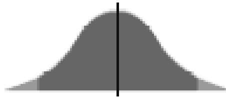

Park Piedmont Advisors LLC

Registered Investment Advisor

VICTOR LEVINSON **NICK LEVINSON, CFP®**

DECEMBER 2006 COMMENTS

HAPPY NEW YEAR!!!

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.

ADV OFFER:
The ADV Part II is Park Piedmont's Disclosure document, which is presented to each client when he/she becomes a client. Further, we are required by the SEC to offer annually to send you our updated and amended ADV Part II for your review. If you'd like to receive this document, please contact Lynette at 212-391-2323. Our Privacy Notice document is also available upon request, as indicated to you in our August 2006 Comments (front page).

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.

CONTENTS

Page 1: Important Notices: What's in This Edition?
Pages 2-4: Index Results for DECEMBER 2006, and Year-to-Date 2006; Also Years 1999 – 2005, and Various Other Longer Time Periods
Pages 5-11: Investment Concepts:
- Pages 5-6: I. Update of Key Economic Indicators
- Pages 7-8: II. Inflation
- Pages 9-10: III. Investments We Use to Implement Your Asset Allocation
  - a. Extended Stock Market index fund
  - b. Total Bond Market index fund

Page 11: Investment Returns from 2000 to Present, and 1995 to Present

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.

Vic's Home Office Phone: 212-588-0015
Vic's Home Office Fax: 212-588-9032
Nick's Office Phone: 510-601-6662

COMMENTS: INDEX RESULTS for period ending DECEMBER 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%	15.5%	1.3%
Standard & Poors 500 Index (2)	19.6%	(10.1%)	(13.0%)	(23.4%)	26.4%	9.0%	3.0%	13.6%	1.4%
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(22.2%)	(13.0%)	(23.7%)	25.9%	7.2%	5.1%	9.0%	0.1%
Vanguard S&P 500 Value Index Fund (1)	12.6%	6.1%	(12.0%)	(20.9%)	32.2%	15.3%	7.1%	22.1%	2.8%
Dow Jones Industrial Average Index (2)	25.2%	(6.2%)	(7.1%)	(16.8%)	25.3%	3.2%	(0.6)%	16.3%	2.3%
NASDAQ Composite Index (2)	85.6%	(39.3%)	(21.0%)	(31.5%)	50.0%	8.6%	1.4%	9.5%	(0.8)%
Vanguard Midcap US Index Fund (1)	25.0%	2.6%	(4.8%)	(16.3%)	34.1%	20.4%	13.9%	13.6%	(0.3)%
Vanguard Smallcap US Index Fund (1)	19.6%	(4.2%)	1.0%	(21.6%)	45.6%	19.9%	7.4 %	15.6%	0.0%
Vanguard International Index Fund (EAFE) (1)	25.3%	(15.2%)	(22.6%)	(17.5%)	40.3%	20.8%	15.6%	26.6%	3.8%
Vanguard Emerging Markets Index Fund (1)	61.6%	(21.6%)	(2.9%)	(7.4%)	57.7%	26.1%	32.1%	29.4%	5.2%
Vanguard Real Estate Invest. Trust Fund (1)	(0.4%)	26.4%	12.4%	3.8%	35.7%	30.8%	11.9%	35.1 %	(2.5)%
BONDS									
Vanguard Total Bond Market Index (1)	(0.8%)	11.3%	8.3%	8.2%	4.0%	4.2%	2.4%	4.2%	(0.6)%
Vanguard Interm. Tax-Exempt Index Fund (1)	(2.9%)	9.2%	5.0%	7.9%	4.4%	3.2%	2.4%	4.4%	(0.2)%
Vanguard Short-term Bond Index (1)	2.1%	8.9%	8.9%	6.1%	3.4%	1.7%	1.3%	4.1%	(0.1)%
Vanguard Short Tax-Exempt Index Fund (1)	2.6%	4.9%	4.8%	3.5%	1.6%	1.1%	1.8%	3.2%	0.2%
Vanguard High-Yield Bond Fund (1)	NA	NA	NA	1.7%	17.2%	8.5%	2.8%	8.2%	1.0%
Vanguard Inflation-Pro-tected Bond Fund (1)	NA	NA	7.6%	16.6%	8.0%	8.3%	2.6%	0.4%	(2.4)%

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.

Vic's Home Office Phone: 212-588-0015
Vic's Home Office Fax: 212-588-9032
Nick's Office Phone: 510-601-6662

%	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%				

DECEMBER 2006 COMMENTS

STOCK index prices were, on balance, moderately higher in December, although certain sectors showed fractional declines. Further (see next paragraph), bond prices were lower, ending five months of consecutive gains. Thus the tandem stock and bond price increases of recent months came to an end in December. The competing views of a weakening economy and a relatively strong economy continue to impact investment results, with no clear-cut resolution of the different points of view. For the month, the S&P 500, Dow, NASDAQ, and Total Stock Market (TSM) index, which includes Midcap and Smallcap stocks, showed results of +1.4%, +2.3%, -(0.8)%, and +1.3%, respectively; all were up YTD, 13.6%, 16.3%, 9.5% and 15.5%, respectively. Monthly results for Midcap, Smallcap, International and Emerging Market indices were –(0.3)%, 0.0%, +3.8% and +5.2%, respectively; YTD all were up, +13.6%, +15.6%, +26.6% and +29.4%, respectively. The REIT index was –(2.5)% for the month, but up a remarkable 35.1% YTD. Largecap Value continued its overwhelming outperformance as against Largecap Growth, monthly and longer-term. See page 2 for all pertinent figures for the month, YTD, and since 1999.

BOND returns (price change plus interest) were lower in December after five consecutive months of gains. The benchmark 10-year US Treasury yield closed at 4.71%, 24 basis points (bps) above the previous month's close of 4.47%, but still well below the current 5.25% short-term overnight rate set by the Federal Reserve. However, 10-year yields are not likely to continue below short-term yields for any considerable length of time, 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 54 bps. The conflicting views of the economy, referred to in the previous paragraph, are at work in this "inverted" yield curve environment. Therefore, we are likely to see either rising longer-term rates or declining shorter-term rates in the coming months. YTD returns range from +3.2% to +4.4% for high credit quality bonds with short and intermediate maturities, about even with returns from ultra short-term money markets, while high yield junk bonds showed better results. See page 2 for various bond results for the month, YTD, and since 1999.

Vic's Home Office Phone: 212-588-0015
Vic's Home Office Fax: 212-588-9032
Nick's Office Phone: 510-601-6662

The stock market rally that began decisively in March 2003 has now, as of year-end 2006, raised the three major indices reported below to their highest levels of the recovery. Indeed, the Dow Industrials index reached and passed its all-time high a few months ago. But it took almost seven years for the Dow to reach these levels, and the S&P 500 and NASDAQ still trail their all-time highs, reached in early 2000, by 7% and a stunning 52%, respectively. So investment returns on stocks for the entire decade remain far below their long-term historical averages. In a fascinating observation, the mutual fund company Vanguard notes that since 1926, 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%. 2006 was another year that did not fall into that 2% range.

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 9.9% to 10.3%) 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 End 2006	1,418	(7)%	12,463	+6%	2,415	(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%
December 2006	1,418	12,463	2,415
Gain	959	8,629	1,663
Avg.Ann.%Gain:'95-12/06; 12.0 yrs	9.9 %	10.3 %	10.2 %

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

Vic's Home Office Phone: 212-588-0015
Vic's Home Office Fax: 212-588-9032
Nick's Office Phone: 510-601-6662

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 final report for Q3 growth (ending September 30th) was 2.0%, down from 2.6% (Q2) and 5.6% (Q1), "with many signs suggesting the economy will stay in a lukewarm zone in the months ahead" (Wall St. Journal [WSJ], 12/22/06, A2).

(2) Employment grew by 167,000 jobs in December, "suggesting the economy might be performing better than anticipated" (WSJ, 1/6-7/06, A3). November was also a good month, with 132,000 jobs added, and upward revisions of 42,000 jobs for the prior two months (WSJ, 12/9-10/06). Year 2006 employment gains were 1.8 million, compared to 1.9 million in 2005 and 2.1 million in 2004 (WSJ, 1/6-7/06, A3).

(3) Interest Rates on longer-term bonds increased in December for the first time in six months, with the benchmark 10-year US Treasury interest rate, which is set by buyers and sellers in the bond market, closing at 4.71%. This was an increase of 24 bps above the prior month's close, but still 54 bps below the overnight rate of 5.25%, which is controlled by the Federal Reserve. During December, the Fed "left its short term interest rate at 5.25%, where it has stood since late June" (WSJ, 12/13/06, A3). 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 stopping its campaign of raising short-term rates. The fact that the yield curve is still sharply inverted, with overnight rates more than 1/2 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, showed no change for November, and were up 2.6% from a year earlier. With food and energy included, the monthly rate also showed no change (WSJ, 12/16-17/06, front page). However, "wholesale prices shot up in November, a sobering reminder that inflation remains a threat to the economy despite recent signs that prices were settling down…. The Producer Price Index (PPI), which measures what businesses charge one another…, rose 2%, the largest single month rise in 32 years…after several months of data that showed inflation easing at both the consumer and wholesale levels…. Most economists said there was no reason to think that prices were on the verge of a run-up" (New York Times [NYT], 12/20/06, C3). (Note: The CPI measures prices of goods and services; the PPI, only goods). A more generalized discussion of the significance of inflation begins on page 7.

Vic's Home Office Phone: 212-588-0015
Vic's Home Office Fax: 212-588-9032
Nick's Office Phone: 510-601-6662

(5) Sector Economic Activity Showed Signs of an Improving Economy

(a) Durable goods orders (industrial and consumer) gained 1.6% in November, an improvement from October, "but again below estimates" (Vanguard Economic Week in Review [VEWR], 1/5/07).

(b) Industrial production (which includes manufacturing, utilities and mining) was up 0.2% in November, while capacity utilization "remained at 81.8%, slightly higher than its long term average" (VEWR, 12/15/06).

(c) Retail Sales gained 1.0% in November, "their largest rise since July, …which is likely to reinforce the Fed's view that the cooling housing market has not hurt the rest of the economy" (NYT, 12/14/06, C6). (Retail sales are not adjusted for inflation, and include such disparate categories as gasoline, autos, and the Internet).

(d) Housing sales for existing homes increased by 0.6% in November, and were down (10.7%) from a year earlier. Since November's monthly increase made it two consecutive months of gains, the data showed "a sign of rebounding demand that suggest the economic fallout from the housing market's slump will be limited next year" (WSJ, 12/29/06, A2). New home sales also rose in November, but the year-over-year decline was -(15.3%) (VEWR, 12/29/06)

(e) Personal Income increased 0.3% in November, while personal spending rose 0.5%. (Both figures are unadjusted for inflation) (NYT, 12/23/06, B3).

(6) Consumer Confidence, as measured by the Conference Board's Index, "climbed to an eight month high"(VEWR, 12/29/06).

(7) Corporate Profits "… for the past five years have grown much faster than the overall economy…rising more than 12% a year since 2002, hitting a high of 19% in 2004, and running at an annualized rate of 16% for Q3 06. But the consensus forecast of economists polled by WSJ calls for those gains to slow to the single digits this year and next" (WSJ, 1/2/07, A2) There was no new corporate profit news for December.

Overall, December's economic news pointed to an improving economy, even with the modest 2% GDP growth. Gains in employment, personal income, consumer confidence, retail sales, and manufacturing, along with some modest improvement in housing, all pointed to a reasonably healthy economy. Whether economic growth remains moderate, so that inflation rates remain under control, allowing the Federal Reserve to keep from raising interest rates; or growth and inflation accelerate, forcing the Fed to raise rates; or growth and inflation diminish, moving the Fed to lower rates; continues to be one of the major themes driving the pricing of the current stock and bond markets. The role of inflation in this mix is so important that we are once again discussing this topic, starting on the next page.

Vic's Home Office Phone: 212-588-0015
Vic's Home Office Fax: 212-588-9032
Nick's Office Phone: 510-601-6662

II. INFLATION

We have discussed Inflation often in these Monthly Comments, most recently in March, 2006. This discussion will reference some long-term history, and focus on how important inflation is to understanding the long-term investment results of various asset classes, as well as the current pricing of various assets in the financial markets.

Our working definition of inflation is the rise in the prices of goods and services over time, which in turn diminishes the purchasing power of a given amount of money. An excellent example (cited in March, and worth repeating), was presented in Jeremy Siegel's book, "Stocks for the Long Term," in which he cites the 1950 prediction of then President Truman that typical family income would reach $12,000 by the year 2000, up from $3,300 in 1950. In fact, by 2000, actual family median income exceeded $41,000, but bought less than $6,000 of goods and services measured in 1950 prices. Put another way, $3,300 in 1950 dollars turned into $41,000 year 2000 dollars, but bought less than $6,000 of goods and services in 1950 dollars. What looked like an income gain of 13 times was really a gain of less than two times.

In the December 16-17, 2006 edition of the Wall Street Journal, an advertising section presented by UBS focused on inflation (pg. S4). The material shows how the buying power of $1,000 has changed since John Kennedy took office in early 1960. In the first 15 years, to 1975, the change in purchasing power averaged approximately 4% annually, requiring approximately $1,800 to purchase what the $1,000 bought in 1960. (Note: At an annual rate of 4%, purchasing power would halve every 18 years, requiring $2,000 for every $1,000. There is a short-hand way to determine the relationship between an inflation rate and the time it takes for purchasing power to halve (referred to as the "Rule of 72s"); divide the number 72 by the inflation rate, and the result is the number of years it will take for purchasing power to halve). From 1975 to 1980, inflation was rampant, and the $1,800 rose to almost $2,800 five years later. The annual inflation rate for these five years was almost 9%. (Note: At that rate, applying the rule of 72s, it would take only eight years for someone to need twice as many dollars to equal the purchasing power of the prior eight years). For the 20 years from 1960 through 1980, the full-period inflation rate was 5.25%. The twenty years from 1980 through 2000 saw the $2,800 starting purchasing power figure increase to just over $5,800; the annualized rate of this change was 3.75% (applying the rule of 72s, this inflation rate would call for a halving of purchasing power in a little more than 19 years). At the end of 2006, the figure would be just over $6,800. The overall annual inflation rate for the entire 47 years was 4.17%, a rate almost twice as high as the Federal Reserve would find acceptable today (that rate is closer to 2%).

To be absolutely clear on the implication of these figures, someone who bought a home in 1960 for $50,000 would have to sell the home for $340,000 in 2006 to receive an equal amount of purchasing power in 1960 dollars. Similarly, a stock bought for $5,000 in 1960 would have to sell for $34,000 in 2006 to have the same purchasing power (and this is before accounting for capital gains taxes, which are not adjusted for inflation). Every investment return should be evaluated in terms of the purchasing power gained, not the nominal dollars received. In order to have a positive purchasing power result, the investment return for any asset owned during the period from 1960 to 2006 would have to exceed the 4.17% average annual inflation rate cited above.

Vic's Home Office Phone: 212-588-0015
Vic's Home Office Fax: 212-588-9032
Nick's Office Phone: 510-601-6662

The UBS material makes the point that "for many Americans, depending on their age, family status, socioeconomic status, and housing status, inflation can take a bigger bite of their spending power than the CPI numbers would suggest." This reference is to the Consumer Price Index, an index reported every month by the government that attempts to show the change in price levels of over 80,000 items. While we agree with the UBS statement, we will continue to focus here on the macro effects of inflation, rather than its varying impact on individuals in different stages and places in their lives.

A recent front page WSJ article (Dec 16-17, 2006), entitled "Ebbing Inflation Gives Economy Breathing Room," discusses the significance of inflation on the current economic environment and pricing in the bond and stock markets. The article begins: "Tame consumer prices are stoking financial markets, bolstering workers' spending power… and diminishing the odds the Federal Reserve will raise interest rates any time soon. Easing price pressures could encourage the Fed to focus less on inflation and more on economic growth, which has slowed considerably this year because of the struggling housing and automobile sectors…. Inflation relief will have a more immediate impact on consumers, who are seeing their wages rise significantly faster than the prices they pay for goods and services…. Tamer inflation does make it less likely that the Fed would actually raise interest rates any time soon, which the central bank said as recently as Tuesday could happen depending on economic data to come…. As long as the twelve month core inflation rate remains well above the 2% level that many officials consider acceptable, some at the Fed may resist signaling any relaxed vigilance on inflation, unless economic growth slows more markedly."

The various points made in this article suggest that inflation affects:

1) the performance of financial markets, both stocks and bonds;
2) the spending power of consumers, which is a major factor in the economy's growth rate; and
3) the likelihood the Federal Reserve will change interest rates, either up or down.

In yet another article linking inflation and the performance of stocks (WSJ, 1/8/07, C1), the author writes: "One of the main reasons for investor optimism is that inflation has appeared to be slowly coming under control," citing declining oil prices (from $77 a barrel in July to its current price of $56). "Inflation in the rest of the economy, excluding volatile energy and food costs, has edged down more slowly toward the 2% rate Fed officials have said they consider the upper limit of what is tolerable." The article continues: "Low inflation is good for stocks because it encourages consumers to spend and helps the Fed keep interest rates down. Low interest rates are another of the market's main underpinnings."

The thrust of the article is to point out certain of the key factors influencing the direction of stock prices, and the fact that any of the factors that are currently viewed as positives could turn into negatives, bringing stock prices down. We agree, and as all our clients and regular readers know, we take no point of view on the future direction of any of the many key factors that affect the market's pricing. Rather, as always, we focus on developing appropriate asset allocations to best meet our client's financial goals, consistent with their risk tolerance, recognizing the essential unpredictability of the future and how unpredictable future events will actually impact market prices in any given time frame.

Vic's Home Office Phone: 212-588-0015
Vic's Home Office Fax: 212-588-9032
Nick's Office Phone: 510-601-6662

III. 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, we have chosen two such investments:

1) Extended Market stock index funds, which invest in midsize and small companies located in the US; and

2) Total Bond Market funds, which invest in a wide range of intermediate-term bonds issued by companies and governments based in the US.

Extended Market index fund:
Key Statistics for Vanguard's Extended Market index fund (symbol VEXMX):

1) Size: $6.3 billion
2) Annual Expenses: 0.25%, or $25 on a $10,000 investment
3) Load: None
4) Annual Yield: 0.91%
5) PE Ratio: 23.4
6) % in Top 10 Holdings: 5%
7) Top Sectors (as of 1/8/07): Fin., 23%; Indus. Mats., 12%; Health, 12%
8) 2006 Return: 13.9%

This category represents the broadest-based selection of US stocks excluding the largest ones, which are included in the S&P 500. Started in 1987, this Vanguard fund is based on the S&P Completion index, which consists of approximately 3,350 midsize and small company stocks. The median market capitalization (calculated as market price per share times the number of shares outstanding) of companies in this index is $2.5 billion. (By way of comparison, the generally-accepted threshold for a large company is $10 billion; the company with the largest market capitalization is Exxon Mobil, at more than $420 billion.) Since there are so many companies represented in this fund, the top 10 holdings comprise just 5% of the fund value, with the largest, Genentech, at just over 1%. In terms of industry representation, the three largest include financial, at 23%; industrial materials, at 12%; healthcare, at 12%; and business services, at 11%. The fund owns almost no non-US companies.

As we discussed in the October Comments, Total Stock Market index funds such as Vanguard's (symbol VTSMX) provide exposure to large, midsize, and small companies in a single fund, in percentages (approximately 70% large, 15% midsize, and 15% small) that reflect the composition of the total US stock market. For clients who want the potentially higher returns that come from smaller companies (over the 80-year history since 1926, smaller companies have returned approximately 12% per year, versus 10.5% for large companies, according to Ibbotson Associates), and can tolerate the accompanying greater risk of ups and downs, additional exposure to smaller companies can be appropriate. Instead of buying separate funds for midsize and small companies (Vanguard has two such low-cost index funds, symbols VIMSX and NAESX, respectively), this Extended Market index fund provides a suitable alternative.

Vic's Home Office Phone: 212-588-0015
Vic's Home Office Fax: 212-588-9032
Nick's Office Phone: 510-601-6662

Total Bond Market fund:

Key Statistics for Vanguard Total Bond Market fund (symbol VBMFX):

1) Size: $40 billion
2) Annual Expenses: 0.20%, or $20 on a $10,000 investment
3) Load: None
4) Annual Yield: 4.78%
5) Average Maturity: 6.8 years
6) % in Top 10 Holdings: 10%
7) Top Issuers (as of 1/8/07): US, 36%; Mortgage-backed, 35%; Corporate, 25%
8) 2006 Return: 4.2%

Like the Total Stock Market fund for stocks, the more than 2,750 individual bonds that make up this fund cover most parts of the high-quality (as opposed to high yield, or 'Junk") bond market in the US. This diversification is apparent among the three basic components of bond investments:

1) Issuer: 36% of the bonds in this fund are issued by the US Treasury and other Federal agencies, including Fannie Mae and Freddie Mac; 35% are backed by mortgages issued by entities such as the Federal Home Loan Banks; and most of the remainder are issued by corporations, in sectors ranging from finance to utilities. Bonds issued by the US Treasury are considered to have the least possible risk, and therefore pay less interest than bonds issued by the Federal agencies (which previously were considered very "safe", but which have recently experienced accounting troubles that have raised the risk assessment of their bonds) and corporations.
2) Credit Quality: VBMFX has almost 80% of its assets invested in bonds with the highest credit rating ("AAA"), which gives a general indication of the default risk for a particular bond. Only 7% of the bonds in the fund have the highest "junk" rating ("BBB"). These indications of "credit quality" can vary significantly even within categories of bond issuers. For example, while US Treasury bonds have the highest credit quality, bonds issued by State or local governments in the US, or foreign governments, can have much lower quality based on investors' assessments of the issuers' ability to pay interest and repay principal when the bonds' term expires.
3) Maturity: This is the term used to indicate when the bond issuer must repay the investor's principal, after having made regular interest payments based on the bond's "coupon", or stated interest rate. The bonds in VBMFX have a range of maturities, including 25% short-term, defined as 1 to 3 years; more than 60% intermediate-term, defined as 3 to 10 years; and almost 15% long-term, defined as more than 10 years. In general, the longer the time to maturity, the more a bond issuer has to pay in interest to encourage investors to buy a longer-term bond (although investors can sell a bond prior to maturity). As discussed on page 3 above, however, the normal upward slope of the bond "yield curve" (i.e., with higher interest paid for longer-term bonds) has been "inverted" for the last six months, with rates for very short-term investments at higher levels than 10-year Treasury bonds.

As a core bond holding, or for a client with a relatively small allocation to bonds, this Vanguard fund provides a well-diversified, low-cost investment option.

Vic's Home Office Phone: 212-588-0015
Vic's Home Office Fax: 212-588-9032
Nick's Office Phone: 510-601-6662

	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 Dec 31, 2006	1,418	(3.5)%	12,463	+8.4%	2,415	(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 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 Dec 31, 2006	1,418		12,463		2,415	
12 Yr Gain; Annualized %	959	9.9%	8,629	10.3%	1,663	10.2%

Victor Levinson **Nicholas Levinson**