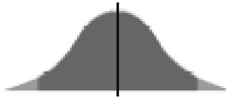

VICTOR LEVINSON **NICK LEVINSON, CFP®**

FEBRUARY 2007 COMMENTS

FORMAT CHANGE:
At the suggestion of a number of our readers, we have changed the order of the material presented in our Monthly Comments. Pages 2 and 3 will continue to report the current month's and year-to-date market results, along with longer-term results. But page 4 will begin "Investment Concepts," the discussion of substantive educational material we provide each month. This month we focus on INVESTMENT RISK, clearly a timely topic following this past week's stock market declines. Following that section, we update the economic news of the month, and provide additional investment return data.

WINTER TRAVEL PLANS:
Vic will continue to spend the winter working in Florida. All his contact information remains exactly as it is when he is in New York; all phone calls are forwarded into his cell phone number, 917-741-5450. Send all regular mail and faxes to Lynette in the New York office.

IRA FUNDING
You generally have until the date you file your 2006 tax return, April 15, 2007 for most of us, to make contributions for last year. Please let us know if you plan to make a contribution to a traditional, Roth, and/or SEP IRA for 2006. We will make investment recommendations once the contributions have been deposited in your account(s).

LONG-TERM CARE INSURANCE:
For those of you who do not have this insurance and have an interest in obtaining it, please let us know, as we are able to provide advice on this subject.

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Any recommendation contained in these Comments may not be suitable for all investors. Moreover, although the information contained herein has been obtained from sources believed to be reliable, its accuracy and completeness cannot be guaranteed.

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COMMENTS: INDEX RESULTS for period ending FEBRUARY 2007

STOCKS	YEAR 1999	YEARS 2000-02	YEARS 2003-05	YEAR 2006	YTD 2007	FEB. 2007
Vanguard Total Stock Market Index Fund (1)	23.8%	(37.2%)	53.1%	15.5%	0.2%	(1.7%)
Standard & Poors 500 Index (2)	19.6%	(40.1%)	41.9%	13.6%	(0.8%)	(2.2%)
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(48.4%)	41.8%	9.0%	0.6%	(2.1%)
Vanguard S&P 500 Value Index Fund (1)	12.6%	(26.2)%	63.2%	22.1%	(0.7%)	(1.6%)
Dow Jones Industrial Average Index (2)	25.2%	(27.5%)	28.5%	16.3%	(1.6%)	(2.9%)
NASDAQ Composite Index (2)	85.6%	(67.2%)	65.2%	9.5%	(0.2%)	(2.2%)
Vanguard Midcap US Index Fund (1)	25.0%	(18.3%)	83.9%	13.6%	3.6%	0.0%
Vanguard Smallcap US Index Fund (1)	19.6%	(24.2%)	87.5%	15.6%	2.3%	(0.1%)
Vanguard International Index Fund (EAFE) (1)	25.3%	(45.9%)	95.9%	26.6%	1.0%	0.0%
Vanguard Emerging Markets Index Fund (1)	61.6%	(29.5%)	162.7%	29.4%	(1.9%)	(1.3%)
Vanguard Real Estate Investment Trust Fund (1)	(0.4%)	47.5%	98.6%	35.1%	5.9%	(2.6%)
BONDS						
Vanguard Total Bond Market Index (1)	(0.8%)	30.4%	11.1%	4.2%	1.4%	1.5%
Vanguard Intermediate Tax- Exempt Index Fund (1)	(2.9%)	23.7%	10.3%	4.4%	0.9%	1.2%
Vanguard Short-term Bond Index (1)	2.1%	25.8%	6.5%	4.1%	1.2%	1.0%
Vanguard Short Tax- Exempt Index Fund (1)	2.6%	13.8%	4.5%	3.2%	0.6%	0.4%
Vanguard High-Yield Bond Fund (1); starting 2002	NA	1.7%	30.7%	8.2%	2.1%	1.5%
Vanguard Inflation-Protected Bond Fund (1); starting 2001	NA	25.5%	20.0%	0.4%	2.2%	2.0%

NOTE: Three-year results start with a base of 100, and after each year's % change, the result for that year creates a new base. So if at the end of the first year the index is up 10%, then the new base is 110%; and if down 10%, then the new base is 90%. NOTE also that a decline of 50% requires a gain of 100% to get back to the starting value, which explains why NASDAQ, down 67%, would require a gain of 200% to get back to its starting value.

1) Results for Vanguard funds include dividends and fund expenses but do not reflect PPA's advisory fee.
2) Results for S&P 500, Dow Jones, and NASDAQ indexes do not reflect dividends or PPA's advisory fee.

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%	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
		1999				**2000**				**2001**		
S&P 500	4.1	7.6	(7.7)	15.6	2.0	(3.0)	(1.3)	(7.8)	(12.1)	4.8	(13.8)	8.1
NASDAQ	14.6	10.0	0.0	61.0	12.4	(14.8)	(7.2)	(29.6)	(25.5)	12.9	(26.7)	18.3
BONDS Interm. Tax.	0.0	(0.5)	0.4	(0.7)	2.4	1.5	3.1	4.3	3.2	0.8	4.3	0.0
		2002				**2003**				**2004**		
S&P 500	0.0	(13.8)	(14.1)	4.5	(1.8)	12.8	2.2	13.2	1.3	1.3	(2.4)	8.8
NASDAQ	(5.5)	(19.5)	(13.5)	7.0	2.5	19.2	12.1	16.2	(0.5)	2.7	(7.5)	13.9
BONDS Interm. Tax.	0.0	2.8	3.6	1.8	0.9	2.7	0.2	0.2	2.7	(2.6)	3.1	1.0
		2005				**2006**				**2007**		
S&P 500	(2.6)	0.9	3.1	1.6	3.7	(1.9)	5.2	6.6				
NASDAQ	(8.1)	2.6	4.4	2.5	6.1	(7.6)	3.9	7.1				
BONDS Interm. Tax.	(0.5)	3.0	(0.7)	0.6	(0.7)	(0.2)	3.8	1.3				

FEBUARY 2007 COMMENTS

STOCK index prices were mostly lower in February, the result of one major down day (Tuesday, Feb 27th). For whatever the reason, or reasons (and many were offered), that one day turned February into the first down month for stocks since June 2006. However, the trend of the divergence of stock and bond price results continued for a third consecutive month, as bonds gained (see next paragraph). The competing views of a weakening economy and a relatively strong economy continue to impact investment results, and for February, the advocates of a weakening economy prevailed. For the month, the S&P 500, Dow, NASDAQ, and Total Stock Market (TSM) index, which includes Midcap and Smallcap stocks, showed declines of -(2.2%), -(2.9%), -(2.2%) and -(1.7%), respectively, while YTD declines were smaller as the result of gains in January. Monthly results for Midcap, Smallcap, International and Emerging Market indices were all better than the large cap indexes, at 0.0%, -(0.1%), 0.0% and -(1.3)%, respectively; YTD figures were also better than for the large cap indexes. The REIT index declined -(2.9%) for the month, but still has the best YTD figures. See page 2 for all pertinent figures for the month, YTD, and since 1999.

BOND returns (price change plus interest) were higher in February, ending two months of declines. The benchmark 10-year US Treasury yield closed at 4.55%, close to the November low of 4.47%, and well below the current 5.25% short-term overnight rate set by the Federal Reserve. This situation of short term yields being higher than longer term yields, referred to as an "inverted yield curve", has persisted for almost a full year, attributable in part to the conflicting views of the economy referred to in the previous paragraph. This inverted yield curve is highly unusual, since the normal relationship of 10-year yields to short-term yields is positive 200 bps, not negative (70) bps. We are therefore likely to see either rising longer-term rates or declining shorter-term rates in the coming months. Monthly (and YTD) returns ranged from +0.6% to +1.4% for high credit quality bonds with short and intermediate maturities, while high yield junk bonds continued to show better results. See page 2 for results for the month, YTD, and since 1999.

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INVESTMENT CONCEPTS

I. RISK

The significant decline in the US and international stock markets on February 27th, ranging from 4% to as much as 9%, once again focuses investors on risk. This discussion will quantify what we know about risk based on historical data, with the all-important caveat that the history we know is but one outcome of many that could have occurred, which means that the past cannot and should not be used as a predictor of the future.

Before turning to the figures associated with investment risk, some general observations should prove helpful.

1) All investments carry some form of risk:

- a) Short Term money market and other cash equivalents carry the risk that their investment returns are so small that, after accounting for inflation and income taxation, your purchasing power actually diminishes.
- b) Bonds with longer maturities carry other risks, including:
  - (i) a rise in future market interest rates reduces the value of existing bonds; and/or
  - (ii) credit quality changes can adversely affect the timely payment of interest/ principal.
- c) Stocks carry the obvious risk of falling prices, which can occur for a myriad of reasons. Real estate investments carry similar risks.

2) There are a variety of strategies available to reduce risk:

- a) Avoid the historically risky asset classes altogether;
- b) Try to time the markets, based on whatever criteria or judgments you deem appropriate. The objective is to be in the markets as prices rise, and be out when prices decline. While there is much academic and professional literature that describes this effort as unadvisable, most investors, whether amateur or professional, engage in this activity to some degree or another;
- c) Develop an asset allocation of the various types of investments, designed to meet your particular financial objectives with the least amount of exposure to the riskier asset classes that is still consistent with providing a reasonable opportunity to achieve your objectives. Then hold these investments over time, and accept the market returns provided by the various investments. This strategy also involves periodically changing the investment mix based on the performance of the various investments, selling the better performing asset class and buying the poorer performing asset class (referred to as "Rebalancing"). As you know, this is the strategy utilized by Park Piedmont Advisors in providing advice to our clients.

We turn now to an analysis of certain historical figures that should help to explain investment risk. The chart below sets out the ANNUALIZED % rates of return of various asset classes over different time periods, along with the number of years of declines and the % declines (as one indicator of risk):

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Source: Dimensional Fund Advisors Matrix, Yearbook 2006 (pp. 8,13, 23, 29, 31, 32, and 41)

	20 Years 1986-2005	**10 Years 1996-2005**	**5 Years 2001-2005**	**Year 2005**	**Year 2006**	**# of Down Years; % Decline in Down Years**
U.S. Stocks (S&P 500)	11.9%	9.1%	0.5%	4.9%	15.8%	4: 1990 (3.1%); 2000 (9.1%); 2001 (11.9%); 2002 (22.1%)
International Stocks (MSCI index)	10.0%	6.2%	4.9%	14.0%	26.3%	5: 1990 (23.2%); 1992 (11.8%); 2000 (14.0%); 2001 (21.2%); 2002 (15.7%)
Real Estate (Dow Jones Wilshire REIT Index)	11.1%	15.4%	19.2%	14.0%	36.1%	4: 1987 (6.6%); 1990 (23.4%); 1998 (17.0%); 1999 (2.6%)
Bonds (Intermediate Term; High Credit Quality)	7.3%	5.8%	5.5%	1.6%	4.1%	1: 1994 (2.2%)
Short -Term One Month T Bill (no-risk)	4.6%	3.6%	2.1%	3.0%	4.8%	None
Inflation (CPI):	3.0%	2.5%	2.5%	3.4%	2.6%	None

Some observations from the information contained in this chart:

1) While US and International stocks and Real Estate had considerably higher long-term investment returns, these returns were earned with considerably more risk, as indicated by the number of down years, and the extent of the declines in those down years.

    a) The idea that seeking higher returns comes with accepting higher risk is clearly borne out by these figures;
    b) In order to actually earn these particular long term returns, investors would have to either endure the declines (exceeding 40%, over a three year period, for the S&P 500 and International stocks) as buy and hold investors, OR be successful at both exiting and entering the markets (i.e., market timing), at least to the extent of earning the market's returns. In practice, as market declines feed on themselves day after day, neither buy-and-hold nor market timing provides much comfort.

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c) None of these returns occur with straight-line consistency year over year. This is obvious from the periods of declines for the stock and real estate categories, but even the less volatile asset classes have significant yearly high to low ranges over the 20 years. Note that the asset classes with the highest ranges (volatility) also have the highest long-term returns.

US Stocks:	High - 1995, 37.6%	Low - 2002, (22.1%)
International Stocks:	High - 1986, 69.9%	Low - 1990, (23.2%)
REIT:	High - 1996, 37.0%	Low - 1990, (23.4%)
Intermediate Bonds:	High - 1995, 15.3%	Low - 1994, (2.2%)
One Month T Bills:	High - 1989, 8.4%	Low - 2003, +1.0%
Inflation:	High - 1990, 6.1%	Low - 1986, +1.1%

2) While many investors think of five years as long term, the recent 2000-02 bear market in stocks has produced a five-year period in which stocks underperformed bonds, money markets, and inflation. This is a long way from meeting the apparently reasonable expectation of 10%+ stock market returns, as indicated by the 10- and 20-year results. The point: Whatever the long-term history tells you, there is no guarantee those results will occur in a time frame relevant to you.

3) The figures we present each month on page 2 provide further insights. The previously referred to bear market of 2000-02 reduced the value of the S&P 500 stocks by 40%, meaning that every $1,000 declined in value to $600. The subsequent four-year recovery from 2003-06 has added 61% to the $600 figure, bringing the balance back to $966, which is still below the starting point of $1,000. And seven years have passed. For those relying on the favorable long-term returns of the stock market, these seven years have been disappointing indeed. Note also that the 60% increase on the lower base figure has still not been enough to make up for the 40% decline on the higher base figure.

4) Until 2006, the "riskless" one-month T-Bill did not provide any investment return, after adjusting for the income taxation of the interest, above inflation in any time period.

5) Finally, a Jonathan Clements article that appeared in the WSJ the day after the big stock market decline (2/28/07, D1) contained some important observations on risk. He cites an investment advisor as follows: "Investing is never just about return. It's also about controlling risk. If you've already won the game, what sense does it make to go on playing?" The point here is that once investors have accumulated sufficient capital, along with outside (non-portfolio) flows of income, to meet their life style spending needs (accounting for inflation), then allocations to the riskier asset classes, which can result in real losses of capital, should be reduced substantially. Clements continues by posing the question that if stocks "usually beat bonds, why not own more?" He replies by saying that "we can't get outsized stock returns every year – and periods of heavy gains will inevitably be followed by stretches of modest performance." Our figures on risk discussed above show that "modest performance" can be an understatement, with the stock market capable of delivering highly disappointing results over extended periods of time. In other words, there is real risk to investing in the stock market.

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II. INVESTMENTS WE USE TO IMPLEMENT YOUR ASSET ALLOCATION

We began this section late last year, in an effort to provide clients with additional information about the specific investments we use. For this month, in light of the recent declines in stock markets throughout the world, we have chosen:

1) Funds that invest in Chinese stocks; and
2) Funds that invest in Indian stocks.

Because there are relatively few such funds, we're highlighting an actively-managed and index fund for each market.

China funds:

Key Statistics	**Matthews China (MCHFX)**	**iShares China 25 (FXI)**
1) Size:	$1 billion	$ 5 billion
2) Annual Expenses:	1.30%	0.74%
3) Load:	None	None
4) Annual Yield:	0.61%	1.26%
5) PE Ratio:	18	16
6) % in Top 10 Holdings:	39%	60%
7) Top Sectors (as of 3/2/07):	Fin'l., 21%	Fin'l., 44%
	Bus. Svce., 15%	Telecom, 20%
	Energy, 12%	Energy, 17%
	Ind. Mats., 10%	Ind. Mats., 9%
8) 2006 Return:	64.8%	80.8%
9) YTD 2007 Return:	(3.3%)	(14.7%)

China's economy and stock market have been among the fastest growing in the world over the last several years. And investors have poured money into Chinese stocks and funds during the same period. As with many types of investments in recent years, however (among them high-yield bonds, hedge funds, and "sub-prime" real estate loans), investors in Chinese stocks appear to have forgotten that there are significant risks not only in the individual stocks, but also in the structure of China's stock market and broader economy. These risks include developing legal, tax, and accounting rules for the companies as well as the stock markets. Furthermore, the Chinese government owns significant parts of the companies available for investment by non-citizens (Chinese citizens only have access to certain stocks denominated in their local currency). The market declines of the past week have, we hope, reminded investors of the risks, and of why China's market is referred to as "emerging."

The variability of returns (which is one way to define the term "risk) in the Chinese stock market is demonstrated by the two funds we've identified. The actively-managed one, Matthews China (symbol MCHFX) is a mutual fund that has accumulated almost $1 billion in assets since its founding in 1998. As one would expect with an actively-managed fund, MCHFX is expensive, with annual expenses of 1.30%. And although it has experienced significant ups and downs in the last year and two months --up 65% in 2006, and down 3.3% for 2007 through March 2nd--, the index alternative, Barclay's iShares China 25 exchange-traded fund ("ETF") (symbol FXI), has had even more variability.

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In a demonstration of how quickly assets have flooded into China funds, FXI, which started in 2004, has already accumulated $5 billion. A big part of this inflow resulted from the 2006 performance of 80.8%, more than 15% higher than MCHFX. But the flip side of last year's outperformance has been this year's underperformance, with FXI down almost 15% through March 2nd.

As our clients know, this situation, in which the index fund has larger ups and downs than the actively-managed fund, is atypical. A large part of the reason stems from the fact that the FXI index includes just 25 stocks, with the top 10 representing 60% of the value of the fund. MCHFX, by contrast, owned 54 stocks as of the end of 2006, with the top 10 representing less than 40% of fund value. This is one of the significant issues with many of the newer indexes being used as the basis for more-targeted index funds, a topic we will discuss in future Comments.

India funds:

Key Statistics	**Matthews India (MINDX)**	**iShares India (INP)**
1) Size:	$700 million	NA
2) Annual Expenses:	2.00%	0.89%
3) Load:	None	None
4) Annual Yield:	None	None
5) PE Ratio:	23	NA
6) % in Top 10 Holdings:	39%	58%
7) Top Sectors (as of 3/2/07):	Health, 19%	Tech., 21%
	Cons. Goods, 16%	Fin'l., 19%
	Ind. Mats., 15%	Energy, 16%
	Fin'l., 13%	Ind. Mats., 9%
8) 2006 Return:	36.4%	NA
9) YTD 2007 Return:	(6.7%)	(8.7%)

India's economy and stock market have recently grown almost as fast as China's. Whereas China has benefited enormously from globalization of the manufacturing sector, India has developed a very successful service sector, epitomized by the outsourcing of customer service jobs from US companies. But India's economy also suffers from the strain of a huge underclass of impoverished farmers, and its stock market, like China's, also lacks the "transparency" of the markets in the US and developed European countries.

We've highlighted India funds from the same two companies, but, in an indication of the "emerging" nature of the Indian market, these funds have a much shorter track record than the China funds. Matthews India (symbol MINDX) is an actively managed mutual fund that has accumulated almost $700 million in assets since its founding in October 2005. MINDX is even more expensive than MCHFX, with annual expenses of 2.00%. MINDX has also experienced significant ups and downs in the last year and two months --up 36% in 2006, and down 6.7% for 2007 through March 2nd.

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The index alternative, Barclay's iShares India ETF (symbol INP), is unfortunately too new to make a particularly meaningful comparison, with an inception date of 12/20/06 (details on assets invested in the fund are not yet available). We do know that INP is down almost 9% through March 2nd. This performance difference does not, however, appear to stem from the small number of companies in INP's relevant index, since the MDCI India Total return Index consists of 68 stocks, as compared to the 51 stocks owned by MINDX as of 12/31/06. But INP is more heavily concentrated in its top 10 holdings, at 58%, while MINDX has 39% invested in its top 10 holdings.

Our conclusion: Owning these or any other China- or India-specific funds involves significant risk. We assume that the two countries will continue to develop their economies and stock markets, and their companies are likely to grow in the future. But there will be significant downs along with the ups over time.

For most clients, an allocation to a broader-based emerging markets fund (which we discussed in detail in our November 2006 Comments) should be sufficient. Vanguard and iShares, for example, have emerging market ETFs with approximately 12% of the value consisting of Chinese stocks and approximately 6% in Indian stocks. For clients who already have exposure to emerging markets and want additional exposure to China and/or India, please give us a call to discuss the pros and cons of the existing funds.

UPDATE OF KEY ECONOMIC INDICATORS

The strength of the overall US and world economies is one of a number of factors likely to influence the future direction of both stock and bond prices. We, along with many market observers and academics who write about the markets, believe stock and bond prices already reflect consensus expectations of economic growth. Further, we believe that even if you could accurately predict any number of actual economic figures, the market's reaction to those figures is essentially unpredictable. In any event, an understanding of the direction of current economic trends may at times be useful as a context to help understand market conditions. This section of the Comments provides an update of key economic indicators.

1) Gross Domestic Product (GDP) is the broadest measure of goods and services produced in the US economy (GDP figures are inflation-adjusted, annualized growth rates). The Q4 growth rate was 2.2%, "well short of the initial estimate of 3.5%, and the third consecutive quarter the economy has expanded at less than its optimal non-inflationary rate of around 3%,… and the slowest three quarter stretch of economic growth in nearly four years" (WSJ, 3/1/07, A2).

2) Employment for February will be reported Friday, March 9th. During January, employment grew by 110,000 jobs, a "lukewarm result,…but the tone was not entirely soft, as revised data showed employers added 80,000 more workers in November and December than initially thought, making the monthly average new job figure over the last three months 170,000" (WSJ, 2/3-4/07, A3).

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3) Interest Rates on longer-term bonds declined in February, after two consecutive months of increases. The benchmark 10-year US Treasury interest rate, which is set by buyers and sellers in the bond market, closed at 4.55%, a decline of 27 bps from the prior month's close, and a full 70 bps below the overnight rate of 5.25%, which is controlled by the Federal Reserve. During January, the Fed "left the target for short term interest rates at 5.25%, for the fifth consecutive meeting (WSJ, 2/1/07, A2). The 10-year yield was as high as 5.25% in June, and declined to as low as 4.47% in November, coinciding with the Fed's stopping (after June) its campaign of raising short-term rates. The fact that the yield curve is still sharply inverted, with overnight rates almost 3/4 of 1% higher than the 10-year Treasury, is discussed on page 3.

4) Inflation rates, as measured by the "core" Consumer Price Index (CPI), which excludes the volatile food and energy sectors, "rose 0.3% in January, after a string of three consecutive monthly increases of 0.1%. With food and energy included, the CPI rose 0.2%. Compared with a year earlier, overall prices rose 2.1% and core prices were up 2.7%" (WSJ, 2/22/07, A2). The Producer Price Index (PPI), which measures what businesses charge one another, declined 0.6%, while core wholesale prices rose 0.2% for the second consecutive month (VEWR, 2/16/07) For all of 2006, wholesale prices rose 1.1% overall, while core prices rose 2.0%" (WSJ, 1/18/07, A2). (Note: The CPI measures prices of goods and services; the PPI, only goods).

5) Sector Economic Activity Indicated a Slowing Economy

a) Durable goods orders (industrial and consumer) "plunged in January, with and without the volatile transportation sector, an indication that this year's outlook for modest economic growth may be making business cautious about their capital spending plans." (WSJ, 2/28/07, A2). Ironically, the day before, the WSJ reported airlines were having difficulties replacing their aging aircraft fleets because, amongst other reasons, production at the world's largest aircraft makers is sold out until 2011 (WSJ, 2/27/07, front page).

b) Industrial production (which includes manufacturing, utilities and mining) declined 0.5% in January, the fourth decline in five months (VEWR, 2/16/07)

c) Retail Sales were flat in January, and "only 2.3% higher than same month sales last year." (VEWR, 2/16/07). (Retail sales are not adjusted for inflation, and include such disparate categories as gasoline, autos, and the Internet).

d) Housing sales for existing homes rose 3.0% in January, aided by declining prices, but new home sales declined by 16.6% from the prior month (WSJ, 2/28/07, A2, 3/1/07, A3, and VEWR, 3/2/07). These figures are "an indication that turbulence in the housing market will continue weighing on the nation's economic growth in the months ahead" (WSJ, 3/1/07, A3)

e) Personal Income increased 1.0% in January, "a surprisingly strong figure, and double the increase in personal spending." (Both figures are unadjusted for inflation) (VEWR, 3/2/07).

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6) Consumer Confidence, as measured by the Conference Board's Index, "rose in February, its fourth consecutive monthly increase and it highest level since August 2001" (VEWR, 3/2/07).

7) Corporate Profits for Q4 2006 "are coming in up about 10% above Q4 2005, … but lower than the third quarter…."(WSJ, 2/15/07, C1) The article states " anyone worried that earnings growth is about to slow down sharply may be missing the point: It has already happened." This slowdown was discussed in detail last month.

Overall, February's economic news showed signs of an economic slowdown, including a reduced GDP growth rate, declining durable goods orders and industrial production, continued problems in housing sales, flat retail sales, and a slower growth rate in corporate earnings. At the same time, inflation remained a concern. Whether the economy is able to generate economic growth at a rate that keeps inflation under control, thereby allowing the Federal Reserve to keep from raising interest rates; or whether economic growth and inflation accelerate, forcing the Fed to raise interest rates; or whether growth and inflation diminish, moving the Fed to lower rates, continues to be a major theme in the pricing of the current stock and bond markets. The slower growth camp came out ahead in February, as stock prices declined and bond prices gained.

ADDITIONAL DATA

The stock market rally that began decisively in March 2003 has reached four years. But the declines of the preceding three years (2000-02) result in seven-year returns (since 2000) far below their long term historical averages, with the Dow Jones up 7%, the S&P 500 down (5)%, and the NASDAQ down a stunning (40)%. (See Chart I on page 12; also discussed in this month's section on Risk, pp 4-7). In a fascinating observation, the mutual fund company Vanguard notes that since 1926, through 2005, in only six of 80 years did stock prices fall within 2%, up or down, of the long-term annual average return of 10.4%.

Going back to the beginning of 1994, when the spectacular 94-99 bull market began, all three major indexes have remarkably similar average annual returns (ranging from 9.6% to 10.1%) that are close to the 10.4% average annual return of the stock market dating back to 1926. As these returns converge, the idea of "regression to the mean," described by Swensen as "one of the most powerful influences in the world of finance" (pg. 154), comes clearly into focus. And yet, the Vanguard observation noted above is also meaningful, since the annual returns during the bull market period were far higher than the long-term average annual return.

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The moral: Stock returns are truly unpredictable and volatile in short time frames, and can be over long time periods as well, in the context of a fairly stable very-long-term average return. The key question for You?? What is Your relevant time frame??

	S&P 500 (1)		**DOW (1)**		**NASDAQ (1)**	
1st Qtr 2000 High	1,527		11,723		5,048	
Year End 2000	1,320	(13)%	10,785	(8)%	2,470	(51)%
September 21, 2001 Low	965	(37)%	8,235	(30)%	1,425	(72)%
Year End 2001	1,148	(25)%	10,020	(17)%	1,950	(61)%
October 9, 2002 Low	777	(49)%	7,286	(38)%	1,114	(78)%
Year End 2002	880	(42)%	8,342	(29)%	1,336	(73)%
Year End 2003	1,112	(27)%	10,454	(11)%	2,003	(60)%
Year End 2004	1,212	(21)%	10,783	(8)%	2,175	(57)%
Year End 2005	1,248	(18)%	10,718	(9)%	2,205	(56)%
Year End 2006	1,418	(7)%	12,463	+6%	2,415	(52)%
Year-to-date 2007	1,407	(8)%	12,269	+5%	2,416	(52)%

Context: Prior Five-Year Gains in Bull Market of 1995 - 1999

	S&P 500 (1)	**DOW (1)**	**NASDAQ (1)**
End 1994	459	3,834	752
End 1999	1,470	11,500	4,070
Gain	1,011	7,666	3,318
Avg.Ann.%Gain:'95-'99; 5 years	26.2%	24.6%	40.2%
February 2007	1,407	12,269	2,416
Gain	948	8,435	1,664
Avg.Ann.%Gain:'95-2/07; 12.16 yrs	9.6 %	10.0 %	10.1 %

1) Results for S&P 500, Dow Jones, and NASDAQ indexes do not reflect dividends or PPA's advisory fee.

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	S&P 500 (1)		DOW JONES (1)		NASDAQ (1)	

1) Results for S&P 500, Dow Jones, and NASDAQ indexes do not reflect dividends or PPA's advisory fee.

I. Figures From Period Starting 2000 (% Figures Are Cumulative Declines From 1/01/00)

	S&P 500		DOW JONES		NASDAQ	
Start of 2000	1,470		11,500		4,070	
End of 2000	1,320	(10.1)%	10,785	(6.2)%	2,470	(39.3)%
Sept. 21, 2001 Low	965	(34.3)%	8,235	(28.4)%	1,425	(65.0)%
End of 2001	1,148	(21.9)%	10,020	(12.9)%	1,950	(52.0)%
Oct. 9, 2002 Low	777	(47.1)%	7,286	(36.6)%	1,114	(72.6)%
End of 2002	880	(40.1)%	8,342	(27.5)%	1,336	(67.2)%
End of 2003	1,112	(24.3)%	10,454	(9.1)%	2,003	(50.8)%
End of 2004	1,212	(17.5)%	10,783	(6.2)%	2,175	(46.5)%
End of 2005	1,248	(15.1)%	10,718	(6.8)%	2,205	(45.8)%
End of 2006	1,418	(3.5)%	12,463	+8.4%	2,415	(40.7)%
Through Feb. 28, 2007	1,407	(4.3)%	12,269	+6.7%	2,416	(40.7)%

II. Figures From Period Starting 1995 (% Figures Are Gains From 1/01/95)

	S&P 500		DOW JONES		NASDAQ	
Start of 1995	459		3,834		752	
End of 1999	1,470		11,500		4,070	
5 Year Gain; Annualized %	1,011	26.1%	7,666	24.6%	3,318	40.2%
End of 2002	880		8,342		1,336	
8 Year Gain; Annualized %	421	8.5%	4,508	10.2%	584	7.5%
End of 2004	1,212		10,783		2,175	
10 Year Gain; Annualized %	753	10.2%	6,949	10.9%	1,423	11.2%
Through Dec. 31, 2006	1,418		12,463		2,415	
12 Yr Gain; Annualized %	959	9.9%	8,629	10.3%	1,663	10.2%
Through Feb. 28, 2007	1,407		12,269		2,416	
12.1 Yr Gain; Annualized %	948	9.6%	8,435,	10.0%	1,664	10.1%

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