Park Piedmont Advisors LLC

Registered Investment Advisor

VICTOR LEVINSON **NICK LEVINSON, CFP®**

MAY 2006 COMMENTS

NICK has earned his CERTIFIED FINANCIAL PLANNER (CFP) Designation:
In today's investment advisory world, in which people can provide investment advice with no professional background, Nick has earned one of the investment industry's most respected professional designations. The CFP requires study in five areas of the financial advisory field, including Investments, Insurance, Taxes, Retirement Planning, and Estate Planning. The final designation comes only after passing a 300-question test that takes 10 hours to complete over the course of two days. For all who work with Nick, this should come as no surprise; for those who do not, you can now be assured of his expertise. As for Vic, lots of experience and a law degree have provided similar expertise, which he has imparted to clients for more than twenty five years.

CHECKING ACCOUNT and CREDIT CARD FACILITIES:
You can have both a checking account and credit card from National Financial Services (NFS), the custodian of the securities in your accounts managed by Park Piedmont Advisors (PPA). NFS is 100% owned by Fidelity Investments. For further information, contact either Lynette, Victor, or Nick

REFERRALS of ACCOUNTANTS as POTENTIAL INVESTMENT ADVISORS:
PPA is looking to expand its business by associating with currently practicing accountants who also have an interest in providing investment advice to their clients using the PPA methodology of setting an appropriate asset allocation and implementing with indexed investments. If you know of an accountant who might be interested, please let us know.

IMPORTANT INSIGHT (see page 7 for full quote and cite)
On the use of historical data in trying to estimate future risk and return: …"the overwhelming historical data do not guarantee accuracy in estimating these risk-reward parameters… As Nobel laureate Paul Samuelson is fond of saying, 'We have but one sample of history.'"

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COMMENTS: INDEX RESULTS for period ending MAY, 2006

STOCKS	YEAR 1999	YEAR 2000	YEAR 2001	YEAR 2002	YEAR 2003	YEAR 2004	YEAR 2005	YTD 2006	CURR. MONTH
Vanguard Total Stock Market Index Fund (1)	23.8%	(10.6%)	(11.0%)	(21.0%)	28.4%	12.5%	6.0%	3.1%	(3.4)%
Standard & Poors 500 Index (2)	19.6%	(10.1%)	(13.0%)	(23.4%)	26.4%	9.0%	3.0%	1.8%	(3.2)%
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(22.2%)	(13.0%)	(23.7%)	25.9%	7.2%	5.1%	(0.4)%	(3.7)%
Vanguard S&P 500 Value Index Fund (1)	12.6%	6.1%	(12.0%)	(20.9%)	32.2%	15.3%	7.1%	5.5%	(2.5)%
Dow Jones Industrial Average Index (2)	25.2%	(6.2%)	(7.1%)	(16.8%)	25.3%	3.2%	(0.6)%	4.2%	(1.9)%
NASDAQ Composite Index (2)	85.6%	(39.3%)	(21.0%)	(31.5%)	50.0%	8.6%	1.4%	(1.2)%	(6.5)%
Vanguard Midcap US Index Fund (1)	25.0%	2.6%	(4.8%)	(16.3%)	34.1%	20.4%	13.9%	4.7%	(4.0)%
Vanguard Smallcap US Index Fund (1)	19.6%	(4.2%)	1.0%	(21.6%)	45.6%	19.9%	7.4 %	6.7%	(5.5)%
Vanguard International Index Fund (EAFE) (1)	25.3%	(15.2%)	(22.6%)	(17.5%)	40.3%	20.8%	15.6%	10.0%	(5.1)%
Vanguard Emerging Markets Index Fund (1)	61.6%	(21.6%)	(2.9%)	(7.4%)	57.7%	26.1%	32.1%	6.3%	(12.8)%
Vanguard Real Estate Invest. Trust Fund (1)	(0.4%)	26.4%	12.4%	3.8%	35.7%	30.8%	11.9%	7.5 %	(3.1)%
BONDS									
Vanguard Total Bond Market Index (1)	(0.8%)	11.3%	8.3%	8.2%	4.0%	4.2%	2.4%	(1.0)%	0.0%
Vanguard Interm. Tax-Exempt Index Fund (1)	(2.9%)	9.2%	5.0%	7.9%	4.4%	3.2%	2.4%	0.5%	0.4%
Vanguard Short-term Bond Index (1)	2.1%	8.9%	8.9%	6.1%	3.4%	1.7%	1.3%	0.5%	0.2%
Vanguard Short Tax-Exempt Index Fund (1)	2.6%	4.9%	4.8%	3.5%	1.6%	1.1%	1.8%	1.1%	0.4%
Vanguard High-Yield Bond Fund (1)	NA	NA	NA	1.7%	17.2%	8.5%	2.8%	1.4%	(0.4)%
Vanguard Inflation-Pro-tected Bond Fund (1)	NA	NA	7.6%	16.6%	8.0%	8.3%	2.6%	(2.0)%	0.2%

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	0.0	(0.5)	0.4	(0.7)	2.4	1.5	3.1	4.3	3.2	0.8	4.3	0.0
Interm. Tax.												
		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	0.0	2.8	3.6	1.8	0.9	2.7	0.2	0.2	2.7	(2.6)	3.1	1.0
Interm. Tax.												
		2005				**2006**				**2007**		
S&P 500	(2.6)	0.9	3.1	1.6	3.7							
NASDAQ	(8.1)	2.6	4.4	2.5	6.1							
BONDS	(0.5)	3.0	(0.7)	0.6	(0.7)							
Interm. Tax.												

MAY 2006 COMMENTS

STOCK index prices for US large cap stocks declined significantly in May. Some of the year's previous best performers were among the largest monthly decliners. The S&P 500 and Dow Industrials declined (3.2)% and (1.9)% respectively, while the NASDAQ declined (6.5)%. The Total Stock Market (TSM), which includes Midcap and Smallcap stocks and has had better results for several years, declined (3.1)%, with Midcap and Smallcap down (4.0)% and (5.5)% respectively. The International and REIT indexes also posted substantial declines, at (5.1)% and (3.1)% respectively. Largecap Value continued its outperformance of Largecap Growth by declining less. See page 2 for figures for the month, YTD, and since 1999.

BOND returns (price change plus interest) were slightly higher, even though the benchmark 10-year US Treasury yield closed at 5.13%, which was 6 basis points higher than April's close. This result occurred because the higher interest paid during the month was greater than the modest price decline. March and April provided the year's major bond price declines, but even with the Federal Reserve's 16 consecutive increases in the short term rates it controls, from 1% to 5%, the YTD short and intermediate bond returns fall within a narrow range of +1.1 to –(1.0)%. Bond returns continued to lag returns from money markets, which benefit most directly from increases in short-term interest rates. Even with these disappointing returns, however, it should be remembered that **rising interest rates, while they adversely affect bond results over the short term, eventually provide higher returns in the form of higher interest rates.** See page 2 for results for the month, YTD, and since 1999.

The stock market rally that began decisively in March 2003 has raised the S&P 500 approx 63% from its October 2002 low, but is still 257 points from its all-time high of 1,527 (this is 16% from the all-time high, and 33% from the 2002 low). This result occurs because after a 50% price decline, prices must increase by 100% to reach their previous high levels. By contrast, the Dow Jones Industrials are a mere 5% below their all-time high, while the NASDAQ remains a stunning 56% below its all-time high. While the longer-term results of these three averages are quite similar (see next paragraph and chart below), the differences in the magnitude of both the gains and declines since 1994 are strikingly large.

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In order to keep the current recovery in perspective, we continue to show the chart below, which sets out the extent of the declines measured from the highs of Q1 2000. The chart also puts these declines in the context of results since the end of 1994 (also see the figures on page 10). Note that the three indexes have positive average annual returns ranging from 9.3% to 9.8% for the 11.42 year period from the end of 1994 through April 2006, very much in line with long-term stock returns going back to 1926. Further, as these returns converge more and more, the idea of "regression to the mean" seems quite applicable. Note also that the best performing index over the 11.42 year period (NASDAQ) also has had by far the most severe decline since the 2000 highs, and is still down more than 55% from those highs.

The long-term investor therefore has a very different view of the stock market's returns than those measuring returns from the highest levels.

	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 2006 thru May 31, 2006	1,270	(16)%	11,168	(5)%	2,179	(56)%

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%
May 2006	1,270	11,168	2,179
Gain	811	7,334	1,427
Avg.Ann.%Gain:'95-5/06; 11.42 yrs	9.3 %	9.8 %	9.8 %

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

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I. 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 initial estimate of GDP growth for Q1 2006 was 4.8%, which was revised upward to 5.3%, "a smaller than expected upward revision," but enough to make the U.S. "one of the world's fastest growing advanced economies for the quarter." However, "economists see the first quarter number more as a one time payback for an unusually slow fourth quarter-- which took the hit for Hurricane Katrina-- than an indication of how fast the economy will grow this year… Combining the two quarters yielded average annualized growth of 3.5%, about the rate at which the economy has tended to expand in the long term" (Wall St. Journal [WSJ], 5/26/06, A2).

(2) Employment for May rose by only 75,000, following a 126,000 gain in April, "less than half the pace of the previous four months… and adding to the body of evidence showing that the rate of growth of the US economy is clearly slowing" (WSJ, 6/3-4/06, A3).

(3) Interest Rates on longer-term bonds were little changed in May, with the benchmark 10-year US Treasury interest rate, which is set by buyers and sellers in the bond market, closing at 5.13%, up from 5.07% in April. Far more dramatic rate increases occurred during the two previous months, with the benchmark bond yield rising a full one half of one percent. During May, the Federal Reserve raised the short-term rate it controls for the sixteenth consecutive time, to 5%, up from 1% two years ago.

(4) Inflation, as measured by the Consumer Price Index (CPI) "core" rate, which excludes the volatile food and energy sectors, increased 0.3% in April, and 2.3% "from a year earlier – near the top end of the Fed's comfort zone on inflation – and exceeding March's year to year increase of 2.1%." With food and energy included, the monthly rate was up 0.6%, and the most recent twelve-month increase was 3.5% (WSJ, 5/18/06, front page). The Producer Price Index (PPI) core rate was up 0.1%, with the twelve month increase at 1.5%. With food and energy included, the monthly increase was a much higher 0.9%, and the yearly increase 4.0%. (New York Times [NYT], 5/17/06, C3). (Note: The CPI measures prices of goods and services; the PPI, only goods). The close relationship between inflation rates and interest rates has been discussed at length in a number of recent Monthly Comments.

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(5) Sector Economic Activity was Mixed

(a) Durable goods orders (industrial and consumer) declined 4.8%, following two consecutive monthly increases (Vanguard Economic Week in Review [VEWR], 5/22-26/06).

(b) Industrial production "jumped in April, with the nation's capacity utilization rate registering above its long-run average" (VEWR, 5/15-19/06).

(c) Retail Sales increased 0.5% in April, and 6.6% over the previous twelve months, "indicating that consumer spending, which makes up more than two thirds of the US economy and a fifth of the global economy, is on track to expand at a healthy pace in the second quarter, albeit more slowly than in the first quarter" (WSJ, 5/12/06, A3). (Retail sales are not adjusted for inflation, and include disparate categories such as gasoline sales, auto sales, and non-store retailers such as the Internet).

(d) Housing sales for existing homes declined by 2% in April, and were down 5.7% from April 2005, whereas sales of new homes were up 4.9% in April, but also down 5.7% from a year earlier (VEWR, 5/22-26/06). A WSJ article quotes one economist as saying that "the overall picture is one of a cooling housing market" (WSJ, 5/25/06, A2).

(e) Personal Income increased 0.5% in April, and personal spending grew 0.6%. The personal savings rate, which excludes gains in stock prices and housing, declined again, at -1.6% (VEWR, 5/22-26/06).

(6) Consumer Confidence for May, as measured by the Conference Board's Index, "fell from April's revised level, which represented a four year high." The expectations index, which measures sentiment about the future, suffered a large decline, falling to its lowest level since the Gulf coast hurricanes (WSJ, 5/31/06, A2).

(7) Corporate Profits for the first quarter of 2006 "rose 8.8%, less than the 13.8% increase in the fourth quarter of 2005, but 24.8% higher than the first quarter of 2005. At 8.9%, after tax corporate profits' share of the entire economy reached the highest level in at least sixty years" (WSJ, 5/26/06, A2).

Overall, the economic news reported during May was mixed, as rising interest rates and continuing high gasoline prices began to have some adverse impacts on segments of economic growth, and also generated higher than desired inflation. How this combination of potentially slower growth, caused at least in part by higher interest rates, higher oil prices, and increasing rates of inflation, plays out in the markets going forward, remains to be seen. It was clearly not a combination welcomed by the markets during May.

II. INVESTMENT RISKS: ALTERNATIVE INVESTMENTS

All investments contain elements of RISK. The investment results during this past month have reinforced this fact very clearly in the minds of stock investors, as all stock markets posted significant declines, with the recent best-performing international and emerging market sectors declining the most. Once again, the danger/risk of believing that recent outstanding past performance is likely to continue has been clearly demonstrated.

By way of some recent history, the stock market, which represents the significantly more risky asset class when compared to cash or bonds, has had three distinct performance periods since 1995. The first period, 1995-1999, was a time of soaring stock prices, when investors could do no wrong simply by investing in the stock market. Then followed the major down market of 2000-2002, with declines in broad based indexes approaching 50%. From 2003 through the beginning of May 2006, stocks staged a substantial recovery, with that same broad based index regaining almost 70% of its prior losses. Even with the recent 2000-2002 lesson of high risk, many investors seem to have put the notion of risk aside in the recent stock market run-up. Typically, it is only during periods of serious stock market declines that investors refocus on risk. We hope the discussion of risk in last month's, this month's and next month's Comments proves useful.

April's Comments presented various definitions of risk, and some further explanation for the definition we will use: the likelihood of financial loss in a time frame relevant to you. We discussed risk associated with the basic liquid investments, including cash equivalents, bonds (i.e., income-oriented investments), and stocks. This month, and continuing into next month, our discussion will focus on various so-called alternative investments that have become popular of late, including international investments. The quoted sources include "Unconventional Success," by David Swensen (Chief Investment Officer of Yale's highly successful endowment fund); "Stocks for the Long Run," by Jeremy Siegel (Professor at Penn's Wharton School); Ibbotson's 2006 Yearbook, "Market Results for 1926-2005"; and Wall Street Journal (WSJ) articles.

We summarized last month's discussion of risk by stating that "we of course agree (with Swensen) that asset allocation implemented with a broadly diversified portfolio of low cost indexed investments is the most appropriate method of controlling investment risk, and that the activities of chasing recent hot performers and market timing should be avoided. We also advocate rebalancing as a further step towards risk reduction, selling portions of the most recent hot performers and adding to the recent underperformers, to take advantage of the "powerful influence" of regression to the mean."

We now turn our discussion to so-called alternative investments, which have been developed in an effort to convince investors to abandon, at least in part, the more traditional asset classes of cash, bonds and stocks. The goals of such efforts are either: (a) potentially higher performance (with potentially more risk); or (b) potentially less risk with reasonable investment returns. These alternative investments include hedge funds, leveraged buyout and venture capital funds, commodities and currencies, annuities, and, for this month, international investments.

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HEDGE FUNDS: Hedge funds "encompass a range of investment approaches so broad as to preclude classification in a single homogenous class. With categories ranging from event driven to relative value to macro strategies to fixed income arbitrage, the hedge fund investor faces a lengthy menu of distinct options from which to choose… Such absolute strategies (of hedge funds) attempt to produce positive returns regardless of the state of the markets… Absolute hedge fund investing only makes sense if the investor identifies managers with superior active management skill… In contrast, investors in traditional marketable asset classes expect returns to derive fundamentally from the underlying asset class, modified in the case of actively managed accounts by the increment or decrement provided by security-selection decisions. To achieve success in the hedge fund world, investors must identify active managers with sufficient skill to overcome the typically rich fee arrangements commanded by fund managers… In the hedge fund world, as in the whole of the money management industry, consistent, superior active management constitutes a rare commodity" (Swensen, pp. 125-126).

To break down Swensen's analysis regarding hedge fund investing, we would state the risks as follows: (1) Given the many styles available, how to determine which style makes sense for you and your objectives in any particular time frame; (2) high fees; and (3) most importantly, the difficulty in identifying managers who are likely to possess the superior skills Swensen believes are necessary for success. (In our experience, all hedge fund managers are smart and make wonderful impressions. But when it comes to the actual investing, they must compete with each other in an effort to get an edge on the markets, so they can raise more money, and make more money for themselves). As Swensen writes, "consistent, superior active management constitutes a rare commodity."

Recently, mutual fund structures have been developed combining a number of hedge fund strategies, in an effort to bring the presumed benefits of hedge funds to a wider audience. These funds promote the advantages of an investment with less volatility than the traditional mix of stocks, bonds and cash, and with results that have a low degree of correlation with the traditional stock and bond asset classes. Of course, all the results are based on historical performance, and even if the performance has been as advertised, there is no assurance the performance will continue that way in the future. In one fund's material, Yale's allocation to these types of investments is cited, even as Swensen, the overall manager of Yale's endowment, advises individuals to stay clear of these types of investments.

The idea of correlation as related to risk deserves additional discussion. In a recent WSJ article (5/30/06, C1), correlation is described as "financial markets moving in the same direction at the same time." The article states that many markets have recently shown a higher degree of correlation, compared to their historical norms, in a rising price environment. As an example, the article states that gold and oil prices (and commodities in general) typically have negative correlations with stock prices; that is, higher commodity prices generally result in lower stock prices. But recently, until May, all these prices have moved higher together. Then in May, these same markets continued to show a higher than normal degree of correlation, as their prices declined together (some more significantly than others).

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Low correlation among investments is desirable for investors looking to lower risk and to achieve the benefits of diversification, while giving up some of the upside. Why? Because if some investment categories are going down while others are rising, this may reduce returns in times of generally rising market prices; but by the same token, portfolio declines can be reduced at times when those previously rising categories encounter lower prices. Low correlation therefore tends to reduce risk, which is one of the assertions made by the hedge fund investment community.

As a final observation on the risks/difficulties associated with hedge fund investing, we will cite former star hedge fund manager Michael Steinhardt and financial writer Ben Stein. Steinhardt writes (WSJ, 4/14/06, A16) that "if hedge funds are so mainstream that people discuss them casually, as if they were looking for stock tips, then hedge funds have evolved into something they were not intended to be… They have become an asset class, marketed by investment companies and financial advisers to the masses… Years ago hedge funds were not an asset class, they were a fee structure, with mangers taking big risks for great rewards… While hedge funds can help lower overall risk, diversify portfolios and gain exposure to assets unrelated (uncorrelated) to other holdings, these advantages must be carefully balanced against the shortfalls inherent in the hedge fund structure, including lack of liquidity, lack of transparency and tax inefficiency… Realistically, there are a limited number of truly superior fund managers. Yet legions of managers earn extraordinary compensation for what, as the indices reveal, has been ordinary performance… Since the stock market bottomed in 2002, hedge funds have underperformed the S&P 500 two out of three years, and from 1993 to 2005, the hedge fund index virtually matched the total return of the S&P 500 index… Eventually investors will refuse to pay high fees for average performance, especially when so many better alternatives exist, including 'passive investing' strategies… Identifying the managers who can deliver consistently superior returns is no easy task. Even the most sophisticated investors will be challenged, confirming once again that hedge funds are not designed for the masses."

Ben Stein, writing in the NY Times Sunday Financial section (4/23/06, pg. 3) writes that "the long-term record of most hedge funds is not at all impressive." From 1996-2003, the hedge fund index return and the S&P 500 were essentially the same, but the hedge funds generated far more taxes and had far higher fees than the broad based stock index funds. Further, the hedge fund results are overstated because only the ones that survive, and choose to report their results, are included in the hedge fund reported results. The article quotes Phil DeMuth, who is Warren Buffett's partner, as saying that "hedge funds are not necessarily a great investment, but they are a great compensation program for hedge fund managers."

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LEVERAGED BUYOUT and VENTURE CAPITAL FUNDS:
Leveraged buyouts "involve private ownership of mature corporate entities that have greater than usual levels of debt on their balance sheets… While the value added by operationally oriented buyout partnerships may, in certain instances, overcome the burden imposed by the typical buyout fund's generous fee structure, in aggregate, buyout investments fail to match public market alternatives. After adjusting for the higher level of risk and greater degree of illiquidity, publicly traded equity securities gain a clear advantage. In the private equity world, active management success goes hand in hand with investment success. In asset classes such as domestic equities and fixed income, which contain passive investment alternatives, investors can buy the market. By owning a marketable security index fund, investors reap market returns in a cost efficient, reliable manner. In the absence of truly superior fund selection skills (or extraordinary luck), investors should stay far, far away from private equity investments" (Swensen, pp. 133-134).

Swensen is therefore saying that this kind of investment has high fees, high risk, and high illiquidity, and unless there is a way to identify in advance a manager with superior skills, investors are better off with index funds, getting market returns in a cost efficient, reliable manner. And this advice comes not from the academic community, which is the major advocate of low cost index fund investing, but from the highly successful investment manager of a huge institutional endowment that does in fact use these kinds of alternative investments successfully. To understand why Swensen uses alternative investments for Yale, but advises against their use by individual investors, here is another passage from Swensen's book, this time discussing Venture Capital.

Venture Capital "provides financing and company building skills to start-up operations, working to develop companies into substantial, profitable enterprises… Unfortunately for investors, the promise of venture capital exceeds the reality. Over reasonably long periods of time, aggregate venture returns more or less match marketable equity returns, indicating that providers of capital failed to receive compensation for the substantial risks inherent in startup investing… Investors also…face a problem of adverse selection. The highest quality, top tier venture firms generally refuse to accept new investors and ration capacity even among existing providers of funds. Venture firms willing to accept money from new sources may represent relatively unattractive, second tier investment opportunities" (Swensen, pg. 139).

Once again, Swensen is advising individual investors that the additional risks they take are not compensated for by the long-term investment return generated by this category of investment. But he adds an additional factor: That individual investors are likely to be left with second tier managers, because the top tier managers are already handling much larger pools of endowment money, such as Yale's. This then provides a sweeping rationale for why certain investments may work for large institutional investors, but be inappropriate for individuals.

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The venture capital landscape was the subject of a Sunday NY Times Financial section front page article "The Great Global Buyout Bubble" (Nov 13, 2005). The article discussed how too much capital was chasing a shrinking supply of attractive deals, which is a typical result after an investment category has success and attracts latecomers looking to profit from yesterday's trends. Here again, Swensen covers this topic, referring to the "far too common experience of investment failure caused by chasing returns of hot, lucky mangers, investing near the peak and suffering from poor relative (and, perhaps, absolute) performance. Regression to the mean explains the tendency for reversal of fortune. Hot stocks and hot funds attract interest from the investment community. Investors, fund managers, research analysts, investment bankers, financial journalists and television pundits direct time, energy and attention to the flavor of the month… As even more money crowds into the rapidly appreciating sector, the resulting price increases sow the seeds of the trend's eventual demise" (pg. 154). Given the declines this month in the international and emerging market sectors, this quote may seem applicable to those recent hot performing sectors as well.

COMMODITIES: Commodities include a broad category of items: Precious metals such as gold and silver; energy products such as oil; metals such as copper and aluminum; and agricultural products such as corn, wheat and cotton. Given strong worldwide demand for many of these products, the prices of commodities have gone up over the last few years.

There are a number of mutual funds that track the performance of these commodities. A WSJ article (4/7/06, C1) describes the methodology of these funds and the benefits of establishing modest positions in this asset class. The funds "don't invest directly in commodities, but instead enter into complicated financial agreements designed to track their prices… For investors, the appeal of commodities is that they rarely move in lock step with stocks or bonds. As a result, when added to a portfolio in small doses, they can smooth out a portfolio's ups and downs. In addition, they can provide protection against inflation, which is often accompanied by a rise in commodity prices. Over the past year or so, investor attention has been focused on a handful of commodities where prices have skyrocketed… examples include basic material such as copper, oil and gold." Note that the reference to commodity prices rarely moving in lock step with stocks and bonds brings us back to the idea of uncorrelated asset classes as investments that provide diversification and reduce volatility.

While this article takes a fairly positive approach to commodities, focusing instead on some procedural problems that the funds appear to be resolving, an earlier article by Jonathan Clements (WSJ, 3/1/06, D1), points out that many investors are pouring money into commodities, and other so called "hard asset" mutual funds, more with the objective of trying to capture yesterday's top performance returns than spreading risk through diversification. Clements defines hard asset funds to include gold, natural resources and real estate. His article states that "as is often the case, ordinary investors are mimicking institutional investors," and cites a study that institutional investors were allocating 21% of their assets to alternative investments, divided among real estate, hedge funds and private equity. (Remember Swensen advising individuals that they cannot and should not try to invest like institutional investors).

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The Clements article continues that "in theory, there's nothing wrong with the move to alternate investments. Hard assets and their ilk can perform quite differently from conventional stocks and bonds, so adding them to your investment mix should damp down your portfolio's overall price gyrations. Moreover, this extra diversification could prove valuable if inflation accelerates, since, in that scenario, conventional stocks and bonds will likely get hammered, but hard assets should perform well."

These benefits should sound familiar by now. But Clements goes on to say that most investors are not buying small amounts of these asset categories to diversify, but rather are investing larger sums in an effort to capture some of the exceptional returns generated over the past few years. Once again, an investment professional is warning against the tendency to chase yesterday's hot performing asset classes. The article concludes with the following quote: "It might seem there is never a bad time to diversify, but if you are buying into an asset class that has recently performed well, you're probably getting in at the wrong time." Clements advocates 5% positions for REITs and 5% for commodities, presumably to obtain the benefits of diversification while avoiding the higher exposure that would indicate chasing the recent hot performers.

As for Swensen, he does not include a discussion of either commodities or currencies in his book, which we take to mean that he would not be an advocate of individual's investing in either category. He does, however, advocate allocations to real estate through indexed REIT funds. For a number of clients, PPA invests modestly in REITS, commodity funds and currency funds (in the latter two categories, following the Clements approach rather than Swensen's approach). PPA has no investments in hedge funds, or leveraged buyout/venture capital funds, in such cases following Swensen's explicit advice to avoid those categories.

We will discuss CURRENCIES, INTERNATIONAL and EMERGING MARKETS, and ANNUITIES next month, given the length of the discussion on Hedge Funds, Venture Capital and Leveraged Buyout funds, and Commodities.

III. YOUR INVESTMENT RESULTS: PARK PIEDMONT'S IMPACT

From time to time, clients ask us about the investment results we are getting for them in a given time period. The way the question is asked seems to indicate that the client thinks we have an impact on their investment results during the time period in question. While this is true up to a point, we think it is worth reviewing the impact we do have, and as importantly do NOT have, on your investment results.

We give investment advice on two main topics: (1) The asset allocation most appropriate for meeting each client's particular investment objectives, consistent with their tolerance for risk; and (2) the most appropriate low cost, indexed investments (wherever available) to implement that allocation. We are entirely independent of any particular company providing investment products, and choose only those products that we believe best meet the needs of our clients. As Registered Investment Advisors, we have a fiduciary responsibility to our clients to do exactly what we do. (It is worth noting that many people and firms that function as investment advisors do not have such a fiduciary responsibility).

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Based on the previous paragraph, you can see our advice has a direct impact on the asset allocation, and also on the indexed investments chosen to implement that allocation. What we do NOT have any impact on, however, is how the markets actually perform in a given time frame. Further, we do not even try to achieve results better than the results of the markets we have invested in, since we use indexed investments. These two points are of crucial importance in understanding how we invest money.

Addressing the first point, if we have advised a 50/50 allocation between stocks and bonds, and the stock market gains 5% and the bond market 1% in the time period under review, then your investment result should be plus 3%, no more, no less. If the market results are minus 5% and minus 1%, respectively, in a given time period, then the investment result should be minus 3%, no more, no less. While this may seem obvious, it is not, because many investors think their advisor can have them always invested in the asset class going up and not invested in the asset class going down. This technique is referred to as market timing, which we do NOT do. We maintain our positions in the asset classes we have invested in based on the desired asset allocation, and do not change due to short-term price movements in the markets.

We do, however, suggest changes in portfolios when the market prices change the asset allocations enough to affect the risk parameters of the portfolio. For example, a 50/50 allocation that becomes 60% stocks/40% bonds because of an increase in stock prices, would suggest a change in allocation back to the original 50/50. This process is referred to as Rebalancing, and involves selling portions of the better performing asset class, and using the proceeds to invest in the poorer performing asset class, seeking to benefit from the investment concept of regression to the mean (see Swensen's on rebalancing, pg. 183).

As to the second point, using low cost, tax efficient, indexed investments provides our clients with the best opportunity to MATCH the investment results of the markets invested in. There should be no expectation of doing better than the market results, because indexes are designed to match results, not beat results. The good news here is that the indexed investment should not do worse than the market invested in. Many investors seek out individual stocks, or mutual funds, in a market segment, hoping to outperform that market segment. They pick hot performing sectors, or hot performing managers, hoping the recent outperformance will continue. History suggests that outperformance does not persist, and that chasing performance leads to eventual underperformance. Once again, we do NOT engage in any effort to outperform the market segments in which we invest (see Swensen, pg 154).

We hope this brief discussion of where our advice does and does not have an impact on your investment results, coupled with three months of more extensive discussion on the risks associated with various investments, adds to your overall understanding of the investment process we employ on your behalf.

	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)%
Through May 31, 2006	1,270	(13.6)%	11,168	(2.9)%	2,179	(46.5)%

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 2001	1,148		10,020		1,950	
7 Year Gain; Annualized %	689	14.0%	6,186	14.7%	1,198	14.6%
End of 2002	880		8,342		1,336	
8 Year Gain; Annualized %	421	8.5%	4,508	10.2%	584	7.5%
End of 2003	1,112		10,454		2,003	
9 Year Gain; Annualized %	653	10.3%	6,620	11.8%	1,251	11.5.%
End of 2004	1,212		10,783		2,175	
10 Year Gain; Annualized %	753	10.2%	6,949	10.9%	1,423	11.2%
End of 2005	1,248		10,718		2,205	
11 Yr Gain; Annualized %	789	9.5%	6,884	9.8%	1,453	10.3%
Through May 31, 2006	1,270		11,168		2,179	
11.42 Yr Gain; Annualized %	811	9.3%	7,334	9.8%	1,427	9.8%

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