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President

Hurricane season officially began on (6/01/06) and runs for 6 months through 11/30/06. The 2005 season set numerous records, including the most named storms (28), breaking the old record of 21 set in 1933; most number of category 1 or greater hurricanes (15), breaking the previous record of 12 set in 1969; and most category 5 hurricanes (4), breaking the old record of 2 set in 1960 and equaled in 1961 (source: NOAA).

The 2000-02 bear market for stocks hit bottom on 10/09/02. 5 major domestic stock indices (Dow, S&P 500, NASDAQ, Wilshire 5000 and the Russell 2000) all hit bear market lows on that date. The headline in USA Today the following morning (10/10/02) was "Where's the bottom? No end in sight." In spite of the gloomy newspaper headline, the S&P 500 is up +64% and the NASDAQ has gained +95% from that low point to 6/30/06 (source: BTN Research, USA Today).

8 of the 10 largest mutual funds in the country have outperformed the S&P 500 stock index on a total return basis over the 10-years ending 5/31/06. The only 2 funds that have not beaten the performance of the stock index are both index funds whose portfolios mirror that of the S&P 500. In both cases, their 10-year performance results are within 1/10 of 1% of the index's 10-year average annual performance (source: Wall Street Journal, Standard & Poors Corp).

The average stock mutual fund investor achieved an annualized total return of only +3.9% for the 20 years ending 12/31/05 vs. a +11.9% average annual total return for the S&P 500. The shortfall in performance was due to buy/sell timing decisions initiated by the fund owner (source: Financial Times, Dalbar).

The individual taxpayer Form 1040 is just 2 pages long. The instructions however from the government that goes with Form 1040 are 142 pages long (source: IRS).

79% of 401(k) participants make no trades within their retirement account over a 2-year period of time (source: The Wharton School).

Nearly 2 in 5 retired adults (37%) underestimated the amount of living expenses they would have in their retirement years (source: WSJ Online, Harris Interactive Poll).

The proven amount of existing oil reserves in the world (1.2 trillion barrels) from 12/31/05 would last 25 more years if today's daily usage of 84 million barrels increases by +3% per year (source: British Petroleum, The Economist).

2nd QUARTER 2006
INVESTMENT PERFORMANCE REPORTING

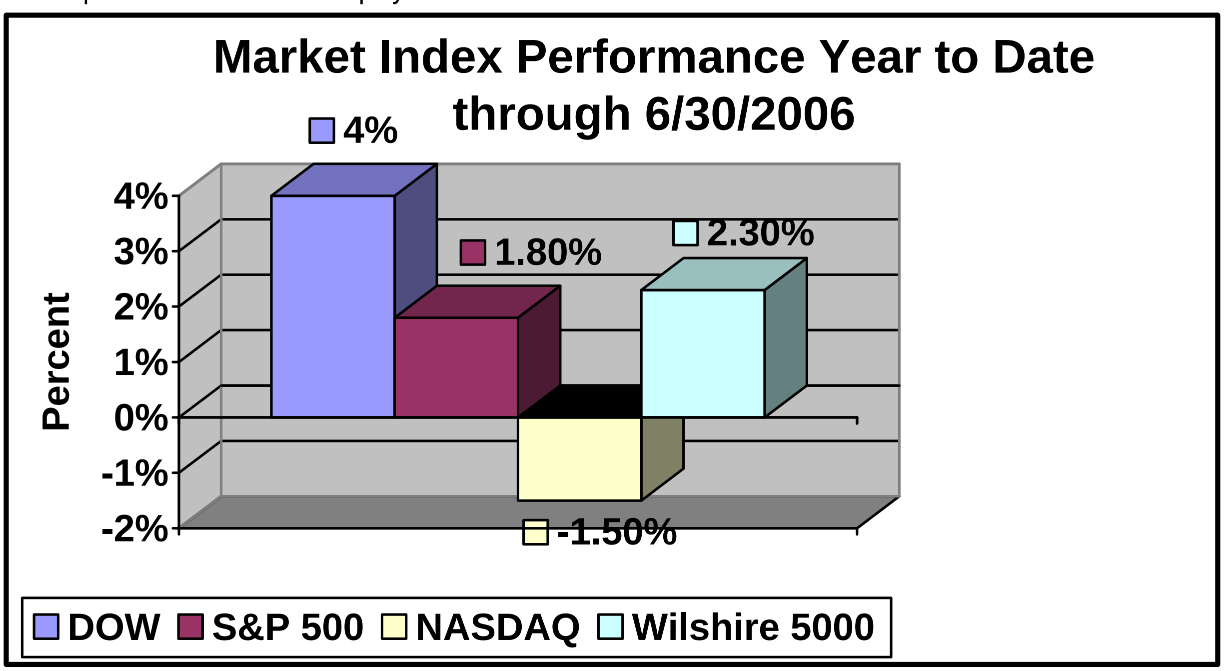
Dear Clients and Friends;

Enclosed is your 2nd quarter 2006 investment performance report for the period beginning April 1, 2006 and ending on June 30, 2006.

The first half of 2006 is on the record, and what a ride it has been. We began the year with a great rally, then hints of rising inflation and a newfound aversion to risk sent markets plummeting, then we rebounded a bit. Just like a roller coaster, we've soared and plunged only to end up where we started. That's not uncommon for the market in times of great uncertainty.

The price of oil, latent inflation, higher interest rates and the Hezbollah-Israeli conflict in the Middle East finally proved to be too worrisome for Wall Street, causing it to decline in the 2nd quarter. Most of the major market indexes posted declines for the period with the exception of the 30 Dow Industrials, which managed to post meager gains of less than a percent at 0.37%. Meanwhile in the broader market as measured by the S&P 500 declined -1.9%. The NASDAQ Composite lost substantial ground by declining –7.17%[1].

Year to date through the end of the 2nd quarter (6/30/2006), the major indexes brought lackluster returns with the DOW Industrials gaining 4%, the S&P 500 edging up 1.8% and the NASDAQ losing -1.5%. The broader market as measured by the Wilshire 5000 rose only slightly by 2.3%[2]. Elsewhere, a falling dollar made up for flat international equity markets to boost the MSCI EAFE 10%[3].



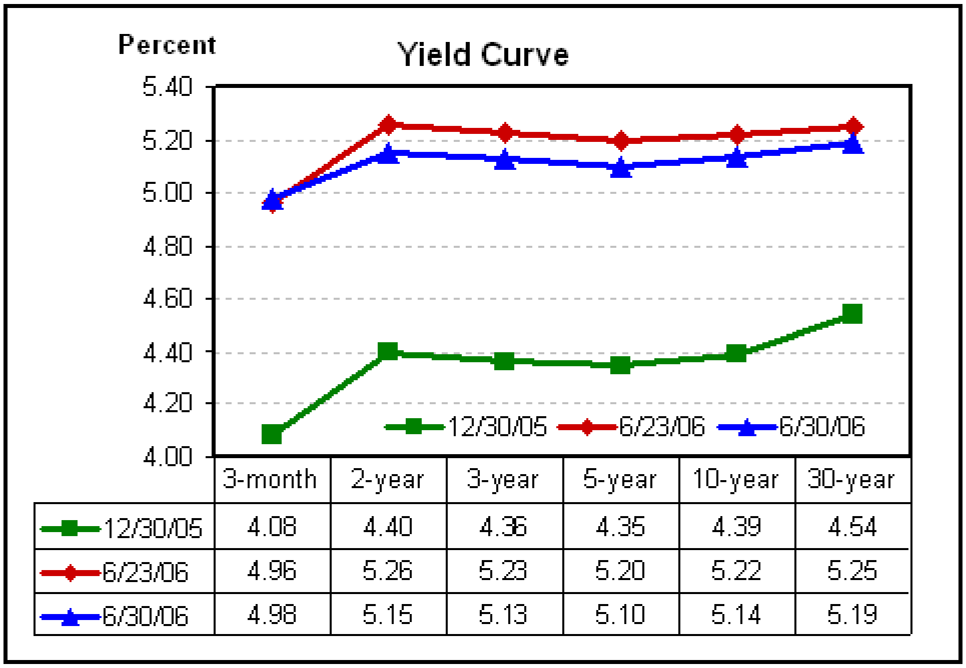
During the second quarter, large cap value was the only investment style category that posted positive returns, while even international stocks declined. Bonds were weak, as they continued to react negatively to the Federal Reserve's multiple rate increases for the third straight quarter.

Unlike the 1st quarter, where small cap and growth generally performed better, the better performance for the 2nd quarter of 2006 was generally found in large cap and value. Interestingly, there has been no rotation from value to growth with large caps, as predicted by many market analysts[4].

Generally speaking our managed portfolios declined during the 2nd quarter, however, year-to-date are generally showing positive returns. Exceptions might be due to timing of investment cash flows during the quarter or 1st half of 2006. Our portfolios, while generally being broadly diversified, have had investment exposure to small caps, mid caps, large caps, international, natural resources and real estate.

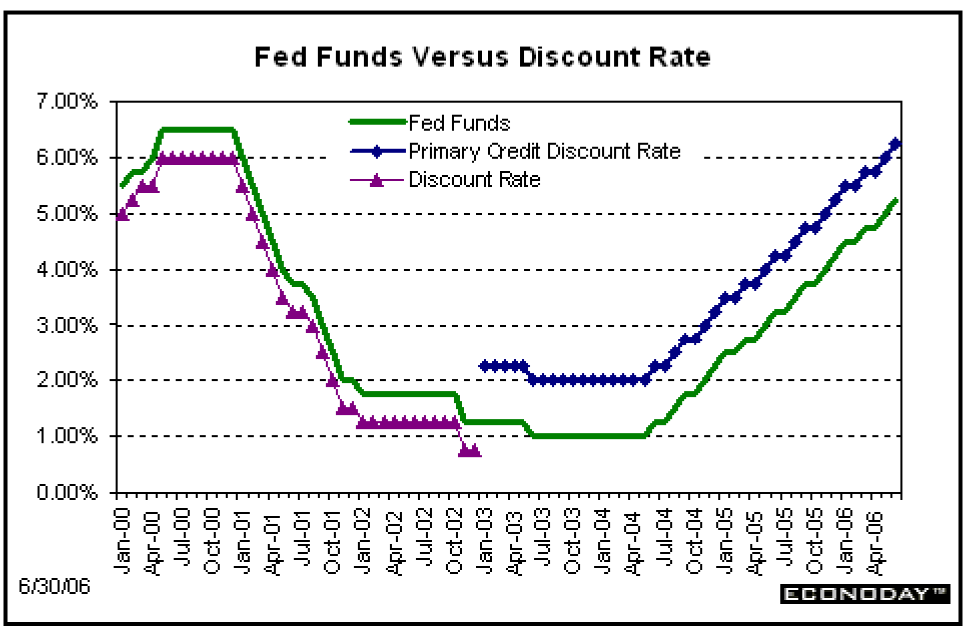
Bonds

Rising inflation and resulting rising interest rates hurt bonds as the Lehman Brothers Aggregate Index lost --0.7% for the first six months of 2006[5].



	3-month	2-year	3-year	5-year	10-year	30-year
12/30/05	4.08	4.40	4.36	4.35	4.39	4.54
6/23/06	4.96	5.26	5.23	5.20	5.22	5.25
6/30/06	4.98	5.15	5.13	5.10	5.14	5.19

The chart left (Source: Econoday Research) illustrating historical US Treasury yields indicates a higher level of interest rate yields across all maturities comparing 12/30/2005 to 6/30/2006, the end of the 2nd half of 2006[6]. While all rates have increased since year-end, short rates have gone up more than long term rates. Conversely, bond prices have an inverse relationship to bond yields, so when yields go up, bond prices go down, hence the reason for poor bond performance on a total return basis. The flattening of the yield curve as shown on 6/30/2006 (blue plot line) would suggest a slowing of the economy, perhaps in the last half of this year.

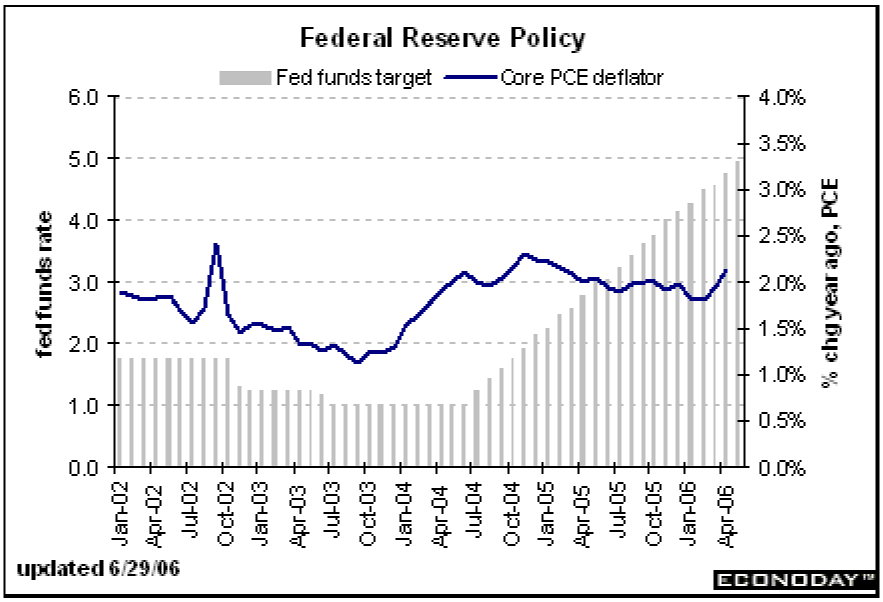


The Fed raised rates yet again on 6/29/2006 as the Federal Open Market Committee (FOMC) unanimously voted for a 17th consecutive increase in the fed funds rate, reaching 5.25% with a 25 basis point increase. This was the second rate increase in the 2nd quarter of 2006, with the previous rate increase in May edging the rate up 25 basis points as well.

The Fed has been hiking rates for nearly two years, bringing the Fed funds rate back up to 5.25% from a 40-year low of 1% in 2004 with rate hikes at each of 17 straight meetings, by far the longest consecutive streak in Fed history.

Along with the June rate hike, the FOMC released its statement, which noted that core inflation has been higher in recent months but that expected moderation in economic growth should limit inflation in coming quarters. However, the FOMC stated, "some inflation risks remain." Such language is consistent with the view that the FOMC is still seriously considering another rate hike in August but still leaves open the door for a pause in August.

As in May, the statement said the timing and extent of future rate hikes would depend on incoming economic data, which will make incoming economic data over the next six weeks before the August FOMC very important. The language in last week's FOMC statement regarding both inflation and real growth closely reflects the earlier general expectations. The FOMC sees real growth as currently strong but likely to moderate. Core inflation is elevated but also is expected to moderate. Of course the key question is to what extend either of these variables will moderate, and incoming data will still likely play a role in August's FOMC decision.



Released on	9/20/2005	11/1/2005	12/13/2005	1/31/2006	3/28/2006	5/10/2006	6/29/2006
Released for	9/20/2005	11/1/2005	12/13/2005	1/31/2006	3/28/2006	5/10/2006	6/29/2006
Fed Funds Target	3.75	4.00	4.25	4.50	4.75	5.00	5.25

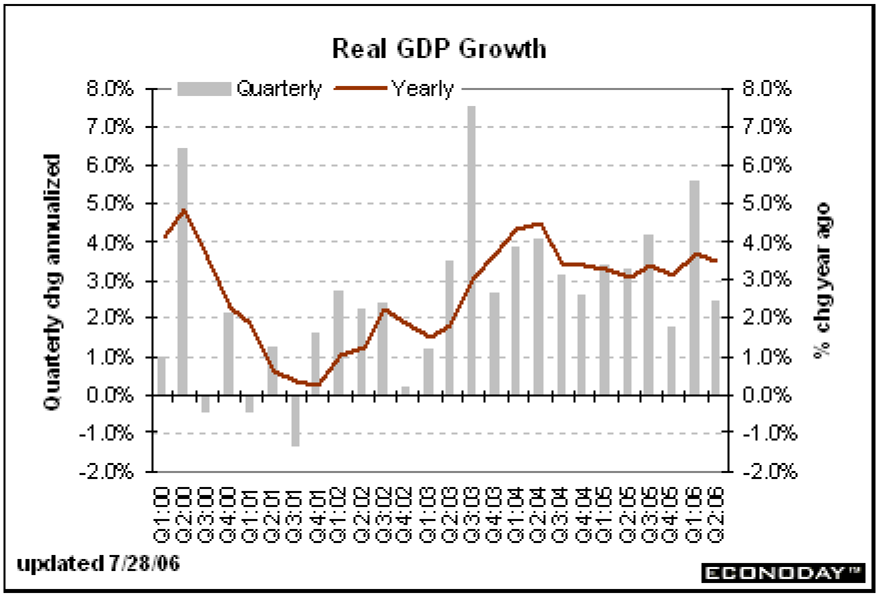
Data Source: Haver Analytics   Consensus Data Source: Market News International

The Fed closely monitors the core PCE deflator (as shown in the chart above) to indicate whether or not policy is approximately correct, overly accommodative, or too restrictive. The PCE deflator is preferred to the CPI because it is more closely aligned to the cost of living than the CPI (which measures a fixed basket of goods & services.)

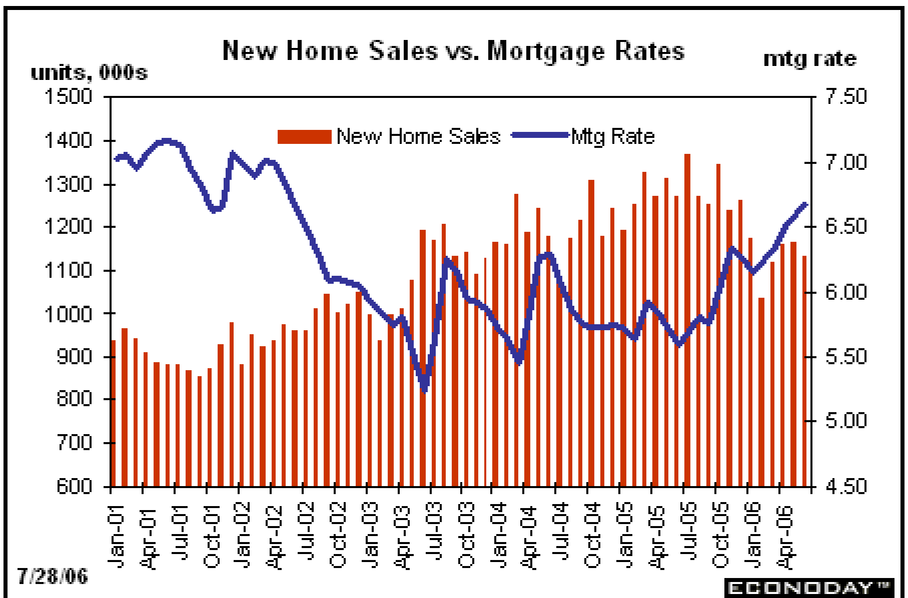
This chart covers monthly data and the fed funds target rate reflects the monthly average. As such, it will not correspond to the most recent fed funds rate target announced by the Fed.

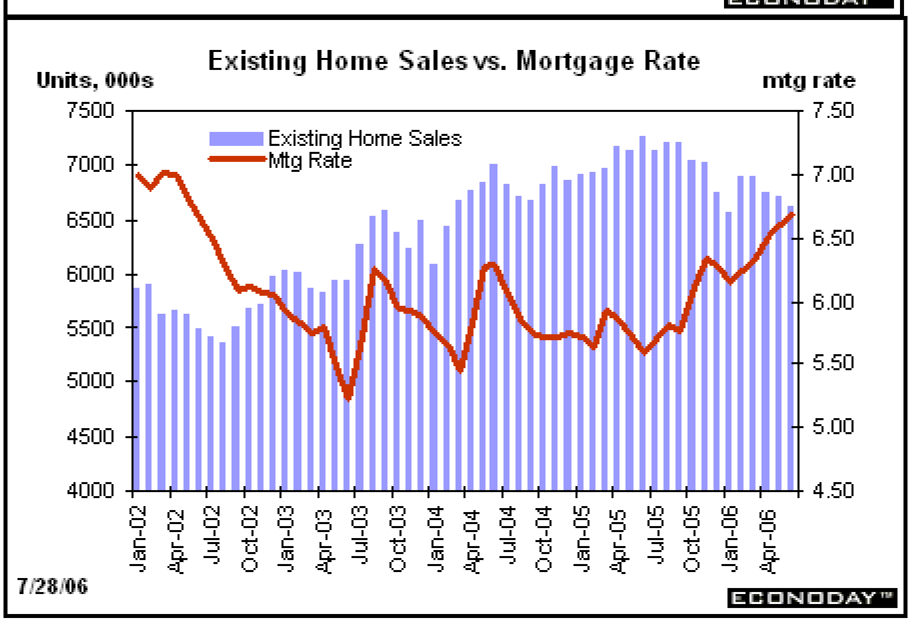
The Fed's monetary policy (e.g., rate hikes) typically works on a lagging basis. The last time the Fed raised short-term rates at least 7 consecutive times (before the current rate-hike cycle of 17 increases) was over the 12 months from 2/94 to 2/95. Inflation on a trailing 12-month basis continued to rise during the 4 months after the Fed stopped raising rates in 2/95 before beginning its descent[7].

Heads or Tails for the Future of Interest Rates



Since the 2nd quarter to date, economic indicators have shown the economy is slowing; however, inflation pressures have remained. The Gross National Product (GDP) slowed in the 2nd quarter posting a moderate 2.5% annualized rise, following a revised 5.6% increase in the first quarter. Consumer spending has shown indications of slowing while business spending on capital investments has increased picking up some of the slack[8].

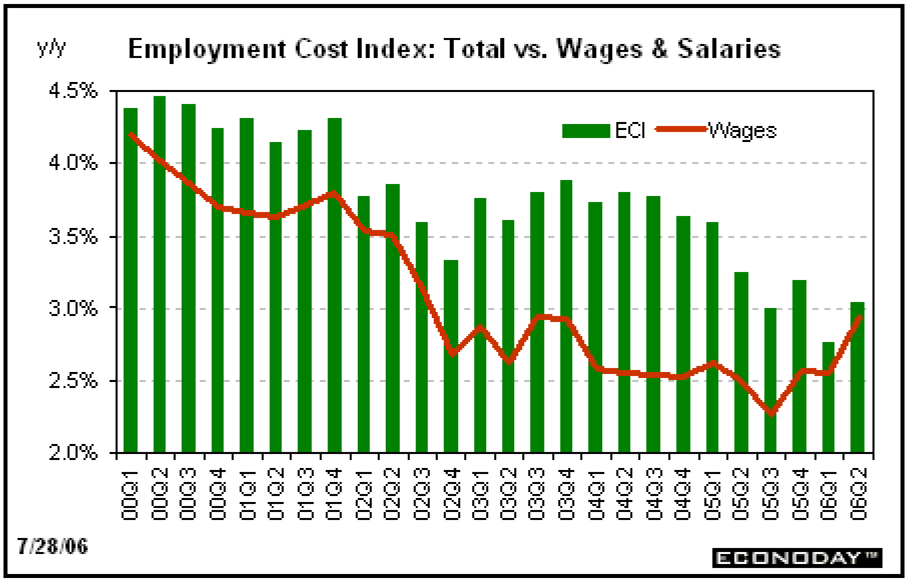




Further evidence of a slowing economy is surfacing. Housing sales ease back as both new and existing home sales slipped in June. At this point, fear of a bubble popping appears subdued. Higher mortgage rates have been expected to slow the housing market and they finally appear to be having some impact. Mortgage rates are up roughly 1.25% since this time last year. In June new home sales edged down 3.0% to an annual rate of 1.131 million. New home sales are now down 11.1% on a year-on-year basis.

Supply is now starting to weigh on the housing market. In June, supply rose to 6.1 months from 5.9 months in May. The latest supply figure is a little below the recent high of 6.4 reached this February but significantly higher than the cycle low of 3.5 in August 2003[9].

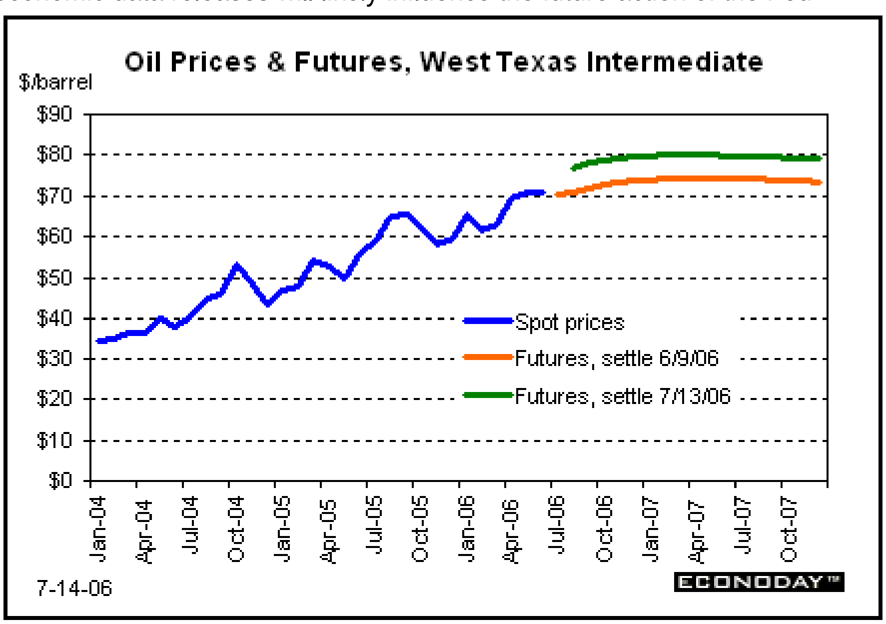
Existing home sales also have slowed with supplies also rising. Existing home sales edged down 1.3% in June. Existing home sales are down 8.9% on a year-on-year basis. Supply is even more of an issue for existing homes than new homes. Supply jumped in June to 6.8 months from 6.4 in May. June's supply figure set a 9-year high.



Employment costs are adding to inflation worries. The overall employment cost index rose 0.9% in the second quarter, following 0.6% in the first quarter. This rise in total compensation costs might be considered as merely a technical rebound from the first quarter's slowing from 0.8% in the fourth quarter. Still, wage costs have been steadily rising since the third quarter of last year. On a year-on-year basis, wage costs are up 2.9%, compared to 2.5% in the first quarter 2005 and the recent low of 2.3% in the third quarter of 2005[10]. Certainly productivity gains have kept wages from pushing hard on retail prices but with the economy slowing, productivity also is likely to slip.

The Bottom Line

The economy clearly showed signs of slowing in the second quarter and that probably is good news to the Fed. Housing seems to be on a slow glide path while manufacturing appears to be healthy. However, it's likely that the Fed views inflation at an unacceptable level for the consumer and for overall GDP, and we are starting to see a rise in wage costs. If the Fed does not raise rates further, then it is likely to take longer for current interest rates to bring core inflation down from an unexpectedly higher level. With that said, there is still the possibility of the Fed tightening further. It will be a data dependent summer, as upcoming economic data releases will likely influence the future action of the Fed.



Oil futures jumped sharply in early July indicating that traders expect oil to be near $80 per barrel well into 2007. While it is true, futures prices can change, however currently there is every indication that prices will remain near historic highs at least for the near future. Higher oil prices generally cut into consumer discretionary spending while at the same time feeding into inflation. The Fed's job appears to have been made more difficult.

What's UP with Oil? Or Back to the Future?

Duh! It's the price, everyone knows that! However, in real terms the cost of energy has gone down over the years. In 1920, an American had to work for 32 minutes in order to buy a gallon of gasoline. In 2000, an American worked 6 minutes to buy a gallon of gasoline, an 81% improvement. A kilowatt-hour of electricity cost 8 minutes of work in 1920; about 12 seconds in 2000. Furthermore, with efficiency gains, the real cost of the work energy declined further. In 1920, it cost about 137 seconds of labor to drive one mile. By 2000, the figure was 16 seconds, an 88% decline in price, or 2.7% per year improvement[11].

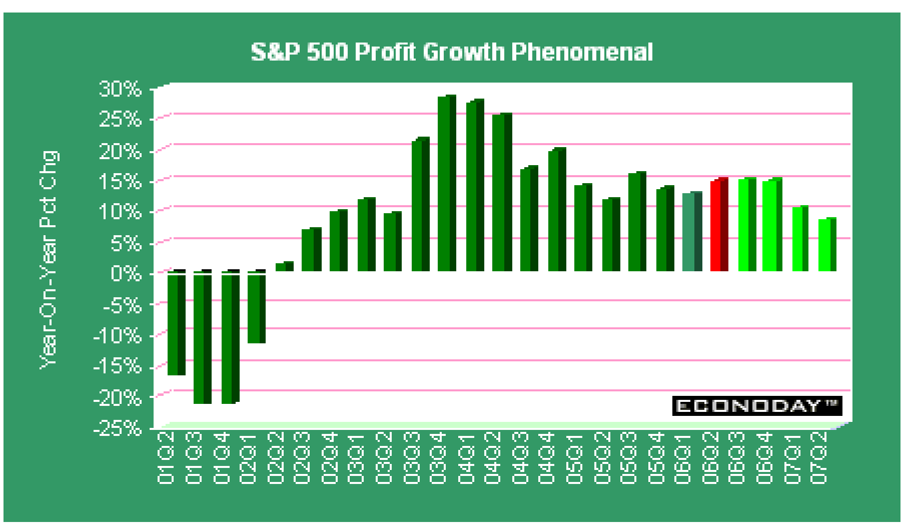
Everyone seems to be talking about the high price of energy. Fear of supply disruptions and shortages caused by geopolitical tensions and hostilities are often cited as the reason for daily market fluctuations. The actions of objectionable regimes seem to cause the price of oil to rise and fall dramatically. Some doomsayers predict a severe change in western lifestyles as a result of long lasting oil shortages. But as the information above indicates, energy prices would have to be a great deal higher to go back to 1920.

It is unlikely the world will run out of energy anytime soon as long as people are free to use their minds and profit from their ideas. The profit motive has already spurred investment in "alternative" sources and redirected research and development dollars to more efficient or entirely new methods of extracting and converting energy. Substantial opportunities exist in improving energy efficiency, which lengthens the lifetime of finite resources and creates real economic value in the present. While some are predicting a hungry, cold and short life in the future I expect we will develop new sources and improving efficiency, along with conservation of existing energy resources. While there are forces now driving the price of oil into a seemingly never-ending upward spiral, there are other opposing forces in play that are counteracting the upward price increases. Let's hope the old saying might apply, "what goes up, must come down".

Every Cloud Has a Silver Lining

There are many things to worry and frighten investors these days. If you want to be scared, don't look at a horror movie, just listen to the news. While it's true there are many significant worries and concerns, the economy while slowing, still appears to be healthy and resilient. A good economy generally indicates a good environment for businesses and corporations to make money. Strong corporate profits and earnings ultimately drive the direction of the markets.

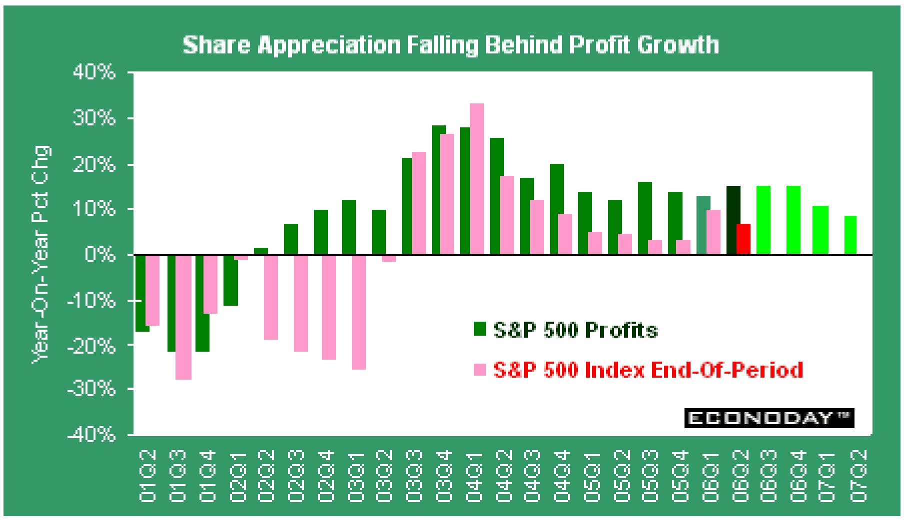
The graph below tracks year-on-year profit growth for S&P 500 companies with the red bar on the right side of the graph representing the second quarter -- the 17th straight quarter of growth. With about two-thirds of S&P companies having now reported, year-on-year growth is coming in just under 15%, 3.5% above expectations this time last quarter and 5% above expectations following the June warning season. These numbers, coming on top of three years of difficult comparisons, are making for an unusually strong earnings season. And in a sign of special strength, gains are being posted across sectors with no single industry skewing the results (data compliments of First Call).



Company outlooks, for the other half of the earning season, are also strong. Forecasts for future quarters, the light green bars on the far right of the graph, point to at least two more quarters of similar growth. Given recently that results have consistently beaten expectations, profits in the third and fourth quarters could very well exceed second-quarter growth. It's interesting to note, expectations of strong profit growth stand in contrast to second-half expectations for slowing economic growth.

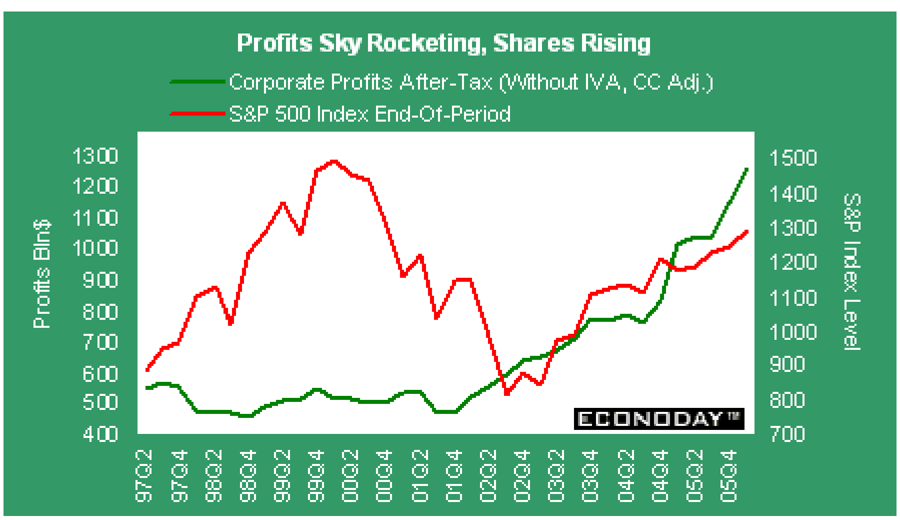
Headline News - Earnings Move -- Stocks Stuck.

Lagging stock prices in relation to earnings has been one of the hallmarks of the post-millennium economy. As the graph below shows, year-on-year changes in the S&P 500 have underperformed year-on-year changes in profit growth for 15 of the last 17 quarters! This time last quarter, share prices were narrowing the gap and making for an upbeat stock-market outlook. But the new widening is a disappointment that may point to a continuation of the long lackluster trend.



One might reasonably conclude that we are stuck in a period of secular stock-market underperformance. Perhaps the psychological impact of the Y2K bust is part of it. Maybe doubt and mistrust over corporate misdoings plays a significant role. No doubt terrorism and the Middle East may be curbing risk appetite. High gas prices are likely another factor hurting consumer confidence and retail spending. My guess is that two years of rising interest rates haven't helped either.

You can't blame corporate profits lagging stock prices. The graph below compares year-on-year changes in total corporate after-tax profits (green line) with changes in the S&P 500 index (red line). The millennium (tech) bubble in the late 90s really stands out; a period when stock market gains far exceeded what was really a period of flat profit performance. But profits over the past several years have been picking up sharply, especially recently. Stocks, however, have been mostly lagging and certainly have not been over-anticipating future profits[12].



So What's Up? (If stocks aren't)

The economy for one thing! In just over the past 11 quarters, dating back to the June 2003 Bush tax cuts, America has increased the size of its entire economy by 20 percent? In less than three years, the U.S. economic pie has expanded by $2.2 trillion, an output add-on that is roughly the same size as the total Chinese economy, and much larger than the total economic size of nations like India, Mexico, Ireland, and Belgium[13].

Profit growth has made for robust corporate tax receipts, a big plus behind the narrowing in the government's deficit. The 2003 supply side, investor tax cuts lowered the cost of capital and increased the after-tax return to investment. This made investment spending much more attractive and was the catalyst for the business cap-ex boom. Since the tax cuts, real GDP has increased by 11.5%. Lower tax rates on business investment are having a big impact. Tax investment less and you get more of it[14].

Not only are corporations reducing the budget deficit, individuals are pitching as well. Through 7 months of fiscal year (FY) 2006 (i.e., the period from 10/01/05 to 4/30/06), individual income tax receipts are up $54 billion in aggregate (+9.9% increase) over the same 7 months from FY 2005. That's equal to $1 billion of additional tax revenue every 4 days over the amount that was collected just 1 year earlier[15]. For the first 9 months of fiscal year (FY) 2006, the US government has taken in $794 billion of individual income taxes, up $100 billion over the same 9 months in FY 2005[16]. Tax people less and you get more of it.

High profits have also fed three years of rising business investment that promise to boost product development and future profits. Unfortunately so far for the stock market, strong profits have yet to make for strong spirits.

In Closing

During July, we made some changes to our portfolio models and to your accounts to reflect changes in the expected economic environment. We will continue to make changes in the balance of the portfolios we manage during the 3rd quarter in an effort to take advantage of changing market fundamentals and to attempt to make sure that you are in investments that perform well when compared to their peer categories.

We appreciate the confidence and trust you have placed in us to manage your investments and to assist you with your financial planning. We take this charge very seriously. We sincerely appreciate your business.

Please feel free to call us if you have any questions regarding this report, your investment portfolio or its performance. Please do not hesitate to call your advisor if you would like to schedule an appointment or telephone appointment. Regular consultations with you are an important part of the service your advisor provides.

I hope you are doing well and have been enjoying the summer. Fall is soon approaching. Hopefully, it will usher in more positive market performance we have been anticipating. Your 3rd quarter investment performance report should be sent to you around the middle of November 2006 or sooner if possible.

Sincerely,

Scott E. Bordelon

Scott E. Bordelon, CFP®, AAMS

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- *The S&P 500 is made up of 500 common stocks representing major US industry sectors*
- *The Dow Jones Industrial Average is an index of 30 blue chip US Stocks*
- *The Russell 2000 is a small cap index which tracks the returns of the smallest 2000 firms in the Russell 3000 Index, which is composed of the 3000 largest companies in the United States, as measured by Market Capitalization*
- *The NASDAQ Index is a measure of the combined value of roughly 5000 stocks traded on the National Association of Securities Dealers Exchange*
- *Lehman Brothers Aggregate Bond Index is abroad based bond index composed of U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities, and commercial mortgage-based securities.*
- *NAREIT Equity Index. NAREIT share price equity index measures the performance of all tax-qualified REITs listed on the New York Stock Exchange, American Stock Exchange, and the NASDAQ National Market system.*
- *Lehman Brothers High Yield Index is an index comprised of the universe of fixed-rate, non-investment-grade debt.*
- *One cannot invest directly in an index.*
- *Investments are not guaranteed and may lose value.*
- *Past performance in no way guarantees future results.*
- *Diversification does not assure against market loss.*
- *Russell1000 ®Index – measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index. As of the latest reconstitution, the average market capitalization was approximately $13 billion; the median market capitalization was approximately $3.8 billion. The smallest company in the index had an approximate market capitalization of $1.4 billion.*
- *The Wilshire 5000 is an index of approximately 5000 stocks designed to be a measure of the entire U.S. market.*
- *Data Source for charts: Haver Analytics.*
- *S&P Mid-Cap Index is a diverse basket of medium-sized U.S. firms. A mid-cap stock is broadly defined as a company with a market capitalization ranging from about $2 billion to $10 billion.*
- *The S&P Small Cap 600 Index consists of 600 small-cap stocks. A small-cap company is generally defined as a stock with a market capitalization between $300 million and $2 billion.*
- *PSE 100 Index - The ArcaEx Tech100 Index is a price-weighted index comprised of common stocks and ADRs of technology-related companies listed on US exchanges.*
- *The Dow Jones Utility Average is a price-weighted average of 15 utility stocks traded in the United States.*
- *The Dow Jones Transportation Average is a price-weighted index composed of 20 stocks that are chosen to represent the transportation industry.*

Endnotes:

[1] As calculated by dbcams+
[2] According to Bloomberg, Inc.
[3] According toMorningStar.
[4] According toMorningStar.
[5] Source: Econoday
[6] Source: US Treasury Department
7 Source: US Federal Reserve, US Dept. of Labor
[8] Source: Econoday
[9] Source: Econoday
[10] Source: US Dept. of Labor
[11] Source US Dept of Labor and US Dept. of Commerce
[12] Standard and Poors Corp., Econoday
[13] According to economist Lawrence Kulow
[14] According to economist Lawrence Kulow
[15] Source: US Treasury Department
[16] Source: US Treasury Department