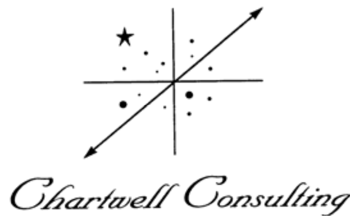

CHARTWELL REVIEW

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Mid-Terms

It's once again time to elect 100% of the House and one-third of the Senate, but not a new Chief Executive. Depending on your persuasion, this time of year is as exciting as watching the World Series (of baseball, not poker). Will the underdog pull off a stunning victory, will the favorite ultimately prevail with a walk-off home run in the ninth, or should we instead just keep tuning in re-runs of CSI until it's all over?

If you're an investor, the headlines have already been written. A quick check of Table 1 will tell you Wall Street's opinion on the outcome of this year's mid-terms: it just doesn't matter. Send a Republican-controlled Congress back to D.C., and it'll be same old, same old. Send a full or half Democratic-controlled one, and it'll be mostly same old, same old (although perhaps a bit more entertaining). Institutional investors historically have waited to focus on mid-term elections until the 3rd quarter of that year. Somewhat last moment, but by then issues have had an opportunity to come into better focus. This has regularly produced lots of market volatility during the third quarter of most even-numbered years. This time, the last few months suggest current politics are "all good" from Wall Street's vantage point.

Too glib? Perhaps. But, how better to explain a quarter where another war breaks out (briefly) in the Middle East, the Axis of Evil member ranked #2 in global oil production promotes our country's annihilation, another AoE member ratchets up its nuclear weapons agenda, yet global stock markets rise 4-6% and then continue further upward in October? Equity markets around the world have climbed a very steep wall of worry since their mid-year test during early May through early July.

Table 1. Index Benchmarks

Market Index	Q3 2006	Trailing Returns * 1 Yr	3 Yr	5 Yr	10 Yr
S&P 500	5.7	10.8	12.3	7.0	8.6
U.S. Large-cap Stocks	6.3	10.5	10.8	5.3	7.8
U.S. Mid-cap Stocks	2.1	9.6	18.2	14.8	11.9
U.S. Small-cap Stocks	0.4	9.9	15.5	13.8	9.1
Foreign Stocks (**devel**)	4.0	19.6	22.8	14.7	7.2
Foreign Stocks (**emerg**)	5.0	20.8	31.0	28.9	7.6
T-bills (3 month)	1.3	4.8	2.9	2.4	3.8
1-3 Year Treasuries	2.0	3.7	1.9	2.8	4.8
U.S. Aggregate Bonds	3.8	3.7	3.4	4.8	6.4
High Yield Bonds	4.1	8.0	9.0	10.2	6.6
Global Bonds, ½ hedged	2.4	2.8	4.1	5.9	5.9
CPI, ***annualized***	0.8	2.1	3.1	2.7	2.5
DJ Commodity Index	(6.5)	(6.1)	12.9	13.5	7.0

* Annualized trailing returns for periods ending 9/30/06.

Table 2. Average Fund Returns

Fund Category	Q3 2006	Trailing Returns * 1 Yr	3 Yr	5 Yr	10 Yr
U.S. Large-cap	4.1	8.8	11.9	6.9	7.9
U.S. Mid-cap	0.5	7.4	14.6	11.4	9.8
U.S. Small-cap	(1.0)	7.0	14.9	13.3	10.5
International Lg. Cap	4.0	18.8	21.8	14.6	8.4
International Sm. Cap	1.9	19.8	26.3	22.6	13.2
Emerg. Mkt. Equity	5.2	20.2	30.7	28.5	8.3
Balanced/Hybrid	3.6	7.6	9.4	7.1	7.6
General Bond	3.7	3.7	3.8	5.3	6.1
Government Bond	3.9	3.0	3.1	4.2	6.0
High Yield Bond	3.3	6.9	8.2	9.4	5.6
Hedge Funds - Broad	*0.9*	*8.3*	*9.6*	*9.0*	*10.4*

* Annualized trailing returns for periods ending 9/30/06.

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U.S. Economy – the slowdown arrives

Gross Domestic Product (GDP) growth in the 2nd quarter slowed to just a 2.6% annualized advance in real terms (+5.9% in current dollar terms). Realized growth was well down from original forecasts (of 3.3%), and from the first quarter's 5.6% annualized advance. Information flowing into the marketplace during the 3rd quarter strongly indicated a continuation of the weakening trend, and a consensus developed around the notion that third quarter growth would certainly not exceed 2.5% in real terms (and might be below 2%). This now seems to have been a bit too optimistic. The Bureau of Economic Analysis' formal estimate is that real growth in the 3rd quarter was just 1.6% annualized (+3.4% in current dollars). If this is not revised upward (which sometimes happens), it will represent the weakest quarterly growth rate since the first quarter of 2003. Major contributing factors to this year's slowing economic growth, compared to 2005, are summarized in Table 3.

Table 3. GDP Contribution Trends in 2006

Factor	Contribution to GDP Growth (*seasonally adjusted at annual rates*)			
	2005	**1Q '06**	**2Q '06**	**3Q '06**
Personal Consumption	**2.4**	**3.4**	**1.8**	**2.1**
Fixed Investment	**1.2**	**1.3**	**(0.3)**	**(0.2)**
- for Business	*0.7*	*1.4*	*0.5*	*0.9*
- for Residential	*0.5*	*(0.0)*	*(0.7)*	*(1.1)*
Inventory Building	**(0.3)**	**(0.0)**	**0.4**	**(0.1)**
Exports	**0.7**	**1.4**	**0.7**	**0.7**
Imports	**(0.9)**	**(1.5)**	**(0.2)**	**(1.3)**
Government Spending	**0.2**	**0.9**	**0.2**	**0.4**
Real GDP Growth	**3.2%**	**5.6%**	**2.6%**	**1.6%**

A consensus view at the end of 2005 was that personal spending growth (aka, personal consumption), which accounts for 70% of GDP, would be low in 2006, with a decided weakening trend as the year progressed. This has been borne out to some degree, with personal spending growth now just below the 3% per annum level (August reflected a decline in real terms). Nonetheless, most had expected even less from the consumer in 2006. Instead, consumers have been willing to combine moderate growth in ***disposable personal income*** (up 2.1% in real terms so far this year) with continued "dissavings" (when personal spending exceeds personal disposable income), to help keep the economy growing.

Another consensus view late last year was for the housing market to finally begin to weaken in 2006, which in turn would initially shut down growth in residential fixed investment, and then very likely spill over to negatively impact spending on durable goods.

This expected weakness has arrived right on cue, and with at least an initial vengeance. Since the end of June, we've been hit by a regular deluge of data supporting that conclusion. Some recent takes -

- Housing starts are off 26% from their January peak;
- The annual sales rate of *new* homes in September was down 14% from a year ago. Further, September's annual pace of *existing* home sales (over 85% of total sales) was reported down 14% from a year earlier;
- Inventories of unsold homes declined in September, but were reported to be 35% above year ago levels;
- Falling sales rates and increasing unsold inventories presages considerable softness in prices.

Thus, we see from Table 3 a dramatic shift in housing investment's contribution to GDP growth. By declining at annualized rates in the high teens, it became the major drag on our economic growth over the past six months.

Employment levels increased during the 3rd quarter, although a bit less than the prior quarter. Household survey data indicated employment rose 487,000, while nonfarm payroll data indicated 362,000. Second quarter numbers had been +722k and +325k, respectively. September's increase was the weakest month we've seen this year. The unemployment rate remains at a low 4.6%, but it took a notable increase in the "not in labor force" category (not working, but not looking) to keep it that way. Total non-farm payroll levels have increased by 1.7 million persons during the last 12 months.

September's index of ***Industrial Production*** declined 0.3% from June, but was 2.5% above January levels and 5% above year earlier levels. The capacity utilization rate for total industry declined to 81.9, after a move up to 82.5 in June. The past year has seen robust increases in production volumes of machinery, computer and electronic products, and robust declines in motor vehicle and textile production.

Inflation concerns had increased sharply during the 2nd quarter, as reported inflation rates were well above the 2.5% long-term average (see Table 1). The 3rd quarter provided some significant relief in this respect. Consumer prices increased at a seasonally adjusted annual rate of just 0.8% in the 3rd quarter, following increases in the first and second quarters at annual rates of 4.3% and 5.1%, respectively. This brought the year-to-date annual rate to 3.4%, the same as for 2005. Excluding the volatile areas of food and energy, "core" CPI rose at a 2.7% annualized rate in the third quarter, and its year-to-date annual rate is 3.0% (versus 2.2% in 2005). On balance, inflation seems to be gradually rising.

Going forward, the fate of the U.S. housing market and the closely tied outlook for the U.S. consumer remains the biggest question mark for our economy as a whole.

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The Bond Market reverses course

The third quarter was the first one without an increase in the Fed Funds Target Rate since the first quarter of 2004. In the absence of leadership from the Fed, investors took their cue from weaker economic indicators, particularly in the housing sector, bidding up bond prices and pushing interest rates lower. In essence, bond investors replaced the Fed roadmap with a forecast of slower economic growth for the balance of 2006 and well into 2007, and a faith that recent inflationary pressures are a temporary nuisance likely to dissipate as the forecast comes to fruition.

Interest rates fell sharply and steadily during the quarter, reversing a majority of the rise that had characterized the first half of 2006. Treasury yields ended lower by nearly 50 basis points across the curve from two to thirty years. The benchmark 10-year Treasury yield fell from 5.14% at the beginning of the quarter to 4.63% at quarter's end. We observed at quarter's end a 67 basis point difference between the 5-year Treasury yield and the Fed Funds Target Rate (5.25%), marking the largest yield curve inversion since late 2000.

Table 4. Bond Market Returns

periods ended September 30, 2006;

Bond Index	**3Q '06**	**Trailing Returns** **1 Year**	**3 Years**
Aggregate Bonds	**3.8%**	**3.7%**	**3.5%**
Intermediate Bonds	**3.4**	**3.9**	**3.2**
US Treas, long	6.4	2.4	4.7
US Agencies	3.4	3.6	2.9
Mortgages	3.6	4.2	4.0
Inv. Grade Credit	4.6	3.6	3.8
90-day T-Bills	1.3	4.8	2.9
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High Yield Credit	4.1	8.0	9.0
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Global, Unhedged	1.4	2.2	4.1
Global, Hedged	3.4	3.3	4.1
Emerging Markets	6.9	8.4	11.8

The 3.81% return for the Lehman Aggregate Index was its strongest quarterly performance since the third quarter of 2002. It reversed the year's previous losses. Yet, the strong result still leaves bond portfolios trailing cash portfolios over the past year, absent substantial value-added by one's investment manager.

Credit and structuring spreads normally tighten in a bond rally, as fear is replaced with greed, and this one was no exception. Adjusted for interest rate risk, primary domestic bond sectors outperformed equivalent Treasuries by 25-50 basis points.

Because of structural issues, mortgage-backed bonds (which comprise the largest share of our domestic fixed income markets) always underperform when the yield curve moves down sharply. We see this result in the sector's relatively low 3.6% quarterly return. But, the prior three quarters were an entirely different story, and these same structural aspects have led to the MBS sector's outperformance over the past twelve months. Active bond managers have needed to "get mortgages right" in order to rank well versus peers.

The third quarter's top performing domestic bond sector was again credit bonds. The investment grade sector outperformed Treasuries by 41 basis points, after adjusting for interest risk. There was some differentiation, as finance company and utility bonds did much better than industrial issues (less perceived economic exposure).

High yield corporate bonds continued to outperform the broad market, but failed to better the investment grade sector. However, 100% of the negative differential was due to the high yield sector's lower sensitivity to the yield curve shift. Adjusting for this, excess returns from high yield bonds were again quite attractive. This has consistently been the case throughout the past year, as the sector's 8% one-year return suggests. Active bond managers with the flexibility to invest in high yield bonds ("core-plus" mandates) have had a big advantage.

Completely opposite to the 2nd quarter's experience, global bond indices provided unexceptional returns in the 3rd quarter, *especially* if one left the inherent currency exposure untouched (global aggregate bond indices contain 60-80% non-Dollar bonds). This reflected the U.S. Dollar's appreciation versus the currencies of our primary trading partners. The "action", as it were, in non-U.S. bond markets was again where it has been all year – in emerging markets. Much of the non-U.S. bond sector's quarterly underperformance was a consequence of initial conditions – basic interest rates are lower in major developed countries than they are in the U.S. (see table 5). The other primary factor was not expected – the Dollar's rally against the currencies of its major developed market trading partners. It has not appreciated against the major developing country currencies.

Table 5. Global Bond Yields (%) as of September 2006

Maturity >	3-Month	2-Year	5-Year	10-Year	30-Year
Treasuries	4.88	4.69	4.58	4.63	4.76
U.S. Swaps	5.37	5.11	5.07	5.17	5.30
Canada	4.17	3.91	3.90	4.00	4.09
Germany	3.30	3.59	3.63	3.71	3.90
U.K.	5.00	4.92	4.73	4.52	4.10
Japan	0.35	0.66	1.14	1.68	2.44

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U.S. Equity Markets pass a test

For all the doom-and-gloom reports of a housing collapse, and the predictive power of an inverted yield curve pointing to a hard landing for the economy, the behavior of the equity markets appeared more hopeful than fearful last quarter, with the S&P 500 index rising 5.66%. Value stocks again outperformed growth stocks across the entire market cap spectrum (see table 6), and large-cap stocks bested small stocks by a significant margin. The latter occurrence was mostly due to the fact small caps corrected much more at the start of the quarter. From the market bottom on July 21st through quarter-end, the Russell 2000 Index rose 8.3% while the Russell 1000 Index rose 8.0%.

Across all capitalization ranges, stocks with higher earnings growth expectations, underperformed low growth expectations companies. This was evident during the entire May-July market drawdown, as we discussed in last quarter's *Review*. Yet, there was no reversal evident during the ensuing rally. When the market rallied 8% from mid-July through September, small, large, value and growth all did so in parallel.

Table 6. U.S. Equity Market Returns

periods ended September 30, 2006;

	Trailing Returns		
	3Q '06	**1-Year**	**3-Years**
Growth			
Large Cap	5.3%	5.8%	6.5%
Mid Cap	0.9	7.1	14.5
Small Cap	(1.8)	5.9	11.8
Value			
Large Cap	7.3	15.5	15.4
Mid Cap	3.5	12.3	21.2
Small Cap	2.6	14.0	19.0

Looking at the domestic stock market from an economic sector and market cap perspective, the quarter was for the most part a defensive rally. The top performing economic sectors of the S&P 500 during the third quarter were telecom services, health care, and information technology firms. The latter two sectors were quite weak during the first half of 2006, so some snapback was hardly unusual. They remain they weakest sectors for the year-to-date. Telecom services has been the strongest sector by far in 2006 (up 26% year-to-date), but it accounts for less than 4% of the S&P's market cap (and 1% of the Russell 2000). In addition to telecom, small cap stocks were led by the defensive utilities and consumer staples groups.

The quarter saw a sharp correction in the "energy complex" of commodity prices, with crude oil nearly cracking the $60/barrel level (in would in October) after almost hitting $80 in July. This led to considerable weakness in energy sector stocks across the capitalization range. The pro-cyclical materials and industrials sectors joined energy at the back of the train. Weakness in those two sectors during an otherwise strong market uptrend has been interpreted as reflecting the preoccupation of investors by macroeconomic news, as opposed to individual earnings results and expectations.

Table 7. Third Quarter Sector Performance

Sector	**Large-caps (S&P 500)**		**Small-caps (Russell 2000)**	
	Return %	Contribution %	Return %	Contribution %
Telecom Srvcs	10.6	0.4	9.2	0.1
Health Care	10.2	1.3	0.4	0.0
Info Tech	8.5	1.2	0.5	0.1
Financials	**8.1**	**1.8**	**3.7**	**0.9**
Utilities	6.1	0.2	7.4	0.2
Consumer	5.7	0.6	4.6	0.1
Consumer	5.1	0.5	1.5	0.2
Industrials	(0.1)	(0.1)	(3.8)	(0.6)
Materials	(0.5)	(0.0)	(2.7)	(0.1)
Energy	(1.7)	(0.2)	(8.6)	(0.5)
S&P 500	5.7%	5.7%		
Russell 2000			0.5%	0.5%

There would appear to be some truth to the above interpretation. Expectations currently priced into stocks are modest compared to the recent history of earnings achievement. The 3-year downward shift in P/E ratios (see Table 8), in the face of strong 3-year returns from all except the large-growth sector (Table 6), was the result of double-digit earnings growth across the entire market. Whether the result of a global paradigm shift or an unsustainable anomaly, corporate earnings growth has been spectacular over the past 3 years.

Table 8. U.S. Equity Market P/E Ratios

periods ended September 30, 2006;

	Price/Earnings Ratios	
	@ Sept 2006	**@ Sept 2003**
Growth		
Large Cap	20.6x	24.0x
Mid Cap	21.7	23.2
Small Cap	22.6	22.4
Value		
Large Cap	14.7x	14.8x
Mid Cap	16.7	15.5
Small Cap	17.7	16.0

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International Stocks lead in 2006

The third quarter saw non-U.S. markets build on the rebound that began in late June, following the Spring's significant correction. Both developed and emerging markets posted solid positive returns for the third quarter, with the MSCI World, ex-U.S. Index gaining 4% in US$ terms, and the MSCI Emerging Market Index rising 5%. But both indices ceded their "front-runner" position to US large cap equities, as the S&P 500 advanced 5.7%, its largest quarterly increase since the fourth quarter of 2004. Year-to-date, developed and emerging non-U.S. market performance still outpaces the domestic market by a considerable margin.

A number of factors fueled the quarter's rebound as investors gained confidence from the Fed's hiatus in rising short-term interest rates and from falling energy and commodity prices. While the European Central Bank has not yet ended its tightening campaign, European markets advanced 5.7% in Dollar terms, led by Spain (+12%) and the Netherlands (+11%). Asian markets *ex-Japan*, advanced 4.2%, led by the rather small Singapore market (+7%). Japan did not participate in the global rally and posted a negative quarterly result (-0.7%). Its 1.3% year-to-date return makes it the weakest performing developed market (as well as the largest).

Table 9. International Equity Markets

	Local Currency Return %		U.S. Dollar Return %	
	3rd Qtr 2006	YTD 2006	3rd Qtr 2006	YTD 2006
World, ex-U.S.	**4.9%**	**9.4%**	**4.0%**	**14.3%**
- Int'l Growth			*2.7*	*12.1*
- Int'l Value			*5.2*	*16.6*
- Europe	6.2	11.9	5.7	20.5
- Pacific	2.9	3.8	0.5	4.2
- Japan	2.6	1.3	(0.7)	1.3
- United Kingdom	3.2	8.9	4.3	18.5
- France	5.9	14.1	4.9	22.5
- Germany	5.8	11.4	4.8	19.6
Int'l Small Cap			**0.2**	**7.3**
Emerging Mkts	**5.5**	**12.4**	**5.0**	**12.7**
- EM Asia	8.0	12.9	7.6	15.6
- EM Europe	1.2	8.1	2.8	9.2
- EM Latin America	4.0	14.6	4.8	17.5

Emerging markets rebounded sharply from their May/July weakness. Although the index lags developed market results on a year-to-date basis (+12.7% versus +14.9%), its recovery was much steeper. By early May, the MSCI Emerging Markets Index was up nearly 25% for the year, fell to virtually breakeven by late June, only to then rally over 12% through September.

Geography mattered considerably in emerging markets during the quarter, which is normal. The stock markets of commodity-driven countries like Brazil, Argentina, Russia and South Africa were flat to down 7% for the period. The small Egyptian, Philippine and Columbian markets were up 20+%. The large India, Mexico, and Indonesian markets advanced 16-18% in the quarter. For the year-to-date, India, China, and Russia are up 30+% in Dollar terms, with Mexico and Brazil up 17+%.

Table 10. International Sector Performance ($ terms)

	EAFE Markets (in US$ terms)		EAFE Markets (local currency)
GICS Sector	3rd Qtr 2006	YTD 2006	YTD 2006
Utilities	10.8	31.1	24.1
Cons. Staples	7.9	19.3	12.6
Financial Services	6.0	18.3	12.3
Telecom Services	5.7	10.9	4.3
Cons. Discretionary	4.7	12.2	7.6
INDEX RETURN	**4.0**	**14.9**	**9.2**
Health Care	2.4	16.2	9.9
Info Technology	2.0	4.5	1.1
Industrials	1.7	10.5	6.1
Materials	0.4	16.1	10.9
Energy	(3.8)	7.9	0.3

As Table 10 reflects, the energy sector declined in market value during the quarter (-3.8%), and materials generated a flat return. This was consistent with the U.S. market. However, the best performing sectors internationally during the third quarter were also the best for the year-to-date: the more conservative utilities, consumer staples, and financial services. Unlike our domestic market, information technology stocks did not experience a snapback rally.

Finally, we share the following comparison of market valuations, courtesy of Cap Guardian. Following three years of outperformance, non-U.S. markets still remain quite fairly valued relative to the U.S.

Table 11. Global Market Valuations

	U.S.	EAFE	Emerging
Price/Earnings	17.4x	15.0x	13.8x
Price/Cashflow	11.7x	9.2x	8.9x
Price/Book Value	2.8x	2.3x	2.3x
ROE	16.1%	15.3%	16.6%
Dividend Yield	1.8%	2.5%	2.4%
Earnings Growth	12.1%	9.8%	15.1%

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Back Page Perspectives

We are struck by how many countervailing trends and positions are at work in investor markets. This is often the case in the mid-to-late innings of an economic cycle.

Many analysts have forecast that a fall in home prices will materially impact our domestic economy. We agree. Our economic growth of the last few years has been housing led and any downturn will also be housing led. First, the nationwide average of household debt-service payments relative to disposable personal income is at record high levels, and is continuing to rise due to the cumulative impact of rate resets, refinancings, and rising balances. This will negatively affect consumer's monthly free cash flow. Second, the "home as ATM" environment appears to have effectively come to a close for most. This effects their "big ticket spending" capacity. Last, the value of housing affects overall consumer behavior and confidence far more than the value of stocks. The market value of the entire US stock market is a little more than 100% of GDP – and its direct value to consumers is much less. Compare this to household real estate values, which are now close to 160% of GDP.

Corporate credit spreads are extremely tight from an historical perspective, meaning corporate bond investors are demanding very little incremental yield for taking credit risk. The optimistic take on this observation is the implication bond investors remain constructive on corporate profitability and the economy's health.

Global investment markets continue to be awash in liquidity, notwithstanding the monetary tightening of the Fed, and to a lesser extent, the European Central Bank and the Bank of Japan (all of which have much less of a collective impact on global fund flows than at any point in our lifetimes). Even with the U.S. housing market under pressure, the availability of credit on attractive terms is significant. Financial conditions remain even easier in the corporate credit markets. It appears incongruent to us that such a supportive environment would breed a significant economic decline.

Bond market participants tell us the yield curve inversion is a result of the market implicitly pricing in monetary easing by the Fed early in 2007, presumably in reaction to an economic slowdown. We wonder about whether this easing occurs so soon. Even after the last quarter's interest rate rally, the extreme long end of the yield curve has been the worst performing sector year-to-date, as inflation data has generally surprised on the high side (September being the notable exception). If the Fed were to ease monetary policy with inflation elevated, one would expect the yield curve to sharply steepen from current levels. However, we can say with high conviction that the prevailing inverted yield curve environment will not last for long (not one ever has). The Fed will either cut short rates, even if long-term rates do rise in concert, or long-term rates will simply rise of their own accord. On balance, we expect the Fed to cut its Target Rate only in the face of a continued weak housing market and moderating inflation rates.

The sustained dominance of the large-cap value style sector of our domestic stock market compared to the large growth sector has many scratching their heads. Based on our calculations, it appears value stocks in each capitalization range have had cumulative earnings growth 5-15% *higher* than growth stocks over the past three years. Large-cap growth stocks have been the slowest growers, despite having enjoyed the highest P/E ratios three years ago. You can't be the high expectation, low delivery asset class without consequences. We've consistently recommended our clients underweight large-growth versus large-value, and only wish we'd been much more fervent in our conservatism. Despite its underweighting in most investor portfolios, we're very cautious about shifting funds to large-growth managers until superior earnings growth materializes.

S&P reported in mid-October the analyst community's bottom-up estimate of cumulative 2007 operating earnings growth for the S&P 500 index companies is +11.7% (versus 2006). The top-down estimate of year/year growth in 2007 net earnings is 3.6%. These figures are consistent with mid-June's report. We are concerned they might prove too optimistic. However, at current valuations we believe the large-cap sector still has such low expectations priced into it that flat earnings in 2007 could be absorbed with no extended damage to returns, provided interest rates remain below 6%.

Most U.S. small-cap companies are globally oriented, but often only with regard to operations and costs, not revenues. At current multiples, those concerned about our domestic economy should be very careful to restrain small-cap allocations. Higher expected non-U.S. GDP growth rates will favor non-U.S. firm's earnings growth. We remain highly constructive on extending one's international equity allocations.

Hedge Fund Research reports that more than $44B of fresh investments were made in hedge funds during the 3rd quarter, bringing the total for the year-to-date to $110B, already more than double all of 2005.

Wall Street may have cast its ballot, but don't let that stop you. As they say in Cook County - vote early, and vote often!

See you next quarter!

Natalka Bukalo ***Richard Shaffer, CFA***

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