



# YEAR END 2006

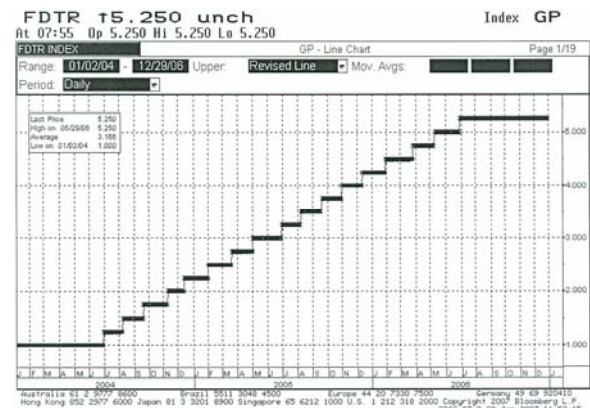
As we fight the battle of our post holiday bulge, there is another tug-of-war brewing. This tug-of-war is between those that believe in an economic soft versus hard landing. So no matter whose side you take, there are five things you can count on in the New Year:

1. Like moths to a flame, big pension money will continue to flow into larger and larger private equity deals. The results are an extension of what transpired last year; more levered corporate balance sheets, corporate bond credit quality deterioration and dicer deals getting done.
2. None of the above will drag in or drag down tax free municipal bonds. Quite the contrary, the retiring baby boomers will continue to run...not walk, to munis. The reasons are simple; after decades of paying into Social Security, Medicare and seeing our tax dollars get squandered municipal bond income will be one of the only safety nets left when tax rates rise. And, yes, I believe we have seen the lowest tax rates we'll see in a long, long time.
3. Inflation will remain under control in 2007. With lower energy costs, a slow-down in housing, lower commodity prices, the Federal Reserve will continue to verbally fight inflation.
4. The dollar will not sink to "oblivion" as some hard asset supporters pontificate. Asian central banks have a huge incentive to keep buying dollars as we Americans continue to purchase their goods and continue to export our factories to their shores. Everyone wins. It's that simple.
5. Money market participants and the media keep expecting some type of market melt down, hedge fund mishap or corporate blow-up to occur. Chances are because they are expecting it...it won't happen. Ever since the demise of Long Term

Capital in 1998, investment banks and brokers have instituted superior controls. After all, the markets didn't skip a beat over the last few years when Refco blew up or last year when the Amaranth hedge fund melted down.

I, for one, believe the Federal Reserve has done an extraordinary job executing the economy's soft landing. Here's the but. But it did hurt your short duration portfolios because short rates rose until July of last year. As the Fed increased rates, portfolios whose durations were around three plus years and under were pressured the most.

Look at the chart of the Federal Funds



rate; a relentless upward trajectory affecting short term bond prices. Long term bond prices barely; moved. But wait...our time is here. If the Fed is done raising short term rates coupled with a good possibility they may lower rates by mid-year, get your tanning cream out because our day in the sun is coming!

To our clients who have been with us for years and to our new clients, we wish your good health and happiness in the New Year.

All the best,

Marilyn