



Market Update

Asset Consulting Group, Inc.

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Monthly Report

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The Economy

Recent government reports showed that the current economic expansion, now in its 17th quarter, remains intact. The Commerce Department reported that 4Q05 real gross domestic product (GDP) increased at a revised annual rate of only 1.6%, well below the 3Q05 4.1% pace. However, the slower pace of growth was more of a lull in economic activity in response to the hurricane related slowdowns, as consumers and U.S. corporations became cautious, waiting to determine the complete impact from the disruptions.

Business investment underpinning continued growth...

One underlying strength within the slowdown in 4Q05 GDP was the healthy pace of business investment. Corporations increased capital spending 5.4%, albeit at a slower pace than the 7.5% average pace over the first three quarters of 2005. Furthermore, the rapid pace of real demand over the first nine months of 2005 left company stockpiles below safety stock levels. The resulting inventory restocking in the fourth quarter added 1.62% to the change in real GDP.

Business expansion spilling over into the first quarter...

Over the first two months of the year, U.S. corporations remained optimistic about their future and continued to expand operations, allowing the economy to gain momentum in the early stages of the quarter. The U.S. service industries accelerated at the fastest pace in four months, as the ISM's index of non-manufacturers rose to 60.1 in February, from January's reading of 56.8. Ten of 17 industries reported improved conditions prompting them to boost payrolls, while their employment gauge jumped to 58.2 from 51.1 in January. The manufacturing sector has also been firing on all cylinders, with capacity utilization running at 80.9 in January, near five-year peak levels. The ISM's gauge of

the manufacturing sector showed expansion in February for the 33rd consecutive month, as the PMI index registered 56.7 as compared to January's reading of 54.8. Contributing to February's growth of the manufacturing sector was a 3.9% jump in orders, increased production, a 3.1% increase in inventories, and a 3.7% increase in employment¹, which helped lower the nation's unemployment rate to a four-year low of 4.7%.

Improving labor markets should spur consumer spending...

The expanding payrolls of the nations businesses are beginning to impact consumers as job gains are starting to drive personal incomes higher. Incomes rose 5.8% in January from the same month last year. There are already signs that these rising wages are feeding into higher consumer spending, as the Commerce Department reported spending rose 0.9% in January, the most in six months, after a gain of 0.7% in December. Thus, it appears the economy has regained traction in the first quarter, whereby corporate expansion is leading to improving labor markets, spurring consumer spending and demand, and prompting further gains in production and capital investment.

The impact of the Fed's 14 rate hikes on the economy could disrupt this self-sustaining growth cycle. There is typically a

Economy at a Glance

Recent growth indicators	2005			
	Nov	Dec	Jan	Feb
ISM manufacturing	57.3	55.6	54.8	56.7
ISM non-manufacturing	59.3	61.0	56.8	60.1
U. of Michigan Consumer Confidence	81.6	91.5	91.2	86.7
Change in Payrolls (m-o-m, 000)	354	145	170	243
Personal Income (%m-o-m)	0.4	0.4	0.7	
Personal Spending (%m-o-m)	0.5	0.9	0.9	

Source: Bureau of Labor Statistics, ISM, Bloomberg

9 to 12 month lag from the impact of higher rates and there are already signs that higher rates are slowing the housing market. The National Association of Realtors said sales of previously owned homes dropped 2.8% in January to an annual rate of 6.56 million, a two-year low, while the supply of unsold homes rose to the highest level since 1998. Furthermore, questions linger around the potential for further rate hikes. The Fed has clearly stated it will take the necessary measures to ensure price stability, but it will be dependent on incoming data. In January, consumer prices rose the most in four months, up 0.7% after declining 0.1% in December. However, prices excluding food and energy (the core CPI) rose 0.2%, a little change from previous months.

Equities

U.S. equity indices hit multi-year highs in February across all market capitalizations, propelled by falling energy prices (crude oil was down 10%) and prospects for continued robust economic and corporate fundamentals. Several major benchmark indices closed at three-and-a-half-year highs on or near the final day of the month.

Equity Index	Gains off	February	2006
	10/09/02 cyclical lows (%)	M-T-D%	Y-T-D%
S&P 500	64.87	0.27	2.93
S&P 400 Mid Cap	107.00	-0.84	5.00
S&P 600 Small Cap	118.00	-0.75	7.56
Russell 2000	123.00	-0.28	8.67
Russell 1000	80.70	0.22	3.03
Russell 1000 Value	99.98	0.61	4.52
Russell 1000 Growth	62.92	-0.16	1.59

Source: Bloomberg

The S&P 500 closed at 1280.66, a gain of 64.87% off the cyclical lows of October 9th 2002, but still below the 1300 price level last seen in May 2001. As stocks have recouped much of the ground lost in the bear market, stock fundamentals have caught up with prices, bringing valuations in line with historical norms. The pre-internet bubble prices left the price/earnings (P/E) ratio extended well beyond relative historical norms. The projected P/E

ratio for the S&P 500 as of December 31, 2001 was 46.50, nearly three times the historical average of 15.89 since 1926. Fourteen straight quarters of 10% or greater corporate earnings growth, even with stock prices up substantially, have led to a significant P/E contraction within the large cap universe. Furthermore, robust earnings growth within small and mid capitalization equities has led to the same P/E contraction cycle. Looking ahead, the risk of

energy price inflation seeping into core consumer prices could be potential headwinds to the upward trend in U.S. equity prices. This could extend the Fed interest rate tightening cycle beyond current expectations, thereby increasing

corporate borrowing costs and reducing future profitability.

Equity Index	P/E		Forecasted P/E Feb-06**
	Dec-01	Feb-06*	
S&P 500	46.50	17.91	15.11
S&P 400 Mid Cap	28.36	20.90	17.06
S&P 600 Small Cap	44.21	20.50	17.24

* Based on FY05 Earnings Estimates
** Based on FY06 Forecasted Earnings
Source: Bloomberg

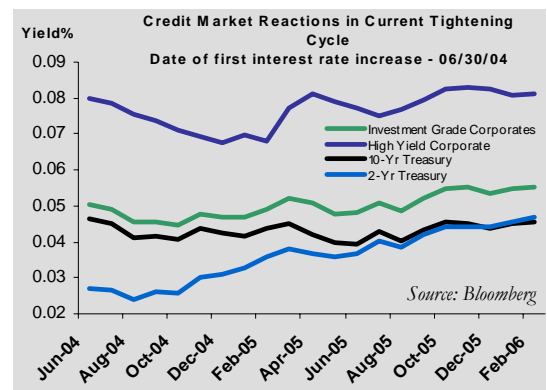
Fixed Income

U.S. corporate bond premiums declined to seven month lows in February as a result of ample liquidity and optimism that the current economic expansion will boost profits, thereby making it easier to meet debt obligations. The Lehman Brothers Corporate Investment Grade index yielded 85 bps more than U.S. Treasuries at the end of February, down from 90 bps at year-end. While corporate spreads tightened, short-term Treasury yields rose, resulting in a steeper yield curve inversion at the end of February. Two-year yields spiked 16 bps from the end of January, widening the spread between the two and 10-

year Treasuries by 13 bps by the end of the month. Surging foreign investments in the U.S. Treasury markets continue to offset the Fed tightening monetary policy and to hold down 10-year yields. Recent data released by the Treasury International Capital showed foreign portfolios of U.S. Treasuries reached a five-year high in December 2005, and jumped 114% since the end of 2000. A recent Fed study credits the strong foreign capital inflows with holding down 10-year yields by as much as 150 bps.² The Lehman Brothers Aggregate index inched higher in February, gaining 0.33% for the month and 0.34% YTD. The robust economic backdrop buoyed investor demand for high

yield bonds. The Lehman Brothers High Yield index gained 0.67% for the month and is up 2.27% YTD. Spreads between junk and investment-grade bonds narrowed to 258 bps at the end of February. As investors increased appetite for riskier assets became apparent in global equity markets, the same held true for global credit markets as the Lehman Brothers Emerging

Markets debt index gained 2.19% in February and is up 3.46% YTD on a USD basis.³



International

Accelerating global economic growth continues to fuel investor appetites for both developed and emerging markets equities. In February, the U.S. equity market was outperformed for the second consecutive month by all 24 of the MSCI developed market national equity indices except New Zealand. There is mounting evidence that the current economic expansion in Japan is sustainable as rising stock prices, higher wages and a jump in business spending are driving a rebound in domestic demand. Japanese corporations are benefiting from the series of structural reforms

implemented over the past five years. In addition, the growing revenue streams from increased demand from the U.S. and China is boosting their bottom lines. The Nikkei 225 index was off 2.64% for the month and is up 0.62% YTD in local currency. In USD terms it dropped 1.77% for the month, but has gained 2.50% for the year. European stocks hit a four-and-a-half-year high in February after the European Commission forecast the euro region's economic growth would expand at a 0.7% pace over the first three quarters of 2006, the fastest rate since 2000. The MSCI EAFE equity index rose 0.85% in February and 4.41% YTD in local currency.

On a USD basis, the index fell 0.21% for the month as the euro declined against the dollar, but gained 5.93% YTD. There is a growing debate among market strategists over the near term prospects for European equity markets as the ECB lifted its key refinancing interest rate a quarter point, to 2.5% on March 2nd, the second increase in three months. The ECB has also signaled further increases are possible as they attempt to quell accelerating inflation. The MSCI Emerging Markets equity index lost 0.03% in local currency in February, partially explained by the currency crash of the Icelandic krona, sparked by a downgrade of the country's sover-

ign debt, causing equity investors to reduce profitable positions to cover their Icelandic losses. The index was still up a healthy 8.12% YTD. On a USD basis, the index lost 0.10% for the month and gained 11.12% YTD. The MSCI China index started the year with a USD 17.67% gain through the end of February. Until recently, the superheated economic expansion in China over the past several years was unable to spark a rally, as equity prices continued to consolidate. Equity prices have rallied off the cyclical lows of mid-2004, reaching a four-and-a-half-year high on February 23rd as investors have become growingly more attracted to riskier equity markets.⁴

Footnotes:

All data from Bloomberg except:

1-Institute for Supply Management

2-F.E. Warnock and V.C. Warnock (September 2005), "International Capital Flows and U.S. Interest Rates," International Finance Discussion Series Working Paper # 2005-840, Board of Governors of the Federal Reserve System

3-All three bond index return data is from Lehman Brothers

4-Morgan Stanley Capital International

Hedge Funds

Calendar year 2005 performance was positive for all hedge fund strategies except Convertible Arbitrage, which finished the year with a loss of 1.96%. Emerging Markets was the top performer throughout the year with a 21.02% increase. Long/Short Equity was the second best performing strategy, as the HFRI Equity Hedge Index, a measure of long/short managers, recorded a 10.74% increase. The HFRI Fund of Funds Composite Index, a broad measure of all hedge fund of funds, was up 7.52% for the year, while the HFRI Conservative Fund of Funds

Index, a measure of low volatility hedge fund of funds, was up 5.15%. Despite an increase in merger activity in 2005, the Merger Arbitrage returned only 6.26% for the year. For the strategy to be successful both merger premiums and volatility need to increase significantly so that investors can actively trade within the deals. A strategy related to merger activity that has recently seen a lot of activity is shareholder activism. American companies have spent the past four years improving their balance sheets and building cash reserves. Activist investors are demanding that companies increase dividends, buy back shares or sell

off pieces of their business. A NY Times article reported cash distributed by S&P 500 companies in 2005 increased 37%. Examples of recent shareholder activist targets include companies such as Time Warner, General Motors and Wendy's. February 1, 2006 was the deadline for hedge funds to register with the SEC. Many hedge funds, afraid of strenuous record keeping and other requirements of being a registered investment adviser, avoided registering by increasing their initial lockups to two years for new investors, taking advantage of a loophole designed to exclude private equity managers from registration. The

SEC also has felt the burden of the additional work. Paul Atkins, a Commissioner of the SEC (and one of the dissenting votes against hedge fund registration), stated in a speech that "The influx of adviser registrations is stretching SEC resources, to the possible detriment of investors". 2005 saw a record number of hedge fund launches but there was a record number of closures as well. 2,073 new funds started in 2005, and 848 funds closed their doors and returned investors' money according to Hedge Fund Research, the firm that creates indices to track hedge fund returns (HFRI).

Indices Report

Asset Consulting Group, Inc. Indices Report Periods Ending February 28, 2006

Index Name	Style	Month	YTD	Rolling Returns					
				Qtr	3 Qtrs	1 Year	3 Years	5 Years	10 Years
<u>Domestic Equity Indices</u>									
S&P 500	Large Cap Core	0.27%	2.93%	2.97%	9.02%	8.40%	17.12%	2.37%	8.93 %
S&P Equal Weighted	Large Cap Core	0.20%	4.33%	5.12%	13.78%	13.79%	24.97%	8.74%	11.89 %
DJIA	Large Cap Core	1.48%	3.00%	2.28%	6.90%	4.51%	14.21%	3.10%	9.32 %
Russell 1000	Large Cap Core	0.22%	3.03%	3.17%	9.81%	9.84%	18.15%	3.02%	9.12 %
Russell 1000 Growth	Large Cap Growth	(0.16)%	1.59%	1.28%	8.43%	9.48%	14.95%	(0.94)%	6.35 %
Russell 1000 Value	Large Cap Value	0.61%	4.52%	5.15%	11.15%	10.25%	21.29%	6.73%	11.01 %
Russell Mid Cap	Mid Cap Core	(0.12)%	5.01%	6.10%	16.91%	17.68%	27.25 %	10.55%	12.55 %
S&P Mid Cap 400	Mid Cap Core	(0.84)%	5.00%	5.73%	16.45%	17.35%	25.37 %	10.48%	14.37 %
Russell 2000	Small Cap Core	(0.28)%	8.67%	8.17%	19.49%	16.58%	28.05%	10.41 %	9.85 %
Russell 2000 Growth	Small Cap Growth	(0.53)%	9.07%	8.91%	21.62%	17.33%	26.76%	5.53%	5.21 %
Russell 2000 Value	Small Cap Value	(0.01)%	8.26%	7.43%	17.31%	15.61%	29.16 %	14.77 %	13.72 %
NASDAQ Composite	Broad Equities	(1.06)%	3.45%	2.18%	10.38%	11.26%	19.51%	1.18%	7.57 %
Wilshire 5000	Broad Equities	(0.03)%	3.53%	3.67%	10.98%	10.68%	19.40%	4.11%	9.06 %
<u>International Equity Indices</u>									
MSCI World	Broad Global	(0.11)%	4.37%	6.71%	16.36%	13.81%	22.93%	4.93%	7.65%
MSCI World Ex US	Broad International	(0.34)%	5.97%	10.88%	24.16%	18.46%	29.25%	8.00%	6.96%
EAFE	Developed Markets Intl	(0.20)%	5.93%	10.87%	23.46%	17.90%	29.39%	7.80%	6.70%
EAFE Growth	Developed Markets Intl Growth	(1.12)%	4.97%	10.53%	22.08%	17.37%	25.55%	5.52%	4.05%
EAFE Value	Developed Markets Intl Value	0.71%	6.88%	11.19%	24.88%	18.45%	33.22%	10.09%	9.23%
MSCI Emerging Markets Free	Emerging Market	(0.10)%	11.12%	17.71%	45.56%	37.01%	44.83%	20.83%	N/A
IFCI Composite	Emerging Market	0.07%	10.81%	17.71%	44.99%	37.86%	45.88%	23.09%	8.65%
<u>Domestic Fixed Income Indices</u>									
Treasury Bills	Cash	0.33%	0.64%	0.96%	2.64%	3.39%	2.00%	2.26%	3.83%
Lehman Intermediate G/C	Intermediate Govt/Credit Bonds	0.07%	0.05%	0.68%	0.46%	1.99%	2.50%	4.96%	5.84%
Lehman Intermediate Aggregate	Int. Core Bonds	0.23%	0.35%	1.13%	0.91%	2.55%	2.89%	5.08%	6.03%
Lehman Aggregate	Core Bonds	0.33%	0.34%	1.29%	0.80%	2.74%	3.23%	5.42%	6.32%
Citi Broad Investment Grade	Core Bonds	0.36%	0.35%	1.34%	0.90%	2.89%	3.35%	5.47%	6.34%
Lehman Govt/Credit	Govt/Credit Bonds	0.27%	0.09%	1.04%	0.36%	2.42%	3.16%	5.55%	6.34%
Lehman Long Govt/Credit	Long Govt/Credit Bonds	1.04%	0.21%	2.41%	(0.01)%	4.03%	5.62%	7.72%	7.96%
Lehman Government	Government Bonds	0.16%	(0.01)%	0.92%	0.28%	2.73%	2.36%	4.93%	6.09%
Lehman Mtg Backed Securities	Mortgage Bonds	0.47%	0.79%	1.78%	1.62%	3.36%	3.42%	5.16%	6.27%
Lehman Muni 3 Yr	3 Yr Municipal Bonds	0.08%	0.30%	0.65%	1.26%	1.62%	1.55%	3.37%	4.13%
Lehman Muni 10 Yr	10 Yr Municipal Bonds	0.59%	0.91%	1.83%	1.71%	3.46%	4.10%	5.33%	5.72%
Lehman U.S. Credit Index	Corporate Bonds	0.44%	0.24%	1.22%	0.51%	2.00%	4.22%	6.40%	6.67%
Merrill Lynch High Yield	High Yield Bonds	0.64%	2.24%	3.18%	5.83%	3.76%	12.45%	7.64%	6.83%
Merrill Lynch Conv US	Convertible Bonds	0.03%	3.96%	4.88%	10.42%	7.27%	10.66%	6.07%	N/A

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