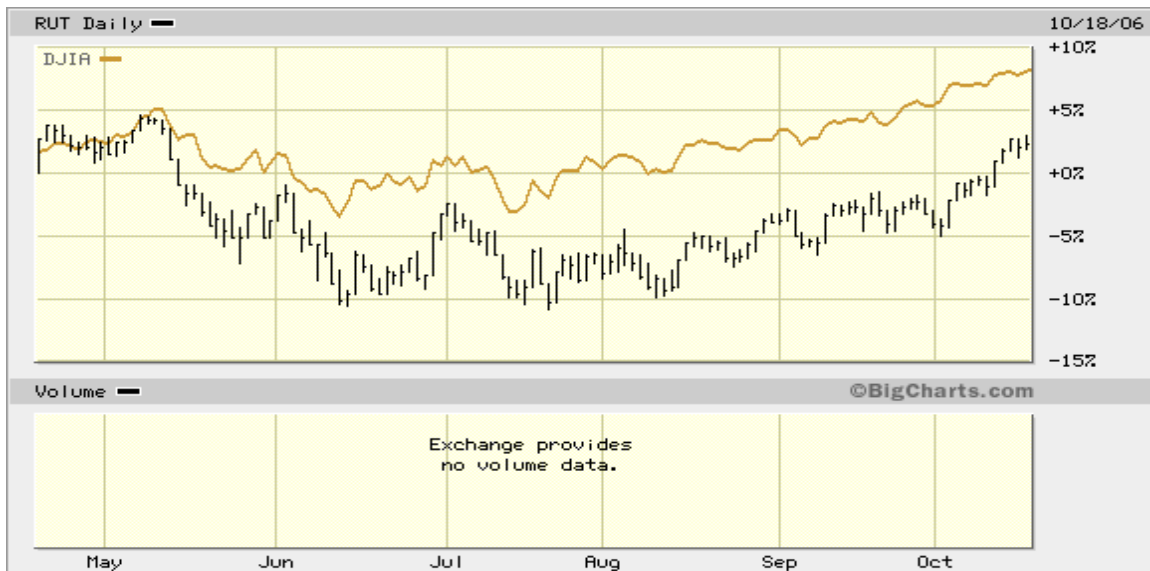


A hundred years ago, famed investor Jesse Livermore said: "It never was my thinking that made the big money for me. It always was my sitting." That's the irony of investing, you can be smart as a whip but if you overindulge into the intellectual nature of investing and fail to act you can leave a great amount of money on the table. The Bearish arguments always seem to be more credible but markets can be indifferent to strategies and theories; the herd just wants to move prices higher. So let'em.

There are significant underlying reasons for today's herd behavior, first and foremost is the Federal Reserve has finally halted their monthly rate hikes. No longer must we endure the "will they or won't they" debate, along with the corresponding effect upon the economy. Secondly, it appears that talk of a Recession or a Hard Landing is just that, talk. In reality, it appears that we'll have a Soft Landing and avoid a recession, except for Housing. And lastly, Oil prices have dropped like a stone. Enough of a drop to ease inflation fears that translate to less pressure on the Federal Reserve to hike interest rates in the future.

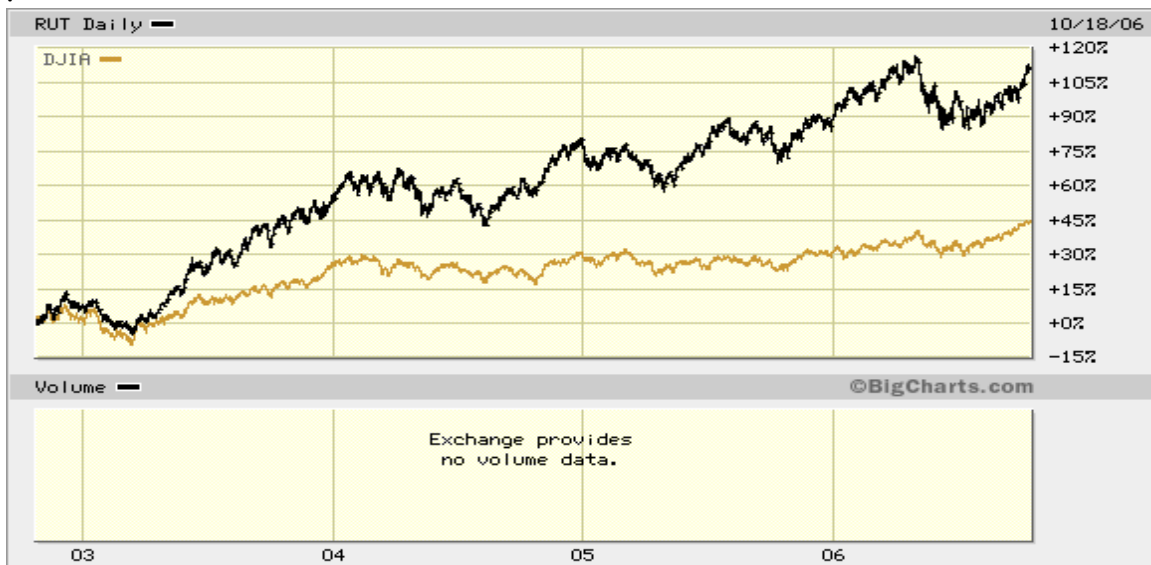
Despite the strong showing in the last two months our accounts have lagged the broad market indices, no doubt you want to know why. The reasons are fairly simple:



Our portfolios are better reflected in the broad based Russell 2000 Index (RUT), which is comprised of the largest 2000 stocks, it's a very broad based index that includes small, medium and large companies. The Dow Jones Industrial Average includes 30 very large corporations including Coca Cola, Proctor and Gamble and Altria, many of which we cannot invest in. But these big companies are generally recession-proof and investors flock to them in fear of recession, at the expense of smaller growth companies.

As the chart above reveals, the Russell fell farther than the Dow in May (when recession fears peaked) and stagnated through the summer, while the Dow started its move higher. The Russell

finally showed life in October (when recession fears eased), when it started to accelerate faster than the Dow.



But as this next chart above shows, the Dow's recent performance has been an anomaly since the market bottom in 2003. Although the Russell is more volatile than the Dow, its performance has been far superior.

The performance disparity of the smaller indices versus the Dow grows larger with longer time frames.

NASDAQ 100 Index	+580%
S&P Mid-Cap Index	+576%
NASDAQ Composite Index	+380%
Dow Jones Transportation Index	+305%
Dow Jones Industrial Index	+299%
S&P 500 Index	+267%
Investors Business Daily Mutual Fund Index	+208%

Data from 8/29/1990 to 9/22/2006

Portfolio Activity

The decline in oil prices has not only been sharp but the corresponding domino effect has been a major catalyst for stock prices – lower oil, means lower inflation, lower inflation means less pressure on the Federal Reserve and increased spending power by the consumer, which in turn means a softer economic landing.

However, not every stock would participate in the ensuing rally, it's important that every holding participate. About once a year, accounts should be purged of dead wood, lagging stocks that drag performance in a rally. The sooner the adjustments are made the better, especially this year. If we had waited till November or December, accounts would not have risen as rapidly as they have this month.

By the end of September lagging stocks such as Foster Wheeler, Commerce Bancorp, ABB, Emcore, SGG, Simpson, Broadcom, Marvell Technology, Trinity were sold to make way for potential market leaders such as Australia & New Zealand Banking Group, Franklin Resources, Alliance Bernstein, Akami, Acuity Brands, Cognizant Technology, Expeditors Intl., Lincoln National, Northern Trust, Valmont, all of which rank very high on our quantitative screens.

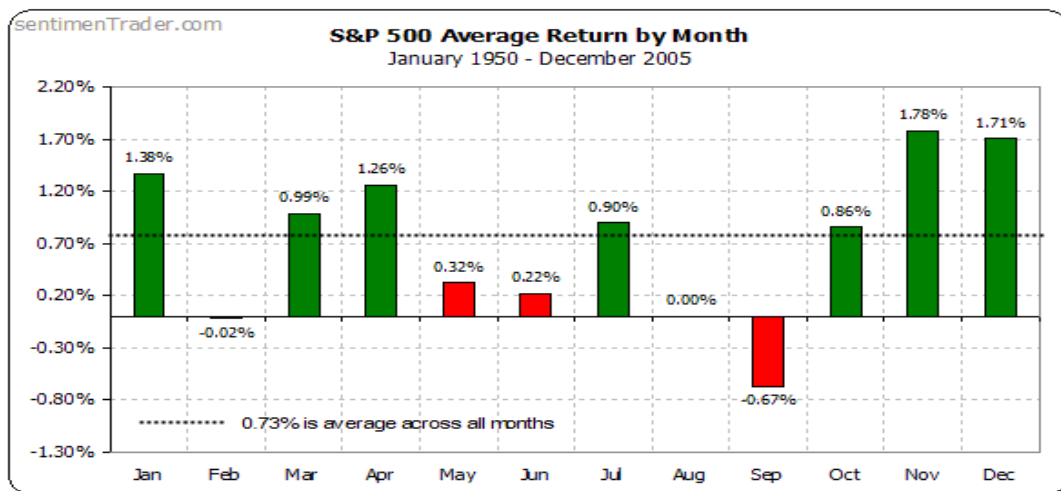
Goldman Sachs, Smith Micro Software and Psychiatric Solutions were sold as they reached our target prices.

Great performers such as American Tower, Apple, Genlyte, Google, America Movil, CH Robinson, Corporate Office Properties Trust, Cymer, Danaher, Whole Foods, Landstar, McGraw Hill, MEMC Electronic Materials, Network Appliance, Ormat Tech., Stericycle, Thomas & Betts, and Vornado Realty continue to deserve to be held.

What to expect for the rest of 2006

Based on the calendar we're entering the strongest months of the year, however that's tempered by significant investor enthusiasm from the current rally. No doubt there could be a short hangover, especially with the November elections looming (investors hate change). It's really a tough call since there is enormous "performance anxiety" amongst managers and investors who missed the rally and have available cash to deploy.

In addition, it appears the monies, which poured into commodity-based investments in the last two years, have not fully been liquidated, oil could fall further. If oil continues to decline, the sale proceeds from the oil-based trades will likely be diverted into the stock market propelling the markets higher. With so many positive factors behind this rally, it must be respected.



As Jesse Livermore said: "It never was my thinking that made the big money for me. It always was my sitting."

Warmest Regards,
Brad Pappas

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