



Market Update

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Monthly Report

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The US Economy

The Federal Reserve took another step in withdrawing monetary stimulus in order to maintain price stability while sustaining long-run trend economic growth and raised the Fed funds rate to 5.25% at their June 29th meeting. June incoming economic data offered clear evidence that a slowdown in economic growth, from the first quarter's elevated annual rate of 5.6%, is occurring. Consumer spending is decelerating while business activity is still exhibiting signs of growth albeit at a slower pace, which should support the current economic expansion until consumer spending regains momentum.

Leading economic indicators signaling slower expansion ahead...

The Conference Board's index of leading economic indicators, which analyzes measures, such as stock prices, building permits and consumer expectations to forecast growth over coming months, fell 0.6% in May after a 0.1% drop in April. This might be signaling that the Fed's two-year interest rate tightening cycle has clamped down on the robust growth experienced earlier this year and that we could expect a slower expansion going forward.

Softer payrolls and housing markets squeezing consumer budgets

The Labor Department reported that employment growth in June amounted to 121,000. This brought the monthly average for the second-quarter down to 108,000, well below the 208,000 average monthly gains in

the first-quarter. While the headline number was weak, other labor indicators pointed to ongoing strength and pressure on capacity. The household based measure of employment rose 387,000 in June and averaged 264,000 over the past six months. As a result, the unemployment rate continued to inch lower, falling from 4.65% in May to 4.60% in June. The work week inched up slightly to 33.9 hours and average hourly earnings jumped 0.5% in June, and were up 3.9% for the past 12 months.

Within the housing markets, rising mortgage rates are beginning to discourage home purchases, pricing out first-time home buyers, but there has yet to be a major correction once feared by economists, as June data suggest home sales continue to be resilient. Sales of new homes in the U.S. rose 4.6% in May to an annual rate of 1.234 million from 1.18 million in April, their highest level this year. Sales of existing homes fell 1.2% to an annual rate of 6.67 million, from 6.75 million in April, the lowest drop in four months. Although home sales continue to hold up, home price appreciation is beginning to taper off, as elevated home values that soared over the past few years are starting to price potential buyers out of the market. The median price of an existing home was \$230,000 in May, 6% higher than the same month last year and above the pace predicted by Fannie Mae for 2006, but only about half the pace of appreciation for 2005. In effect, slower price appreciation coupled with rising mortgage rates, can be expected to reduce the amount of equity consumers can extract via mortgage refinancing, which has been a key source of consumer spending

during this economic expansion.

U.S. business activity still growing but at a decreasing rate...

U.S. business activity and capital investment still look reasonably solid. The Institute for Supply Management's June survey of both the manufacturing and the services sector showed that business activity expanded for the 39th consecutive month, but at a slower pace. Likewise, new orders continue to grow, although at a lower rate, as companies employ rising profits to purchase equipment and technology in order to improve efficiencies. As a result, the solid uptrend in business investment is expected to prevent the economy from faltering that could otherwise occur as a result of a slowdown in consumer spending and in the housing market.

At this stage in the economic expansion the economy appears to be transitioning from above average growth to a more sustainable moderate pace, which is crucial to bring an end to the Fed's tightening policy. However, at risk to derailing economic growth is the inability to tame the momentum inflation has been gaining. The May core CPI was up 0.3% for the third consecutive month. The 12-month core CPI rate increased from 2.3% to 2.4%, well outside the Fed preferred range of 1% to 2%. As the Fed battles to keep energy and commodity inflation out of core inflation, the incoming inflation data over the next few months will be key to the Fed's next move.

Global Equities

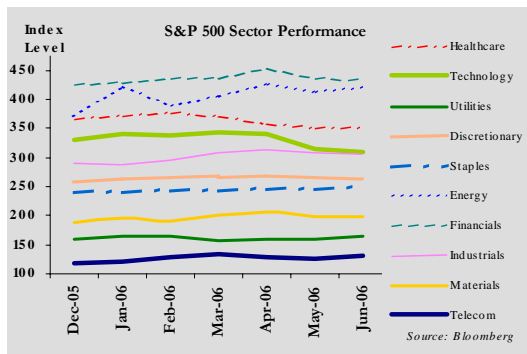
US Equities

Uncertainty surrounding the degree of future Fed interest rate tightening and its potential impact on economic growth led to increased stock market volatility and generally flat U.S. equity returns in June. According to Standard & Poors, in 2005 the S&P 500 moved up or down by 1% or more in only 30 trading days. By comparison, in 63 trading days within 2Q06, the

Economy at a Glance

Recent growth indicators	Mar	Apr	May	June
ISM manufacturing	55.2	57.3	54.4	53.8
ISM non-manufacturing	60.5	63.0	60.1	57
U. of Michigan Consumer Confidence	88.9	87.4	79.1	84.5
Change in Payrolls (m-o-m, 000)	200	138	75	121
Personal Income (%m-o-m)	0.5	0.5		
Personal Spending (%m-o-m)	0.6	0.6		

Source: Bureau of Labor Statistics, ISM, Bloomberg



S&P 500 moved more than 1% in 14 trading days or 22% of the time. This resulted in a flat performance for the S&P 500, which rallied on signs the Fed could take a pause, only to decline on economic data indicating that accelerating inflation would extend interest rate hikes. The S&P 500 gained 0.14% in June and 2.70% YTD but was down 1.44% for the quarter. Investors continued to bid up energy-related and economically sensitive industries. The S&P 500 Energy sector was up 2.04% in June and was the leading gainer in the first half of the year, up 12.78%. The S&P 500 Telecommunications sector gained nearly 5% in June with the announcement of AT&T's planned merger with Bell South, and was up 11.78% YTD. The S&P 500 Industrials and Materials sectors, both tied to economic cycles, were up 6.02% and 5.70% in 2Q06 and 1H06, respectively. Value outpaced growth in June with the Russell 1000 Value index gaining 0.64% vs. a loss of 0.39% for the Russell 1000 Growth index. YTD, the Russell 1000 Value index was up 6.54%, while the Russell 1000 Growth index decreased 0.92%. In the small cap space, the Russell 2000 regained some positive momentum turning in a gain of 0.64% for the month, but still had a difficult quarter losing 5.03%. YTD the index was up a solid 8.20% supported by investor enthusiasm for

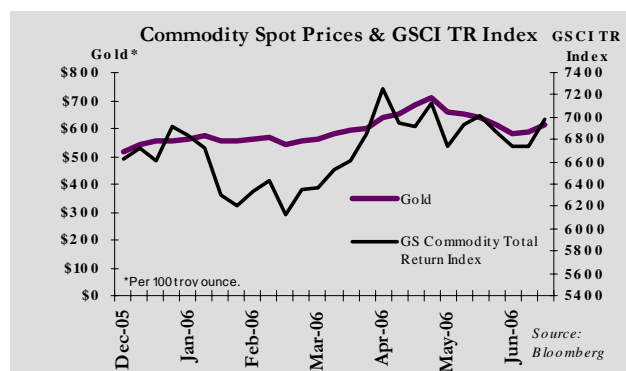
The Russell MidCap Index rose 0.12% in June and gained 4.85% YTD.

International Equities

Major currencies were range bound in June, with the U.S. dollar up slightly against the euro and yen thanks to the increase in U.S. short-term interest rates. The U.S. dollar declined 5.55% against the euro and dropped 2.85% against the yen in the second quarter. For the first half of the year, the dollar was down 7.94% versus the euro and has dropped 2.83% versus the yen. Going forward, currency traders speculate that Fed tightening will end sometime in 2006, while other central banks are signaling they might raise interest rates in an effort to restrain inflationary pressures that have accelerated beyond target ranges. This, combined with ballooning U.S. twin deficits should lead to further dollar depreciation. Current economic indicators reveal Japan's present economic expansion could become the longest since World War II. The government of Japan's Cabinet Office stated that a leading index of indicators such as machinery orders and consumer confidence, was at 75 in May up from 54.5 in April. In addition, a measure of business confidence, the Tankan business survey, showed companies plan to increase investment by 11.6% in the financial year

value oriented companies within the index. The Russell 2000 Value index gained 1.23% in June as was up 10.44% in 1H06, while the Russell 2000 Growth index gained 0.06% in June and was up 6.07% YTD. ending March 2007. Thus, indications are the economy continues to strengthen, driven by capital investment, as it prepares itself for the Bank of Japan to potentially raise interest rates from the almost zero level. Investors in Japanese equities have not fared well thus far in 2006. The Nikkei 225 touched a six-year high on April 7th, but subsequently dropped 19% by June 13th as investors feared rising global interest rates would lead to slower economic growth, especially within the U.S., its leading export channel. The strong economic data eased investor concerns as the index recovered 8% in the second half of June. For the quarter, the index lost 6.67% on a USD basis, and was down 0.32% for the first half of the year. On June 30th, the Euro Commission said the eurozone economy may be growing at a faster pace than their previous

high watermark of 2%. Since inflation did not increase from the previous month, the ECB decided not to raise rates at their July 6th meeting, but ECB chairman Trichet stated, that although the ECB kept its main refinancing rate stable at 2.75 percent, the bank would exercise "strong vigilance" with regard to potential inflation risks before the next meeting in August. The MSCI EAFE index lost 4.02% for the quarter on a local currency basis and gained 3.92% YTD. However, as a result of the US dollar depreciation, the index fared much better on a US dollar basis, increasing 0.94% for the quarter and 10.50% YTD. Higher global interest rates, a reduction in investor risk appetites, and a slump in commodity prices prompted investors to pull out of emerging market equities. But markets recovered in the second half of the month to



forecast of annual growth of 2.1%. An index based on European manufacturing expanded to 57.7 in June from 57 in May, the most in nearly six years. Unemployment in the zone fell to 7.9% in May, the lowest level since October 2001. Accelerating inflation seems to be the greatest concern to derailing euro economic growth. The ECB stated that money supply growth accelerated at the fastest clip in three years in May, while inflation remained elevated at 2.5% in June, well above its target

provide positive returns again for 2006. Emerging markets could come under further pressure, as record inflows still remaining in these equities could quickly exit upon negative reports on global economic growth or inflationary pressures. The MSCI Emerging Markets index declined 4.27% in the quarter ending June 30th, but is still up 7.33% YTD, both on a USD basis.

Global Fixed Income¹

With another 25 basis point hike in interest rates, Fed policy continues to affect the short end of the curve, driving short term rates higher. This had caused the yield curve to remain flat throughout the tightening phase and to actually close the quarter slightly inverted. The 2-year and 10-year spread was inverted by 1 basis point on June 30th. Once again, the

rising interest rate environment led to a negative return for the Merrill Lynch U.S. Treasury Master index at the end of June 2006. For the quarter the index had a price decline of 1.23%, and was down 0.05% and 1.20% on a total return basis in 2Q06 and 1H06, respectively. On the corporate side, although speculative grades remained the top performers for 1H06, investors took a more cautionary viewpoint of the

segment despite historically low default rates and favorable investment credit rating trends. Lehman Brothers reported the May default rate rose to 2.16% from 2.07%, but was still lower than 2005's rate of 2.22%. Still, investors banked profits for the second consecutive month, as the Lehman Brothers High Yield index fell 0.35% in June. For the quarter the index still rose 0.25%, but saw YTD gains trimmed

to 3.14%. Corporate credit spreads and risk premiums ticked moderately higher in June, but strengthened balance sheets and strong profit growth kept spreads tight for investment grades in 1H06. The credit spread for the Lehman Brothers AAA corporate widened 4 basis points in June to 0.61% from May levels, effectively the same spread level as at the start of the year. Risk premiums ticked 7 basis points

higher to 1.94%, but still fell 41 basis points from 2.35% at the start of the year. The Lehman Brothers U.S. Aggregate index gained 0.21% in June but was down 0.08% for the quarter, and down 0.72% YTD. European government bonds posted their fourth consecutive quarterly drop, as investors bet the ECB will lift rates more than expected. Yields on German two-year government bonds gained 28 basis points since March 31st to 3.56%, the highest level in almost four years. Yields have risen 154 basis points since June 30th, 2005. Japan's 10-year government bonds fell for the second consecutive quarter as investors bet the resiliency of the current economic expansion will lead the Bank of Japan to raise interest rates from its zero interest rate policy. Yields on 10-year government bonds closed the quarter at 1.92%, 15 basis points higher than on March 31st.

Footnotes:

All data from Bloomberg except:
1- Lehman Brothers

Indices Report

Asset Consulting Group, Inc.
Monthly Indices Report
Periods Ending June 30, 2006

Index Name	Style	Returns							
		Month	Qtr	YTD	2 Qtrs	1 Year	3 Years	5 Years	10 Years
<u>Domestic Equity Indices</u>									
S&P 500	Large Cap Core	0.14%	(1.44)%	2.70%	2.70%	8.63%	11.22%	2.50%	8.32 %
S&P Equal Weighted	Large Cap Core	(0.22)%	(2.08)%	4.04%	4.04%	11.85%	16.79%	7.98%	11.31 %
Russell 1000	Large Cap Core	0.13%	(1.66)%	2.76%	2.76%	9.08%	12.04%	3.12%	8.56 %
Russell 1000 Growth	Large Cap Growth	(0.39)%	(3.90)%	(0.92)%	(0.92)%	6.13%	8.35%	(0.76)%	5.42 %
Russell 1000 Value	Large Cap Value	0.64%	0.59%	6.54%	6.54%	12.08%	15.69%	6.89%	10.85 %
Russell Mid Cap	Mid Cap Core	0.12%	(2.58)%	4.85%	4.85%	13.67%	19.87 %	9.92%	12.06 %
Russell 2000	Small Cap Core	0.64%	(5.03)%	8.20%	8.20%	14.56%	18.69%	8.49 %	9.05 %
Russell 2000 Growth	Small Cap Growth	0.06%	(7.25)%	6.07%	6.07%	14.57%	16.27%	3.48%	4.12 %
Russell 2000 Value	Small Cap Value	1.23%	(2.70)%	10.44%	10.44%	14.60%	21.01 %	13.09 %	13.26 %
Wilshire 5000	Broad Equities	0.18%	(1.96)%	3.37%	3.37%	9.92%	12.98%	4.02%	8.45 %
HFRI Equity Hedge	Long Short Equity	(0.51)%	(1.01)%	5.58%	5.58%	14.81%	12.20%	7.56%	13.23 %
<u>International Equity Indices</u>									
MSCI World	Broad Global	0.01%	(0.33)%	6.37%	6.37%	17.51%	17.42%	6.23%	7.35%
MSCI EAFE	Developed Markets Intl	0.04%	0.94%	10.50%	10.50%	27.06%	24.43%	10.44%	6.75%
MSCI EAFE Growth	Developed Markets Intl Growth	0.15%	0.42%	9.55%	9.55%	26.34%	21.41%	8.46%	4.17%
MSCI EAFE Value	Developed Markets Intl Value	(0.08)%	1.46%	11.45%	11.45%	27.79%	27.42%	12.37%	9.18%
MSCI Emerging Markets Free	Emerging Market	(0.21)%	(4.27)%	7.33%	7.33%	35.91%	34.77%	21.54%	N/A
<u>Domestic Fixed Income Indices</u>									
Treasury Bills	Cash	0.38%	1.15%	2.19%	2.19%	3.98%	2.36%	2.25%	3.81%
Merrill Lynch 1-3 Yr Treasuries	Treasuries	0.18%	0.64%	1.03%	1.03%	1.82%	1.40%	3.07%	4.76%
Lehman Muni 5 Yr	5 Yr Municipal Bonds	(0.47)%	0.10%	0.12%	0.12%	0.32%	1.63%	3.85%	4.74%
Merrill Lynch High Yield	High Yield Bonds	(0.37)%	0.14%	3.00%	3.00%	4.63%	8.38%	8.36%	6.79%
Lehman Aggregate	Core Bonds	0.21%	(0.08)%	(0.72)%	(0.72)%	(0.81)%	2.05%	4.97%	6.22%
Lehman Government	Government Bonds	0.28%	0.02%	(0.89)%	(0.89)%	(1.16)%	1.31%	4.72%	6.03%
Lehman U.S. Credit Index	Corporate Bonds	0.15%	(0.39)%	(1.55)%	(1.55)%	(2.06)%	1.97%	5.67%	6.52%
Lehman Muni 10 Yr	10 Yr Municipal Bonds	(0.45)%	0.05%	(0.08)%	(0.08)%	0.13%	2.68%	4.85%	5.71%
HFRI FOF Conservative	Low Volatility	(0.04)%	0.60%	4.55%	4.55%	9.25%	6.49%	5.89%	N/A
<u>Real Estate Indices</u>									
NCREIF Property	Real Estate	3.62%	3.62%	7.37%	7.37%	18.23%	15.64%	11.92%	12.33%
NCREIF Classic Property	Real Estate	3.63%	3.63%	7.39%	7.39%	18.47%	15.12%	11.07%	12.27%
NAREIT Equity	Real Estate	5.20%	(1.60)%	12.90%	12.90%	19.04%	26.13%	19.38%	15.13%

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