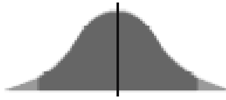

Park Piedmont Advisors LLC

Registered Investment Advisor

VICTOR LEVINSON **NICK LEVINSON, CFP®**

OCTOBER 2006 COMMENTS

YEAR END ITEMS:

I. Required Minimum Distributions (RMDs) from IRA Accounts:

All RMD amounts for IRA accounts are set out on the first page of the NFS (National Financial Services) monthly statement. Any one with an IRA account requiring an RMD should already have received a letter from NFS, which is the custodian for all IRA accounts managed by Park Piedmont. As in prior years, we will process all RMDs in early December for clients who have not already taken the full amounts required to be distributed for the year.

II. Annual $35 IRA Maintenance Charge from NFS:

You should receive a letter in the next few days (if you haven't already received it) from NFS regarding its $35 annual IRA custodian charge. We suggest you NOT send payment, but rather let NFS debit the $35 from your account, which it will do in December if you do not send payment.

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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 OCTOBER, 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%	11.7%	3.8%
Standard & Poors 500 Index (2)	19.6%	(10.1%)	(13.0%)	(23.4%)	26.4%	9.0%	3.0%	10.4%	3.4%
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(22.2%)	(13.0%)	(23.7%)	25.9%	7.2%	5.1%	6.5%	3.5%
Vanguard S&P 500 Value Index Fund (1)	12.6%	6.1%	(12.0%)	(20.9%)	32.2%	15.3%	7.1%	16.9%	3.6%
Dow Jones Industrial Average Index (2)	25.2%	(6.2%)	(7.1%)	(16.8%)	25.3%	3.2%	(0.6)%	12.7%	3.7%
NASDAQ Composite Index (2)	85.6%	(39.3%)	(21.0%)	(31.5%)	50.0%	8.6%	1.4%	6.3%	3.9%
Vanguard Midcap US Index Fund (1)	25.0%	2.6%	(4.8%)	(16.3%)	34.1%	20.4%	13.9%	9.7%	3.9%
Vanguard Smallcap US Index Fund (1)	19.6%	(4.2%)	1.0%	(21.6%)	45.6%	19.9%	7.4 %	12.1%	5.5%
Vanguard International Index Fund (EAFE) (1)	25.3%	(15.2%)	(22.6%)	(17.5%)	40.3%	20.8%	15.6%	18.4%	4.5%
Vanguard Emerging Markets Index Fund (1)	61.6%	(21.6%)	(2.9%)	(7.4%)	57.7%	26.1%	32.1%	15.6%	5.2%
Vanguard Real Estate Invest. Trust Fund (1)	(0.4%)	26.4%	12.4%	3.8%	35.7%	30.8%	11.9%	31.4 %	7.6%
BONDS									
Vanguard Total Bond Market Index (1)	(0.8%)	11.3%	8.3%	8.2%	4.0%	4.2%	2.4%	3.6%	0.7%
Vanguard Interm. Tax-Exempt Index Fund (1)	(2.9%)	9.2%	5.0%	7.9%	4.4%	3.2%	2.4%	3.9%	0.6%
Vanguard Short-term Bond Index (1)	2.1%	8.9%	8.9%	6.1%	3.4%	1.7%	1.3%	3.5%	0.5%
Vanguard Short Tax-Exempt Index Fund (1)	2.6%	4.9%	4.8%	3.5%	1.6%	1.1%	1.8%	2.8%	0.4%
Vanguard High-Yield Bond Fund (1)	NA	NA	NA	1.7%	17.2%	8.5%	2.8%	5.6%	1.0%
Vanguard Inflation-Pro-tected Bond Fund (1)	NA	NA	7.6%	16.6%	8.0%	8.3%	2.6%	1.6%	(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.

%	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	(1.9)	5.2%					
NASDAQ	(8.1)	2.6	4.4	2.5	6.1	(7.6)	3.9%					
BONDS	(0.5)	3.0	(0.7)	0.6	(0.7)	(0.2)	3.8%					
Interm. Tax.												

OCTOBER 2006 COMMENTS

STOCK index prices were uniformly higher in October, posting their best overall monthly gains of the year. This upturn in stock prices, fueled at least in part by a surprisingly large decline in oil prices, as well as a decline in interest rates tied to the Federal Reserve no longer raising the short-term rates it controls, has taken the Dow Industrials above its former all-time high reached six and a half years ago. (The S&P 500 and NASDAQ are still down 10% and 53%, respectively, from their previous highs). For the month, the S&P 500, Dow, NASDAQ, and Total Stock Market (TSM) index, which includes Midcap and Smallcap stocks, were up 3.4%, 3.7%, 3.9%, and 3.8%, respectively. Midcap and Smallcap had gains of 3.9% and 5.4% respectively, as did the International and Emerging Market indices, up 4.5% and 5.2%, respectively. The REIT index continued its remarkable performance, up 7.6% for the month and 31.4% YTD. Largecap Value and Largecap Growth had similar monthly gains, but Value continued its longer-term outperformance. See page 2 for figures for the month, YTD, and since 1999.

BOND returns (price change plus interest) had their fourth consecutive month of gains. The benchmark 10-year US Treasury yield closed at 4.61%, slightly below the previous month's close of 4.64%, but far below the current 5.25% short-term overnight rate set by the Federal Reserve. The fact the Fed paused, for the third consecutive month, in its two plus year campaign of raising the short-term rates it controls, was a major factor in the decline in rates and continuing rise in bond prices. However, 10-year yields are not likely to continue below short-term yields, since the normal relationship (also known as the "yield curve") of 10-year yields to short-term yields is positive 200 bps or more, not negative 65 bps. Therefore, we are likely to see either rising longer-term rates or declining shorter-term rates in the coming months. YTD bond returns range from +2.8% to +3.9% for both short and intermediate maturities, and have caught up with the returns from money markets, which benefit most directly from increases in short-term interest rates**.** See page 2 for results for the month, YTD, and since 1999.

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The stock market rally that began decisively in March 2003 has now, as of the end of October 2006, raised the three major indices reported below to their highest levels of the recovery; indeed, the Dow Industrials index has actually reached and passed its all time high. But it has taken almost seven years for the Dow to reach these levels, and the S&P 500 and NASDAQ are still trailing their all-time highs, reached in early 2000, by 10% and a stunning 53% respectively. So investment returns on stocks for the entire decade starting in 2000 remain far below their long-term historical averages. In a fascinating observation, Vanguard notes that since 1926, in only six of 80 years did stock prices fall within 2%, up or down, of their long term historical annual average return of 10.4%.

Measuring stock returns from the beginning of 1994, which began the spectacular bull market of 1994-1999, we see the three major indexes all up more than three times, and all with remarkably similar average annual returns (ranging from 9.7% to 10.2%) 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. **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.**

	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 Oct 31, 2006	1,378	(10)%	12,081	+3%	2,367	(53)%

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%
October 2006	1,378	12,081	2,367
Gain	919	8,247	1,615
Avg.Ann.%Gain:'95-10/06; 11.83 yrs	9.7 %	10.2 %	10.2 %

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 report for Q3 growth (ending September 30th) was 1.6%, "its most anemic pace since 2003, highlighting the impact of the housing downturn and raising questions about the economy's direction…slower than the 2.6% rate in Q2, and the 5.6% surge in Q1" (Wall Street Journal [WSJ], 10-28-29, A3).

(2) Employment growth for October (reported Friday, November 3rd) was 92,000, but "more importantly, large revisions boosted the estimate of August and September payroll growth by a total of 139,000 jobs, …while the unemployment rate dropped to 4.4%, its lowest level since May 2001." The article quoted one economist as saying that "this tells us the economy is weathering the housing storm quite nicely" (WSJ, 11/4-5).

(3) Interest Rates on longer-term bonds declined in October for the fourth consecutive month, with the benchmark 10-year US Treasury interest rate, which is set by buyers and sellers in the bond market, closing at 4.61%%, well below the recent high of 5.25% reached in June. For the third consecutive month, the Federal Reserve held the short-term rates it controls at 5.25%, "as it continued to bet on a moderation of both inflation and economic growth" (WSJ, 10/26/06, A2). The fact the yield curve is now sharply inverted, with overnight rates more than _ of 1% higher than the 10-year Treasury, is discussed in the BOND section on page 3 of these Comments.

(4) Inflation rates declined in September. The "core" Consumer Price Index (CPI), which excludes the volatile food and energy sectors, increased 0.2%, and was up 2.9% from a year earlier. With food and energy included, the monthly rate was down (0.5%), and the most recent twelve-month increase was 2.1%, far below the July level of 4.1% (Vanguard Economic Week in Review [VEWR], 10/16-20/06). The Producer Price Index (PPI) core rate was up 0.6%, after two consecutive monthly declines, but with food and energy included, there was a monthly decline of (1.3%). (VEWR, 10/16-20/06). (Note: The CPI measures prices of goods and services; the PPI, only goods.)

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(5) Sector Economic Activity Continued Mixed, But with Signs of a Slowdown

(a) Durable goods orders (industrial and consumer) rose a sharp 7.8% in September, due mostly to the highly volatile transportation sector. "Gains in other sectors were more modest" (VEWR, 10/23-27/06).

(b) Industrial production declined by 0.6% in September, "worse than expected," while capacity utilization also declined, to 81.9% (VEWR, 10/16-20/06).

(c) Retail Sales declined 0.4% in September, but were still up 5.5% from a year earlier. Declining gasoline sales were the major factor in the decline (VEWR, 10/9-13/06). (Retail sales are not adjusted for inflation, and include such disparate categories as gasoline, autos, and the Internet.)

(d) Housing sales for existing homes declined in September by 1.9%, and were down 14% from a year earlier. Prices also declined for the second consecutive month, for the first time since 1995 (WSJ, 10/26/06, D1). However, new home sales rose in September by 5.3%, even as the year-over-year decline remained at double digit levels. The housing slowdown is often cited as posing a significant issue for US economic growth for the second half of this year (WSJ, 10/5/06, front page).

(e) Personal Income increased 0.5% in September, following a slower 0.3% in August. Personal spending rose 0.1%, matching August's low figure. Personal savings as a percentage of disposable personal income rose, although it is still negative, at (0.2%) (VEWR, 10/30-11/3).

(6) Consumer Confidence, as measured by the Conference Board's Index, "slipped slightly in October….Despite lower energy prices, consumers' opinion of the current situation diminished" (VEWR, 10/30-11/3)

(7) Corporate Profits "Profits have grown at double digit rates for 17 consecutive quarters, helping equity markets overcome the twin poisons of rising interest rates and high energy prices… Profits of S&P 500 companies more than doubled from 2001 to 2005, …and analysts predict that the median S&P 500 company will enjoy 12.8% profit growth this year" (NY Times, Financial section, 10/1/06, pg. 6; the article discusses the likelihood of these favorable profits continuing into the future).

Overall, October's economic news pointed to the continuation of a moderately slowing economy, although the news on stronger employment growth raised questions regarding this point of view. Slower GDP growth, modest declines in the industrial sector and in retail sales, and the continued weakness in housing, all pointed to a slower economy. However, the decline in oil prices has added purchasing power for the consumer. With the modest slowdown has come lower inflation rates and lower interest rates, both of which provided good news for stock and bond prices. How the reality of slower growth plays out in the future price movements of stocks and bonds remains to be seen, and much depends on whether the slowdown continues to be moderate, or accelerates into a more serious downturn.

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II. HOW ASSET ALLOCATION DETERMINES INVESTMENT RETURN

The most recent four month rally in the stock and bond markets, which started in July, has taken most market participants by surprise. After all, who would have predicted that in this time period oil prices would decline from the high $70s to around $60 per barrel; or that the Federal Reserve would stop raising the short-term rates it controls, and longer-term bond yields (using the 10 year US Treasury yield as a proxy) would decline from 5.25% to around 4.60%. While these surprising events may not, by themselves, be the only reasons for the improvement in stock and bond prices, they have presumably been important factors in the upward direction of both stock and bond prices. (From June 30 to October 31, the Total US Stock Market was up 8.4%, and the Total US Bond Market, including income, up 4.5%).

The subject of this section is not, however, the impacts of certain events on market prices. Instead, we focus here on **the importance of your asset allocation in determining to what extent your portfolio is positioned to take advantage of price movements** which are, by their very nature, unpredictable (as evidenced by the "surprise" changes in oil prices and interest rates that in turn influenced the stock and bond price moves).

This discussion requires a few definitions to assure that there is common understanding of certain key terms. First, when referring to asset allocation, we are referring to the division of an investment portfolio among three basic asset classes, namely, cash, bonds and stocks. Cash consists of short-term interest-bearing investments, such as money market funds and fixed income investments with maturities of three months or less. Bonds refer to income-oriented investments that pay interest, and whose price movements, up or down, tend to be modest, tied primarily to market interest rates and either the maturity, or credit quality, of the investment. Stocks refer to securities that provide an ownership interest in a for-profit business, and whose results are based primarily on their change in price, with income in the form of dividends being a secondary consideration. The range of up and down movements of stocks makes them a riskier investment class than the income-oriented investments, at least in short time frames (which can often extend to years). Given the tremendous number of investment alternatives offered in the marketplace, the classification of certain investments into one of these three basic categories can be the subject of some disagreement (e.g., high yield "junk" bonds earn most of their returns from interest, as is the case with high credit quality bonds, but have some of the price risk characteristics of stocks; also, preferred stock, despite its name, has a fixed interest rate and performs more like a bond than a stock). For purposes of this section, we will simply use the classifications of cash, bonds and stocks. The next section of this month's, as well as future, Comments will discuss in detail the nature of the specific investments used by Park Piedmont in implementing client's asset allocations.

The other key term to understand is the notion of "market timing." This refers to the effort to be invested in the asset class that is going to do better in the next time frame. For the past four months, stocks would have been the investment of choice. But earlier this year, money markets provided better returns than bonds or stocks. And in the major bear market of 2000-2002, the broad based S&P 500 stock index declined 45%, while bonds provided substantial positive returns in the context of declining interest rates. To this day, the S&P 500 index remains more than 10% below the all time highs reached almost seven years ago, and the Dow Jones Industrials just last month reached its prior high after more than six years.

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For market timers to succeed, they must be able to predict the next turn in the markets, and then make their investments in the asset classes they believe will do better than the others. To do this on any regular basis they must be able to predict future events, because even if they are able to predict the short term course of such key factors as oil prices, interest rates, or corporate profits, there is still the potential for the unexpected surprises that can often render rational analysis useless. (In modern times, terrorism and geopolitical events come immediately to mind as unpredictable wild cards).

The alternative to market timing is to establish an asset allocation in advance of events, based primarily on your specific goals and objectives with regard to your money, and without concern for any particular level of market prices. If, for example, you have an amount of liquid investment capital that can produce sufficient income to reach your objectives, then an appropriate asset allocation would emphasize income-oriented investments. This would minimize the fluctuation of the capital account, and emphasize the more certain (although by no means guaranteed) results that come from income. However, if your current accumulated capital leaves you far short of reaching your objectives, then an emphasis on stock market investments is appropriate, since stocks provide the opportunity for greater growth, albeit with much greater price fluctuations.

Investors relying on asset allocation, and a buy and hold strategy to implement that allocation, would not switch from one asset category to another just because the prices of one were rising more quickly than the prices of other categories. In fact, these investors would be most wary of switching to the asset class that is doing better at the moment, so as to avoid the common investment mistake of chasing the current winners at higher prices, only to see those prices decline, and then selling those investments at lower prices (i.e., buying high and selling low). This mistake helps explain why asset classes may do well over time, but the investors in them do less well. "As ever more money crowds into the rapidly appreciating sector, the resulting price increases sow the seeds of the trend's eventual demise" (Swensen, pg. 154). Indeed, the most disciplined investors, having established an asset allocation most appropriate for them, sell the better performing asset class as prices rise, and buy back those asset classes when their prices decline, so as to maintain their initial asset allocation (referred to as "Rebalancing"). "In markets characterized by mean reversion, investors who fail to rebalance portfolios to long-term targets end up with outsized exposure to recently appreciated assets that prove most vulnerable to poor future results" (Swensen, pg. 21).

Relating all this to the recent increase in stock prices, if your appropriate asset allocation calls for 25% or 35% of your portfolio to be invested in stocks, then your portfolio will only reflect the higher recent return from stock prices to the extent of that percentage allocation. Nor should you want to switch more of your portfolio into stocks based on the recent price run up, if for no other reasons than those stock prices are now higher, the gains already earned are in the past, and you would need to give up a portion of the income producing part of your portfolio. The question of whether to switch from large cap stocks to small cap stocks or international stocks presents a different issue, because all of these categories are part of the broad allocation to the stock market, and changes within the asset class simply represent a different sort of market timing. The answer to the various categories within an asset class is best solved by holding a reasonable allocation to all the various investments, providing for diversification within the asset class. This concept will be discussed more fully in the following section on specific investment options.

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III. INVESTMENTS WE USE TO IMPLEMENT YOUR ASSET ALLOCATION

This is a new section of our Monthly Comments designed to provide clients with additional information about the investments we use to implement the specific asset allocations developed to meet your goals. We will highlight two or three of these investments each month. For this month, we have chosen three such investments: 1) Total Stock Market ("TSM") index funds, which are the core holding for our clients' stock investments; 2) commodity funds, which we have chosen for many of you as a way to participate in commodities such as oil, precious metals, and agricultural products, some of which are under-represented in broad-based indexes such as TSM; and 3) a socially responsible ("SR") fund we recently discovered that invests primarily in alternative energy.

Total Stock Market index fund:

Key Statistics for Vanguard TSM fund (symbol VTSMX):

1) Size: $36 billion
2) Annual Expenses: 0.19%, or $19 on a $10,000 investment
3) Load: None
4) Annual Yield: 1.60%
5) PE Ratio: 17
6) % in Top 10 Holdings: 17%
7) Top Sectors (as of 11/6/06): Financial, 22%; Consumer, 16%; Healthcare, 12%; Technology, 12%
8) YTD Return as of 11/7/06: 12.12%

This category represents the broadest-based selection of US stocks, and the Vanguard fund is the largest in the TSM category, with over $36 billion in assets. Started in 1992, VTSMX uses the US Broad Market index developed by Morgan Stanley Capital International, Inc. (MSCI). This index is capitalization-weighted, which means that the companies with the largest market capitalization (calculated by multiplying share price by the number of shares outstanding) comprise the highest percentage of the index. (There are other ways to weight stocks in an index, and how best to do so has become a controversial topic in the investing world. We plan to devote part of a future commentary to this issue.) The index consists of 3,736 stocks, with Exxon Mobil currently the largest component of the index, at about 2.5%. Overall, the index represents 99.5% of the capitalization of US stocks. There are almost no non-US companies represented in the index.

Given the large number of component stocks, VTSMX provides significant diversification in several ways. In terms of company size, the fund mimics the overall composition of the US stock market, with roughly of 70% in large capitalization ("largecap") stocks (defined as having market capitalization over $10 billion); 15% in midcap stocks (with market capitalization from $1-$10 billion); and 15% in smallcap stocks (with market capitalization below $1 billion). In terms of industry representation, the major components of the index include financial companies such as Citigroup and Bank of America (the 3rd and 4th largest); consumer-oriented companies such as Procter & Gamble (the 6th largest); technology companies such as Microsoft (the 5th largest); and healthcare companies such as Pfizer and Johnson & Johnson (the 7th and 8th largest).

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While the size weightings have remained relatively stable in recent years, the industry weightings have varied significantly at different times. In the late 1990s, during the dot-com and internet booms, technology was the largest component. Coincident with the recent run-up in oil and gas prices (especially prior to the declines of the last few months), energy companies have become a much bigger part of the index and fund.

With its very low annual expenses (19/100 of 1%, also known as 19 basis points, or "bps) and no sales "load" (the fee used to compensate brokers who sell many actively-managed funds, as opposed to the "passive", or indexed, funds we use), the Vanguard TSM index fund is the typical core stock holding for our clients. Reflecting the recent stock market increases mentioned in the prior section, the fund is up more than 12% through early November.

Commodity fund:
Key Statistics for PIMCO Commodity fund (symbol PCRIX):
1) Size: $6 billion
2) Annual Expenses: 0.74%, or $74 on a $10,000 investment
3) Load: None
4) Annual Yield: range of 7% to 15.14%
5) PE Ratio: NA
6) % in Top 10 Holdings: NA%
7) Top Sectors (as of 3/31/06): Agriculture, 31%; Energy, 30%; Industrial Metals, 21%
8) YTD Return as of 11/7/06: (5.4)%

In contrast to the broad-based TSM funds, this fund invests in physical commodities such as oil, gold, and agricultural products like soybeans and cattle. We consider commodities to be a segment, or sector, within the stock or bond asset classes (see additional discussion below as to why a commodity fund might be characterized as stocks or bonds).

Started in 2002, the PIMCO fund also uses an index to select its investments, in this case the Dow Jones-AIG Commodity Total Return index. This index represents positions (technically, futures contracts) in 19 commodities, including the four mentioned above plus industrial metals such as aluminum, copper, zinc, and nickel; precious metals such as silver; and corn, wheat, coffee, cotton, sugar, and "lean hogs." The index limits investment in any single commodity to no more than 33% of the total; this limitation constrained the allocation to oil, for example, during the run-up in prices in the early part of 2006.

PCRIX does not provide diversification by itself, unlike VTSMX described above. Instead, we recommend PCRIX for clients' portfolios as a way to add diversification for a client who already owns other stock and bond investments. A sector fund like this one would typically comprise no more than 1-2% of a client's overall portfolio. This allocation provides exposure to the sector so the client benefits when prices are rising, but in small enough amounts that a subsequent downturn doesn't disproportionately affect the portfolio. A comparison of total returns for PCRIX since its inception in 2002 and VTSMX over the same time period is instructive, particularly for this year, when a significant factor in the recent run-up in stock prices has been the rapid downturn in oil and some other commodity prices:

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	2002	2003	2004	2005	YTD06
VTSMX	(21.0%)	28.4%	12.5%	6.0%	12.1%
PCRIX	24.3%	29.8%	16.4%	20.5%	(5.4%)

Diversification works because when some investments are performing poorly, others are likely to be performing well, or at least better. Since we can't predict when the ups and downs will occur, we advocate owning a diversified set of investments at all times.

One additional note on the PIMCO fund: We would typically categorize commodities in the stock asset class, given the volatility of returns and emphasis on capital appreciation, rather than income, as the main source of returns. We put PCRIX in the bond, or income-oriented, asset class in preparing allocation recommendations for clients, however, given the fund's significant income yield along with its exposure to commodities. It is therefore most appropriate to be owned in clients' tax-deferred accounts.

Alternative Energy fund:
Key Statistics for New Alternatives fund (symbol NALFX):
1) Size: $92 million
2) Annual Expenses: 1.28%, or $128 on a $10,000 investment
3) Load: 4.75%, but waivable for clients of investment advisors
4) Annual Yield: 0.42%
5) PE Ratio: 26
6) % in Top 10 Holdings: 40%
7) Top Sectors (as of 11/6/06): Industrial Materials, 44%; Utilities, 17%; Business Services, 14%
8) YTD Return as of 11/7/06: 23.30%

This fund is another example of a sector fund, in this case with an even narrower focus than PCRIX. The New Alternative fund invests in companies that contribute to a cleaner and more sustainable environment. Funds with social goals such as these are often referred to as socially responsible, or socially motivated, investments ("SRI"). Like other SRI funds, NALFX uses "negative screens", which in this case eliminate companies in the traditional oil, coal, and nuclear power industries, as well as "positive screens", which include companies that invest in hydroelectric, wind, water, geothermal, and solar power, among other new technologies. In addition to exposure to companies working on alternative energy, this fund also provides international diversification. Of the top 10 holdings in the fund, only two are based in the US. The rest are from Spain, Germany, France, Canada, and Norway.

Given these screens, and the fund managers' active involvement in choosing which stocks to own, this is an actively-managed fund. Despite our preference for index funds, we identified NALFX at the request of several clients interested in this sector. (The fund has also been in existence since 1982, an eternity in the fund world, and has relatively low annual expenses for an actively-managed sector fund.) As with the commodity fund described above, we would recommend that interested clients have no more than a 1-2% allocation to NALFX.

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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 (1)		DOW JONES (1)		NASDAQ (1)	
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 Oct 31, 2006	1,378	(6.2)%	12,081	+5.0%	2,367	(41.8)%

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

	S&P 500 (1)		DOW JONES (1)		NASDAQ (1)	
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 Oct 31, 2006	1,378		12,081		2,367	
11.83 Yr Gain; Annualized %	919	9.7%	8,247	10.2%	1,615	10.2%

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