

GRATEFUL FOR 2006, VIGILANT IN 2007

Pring Turner Capital Group clients enjoyed strong returns once again in 2006, thanks in part to persistent market strength during the second half of the year. We are especially pleased with the steady performance clients earned throughout the year as we successfully sidestepped bond market weakness and the stock market's downdraft in the first half of 2006. Grateful for the market strength in the second half of the year, we are somewhat concerned we may have borrowed from 2007's potential returns. *The new year begins with stock prices at the highest valuation levels in seven years and with investors overly optimistic and facing critical challenges.* We are looking forward to the challenges ahead.

Let's first review our forecast in early 2006 and gauge the outcome. At the start of last year, we predicted a housing slowdown would lead to slower economic growth and a challenging environment for stocks. The slowdown did materialize, forcing the Federal Reserve to finally stop raising interest rates after 17 consecutive interest rate increases. Stocks did experience an 8% decline into the middle of the year, then reversed course and raced higher into year-end. Although the decline was less than we expected, we were flexible enough to increase stock exposure at midyear and grow your portfolio. During the fourth quarter, as the market persisted higher, we harvested some gains and finished the year in a more conservative position.

Where Are The Economy And Financial Markets Heading In 2007 And What Will Our Portfolio Tactics Be?

After several years of above trend growth, the economy is poised to slow. Earnings growth will contract, leaving earnings expectations vulnerable. *It seems to us not enough investors are concerned about the consequences for stocks should earnings surprise on the downside.* We have been preparing portfolios for a rougher environment by gradually reducing stock market exposure.

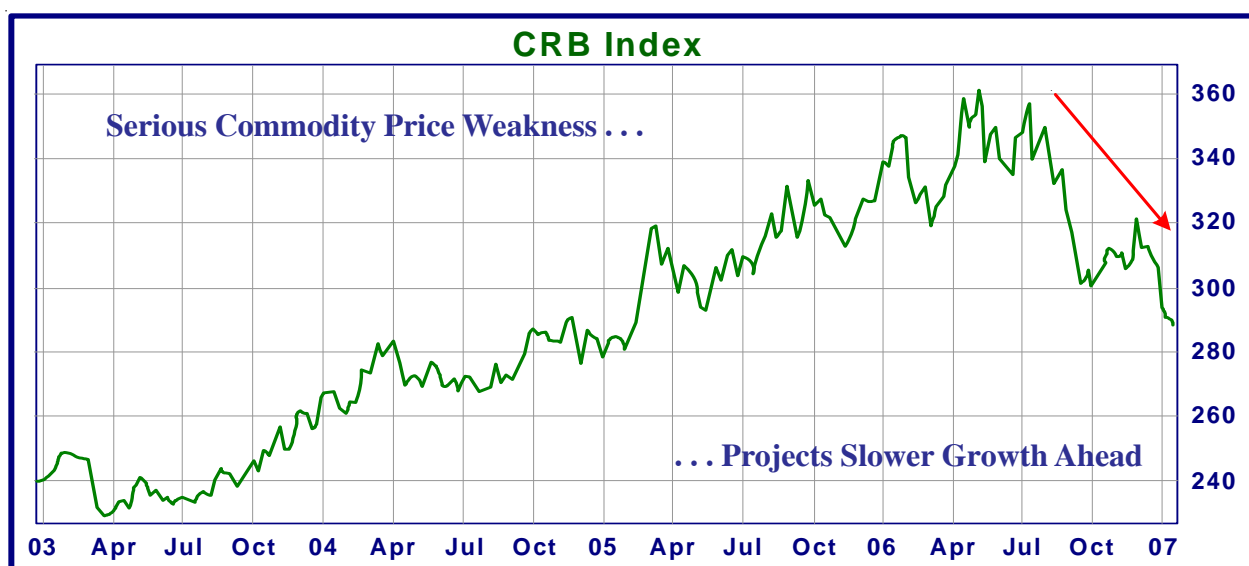
We cannot help but observe the overwhelming bullish market opinion expressed by all the "experts" on television and in print. Generally, expectations are for a continuation of the current trend and another "good" year in 2007, which would make it

Pring Turner Capital Group 2006 Accomplishments

- Robust Growth in New Accounts and Assets Under Management.
- Informative new website, www.pringturner.com up and running!
- Martin Pring's newest book "The Investor's Guide to Active Asset Allocation" published by McGraw Hill.

five consecutive up years in a row. We admit to our own natural tendency toward skepticism, and it certainly contributes to our conservative investment philosophy. However, we have been around long enough to know that all markets suffer corrections at some point, and usually they begin when all the “experts” are in agreement and looking up. ***We are very uncomfortable with the “bullish” consensus thinking today, and have serious concerns with the slowing economy and its potential impact on stock prices.***

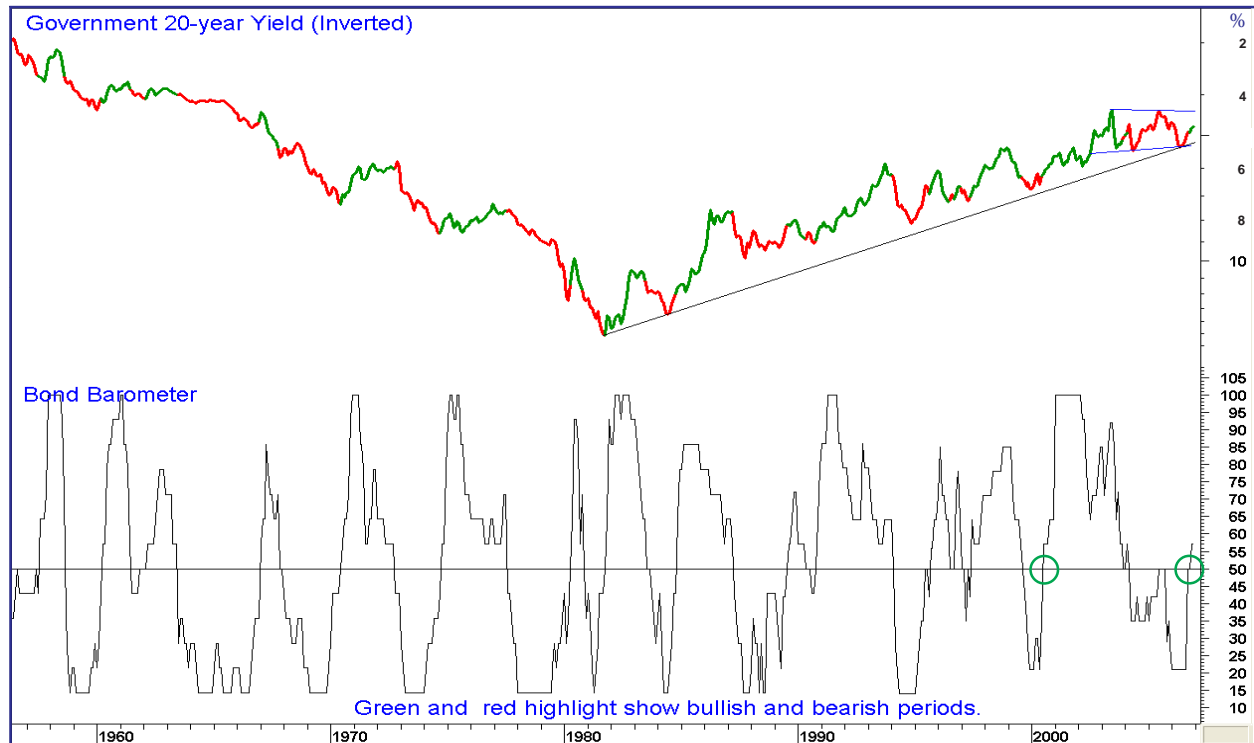
The effects of 17 interest rate increases continue to throttle back the economy and signals the Federal Reserve is still more worried about inflationary pressures rather than economic growth. The Fed has pushed short-term rates (i.e. treasury bills) above the rate on long-term bonds resulting in an “inverted yield curve” — a relatively rare phenomenon that historically precedes recessions or significant economic slowdowns. The current behavior of falling commodity prices seems to echo that prediction. Whether one looks at the recent price of oil dropping from \$78 to \$50, or copper prices plunging from \$4.00/lb to \$2.55/lb, or a composite index of various commodity prices (CRB Index) declining more than 20%, the message is coming through loud and



clear — demand for commodities is declining and prices are projecting economic weakness ahead. Not surprisingly, this is typical behavior at the ending phase of the business cycle when economic growth contracts. ***This could be the one year out of the average 4-5 year business cycle where downside risks are highest.*** Keeping these observations in mind, we start 2007 increasingly vigilant — our number one goal is to protect your portfolio wealth.

On a positive note, our proprietary Bond Barometer (comprised of a number of reliable economic and monetary indicators) recently flashed a “buy” signal for the first time in seven years! Lending weight to our economic slowdown thesis, the buy signal simply tells investors it is a low risk time to own bonds. It is a good idea to lock in today’s higher rates as yields on money market

First "Buy" Signal Since 2000 . . . Means Higher Bond Prices Ahead



funds and CDs may soon begin to shrink. We will continue to add bonds, preferred stocks, and other high-income stocks to portfolios. ***In addition to generating higher levels of income, these investments increase stability and build another layer of portfolio protection.***

We are excited about the challenges and opportunities that lie ahead in 2007. On behalf of all of us at Pring Turner Capital Group, we thank you for being the reason for our success and wish you all a very healthy and prosperous New Year! As always, please feel free to contact us should you have any questions.

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