believe that there will be one more quarter point hike to 5% before the increase in rates is done. The minutes from the Fed's March meeting seem to show that as well. Most Federal Reserve policy-makers think the end of the tightening process is near and some fear tightening too much.

Bonds by Maturity for the 3 months ended 03/31/06



The bond market suffered during the first three months of the year not because of the economy but due to inflation worries. Lehman Brothers Aggregate Bond Index, a broad measure of the bond market. The index fell 0.7% for the first quarter. The yield on short, intermediate, and long-term bonds all rose during the quarter, affecting performance. Short-term government bonds barely got into positive territory with a 0.4% return. Their yields rose from 4.39% at the end of the year to 4.85% at the end of the quarter. Intermediate-term government bonds fared worse coming in with a -0.3% return for the quarter and saw yields rise to 4.87% from 4.39% at year end. The long-term government bonds were most affected by the rise in yield and worries about inflation. Their yield rose from 4.53% at the beginning of the year to 4.90%. The return for the quarter for long-term treasuries was -3.5%, the worst when comparing returns by maturity.

Bonds by Sector for the 3 months ended 03/31/06



Most sectors of the bond market were hurt during the first quarter. The only exception was the High-yield bond sector. It returned 3.1% and was also the best sector for twelve months with a 6.6% return. Every other sector had a negative return except Municipals with a small 0.3% gain. Credit bonds were the weakest sector during the first three months with a dip of -1.2%. Government bonds didn't fair much better, losing 0.9%. Following up a loss of 9.2% in 2005, World Government bonds fell another 0.2% during the quarter.

COMMODITIES MARKET

Commodities had a disappointing start to the year, losing 3.5% during the first quarter. The Dow Jones AIG Commodity Index was coming off a winning 2005 with a return of 17.5% before falling into a slump during the first three months of the year. Commodities were mainly hurt by a sell-off in natural gas due to a warmer than expected winter and a fall in livestock prices. The price of oil did increase \$5.59 to end the quarter at \$66.63 and it is clearly something that most investors are keeping a close eye on. Some economists worry that if oil gets above \$70/barrel and remains there it could take a toll on consumer's behavior and have an impact on the economy.

CURRENCY MARKET

The U.S. dollar ended mixed against the other major currencies in the first quarter. The Euro gained 2.4% against the U.S. dollar with the yen adding 0.2%. The U.S. dollar did gain slightly against the Canadian dollar, strengthening 0.5% during the period. The U.S. dollar was hurt by a sell-off in mid-March, prompted by worries about the federal deficit and concerns that foreign investors would diversify out of U.S. dollars.