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Registered Investment Advisor

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In March 1999, Yale finance professor Roger Ibbotson predicted the Dow Jones Industrial Average would reach 120,368 in 2025. Given the Dow's 12/31/05 close of 10,718, it will take a +12.9% annual rate of return over the next 20 years to reach his prognostication (source: Investment News magazine, Yale University).

In May 1974, Yale finance professor Roger Ibbotson predicted the Dow, then trading at less than 900, would reach 10,000 by 11/99, or 25 ½ years later. The Dow hit 10,000 on 3/29/99 (source: Fortune magazine)

The 10 largest capitalized stocks in the S&P 500 (10 out of 500 or the largest 2%) made up 20% of the total market capitalization of the index as of 12/31/05. Since the S&P 500 is a cap-weighted index, 2% of the stocks drove 20% of the index's +4.9% total return in 2005 (source: Standard & Poors Corporation).

On 8/13/79, a weekly business magazine ran a cover story that was titled "The Death of Equities." For the 26 years beginning 1/01/80 to 12/31/05 the S&P 500 was up +2,407% (total return), or +13.2% compounded annually. That would have turned \$1 into \$25 ignoring the impact of taxes (source: BusinessWeek).

The price of gold closed at \$557 an ounce last Friday, its highest close since 1Q 1981 or 25 years ago. The peak price of gold was \$850 an ounce on 1/21/80 or 26 years ago (source: NYMEX, Forbes).

The US economy grew +4.3% (annualized rate) in the hurricane-ravaged 3rd quarter, a result that exceeds our annual GDP growth in 4 of the last 5 calendar years (source: Commerce Department).

To accumulate \$1 million in a tax-deferred account earning a static +7% over a 30-year period requires monthly contributions of \$850. To accumulate \$1 million in a tax-deferred account earning a static +7% over a 20-year period requires monthly contributions of \$1,959 (source: BTN Research).

4th QUARTER AND ANNUAL 2005 INVESTMENT PERFORMANCE REPORTING

Dear Clients and Friends;

I'm very happy to enclose your 4th quarter 2005 investment performance for the period beginning October 1, 2005 and ending on December 31, 2005. Additionally, enclosed is your 2005 annual reconciliation report.

What a year 2005 has been. Many people from disaster stricken areas of Louisiana and Mississippi, I sure hope it's a year that never repeats. It's hard to believe that 2005 turned out to be generally a decent year for our client's portfolios while it was a lackluster year for the stock market as measured by the major market indexes.

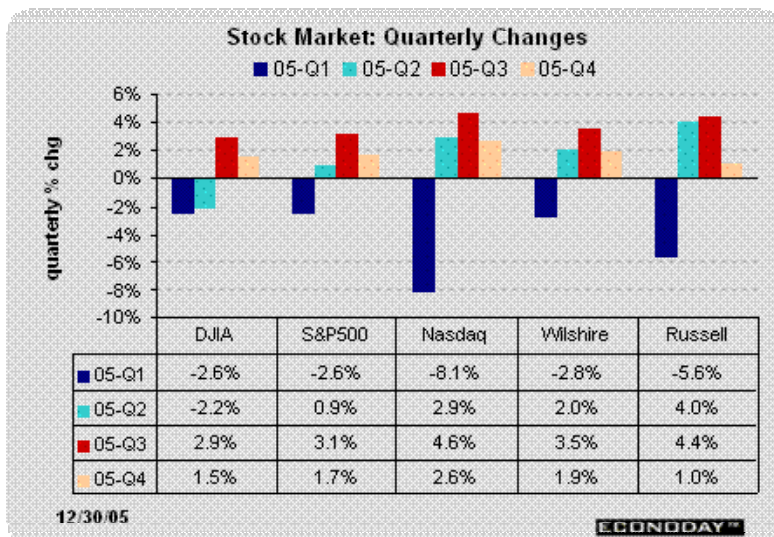
From the beginning to the end of the year, results posted by our most popular domestic financial benchmarks were mixed. Without the effects of dividends, the S&P500 gained 3%, the NASDAQ Composite tacked on nearly 1.4%, but the Dow Jones Industrial Average of 30 stocks slipped -0.6%, in large part because one of its components, giant automaker General Motors, lost over 50% of its value over the year. Such a tumble underscores the fact that even industry leaders can fall and proper diversification can often soften the effects.

During the year value stocks continued to lead the pack. Value stocks beat their growth and core peers by a narrow margin. Mid-caps outperformed large and small caps. Mid-cap stocks, which have led the market for much of last year, continued their winning streak. Energy stocks were tough to beat. Fueled by rising oil prices, the energy sector posted a stellar 35% gain¹.

The markets still seemed to be plagued with worries most of the year, while good economic fundamentals were offset by ever-increasing investor uncertainty brought on by fear of rising interest rates, slowing economic growth, cooling housing market, the War in Iraq, threat of a terror attack, threat of nuclear Iran, rapidly increasing energy prices, and record breaking natural disasters. Throughout the year, this year as in last year, the mainstream news media negative news reporting, incessantly relayed to us that the economy was performing poorly, rising oil prices and natural disasters would cripple the economy and job growth was dead, while inflation was running rampant. Meanwhile, I consistently advised that you not to listen to the mainstream media noise and stay the course, as economic conditions were good and market valuations were historically favorable.

What gets lost in all of this negativity is the U.S. economy's great resiliency. There is no question that Hurricanes Katrina and Rita dampened activity in the second half of the year. Both the third and fourth quarters were hampered by hurricane damage. In addition to actual reduction in production during the quarter, consumers and businesses were faced with sharp gains in energy prices and this certainly dampened spending. Even so it appears that the annual Gross National Product (GDP) increased 3.0 percent. While this is lower than the strong 4.1 percent garnered in 2006, it is closer to the normal historical average of GDP growth².

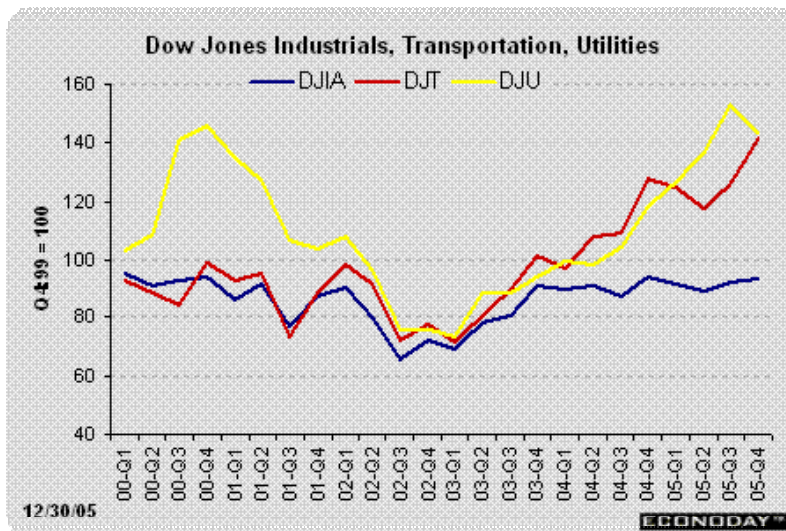
The Commerce Department's advance estimate shows that real GDP grew at a soggy 1.1 percent rate in the fourth quarter after growing at a solid 4.3 percent rate in the third quarter³. This lower 4th quarter rate was very likely affected by the storms and I wouldn't be surprised if it doesn't revise upward or that first quarter 2006 GDP comes in at a strong rate.



2005 Market Overview

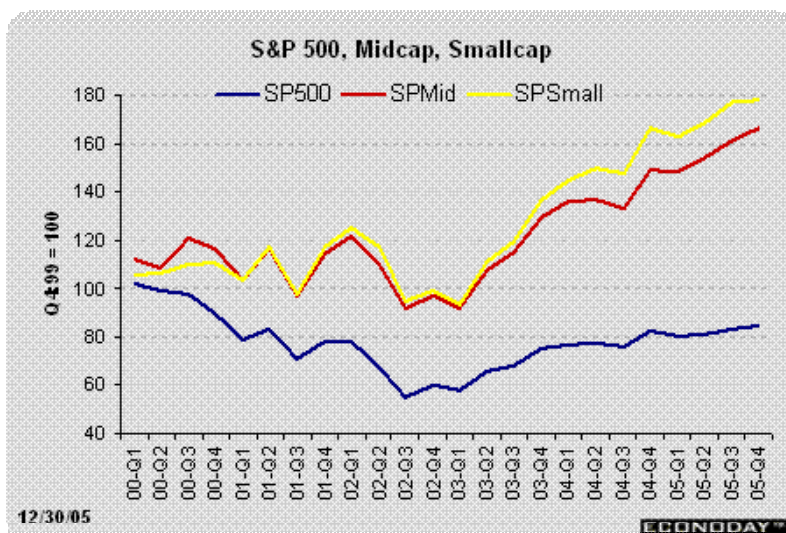
Generally, the year 2005 was a positive one, although a year with the major US market equity indexes returning mediocre returns at best. Even though most major stock indexes declined in the first quarter, they managed to post gains in subsequent quarters - with the exception of the Dow Jones Industrials, which declined in the second quarter of the year as well. The Dow rose in the fourth quarter, but was still down for the year as a whole. The Wilshire 5000, which

is a comprehensive measure of the market, performed most strongly in 2005, followed by the Russell 2000. At the beginning of the year, analysts had predicted that the small cap market would under perform the large caps this year - but that was not the case⁴.

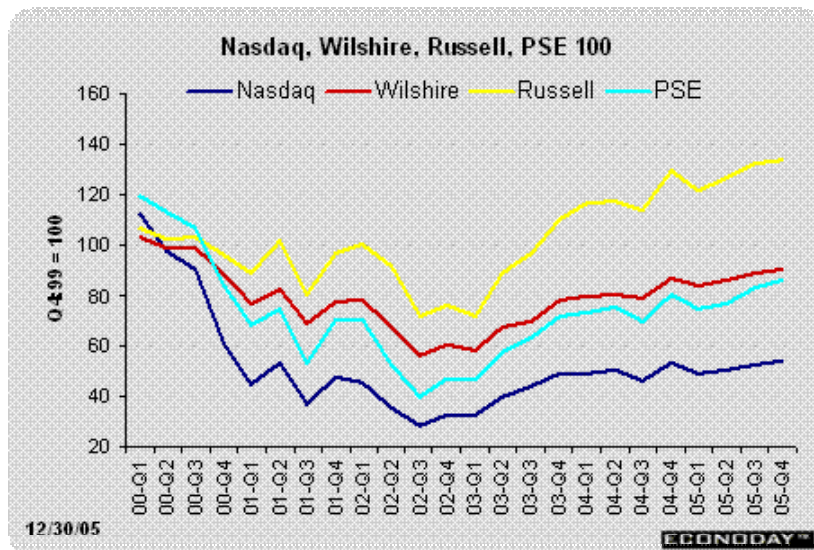


The widely followed major market indexes have still not recovered from the Tech Bubble Bear Market that began at the end of 1999 and beginning of 2000. The chart left depicts the three key Dow indexes relative to December 1999, just about the time that the bubble was beginning to burst. The most widely followed Dow Jones Industrial average (DJIA) has not quite yet returned to its pre-bubble bursting glory and remains below the closing level on December 1999. The DJIA ended 2005 6.7 percent below its

1999 closing value. In contrast, the Dow Jones Transportation Average as well as the Dow Jones Utility Average has indeed recovered from 2000 - and surpassed the old high levels⁵.



Similarly, the S&P 500 has not yet recovered from the highs reached in 1999. However, the S&P Midcap index as well as the S&P Smallcap index are both well above levels reached during the 2000 bubble period. Note that the small cap sector is outperforming both the mid cap and large cap sector and the S&P Smallcap index is nearly 80 percent higher than its 1999 closing value while the S&P 500 is just about 15 percent lower than its 1999 closing value⁶!

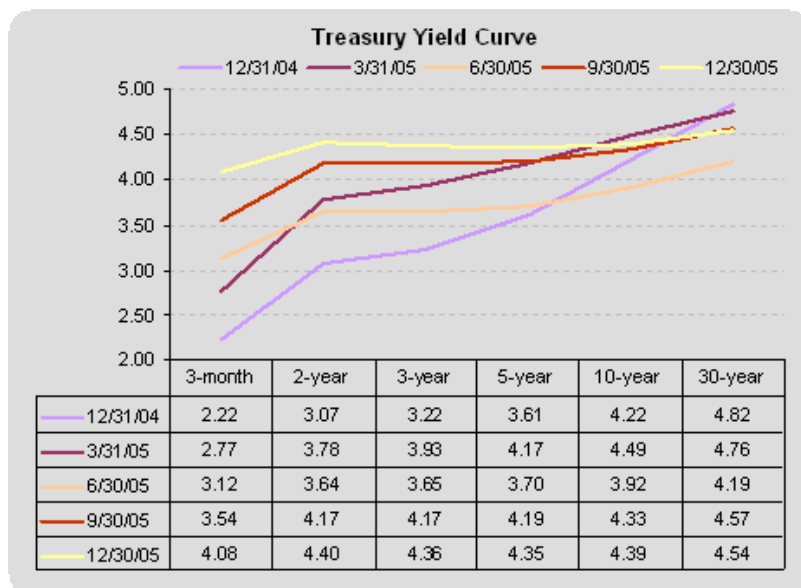


Most market indexes peaked in March 2000 and were still above their 1999 closing values in early 2000, but this quickly changed as key market indexes plunged through 2002. In early 2003, stock prices were showing better recoveries relative to their 1999 values. But through 2005, only the Russell 2000 has reached new highs post 2000. The Nasdaq composite, the Wilshire 5000 and the PSE 100 (technology) indexes are still well below 1999 closing levels, with the worst performance

by the Nasdaq composite index, which closes this year 45.7 percent below 1999 levels.

BONDS

The flattening shape of the yield curve dominated the bond market in 2005 - and certainly became an even larger focus at the end of the year as the curve inverted. The much-ballyhooed inversion that has been so widely discussed is the spread between the 2-year Treasury and the 10-year Treasury. Basically, we are talking about a very slight "inversion" and then it was only temporary.



But then, short rates are supposed to be lower than long rates, so even a flat yield curve is not necessarily desirable. The concern is that an inverted yield curve often signals recession. And while every recession was indeed preceded by a yield curve inversion in the past 40 years, not all yield curve inversions have led to a recession, most recently in 1998. While it is certainly possible that the yield curve could be signaling a recession in the next 12 - 18 months, it is also possible that it is simply signaling a growth recession, where economic growth may not decline outright, but simply expand at a slower rate which is less than its

potential.

Looking Forward

In the last 25 years (1981-2005), the total return performance of the S&P 500 in the month of January has predicted the direction of the overall calendar year result 84% of the time. Only in 4 years (in 1982, 2001, 2003 and 2005) during that stretch of time has the January indicator not worked. S&P 500 index performance was positive in January⁷. Does that guarantee positive performance for the market in 2006? No, of course not, but I like the odds.

In all seriousness, many of the economic Guru's I follow are indicating that they believe 2006 will be a good year for the markets. The economic growth that the United States enjoyed in 2005 will continue in 2006 as stronger business investment begins to pick up the slack for consumers, who will curtail the white-hot spending that has been a key factor in propelling the economy, according to Wharton faculty members and private-sector economists. In addition, oil prices will remain high in 2006 (but not much higher than they are now), the residential real estate boom will cool, and American workers will be forced to deal with a volatile employment market, these experts say.

According to Wharton Finance Professor Richard Marston, "We have been growing at a reasonable pace since early 2003. The growth of corporate profits isn't as great as it was in the first 18 months of the recovery, but companies have been churning out higher earnings quarter after quarter."

Here's what Wharton Finance Professor Nicholas Souleles had to say. "It looks like the economy has weathered both the hurricanes and the energy spike pretty well," notes Souleles. "The third-quarter GDP number was revised up from an already reasonably good number despite all the problems we have had. Without [the Gulf Coast storms and high oil prices], there might have been extraordinary third-quarter growth. So the good news we have going forward in 2006 is a lot of momentum."

Economists at Standard & Poor's expect GDP to increase by 3.4% in 2006, according to the Dec. 14th issue of *The Outlook*, a weekly S&P publication. Inflation, as measured by the Consumer Price Index, will remain muted at 2.4% in 2006, while the core CPI, which excludes volatile food and energy prices, will be 2.3% for the year. S&P says the projected \$200 billion likely to be spent on rebuilding efforts in the wake of Hurricane Katrina will contribute to economic growth in the first six months of the year.

At the end of 2006, according to Wells Fargo's senior economist Scott Anderson, economists will be able to look back over the previous 12 months and find "that the Federal Reserve successfully halted the advance of inflation that followed the energy price spike of 2005. But this success on the inflation front will be won at the expense of modestly slower GDP growth. The housing downturn, in part due to the Fed's actions, will become more pronounced as the year progresses, triggering a passionate debate regarding overall economic activity and the potential impact on credit quality and job creation."

Let's hope these very intelligent gentlemen are correct in their assessment of the future.

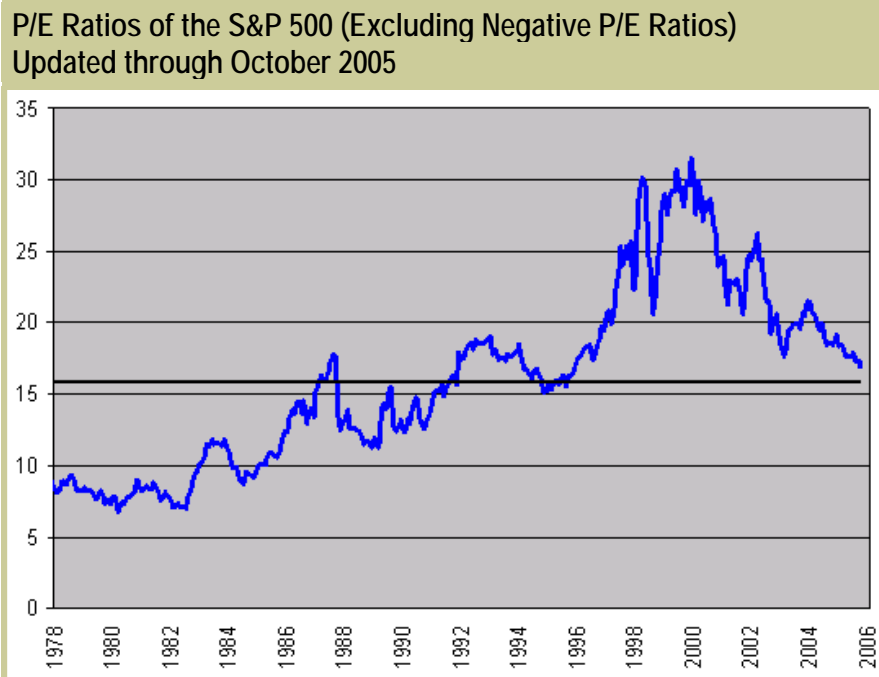
Finally, I'd like to end with my estimation of when the Fed will stop its current tightening cycle. The Fed, in my estimation, is almost ready to stop increasing rates in early 2006. Many of the economists that I follow seem to concur that the Fed, now led by Ben Bernanke, most likely has one, perhaps two more adjustments upward in interest rates, barring any unforeseen circumstances. If this proves to be correct, we could see stock and bond prices rally. Again let's hope so.

Another point worth mentioning, stock prices seem to be at historically low valuations now and if corporate earnings keep growing at current levels. The chart below examines the price-to-earnings (P/E) ratio of the S&P 500 Index since 1978. The average over this period—15.8—is marked. Several themes are clearly evident.

The most apparent is the steady increase in market P/E ratios throughout the 1980s, culminating in a rapid P/E expansion into 2000. The market peak and subsequent steep decline resulted in a significant P/E contraction. Yet, corporate profits barely skipped a beat, and earnings growth quickly accelerated. This resulted in a P/E ratio that continued to decline, as the markets remained flat, despite the earnings growth.

Market P/E ratios can tell you a lot about how investors view the market. Embedded in the assumptions are market expectations for future long-term interest rates and risk. With low interest rates on bonds, the P/E ratios for stocks will be high, since they only need to offer a competitive return.

The potential riskiness of future cash flows is also important in determining the P/E ratio. One good proxy for risk is inflation, as inflation has a nasty way of eroding corporate profits and creating uncertainty. With low expected inflation, risk is lower, and the P/E ratio can be justifiably higher.



Source: Capital Market Consultants EResearch

Given that inflation expectations are modest (albeit with some pressure building), a repeat of 1970s-style inflation is unlikely. In other words, the P/E at which the market is considered at "fair value" may be higher today than in the past. Whatever the case, market valuations cannot be universally declared, "overvalued" as they were in 2000, and flat markets coupled with healthy earnings growth will continue to put downward pressure on P/E ratios. At some point, investors will notice, maybe just in time for the spring season.

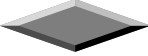
We appreciate the confidence and trust you have placed in us to manage your investments. We take this charge very seriously. We sincerely appreciate your business.

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 enjoyed the holidays. Winter will be over soon and spring will be upon us. Your 1st quarter investment performance report should be sent to you around the middle of May 2006 or sooner if possible.

I remain sincerely,

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 SmallCap 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 Source: Morningstar

² US Dept. of Commerce.

³ US Dept. of Commerce.

⁴ Econoday and Haver Analytics.

⁵ Econoday and Haver Analytics.

⁶ Econoday and Haver Analytics.

⁷ Source: BTN Research