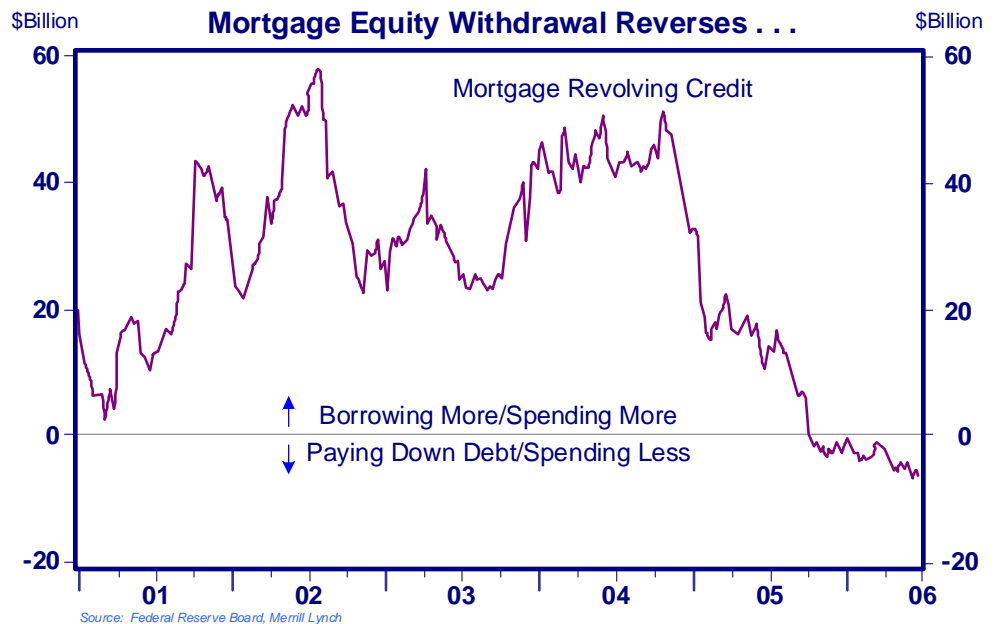


MIDYEAR REVIEW AND OUTLOOK

Stock price volatility picked up significantly this past quarter with the market experiencing its' first significant setback in quite some time. Once again, your portfolio fared well by inching higher, thereby continuing to outperform the financial markets. *In this stage of the current business cycle the same villains are busy attacking investment portfolios: higher interest rates, higher oil prices and inflation, and concerns over a resulting economic slowdown.* Add to that list of concerns the most recent escalation of tensions in the Middle East weighing on investors minds and further contributing to financial markets queasiness. Where do we go from here? First, let's review the themes we laid out in our January newsletter detailing the outlook for 2006 and judge how we are progressing so far.

We said to expect more volatility in the stock market versus the rather dull environment of the prior two years and we are certainly experiencing more volatility – especially over the last few months. We forecasted higher interest rates during 2006 that for the first time in several years would lead to attractive opportunities to invest in fixed rate bonds and we are seeing that. We focused on the potential for a slowdown in the real estate market and the likely spillover effect in slowing down the entire economy,

and we are seeing more signs of that taking place. Now, six months later, reduced mortgage borrowing and equity withdrawals clearly show consumers

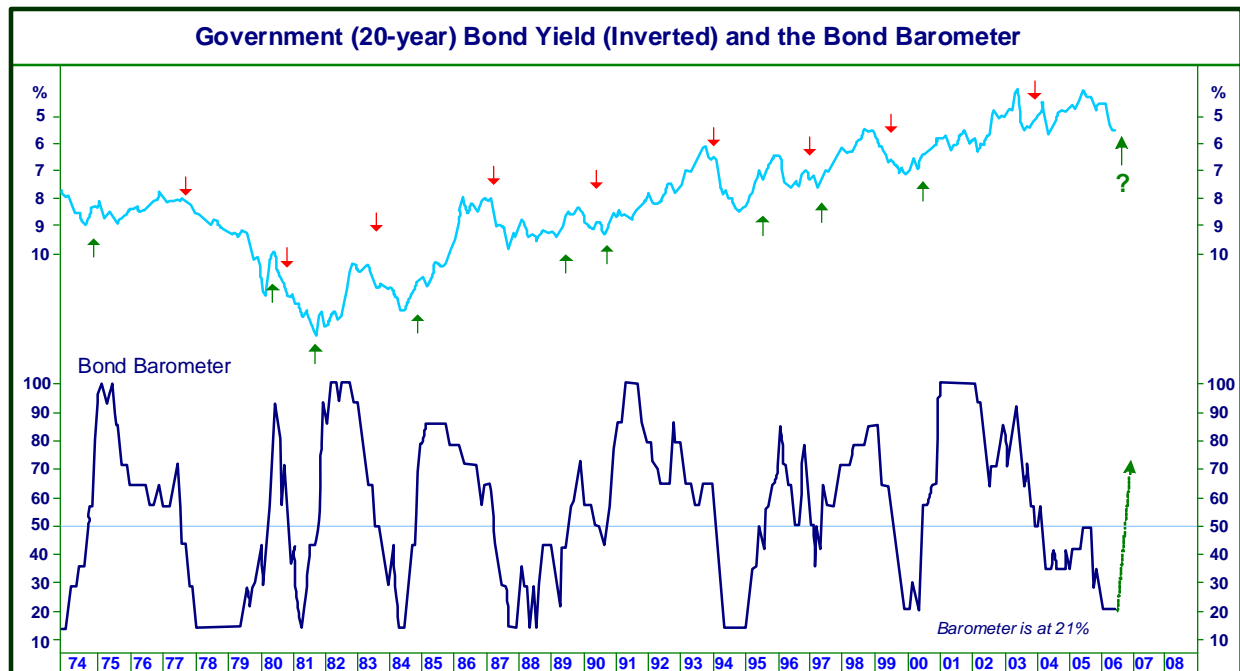


. . . Leading to Economic Weakness

are no longer tapping into home equity and spending money. Instead, homeowners are paying down debt (spending less) and with that an important support to the economy has been removed. *The good news is, after 17 consecutive interest rate increases, the Federal Reserve is close to taking their foot off the economic brakes, thus setting up the next business cycle expansion in 2007-2008.*

All in all, the financial markets are playing out as we expected and we note no new economic surprises in the current situation. Predictably, economic events are following the normal sequences of our business cycle models. Our proprietary business cycle barometers assist in the portfolio decision-making process and give us an important advantage by keeping your portfolio one step ahead of current conditions and focused on the change that always lies ahead. ***One key forecasting tool, our Bond Barometer, is signaling an important turning point is close at hand for interest rates and investors are staring at one of the best bond market opportunities in six years!***

Economic Slowdown Will Lead to Lower Interest Rates



Bond Barometer Signals a Profitable Turning Point

We developed the Bond Barometer with the objective of identifying major cyclical turning points in bond prices and interest rates associated with the business cycle. It consists of a number of different indicators measuring economic, technical, and monetary conditions that collectively have provided reliable signals over many decades.

We spent a considerable amount of time in our last newsletter (April 2006) explaining how bond prices move inversely to interest rates and why we expect double-digit total returns from bonds over the next few years as interest rates peak out for this cycle. In the months ahead, we will continue our campaign of increasing the allocation of bonds in client portfolios.

The quick escalation of tensions in the Middle East has temporarily sidetracked a budding summer stock market rally. We fully believe that a resumption of the rally will soon get underway and lead to respectable gains. ***With stocks now trading at their lowest prices of the year, many of our shorter-term market models indicate a profitable period ahead for investors.***

As we pass the halfway mark of 2006, we are pleased with your portfolio performance given the challenges facing the markets. Proper asset allocation adjustment and the utilization of a disciplined portfolio strategy (including high quality investments and income) is your ally to wring profits out of a difficult market environment. ***We are getting more and more enthused about the potential for both stocks and bonds to do well in the next favorable market cycle that should begin later this year or early in 2007. Patience today will be rewarded handsomely in the years just ahead.*** As always, please feel free to contact us should you have any questions or concerns regarding your portfolio. Thank you for your confidence.

P.S.

Our partner Martin Pring is at it again, having just authored another investment book entitled “The Investor’s Guide to Active Asset Allocation”, published by McGraw Hill. The book explains how to use Exchange Traded Funds (ETF’s) to develop optimum asset allocation decisions based on our unique six stages of the business cycle framework. This latest book adds to a long list of his publications, many of which have revised editions and are translated into several languages. Congratulations Martin!