



Market Update

Asset Consulting Group, Inc.

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Monthly Report

July 2006

The US Economy

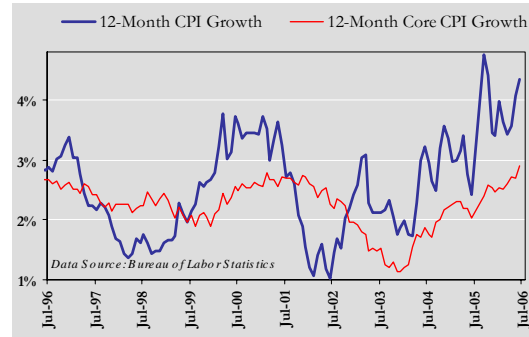
In his semi-annual testimony before Congress on July 19th, Federal Reserve Chairman Bernanke said "moderation" is under way in the economy. He further stated that policy makers must be on guard against "persistently higher inflation," while at the same time trying not to "tighten too much" and derail the economic expansion. Incoming July economic data support his views and revealed an economy in a gradual slowdown phase.

Inflation still on an uptrend...

While there is evidence that the U.S. economy is slowing, inflation has yet to subside. Consumer prices for goods and services, excluding food and fuel, increased 0.3% in June for a fourth straight month, the longest stretch since January to April 1995. Another gauge of inflation, the personal consumption expenditures (PCE) price index, the Fed's preferred measure, rose 0.2% in June for a third consecutive month and is up 2.4% since June 30, 2005. The robust economic expansion in the past three years boosted the demand for goods and services, but with that growth has come demand-driven inflation. With the economy entering the mature phase of the current expansion, inflation should be expected to moderate. Unfortunately, inflation does not weaken at the same pace as a cooling economy. The Fed tightening cycle works with a lag, and as a result, it might take several months before inflation will moderate.

Growth slows as a result of decreased consumer and corporate spending...

Gross domestic product, which expanded at an annual rate of 5.6% in 1Q06, is estimated to have grown at a below-trend 2.5% annual rate in 2Q06. At the heart of the slower growth was a decline in consumer and capital spending. Consumer spending, which accounts for nearly 70% of United States' economic activity, rose at an annual rate of 2.5% in 2Q06, following a 4.8% pace in 1Q06. Con-



sumers, faced with higher energy prices and a softening housing market, were discouraged to purchase durable goods, such as autos and appliances. Capital investment, which includes spending on commercial construction and equipment rose at a 2.7% annual rate, the smallest gain since early 2004 and well below the 13.7% increase in 1Q06. Similar to private consumers, corporations became cautious over the quarter, but a slowdown was to be expected after spending increased 5% or greater for 8 consecutive quarters.

Consumers benefit from higher wages, but are faced with home prices increasing at a slower rate...

U.S. employers added 113,000 jobs to payrolls in July, which brings the monthly average for the first 7 months of the year to 140,000, below the pace of 2005 when jobs were added at an average pace of 165,000. The unemployment rate rose for the first time since February, rising to 4.8% from 4.6% in June. However, wages held up even with fewer jobs being added. Average hourly earnings in July rose 0.4% for the second consecutive month and are up 3.8% in the last 12 months. As a result, even though there is a moderation in job

creation, increased personal incomes are helping to support consumer spending, albeit at a slower pace.

However, weighing on consumer pocket books is a weaker housing sector. Sales of existing homes, which account for about 85% of the housing market, declined 1.3% in June to an annual rate of 6.62 million from 6.71 million in May. Inventories of unsold homes rose to 3.725 million, up 3.8% from May and are at the highest level since 1997. The median price of an existing home rose 0.9% in June from a year ago to \$231,000. Sales of new homes fell 3% in June to an annual rate of 1.13 million from an annual rate of 1.17 million in May. There was a build up in supply to a record 566,000 from 562,000 in May. As such, the slowdown in the housing market is reducing its contribution to economic growth and is expected to continue to have a negative impact on economic activity until interest rates begin descending again.

There are pockets of strength in business underpinning economic growth...

Reports in July from U.S. corporations showed business activity continued to expand albeit at a slower pace, but there were some signs of strength within the manufacturing sector. The Institute for Supply Management's (ISM) index of services corporations, which account for 88% of GDP, fell to 54.8% in July from 57% in June.

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- July 31, 2006

Economy at a Glance

Recent growth indicators	Apr	May	June	July
ISM manufacturing	57.3	54.4	53.8	54.7
ISM non-manufacturing	63.0	60.1	57	54.8
U. of Michigan Consumer Confidence	87.4	79.1	83	84.7
Change in Payrolls (m-o-m, 000)	138	75	121	113
Personal Income (%m-o-m)	0.5	0.4	0.6	
Personal Spending (%m-o-m)	0.6	0.4	0.4	

Source: Bureau of Labor Statistics, ISM, Bloomberg

Rising interest rates weakened the expansion of business services while prices paid by businesses climbed. However, U.S. productivity gains are allowing corporations to use those savings and pass them along to employees in the form of higher wages. U.S. productivity, a measure of how much an employee produces for each hour of work, increased at an annual rate of 1.1% in 2Q06 after a 4.3% gain in 1Q06. Another sign of

strength is within the manufacturing sector, which helped to shore up economic growth. The ISM's manufacturing index rose to 54.7% in July from 53.8% in June. This gain stemmed from an increase in factory orders which grew 1.2% in June, the second consecutive monthly gain. Specifically, orders for capital goods excluding aircraft and defense, a proxy for future business investment, rose 0.4% after rising 1.3% in

May.

The Fed has been focused on fighting inflation and they have stated in their August 8th statement that more interest rate firming might be needed "depending on the evolution of the outlook for both inflation and economic growth." The difficulty is that it can take 6 months to a year before the full impact of their policy can be felt throughout the economy,

so they could potentially over-tighten and stifle the economic expansion. After hiking interest rates by 425 basis points, the U.S. economy has entered into the mature phase of the current expansion, which should bring more moderate economic growth. As a result, our view is that further interest rate increases are unlikely at this stage.

Global Equities

U.S. Equity

Solid fundamentals continue to take a back seat within U.S. equity markets, with volatility clearly taking a foothold, as investors remain focused on the uncertainties surrounding future Fed monetary policy. We are near the end of the 2Q06 earnings season and thus far corporate profits have been far outpacing forecasts. As of August 8th, 86% of the companies in the S&P 500 reported earnings gains of 19.1% on a share-weighted basis. Of those reporting, 71% were "positive surprises," which exceeded consensus forecasts, while less than 20% fell short of expectations. Although earnings within the energy sector (+45%) far outpaced the other nine sectors, all ten S&P sectors reported earnings that exceeded estimates. These positive developments on the earnings front went largely ignored by investors as the S&P 500 ended July up a mere 0.62%, and was up 3.34% YTD. The best performing sectors for the month were Healthcare (+5.40%), Energy (+4.96%) and Utilities (+4.82%), while the top YTD performing sectors were Energy (+18.37%), Telecom (+16.49%) and Utilities (7.54%). The Industrial sector turned in the worst performance for the month (-5.31%) and Technology weighed negatively on the S&P YTD (-9.71%). What was primarily on investors minds was the future path of monetary policy. As the Fed seemed to remain vigilant in combating inflation, investors were concerned how much further the Fed would tighten and whether they would overextend interest rate hikes

to the point of choking off the current economic expansion. This anxiety brought back a heavy dose of volatility to U.S. equity markets. Volatility, as measured by S&P 500 price movements of at least +/-1%, occurred 125 times out of 252 trading days in 2002. By 2005, that dropped down to 30 times. As of July 31st, volatility spiked to 60 times in just 145 trading days thus far in 2006, with nearly 60% of these movements occurring since May 10th, the day the Fed said in a statement that "further policy firming may yet be needed." It is expected that equity markets will remain volatile until there is clear direction on interest rates from the Fed. Taking a look across market capitalizations, large cap stocks were the most steady for the month as the Russell 1000 (+.22% in July, +2.98% YTD), outpaced both the Russell MidCap (-2.19% in July, +2.55% YTD) and the Russell 2000 (-3.25% in July, +4.68% YTD). In terms of style investing, value continued to be preferred over growth by investors. The Russell 1000 Value index (+2.43% in July, 9.13% YTD) outshined the Russell 1000 Growth index (-1.90% in July, -2.80% YTD). Similarly, the Russell 2000 Value index (-1.39% in July, +8.90% YTD) outperformed the Russell 2000 Growth index (-5.19% in July, +5.57% YTD).

International Equity

Major currencies were range bound in July as currency traders were unwilling to place major bets given the uncertainty about the future path of interest rates. The U.S. dollar rose 0.18% against the euro and 0.22%

against the yen over the course of the month. The dollar did start to lose momentum on July 19th when Fed Chairman Bernanke said there was a moderation under way in the economy. From that point forward the foreign-exchange (fx) market began pricing in a Fed rate pause at the August 8th meeting. At the same time fx traders began discounting another rate hike by the ECB at the August 3rd meeting. The ECB did in fact lift its benchmark rate a quarter point to 3% and signaled further interest rate hikes, while the Fed paused, but left the potential for more hikes down the road. Looking ahead, currency traders speculate that the end of the Fed tightening, if it has not already occurred, will happen 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. As a result, there should be a general trend towards a weaker U.S. dollar in the near term as the Fed's decision will move interest rate differentials away from the U.S. Investors shed Japanese equities in July over concerns about a negative impact on Japan's exports of an economic slowdown in the U.S., Japan's major trading partner. Japanese equities were extremely volatile as investor sentiment turned negative on July 10th over the cooling U.S. economy only to be further exacerbated by the Middle East crisis and worries about the impact of higher oil prices on economic growth. The Nikkei 225 lost 9.84% (USD) in a two-week time span only to begin recovering on July 19th after Fed Chairman Bernanke hinted the

central bank might be through raising interest rates. The index regained 9.78% (USD) by the end of the month. For the month, the Nikkei lost .44%, and was down 0.77% YTD, both on a USD basis. European equities experienced the same volatility declining at the beginning of July over concerns the slower U.S. growth would impair domestic corporate profit growth, but had a relief rally in the latter part of the month. The MSCI Euro index fell 6.49% (USD) by July 18th, but recovered 7.88% (USD) by July 31st. For the month of July, the MSCI Euro index gained .95% and returned 15.28% YTD on a USD basis. The MSCI EAFE rose 1% in July and gained 11.61% YTD on a USD basis. In early May, equity markets in developing countries began a major pullback. This decline stemmed mainly from liquidity drying up as a result of the continued rise in interest rates in developed countries, which prompted investors to reallocate assets towards the higher yielding, less risky investments within developed countries. By the end of July, the emerging equity markets had recovered substantially, but since the same global economic developments that led to their earlier decline remain in place, they are likely to remain under pressure in the near term. The MSCI Emerging Market index dropped 24.10% (in USD) over the five-week time span ending on June 13th. From that point forward, the index rebounded 14.22% (USD) through the end of July. For the month of July, the index was up 1.50%, while YTD the index gained 8.94%, both on a USD basis.

Global Fixed Income¹

The clear signs from the incoming July economic data that the U.S. economy is slowing down, coupled with comments from Fed policy

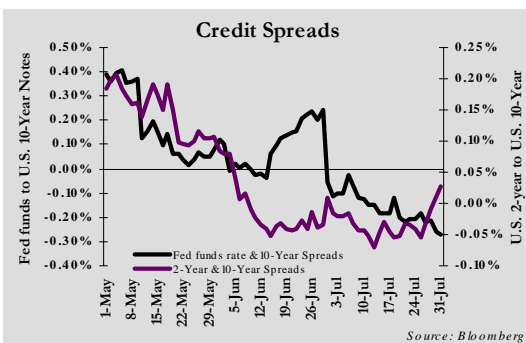
makers that a pause may be in the making at their August 8th meeting, helped send yields on ten-year and two-year Treasury notes to their first monthly decline this year in July. The ten-year yield dropped 16 basis

points since June 30th, while the two-year yield fell 20 basis points, creating a positive spread of 3 basis points between the two by July 31st, and resulting in the positively sloped yield curve, which had been inverted

by 1 basis point on June 30th. The decline in Treasury yields lead to positive returns for Treasury notes. The Merrill Lynch U.S. Treasuries 1-3 Yrs. index gained 0.73% in July and was up 1.77% YTD, while the

Merrill Lynch AAA U.S. Treasury/Agency Master index rose 1.20% for the month and had a YTD return of 0.31%. Bond market fundamentals have also been indicating the economy could be entering a slowdown phase. The decline in ten-year yields over the course of July left it on a consistent inversion to the Fed funds rate, a typical signal from bond investors that future expectations are for lower short-term rates. Credit spreads widened in July across all quality sectors, but most notably in the riskier high-yield bonds. The Lehman Bros. Baa Corporate high grade index credit spread inched 3 basis points higher from 122 bps at the end of June to 125 bps on July 31st. Within the high yield sector, the Lehman High Yield index credit spread jumped from 320 bps at the end of June to 332 bps at the end of July, while the Lehman Non-rate (distressed) index spiked from 695 bps in June to 1347 on July 31st. Nonetheless, despite

the challenging macro environment and higher risk premiums demanded from investors, the high yield sector continued to outpace all other U.S. bond sectors for the year. The Leh-



man U.S. Corporate High Yield index gained 0.98% in July and was up 4.15% YTD, while the Non-Rated U.S. High Yield index rose 1.67% in July and returned 10.91% YTD. In comparison, the Lehman U.S. Aggregate index rose 1.35% for the month and had a YTD total

return of 0.62%. Money supply growth within the euro region has grown rapidly and has exceeded the European Central Bank's (ECB) target of 4.5%. Money supply increased 8.5% in June after an 8.9% spike in May, which was the biggest in three years. This rapid growth has led bond traders to believe the ECB will continue to hike short-term rates in an effort to control inflationary pressures stemming from this growth. Interest rate futures on July 28th indicated investors expect the ECB to raise its benchmark rate to at least 3.25% by the end of the year. European short-term yields continue to rise, narrow-

ing the gap in yields between the two-year and ten-year European government bonds. The spread between benchmark German two-year and ten-year bond yields was 41 basis points on July 31st, the lowest since March 2001. The interest rate differential that has favored the U.S. over other developed countries should continue to narrow on the short end of the yield curve as the ECB and the Bank of Japan raise their benchmark rates. The spread between the Euro benchmark two-year bond and the U.S. two-year bond yields was 159 basis points on June 30th, but decreased 14 basis points in July to 145 basis points. The JP Morgan Global Government Bond index gained 0.80% in July and rose 3.41% YTD on a USD basis. The Merrill Lynch Global Broad Market Corporate index gained 1.20% in July and rose 3.05% YTD on a USD basis.

Footnotes:
All data from Bloomberg, except:
1- Lehman Brothers

Indices Report

Asset Consulting Group, Inc.

Monthly Indices Report

Periods Ending July 31, 2006

Index Name	Style	Returns							
		Month	Qtr	YTD	2 Qtrs	1 Year	3 Years	5 Years	10 Years
Domestic Equity Indices									
S&P 500	Large Cap Core	0.62%	(2.14)%	3.34%	0.67%	5.38%	10.80%	2.83%	8.88 %
S&P Equal Weighted	Large Cap Core	(1.47)%	(4.53)%	2.51%	(1.54)%	4.89%	15.23%	7.89%	11.80 %
Russell 1000	Large Cap Core	0.22%	(2.61)%	2.98%	0.18%	5.23%	11.39%	3.45%	9.12 %
Russell 1000 Growth	Large Cap Growth	(1.90)%	(5.60)%	(2.80)%	(4.49)%	(0.74)%	6.78%	(0.64)%	5.86 %
Russell 1000 Value	Large Cap Value	2.43%	0.48%	9.13%	5.06%	11.58%	16.05%	7.45%	11.54 %
Russell Mid Cap	Mid Cap Core	(2.19)%	(5.37)%	2.55%	(2.46)%	5.61%	17.71 %	10.07%	12.53 %
Russell 2000	Small Cap Core	(3.25)%	(8.10)%	4.68%	(3.93)%	4.23%	15.04%	8.99 %	9.68 %
Russell 2000 Growth	Small Cap Growth	(5.19)%	(11.81)%	0.57%	(8.28)%	1.53%	11.48%	4.23%	4.92 %
Russell 2000 Value	Small Cap Value	(1.39)%	(4.31)%	8.90%	0.58%	6.92%	18.51 %	13.28 %	13.72 %
Wilshire 5000	Broad Equities	(0.12)%	(3.15)%	3.24%	(0.31)%	5.42%	12.05%	4.35%	9.04 %
HFRI Equity Hedge	Long Short Equity	(0.79)%	(3.63)%	4.56%	0.58%	10.44%	10.95%	7.58%	13.44 %
International Equity Indices									
MSCI World	Broad Global	0.65%	(2.69)%	7.05%	2.46%	14.25%	16.88%	6.64%	7.81 %
MSCI EAFE	Developed Markets Intl	1.00%	(2.76)%	11.61%	5.15%	24.51%	23.85%	11.07%	7.17%
MSCI EAFE Growth	Developed Markets Intl Growth	0.47%	(3.54)%	10.06%	3.67%	23.18%	21.07%	9.09%	4.56%
MSCI EAFE Value	Developed Markets Intl Value	1.53%	(2.00)%	13.15%	6.62%	25.84%	26.60%	12.99%	9.63%
MSCI Emerging Markets Free	Emerging Market	1.50%	(9.31)%	8.94%	(2.06)%	28.82%	32.72%	23.50%	N/A
Domestic Fixed Income Indices									
Treasury Bills	Cash	0.42%	1.20%	2.62%	2.30%	4.17%	2.49%	2.27%	3.81%
Merrill Lynch 1-3 Yr Treasuries	Treasuries	0.73%	1.06%	1.77%	1.60%	2.85%	1.83%	2.99%	4.79%
Lehman Muni 5 Yr	5 Yr Municipal Bonds	0.93%	0.81%	1.05%	0.82%	1.80%	2.70%	3.82%	4.76%
Merrill Lynch High Yield	High Yield Bonds	1.07%	0.62%	4.10%	2.47%	4.12%	9.29%	8.26%	6.84%
Lehman Aggregate	Core Bonds	1.35%	1.45%	0.62%	0.61%	1.45%	3.68%	4.79%	6.33%
Lehman Government	Government Bonds	1.19%	1.49%	0.29%	0.46%	1.24%	3.15%	4.48%	6.13%
Lehman U.S. Credit Index	Corporate Bonds	1.47%	1.45%	(0.10)%	0.10%	0.38%	3.96%	5.43%	6.66%
Lehman Muni 10 Yr	10 Yr Municipal Bonds	1.33%	1.56%	1.25%	0.92%	2.34%	4.62%	4.84%	5.75%
HFRI FOF Conservative	Low Volatility	0.23%	(0.41)%	4.90%	2.76%	8.16%	6.70%	5.87%	N/A
Real Estate Indices									
NCREIF Property	Real Estate	0.00%	4.01%	7.78%	7.78%	18.67%	15.79%	11.89%	12.27%
NCREIF Classic Property	Real Estate	0.00%	4.01%	7.79%	7.79%	18.90%	15.26%	11.04%	12.20%
NAREIT Equity	Real Estate	3.37%	5.65%	16.71%	8.77%	14.85%	25.33%	20.66%	15.43%

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