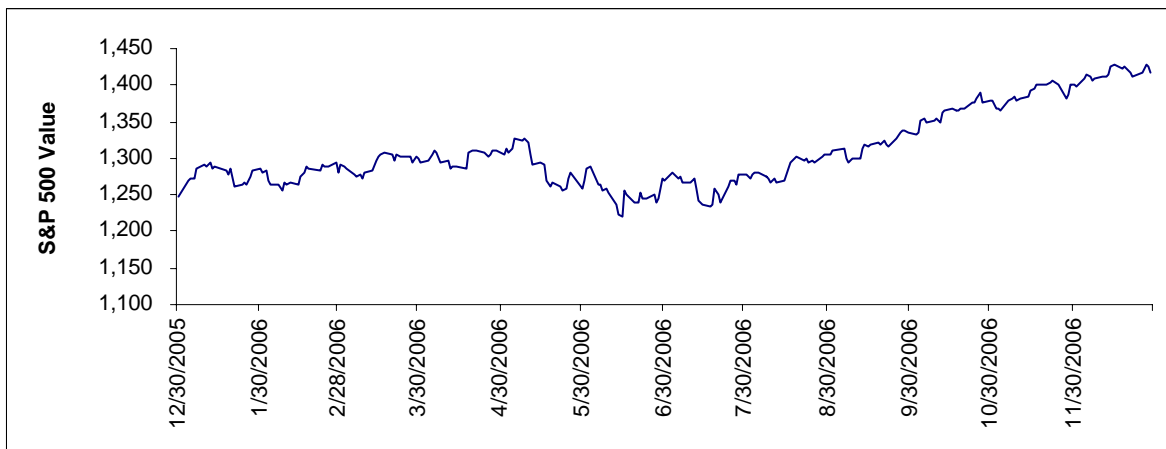


What Went Right in '06

The year 2006 goes into the record books as a very solid year for investment returns. The S&P 500 posted a 13.6% return for the year (excluding dividends), easily above the average annual long-term gain of approximately 10%. Stocks outperformed bonds by a significant margin as intermediate and long-term interest rates remained at historically low levels, despite repeated hikes in short term rates by the Federal Reserve board.

One of the major themes in play over the course of the year was returning capital to shareholders. Within the S&P 500, a total of 304 companies initiated or raised cash dividends and stock buybacks continued at record levels. This has been and will continue to be an important part of AFM's investment theme in the year ahead. We are of the opinion that market volatility is here to stay and cash dividends allow investors to "get paid while they wait" for long-term gains. The importance of the ability of companies to consistently raise dividends cannot be underestimated. Numerous studies have shown that the soon to be retiring baby boomers are woefully short of retirement assets, and investments that have the ability to pay increasing streams of income over time will, or should, be of major importance to these investors.

A closer look at market action during the year will show that volatile markets create wide swings in prices. While we would all like to see prices steadily rise in a predictable manner, we know from experience this is not the case. Although the S&P 500 finished the year with impressive double-digit returns, investors who may have been spooked out of the market by the dismal first half missed the coming rally. The chart below shows the index's sharp decline of over 8% from the high on May 9 through mid-June, which combined with higher interest rates and energy prices, shook investor confidence.



It is during tough periods like this that investor discipline is of utmost importance. If one invested on emotions, it would be easy to justify pulling money out of stocks in mid-June. However, what followed was a steady rise of over 16% off the bottom. No one is going to ring a bell signaling the bottom, which is why one must stay focused on investing for the long-term.

It may be of interest to some investors to take a look at stock performance by sector. Of the ten major S&P sectors, health care had the lowest returns of 6% while telecommunication services had the highest return of 32% (both excluding dividends). Investors never know in advance who the winners and losers will be. It wasn't that long ago that the pharmaceutical stocks were the darlings of Wall Street while telecommunications languished in the doghouse. What a difference a few years makes. Hedge fund Amaranth Advisors managed to lose about \$6.4 billion in one month by making ill-timed bets on the natural gas market. The point is, diversification in today's investing climate is a must.

Enough of the past, what about 2007? At the end of the day, earnings drive stock prices. While the exceptional gains of 2006 will probably not be repeated, earnings are expected to advance at a respectable pace. Information technology, a laggard in 2006, appears to be poised to benefit from a corporate spending cycle. The consumer appears to be in good shape despite higher energy costs and a soft real estate market. A key to the market performance in the year ahead will be interest rates. The Federal Reserve board has stated repeatedly that they will be vigilant on the inflation watch. Any signs of slowing inflation could bring about a reduction in short term interest rates, which could light up the stock market. We will continue to position portfolios across a wide range of industry sectors in quality stocks that we believe will benefit from global economic developments.

As always, we invite your comments, and if you have any questions or concerns, call anytime. We look forward to working with you in the year ahead. Happy New Year to you and your families!

We are including a copy of our privacy policy per SEC requirements. If you would like a copy of our disclosure document (Form ADV Part II), please let us know.

The Score Board for 2006:

S&P 500:	+13.6%
Dow Jones:	+16.3%
NASDAQ:	+9.5%

Bill Novelline

Andrew Novelline

Bob McLemore

January 5, 2007