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Neither fixed income rates nor the returns on the broad market indices were particularly attractive for 2005. Fixed interest returns on savings accounts, government issues, and investment grade securities hovered between two and five percent depending upon date of issue and the period to be held prior to maturity. Broad based 2005 index returns included: Dow Jones Industrial down 0.61%, S&P 500 up 3.0%, and the NASDAQ up 1.4%. International equity returns were significantly better as the EAFE index with dividends provided a 14.13% return and the MSCI World with dividends provided a return of 10.08%.[1]

Once again Raymond James equity analysts showed their prowess as their Best Picks of 2005 provided a total return of 22.2%.[2]

This office put out position papers for the first and second quarters of 2005 that emphasized those industries that out performed for the year highlighting in particular oil & gas, raw materials and defense electronics. Our annual market forecasts for each year from 9/11 through the first half of last year are collected at our web site, *www.RJF.com/TIP*.

There were technical signs of a possible market downturn as we entered 2006. During the last week of December, rates on two-year treasuries turned (slightly) higher than the rates offered on ten-year government bonds. When the rate on shorter maturities exceed those on longer, the yield curve is said to invert. In this instance the inversion was not seen throughout the government yield curve, occurring in the instance of two and ten year maturities only. Even though the inversion was tiny, it was sufficient to create significant

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[1] Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

[2] The Best Picks list highlights individual stocks while giving investors a group of companies expected to produce superior overall results during the upcoming year. The list is compiled from the recommendations of top analysts in specific industries and is comprised of stocks that have undergone a rigorous screening process. Analysts' Best Picks and S&P performance for 2005 represent total return performance through the close of 12/09/05 (priced since inception on 12/10/04). Since 1996 a total of 109 stocks have been recommended through this list. Of this total 80 advanced and 29 declined within the recommended holding period. An investor would incur commissions (and interest charges if transacted in a margin account) to transact these recommendations. The results presented should not and cannot be viewed as an indicator of future performance. Individual results will vary and transaction costs related to investing in these stocks will affect overall performance. There is no assurance that the list will achieve the results expected and investors may incur profits or losses.

discussion among economists. Inversions had been seen just prior to the recessions of 1990, 1981, 1980, 1973, 1969, and 1960.

In the past, inversions have occurred at times when the Fed is in the midst of a campaign against inflation and thus it raises short term rates. Sometimes this action has been sufficiently strong to bring on recession. In other instances long term rates have been subdued because the market anticipates a recession that, in time, causes the Fed to reduce short term rates.

In recent years, the components of the government index measuring inflation have significantly changed. Many argue that this is the government's method of masking inflation. Thus, if we take the present government index figures, there appears little evidence that we have an inflationary economy. The lie appears given to this appearance by those who regularly patronize a super market, purchase an automobile or buy a postage stamp. It becomes obvious that the purchasing power of the dollar has declined. These shoppers in the American market will readily attest that inflation exists and needs be contained. In 1980, the cost of a first-class stamp was $0.15; today it is $0.39. A gallon of regular gas cost $1.25, while today it is $2.34. A dozen eggs went for $0.91 in 1980, while today one pays on average $1.27.

Generally, interest rate inversion occurs when rates are considerably higher than at present. Rates now are at a low level comparable in recent times only to those of the nineteen- sixties.

Early this year, Ben Bernanke, formerly a professor of my Alma Mater, Princeton University, and also a former Governor of the Federal Reserve will take over from Alan Greenspan as head of the Federal Reserve. Bernanke's major academic concentration has been his study of this country's recession of the 1930's. More recently he is associated with the phrase "global savings glut," loosely interpreted as a lack of global demand. This concept points to the reason why it is necessary to keep interest rates so low: to stimulate demand for American goods and services, to motivate our economy. Yet, these low rates still have been sufficient to have other governments buy our bonds with the savings they accumulate. While the rest of the world experiences a "savings glut", we are spending significantly more than our gross domestic product. .

The money that flees this country is invested elsewhere. That's an important reason why the world indices of 2005 out performed our own. To simplify, would you rather own a business in a country to which investment dollars are flowing or in a country where there is a continuing outflow of capital? .

Surprisingly, the currency of the United States, that country from which capital is flowing appreciated against several of the world' economies last year. In 2005, the U.S. dollar rose 3.5% against a broad-weighted basket of world currencies. Gains against the Euro, at 14%, and similar gains against the Japanese Yen were more impressive. But that has not been the trend.

The long trend for the purchasing power of the dollar has been declining. There is good reason to believe that the decline may accelerate. That's because we insist on maintaining one of the world's highest standards of living for all our citizens while others, particularly the governments of Southeast Asia place greater emphasis on the investment dollar used in building their domestic industry

Over the period since 9/11, this office has constantly stressed that the United States was experiencing a War on the Economy. Through this description "War on the Economy" we sought to encapsulate our belief that the enemy's strategy was to make the war so damaging to our economy and way of life that we would lose heart and refuse to fight. He could not win on the battlefield but may well win the "War on the Economy".

By regulation, we as financial advisors must provide advice to our clients which is "suitable" not overly risky for their needs. In a totally straight forward, truthful, objective world this task is both reasonable and necessary. But the financial world with which we deal has government standards. These impose risk calculations using the dollar as a constant standard of value, not purchasing power. The dollar endures constant risk. In some instances, the greatest risk presented is that of the purchasing power of the dollar.

It is said that investing abroad involves significantly greater risk than investing domestically. The American investor, obviously, may not have sufficient familiarity with available investments in foreign countries. Accounting systems may be less transparent and the foreign government may do little to protect the American investor. This is all true. But there are domestic American money management companies available to you, the American investor, that are fully aware of the risk reward components of the investments they choose for their portfolios. US law requires them to provide appropriate accounting. Foreign investment with these concerns involves risk. Little is provided that compares the risk of such an investment to that of a currency constantly being eroded in value by the outflow of its backing reserves and further depleted by the costs of war. And relatively little thought is given to investing in American companies that measure their profits in that currency.

Today, the American dollar is little more than an IOU. It is artificially propped in value due to the treasuries of other countries, principally China utilizing up to 70% of their reserves for dollar purchase. Should China and other foreign treasury investors substantially reduce their dollar purchases or begin to sell, the purchasing power of the dollar could be very substantially weakened. On January 6th, the Chinese government issued an official communiqué that it was looking to reallocate its reserves. Like any other article of value, the dollar will have to compete in the market of supply and demand

A significant cut in the purchasing power of the dollar would mean that the costs of maintaining our every day life would rise, possibly substantially: food, clothes, transportation, newspapers, virtually everything we own and use would require more dollars to acquire. Such a happenstance would have a deadening force on our economy.

Employers would not have the money to pay suppliers or employees. Employees would be out of work. So reducing the American economy would have a significant impact on world economies.

The American economy is still termed the engine of the world economy. Slowing it could cause world wide recession. Perhaps for this reason, governments of other nations have to date continued to invest in the dollar.

Obviously, what has just been discussed paints a devastating picture. But the discussion indicates a trend in the world economy, not an overnight catastrophe. It is a trend that we, as Americans, could well reverse. It would mean significant self restraint – cuts in our domestic budget or in what we spend on the war.

Our intent with this discussion has been for you our reader and our client to focus on the dollar as an object of investment subject to the laws of supply and demand. The dollar has lost much of its claim to being the world's standard of value. You too, should view it as an object of both risk and reward and not an absolute standard. It is one of several pieces essential to a well diversified portfolio. It has its greatest present value because of its liquidity—its immediate acceptance for the purchase and sale of other goods.—but at what value?

This coming year you will find us continuing to recommend diversification of domestic fixed income and equity but we anticipate a greater population of foreign debt and equity in that predominantly domestic portfolio. We see a greater risk to the dollar. That risk may reduce the percentage of dollar denominated assets recommended for your portfolio but they will still heavily predominate.

We will continue to recommend our diversified portfolio of mutual funds, finding particular attraction in certain vulture funds, international hybrids, and value technology funds specializing in the New America and especially in information and communications. These all have been previously recommended by this office.

We are more than a little pleased with our Raymond James analysts and the industries they cover. The historical returns provided by their Best of the Year and number one rated stocks provide us with a lot of comfort as we advise you concerning domestic equities. And we are given added strength as to both domestic and international investing by the success experienced by our closed end fund analytical team.

We continue to search for, obtain, and populate our portfolios with seasoned and historically well managed oil and gas, coal and copper, water and gold equity selections. Our purpose will be to provide portfolios that can do well in a variety of different market scenarios as we anticipate a volatile and difficult financial year.[3]

[3] The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Any opinions are those of William Haas and not necessarily those of RJFS or Raymond James. This information is not intended as a solicitation or an offer to buy or sell any security referred to herein. Investments mentioned may not be suitable for all investors. Past performance may not be indicative of future results.