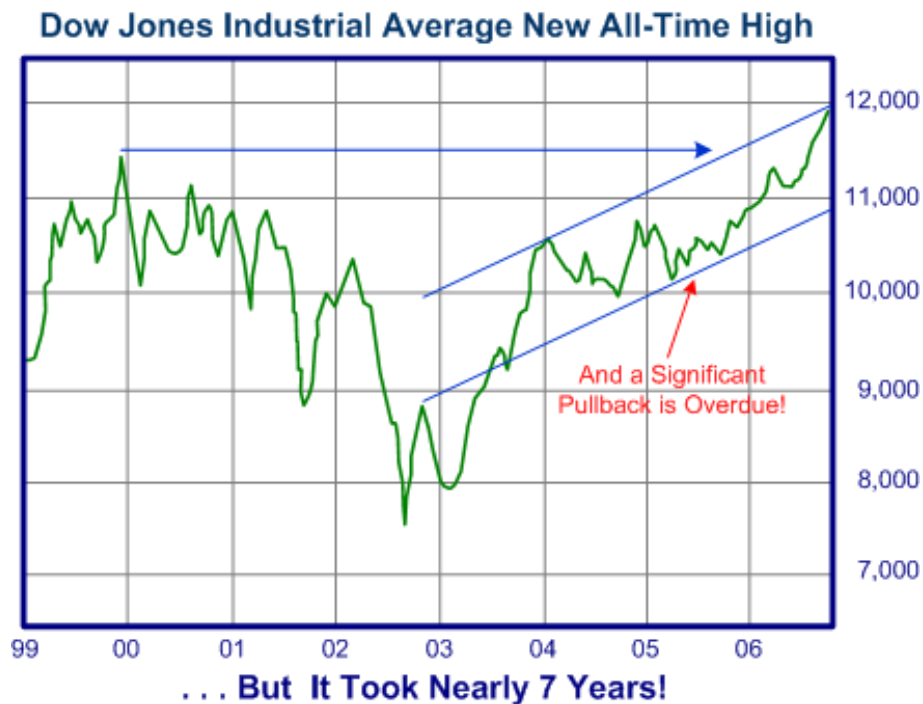


## Harvest Time!

Third quarter results were sweet! The stock and bond markets combined to deliver positive results to client portfolios. Concerns that weighed heavily on investor minds early in the quarter eased considerably as oil prices peaked, interest rates peaked, and the Israeli-Lebanese conflict subsided. Indeed, the Dow Jones Average led a spirited stock market rally, recently advancing to its' highest level ever and finally breaching the old highs first set in early 2000. Recent media attention to this event makes it sound like an exciting milestone, but put another way, many investors are just now getting back to even after nearly seven long years. **On the other hand, we are very proud to report the typical Pring Turner Capital Group client portfolio hit new highs in 2000 and in every year since, and set new benchmark highs in 11 of the past 12 quarters as well.** Financial markets experienced plenty of volatility through this period but our disciplined and flexible investment strategy enabled us to steadily grow portfolio wealth without taking undue risk.

In our January newsletter, we predicted a housing market correction in 2006 would lead to a slower economy and the end of interest rate increases by the Federal Reserve Board. So far, things are generally proceeding as we expected but our research tells us we are quickly approaching the trickiest part of the business cycle. Has the economy slowed down sufficiently to allow the Fed to keep interest rates steady for now or will they be forced to raise rates again at some point in the near future? Contrarily, have they already raised rates too far and risk a sharper economic slowdown or perhaps a "hard landing"? Recent buoyant



investor expectations lead many to believe in the “goldilocks” scenario, with the economy not too hot or too cold, but just right. **We are a bit skeptical of that rosy, near perfect outcome and would caution investors about leaving their guard down right now.**

In the weeks ahead, we forecast the economy will continue slowing, leaving profit expectations for stocks vulnerable. Investors will likely be faced with more uncertainty and the potential for a significant correction. It is important to keep in mind that as the stock market moves higher, *risks increase* and *opportunities decrease*. While the Dow Average recently hit new highs, it also has not experienced a correction of 10% or more in three years —one of the longest such stretches since the mid 1940’s. **In our opinion a significant market pullback is overdue and we are preparing your portfolio to temper any decline by becoming increasingly defensive.**

Tactically, we are using recent stock market strength to harvest some handsome profits and plan to temporarily re-allocate proceeds into income oriented investments including bonds, money market funds, and other low-risk opportunities. Additionally, we are intrigued by several undervalued stock market sectors that are currently out of favor with investors and are beginning to offer decent upside potential for long-term investors. We are continually on the prowl searching for new investment ideas in our effort to consistently add value to your portfolio. This is what makes our job so challenging, interesting, and thoroughly enjoyable for us. **More importantly, we are especially pleased to make it financially rewarding for you.** Thank you for your continued confidence. Please feel free to contact us with any questions regarding your portfolio.

### *Special Announcement*

In response to requests from many clients and potential clients we are very pleased to announce and introduce a new website [www.pringturner.com](http://www.pringturner.com). The website is designed to elaborate on our investment philosophy, decision-making process, biographies and much more. We have included short “infomovies” explaining our unique business cycle research and how we use it to manage client portfolios. Viewers can review an archive of past client newsletters and special reports issued over recent years. Clients can also find a quick link direct to Charles Schwab to login for real time account information. We hope the new website is both useful and informative.