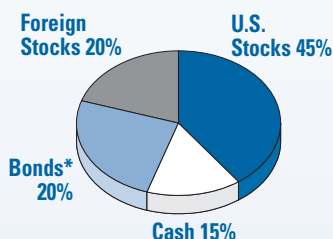


Asset Allocation



*Currently short- to intermediate-term bonds only.

LOOKING AHEAD

Standard & Poor's equity analyst Herman Saftlas upgraded his opinion of the pharmaceutical industry to positive from neutral. "We see new signs of life in big U.S. pharmaceuticals," Saftlas says. Despite generic erosion on drugs with expiring patents, he expects industry profits to rise modestly this year, helped by improved new product flow, Medicare Part D, and cost containment. Litigation issues are also looking better as large pharma overhauls research against generic challengers. Many pharma also offer what we consider attractive P/Es and dividend yields. Five-STARS picks include Eli Lilly (LLY, 56) and Johnson & Johnson (JNJ, 59).

Single-Digit Bull

S&P foresees gains for domestic stocks this year, and we advise overweighting financial, energy, and health care issues.

The S&P 500 index has been moving up — in fits and starts — for the past few weeks, as investors struggle with several factors that have been constraining upside potential. S&P believes the two primary culprits have been uncertainty about when the Federal Reserve will end its monetary tightening policy and concern over the pace of future earnings growth.

The Investment Policy Committee's favorable 2006 equity market outlook is based in part on our belief that the Fed will discontinue its tightening policy after its May meeting. The benign core consumer price index (CPI) report on February 22 supported this view. On the earnings front, S&P equity analysts expect that earnings, while decelerating somewhat from 2005's pace of 13% growth, will rise 12% in 2006. As a result, the Standard & Poor's Investment Policy Committee continues to have a positive outlook on U.S. equities and forecasts a 9% return, before dividends, for the "500" in 2006.

Our overweight recommendation on financials is based largely on our belief that the sector will benefit from an end to Fed tightening. Our positive fundamental outlook on the sector is based on what we see as

modest valuations, attractive dividends, and high S&P Quality rankings.

Our overweight recommendation on energy reflects our likelihood of elevated energy prices throughout 2006. S&P forecasts an average crude oil price of \$61.50 in 2006 vs. the \$56.49 average in 2005. In addition, the sector appears attractively valued.

S&P recommends overweighting health care, which trades at 18 times estimated 2006 earnings. Our equity analysts are predicting strong revenue and earnings growth for this sector. ♦

— Alec Young
S&P Equity Market Strategist

RECOMMENDED SECTOR WEIGHTINGS

SECTOR	RECOMMENDED EMPHASIS	WEIGHTING			
		RECOMMENDED	ACTUAL	P/E*	PEG**
Consumer Discretionary	Underweight	10.0	10.4	16.9	1.5
Consumer Staples	Marketweight	9.0	9.4	17.4	1.7
Energy	Overweight	11.5	9.4	10.0	1.0
Financials	Overweight	21.5	21.0	12.1	1.2
Health Care	Overweight	14.5	13.2	17.9	1.6
Industrials	Marketweight	11.0	11.3	16.0	1.5
Information Tech.	Marketweight	15.0	15.6	20.7	1.5
Materials	Underweight	2.0	3.0	15.1	1.3
Telecom Svcs.	Underweight	2.0	3.3	14.8	2.5
Utilities	Marketweight	3.5	3.3	14.4	2.2

*On projected 2006 earnings.

** P/E-to-growth, using projected 2006 earnings and five-year growth rate.

In the Limelight

CONSTELLATION BRANDS lowered its February-quarter guidance to reflect restructuring charges and accelerated option vesting. As a result, we trimmed our operating earnings forecast for the quarter to \$0.36 per share from \$0.41 and lowered our target price by \$2 to \$33. We expect this producer of alcoholic beverages to report operating earnings of \$1.59 per share in fiscal 2006 (ending February) vs. the \$1.19 posted for fiscal 2005. We believe that by the end of 2008, the company will have recouped the restructuring charges. We highly recommend the Master List shares (STZ, 26, NYSE ★★★★★; Quality Ranking: B+).

HOME DEPOT reported fiscal fourth-quarter earnings of \$0.60 per share vs. \$0.47 a year ago. The home improvement chain saw a 16% rise in net sales, including a 5.5% same-store sales gain. We raised our earnings estimate for fiscal 2007 (ending January) by \$0.07 to \$3.12 per share and boosted our 12-month target price to \$54 from \$52. Trading at less than 14 times our 2007 estimate, the shares (HD, 42, NYSE ★★★★★; Quality Ranking: A+), which yield 1.4%, are compelling, in our view.

RELIANT ENERGY posted a fourth-quarter loss of \$0.45 a share, before items, vs. a deficit of \$0.47 a year earlier. This power producer

and energy trading company said improved profitability in its wholesale segment was offset by narrower margins in its retail business, due to price regulation and higher commodity prices. Looking ahead, however, we see improving commercial capacity for Reliant as well as firming margins in its retail operations. Our 2006 earnings estimate stays at \$0.35 per share, including projected stock option expense. The shares (RRI, 10, NYSE ★★★★★; Quality Ranking: NR) are a buy, in our opinion.

SUNSTONE HOTEL INVESTORS posted fourth-quarter funds from operations of \$0.56 per share. Revenue per available room for this hotel REIT, which went public in the fourth quarter, rose a better-than-expected 10% at hotels not under renovation, helped by an 8% rise in average room rates. We forecast profits of \$0.89 per share in 2006. We find the shares (SHO, 30, NYSE ★★★★★; Quality Ranking: NR) attractive, with a yield of 4%. Our 12-month target price is \$33.

CORRECTIONS

This article in our asset allocation model in the February 22 issue misstated the total net assets of the iShares MSCI Emerging Markets Fund (EEM). As of February 17, the fund had \$12.4 billion in assets.

S&P Evaluation Symbols

STARS RANKINGS

Our evaluation of the 12-month potential of stocks discussed is indicated by STARS:

- ★★★★★ Strong Buy—Total return is expected to outperform that of the S&P 500 index by a wide margin, with shares rising in price on an absolute basis.
- ★★★★ Buy—Total return is expected to outperform that of the S&P 500 index, with shares rising in price on an absolute basis.
- ★★★ Hold—Total return is expected to closely approximate that of the S&P 500 index, with shares generally rising in price on an absolute basis.
- ★★ Sell—Total return is expected to underperform that of the S&P 500 index, and share price is not expected to show a gain.
- ★ Strong Sell—Total return is expected to underperform that of the S&P 500 index by a wide margin, with shares falling in price on an absolute basis.
- NR Not ranked.

QUALITY RANKINGS

Our appraisals of the growth and stability of earnings and dividends over the past 10 years for STARS and other companies are indicated by Quality Rankings:

- A+ Highest B+ Average C Lowest
 - A High B Below Avg. D In reorganization
 - A- Above Avg. B- Lower NR Not Ranked
- Quality Rankings are not intended to predict stock price movements.

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The McGraw-Hill Companies

MARKET MEASURES

S&P Indexes	LAST WEEK'S CLOSE	% CHANGE			2005-2006 RANGE		— OPERATING EARNINGS† —			— P/E RATIO —			INDIC. ANNUAL DIV.	% YIELD
		LAST WEEK	YEAR TO DATE	PAST 52 WEEKS	HIGH	LOW	LATEST 12 MONTHS	EST. 2005	EST. 2006	CUR-RENT†	2005-06 RANGE*			
500 Composite	1289.43	0.2	3.3	7.3	1294.18	1137.50	76.38	76.38	84.85	15.20	15.25	13.41	23.85	1.85
MidCap 400	780.65	0.8	5.8	18.0	781.93	627.38	36.99	36.99	44.26	17.64	17.67	14.17	8.74	1.12
SmallCap 600	380.00	0.9	8.4	16.1	380.00	301.06	18.31	18.31	21.73	17.49	17.49	13.85	3.28	0.86
SuperComposite 1500	292.85	0.2	3.7	8.5	293.41	255.39	16.90	16.90	18.94	15.46	15.49	13.48	5.11	1.74
Dow Jones Industrials	11061.85	-0.5	3.2	2.6	11120.68	10070.37	608.23	608.23	720.64	15.35	15.43	13.97	255.48	2.31
Nasdaq Composite	2287.04	0.2	3.7	11.1	2331.36	1904.18	...	...	...	...	...	...	...	...
S&P Global 1200	1448.27	0.7	4.7	12.5	1448.27	1224.27	...	...	...	...	...	...	...	...
BBB Indus. Bond Yield (10-yr.)	5.90	-0.09 [◇]	0.15 [◇]	0.61 [◇]	6.97	5.13	...	...	...	...	...	...	...	...

*Based on daily closing indexes. †Based on estimated 2006 earnings. ‡Before special factors. ◇Actual change in yield (not percentage change). ●New high.

STARS Status

Changes in S&P analysts' STARS rankings for February 20 through February 24.

The prices that follow the ticker symbols are as of Friday, February 24.

RISING STARS, 19 ISSUES

NEW RANKING OLD RANKING

★★★★★ ★★★

Alvarion Ltd./ALVR, 9.21—This Israeli wireless communications equipment maker should see improving business conditions, in our view. We also think it is a possible takeover candidate.

AmSurg Corp./AMSG, 22—In our opinion, this operator of surgery centers will be able to improve several underperforming locations in 2006.

Children's Place/PLCE, 44—We believe the recent pullback in the shares of this clothing retailer presents a buying opportunity.

Citrix Systems/CTXS, 31—We think this software developer has attractive opportunities in the remote-access and Web services infrastructure markets. We also have a favorable view of its recently announced stock buyback program.

Exelixis Inc./EXEL, 10.34—We believe this biotechnology company has a strong pipeline, with a number of promising compounds under development.

Garmin Ltd./GRMN, 66—As we see it, this company's navigational products are experiencing solid demand.

Haemonetics Corp./HAE, 52—We think new, higher-margin products will help this maker of health care supplies.

Hornbeck Offshore Services/HOS, 34—As we see it, this oil and gas equipment and services company should see better demand for its vessels and tank barges.

Intersil Corp./ISIL, 29—This analog semiconductor company should benefit from improving industry conditions, in our view.

Patterson Cos./PDCC, 30—Supplier of dental products should see improving margins and better sales growth, in our opinion.

★★★★★ ★★

Glatfelter (P.H.)/GLT, 16—We think this paper products company will be aided by a recently acquired paper plant.

RISING STARS

★★★ ★★

CBS Corp. 'B'/CBS, 25—As we see it, this media company should post solid earnings, but the shares are fairly valued.

Crucell NV/CRXL, 25—We believe the acquisition of Berna Biotech will strengthen this drug company's global vaccine position, but the shares look appropriately valued to us.

Meritage Homes/MTH, 62—We have a more favorable outlook for this homebuilder's growth prospects, which makes the stock's current P/E more justified.

MGM Mirage/MGM, 38—As we see it, this casino operator will have improving earnings, but the shares appear to be fairly valued.

Salesforce.com/CRM, 36—We think the shares of this on-demand software maker are fairly valued following a recent decline.

Silgan Holdings/SLGN, 39—Manufacturer of packaging products plans to acquire German-based Amcor Inc.'s White Cap closure unit, pending approval, and we think the deal would aid margins.

Syniverse Holdings/SVR, 21—As we see it, a recent decline makes the shares more appropriately valued, especially given the challenges we think this wireless telecom services company faces in 2006.

★★★ ★

Insituform Technologies/INSU, 25—We believe this construction & engineering firm will see improving business fundamentals, but the shares look fairly valued to us.

FALLING STARS, 15 ISSUES

★★★ ★★★★★

Associated Banc-Corp/ASBC, 35—We expect this regional bank's stock to be an average performer in the year ahead.

Greatbatch Inc./GB, 23—Medical device maker should see margin contraction from pricing pressures and higher costs, in our view.

(continued on page 4)

All of the views expressed in this research report accurately reflect the research analysts' personal views regarding any and all of the subject securities or issuers. No part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

STARS Status *(continued from page 3)*

FALLING STARS (CONT'D)

★★★

MeriStar Hospitality/MHX, 10—Hotel REIT has agreed to be acquired by the Blackstone Group for \$10.45 a share, pending regulatory approval.

Qiagen NV/QGEN, 14—In our view, the shares of this maker of biotechnology equipment are fairly valued after their recent appreciation.

Sherwin-Williams/SHW, 43—We think the recent verdict in a Rhode Island case pertaining to lead poisoning could hurt this paint company.

Verisign Inc./VRSN, 25—Stock of this provider of computer security software and services is near our target price.

Viacom Inc. 'B'/VIA.B, 42—This media company's earnings are likely to be more volatile in the future, as we see it.

★★

Amphenol Corp./APH, 50—In our opinion, this cable and connector maker's business cycle is maturing, and the stock deserves a lower P/E multiple.

BellSouth Corp./BLS, 32—This telecom's shares have risen in price, but we do not believe the higher valuation is warranted.

Harmonic Inc./HLIT, 5.83—As we see it, this maker of cable and broadcast equipment will face a more difficult operating environment this year.

KeyCorp/KEY, 37—Regional bank's stock is now trading below our 12-month target price.

Raymond James Financial/RJF, 46—We consider this regional investment bank's stock overvalued.

★★★★

FALLING STARS (CONT'D)

★★

United Surgical Partners/USPI, 36—In our view, this surgery center operator is facing increased competition, and its shares are somewhat pricey.

★

Iron Mountain/IRM, 44—We believe this information storage company faces slowing revenue growth and increasing competitive threats.

★

State Street Corp./STT, 62—As we see it, this asset management company should see healthy earnings gains, but the stock's P/E is too lofty.

NEW STARS

★★★

1-800-Flowers.com/FLWS, 6.2—Online florist's growth initiatives are promising, in our opinion. However, we are cautious on the company's prospects over the next 12 months.

Dolby Laboratories/DLB, 21—Shares of this maker of audio products are fairly valued, in our opinion.

NEURAL FAIR VALUE 25 CHANGES

Addition: **Mattson Technology (MTSN, 12.41, NASDAQ)**.

Deletion: **AutoNation (AN, 21.23, NYSE)**.

NOTE: The Neural Fair Value 25 changes list the closing prices from the days the stocks were added to or deleted from the portfolio.

THE MARKET LAST WEEK

DAILY STOCK PRICE INDEXES							WEEKLY BOND YIELDS AS OF FEBRUARY 22, 2006									
	FEB 24	FEB 23	FEB 22	FEB 21	FEB 20	FEB 17	MATUR- ITY TREA- (YRS.) SURIES		INDUSTRIALS					—ELECTRIC—		
							AAA	AA	A	BBB	BB+	BB/BB-	A	BBB		
500 COMPOSITE	H ... 1292.1	1293.84	1294.17	1291.92	H	1289.47										
	L ... 1288.62	1285.14	1283.03	1281.33		1284.07										
	C ... 1289.43	1287.79	1292.67	1283.03	O	1287.24										
MIDCAP 400	H ... 780.77	780.80	779.77	777.67	L	776.32										
	L ... 775.97	774.55	771.48	769.93		772.40										
	C ... 780.65	777.30	779.44	772.60	I	774.61										
SMALLCAP 600	H ... 380.38	379.94	378.81	378.26	D	377.57										
	L ... 376.70	376.06	374.96	374.15		375.42										
	C ... 380.00	377.95	378.58	375.65	A	376.74										
SUPERCOMPOSITE (1500)	H ... 293.39	293.71	293.73	293.19	Y	292.62										
	L ... 291.87	291.69	291.18	290.74		291.39										
	C ... 292.85	292.35	293.41	291.18		292.12										

Yields are compiled by Standard & Poor's Global Fixed Income Research. •New high.

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Three Attractive Retailers

Overall, January sales were better than expected, and we think these three store operators are poised for outperformance.

BEST BUY CO.

BBY, 54, NYSE ★★★★★; Quality Ranking: B+

This retailer sells consumer electronics and entertainment software in more than 930 stores throughout the U.S. and Canada. Partly because of strong January sales, Best Buy said fourth-quarter results would exceed its previous guidance. As we see it, the company is the best-positioned electronics retailer in the U.S. because of its focus on digital products, knowledgeable sales staff, and effective use of advertising and marketing campaigns. We believe Best Buy's revenues and market share will be helped by sales of technologically advanced televisions, notebook computers, and digital imaging products. We expect an 11% rise in revenues to \$34 billion for fiscal 2007 (ending February), following a projected 12% gain in fiscal 2006. We look for the operating margin to widen slightly in fiscal 2007 from the 5.5% we estimate for fiscal 2006. Our per-share earnings estimate for fiscal 2007 is \$2.54 vs. the \$2.26 we believe Best Buy earned in fiscal 2006. Both estimates include projected stock option expense. Our 12-month target price is \$61, and we recommend purchase of the shares, which yield 0.6% from the \$9.12 annual dividend, for potentially above-average total return.

JO-ANN STORES INC.

JAS, 13, NYSE ★★★★★; Quality Ranking: B-

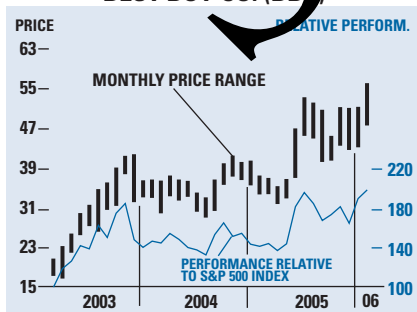
As of January 31, this national fabric and craft retailer operated 737 Jo-Ann Fabrics and Crafts traditional stores and 114 Jo-Ann superstores. We expect sales to increase about 5% in fiscal 2007 (ending January), and we see modest square footage and same-store sales gains. In our view, the gross margin will show slight improvement in fiscal 2007, after a significant narrowing in fiscal 2006. As we see it, Jo-Ann will likely incur substantial costs related to opening and closing stores as it continues to shift to the superstore format. However, the improved profitability of the superstores should help offset these costs, in our opinion. We project operating earnings of \$0.63 a share for fiscal 2007, up from the \$0.24 we estimate the company earned in fiscal 2006. The company began expensing stock-based compensation in fiscal 2004, and both of our estimates reflect projected stock option expense. We have a 12-month target price of \$47, based on our discounted cash flow model. Although the company's recent sales growth has been lackluster, we think the shares are attractively valued and merit purchase for potentially above-average capital appreciation.

STAPLES INC.

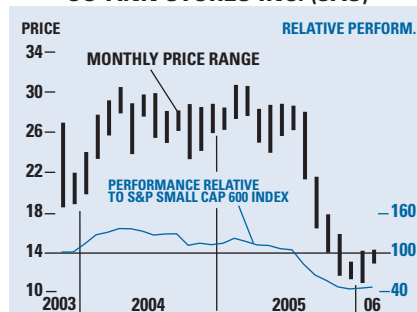
SPLS, 23, NASDAQ ★★★★★; Quality Ranking: B+

This company sells office products through about 1,700 stores in the U.S. and abroad. In our opinion, greater business spending and a solid job market bode well for the company. We think strong results from new Chicago stores demonstrate further growth potential in untapped domestic metropolitan areas, and we expect Staples' joint venture in China to provide a solid international expansion opportunity. As we see it, sales should rise nearly 10% in fiscal 2007 (ending January), helped by gains in the delivery business, continued international expansion, and approximately 100 new stores in North America. Margins should widen slightly, in our view. We estimate fiscal 2007 earnings of \$1.25 a share, including \$0.07 in projected stock option expense, vs. the \$1.11 we believe the company earned in fiscal 2006. At about 18 times our fiscal 2007 earnings estimate, the shares are trading at a slight discount to the P/E of slower-growing peer Office Depot (ODP, 36 ★★). We think Staples' shares deserve a premium valuation because of the company's lead position in North America and faster growth rate. Our target price is \$26, and we recommend buying the stock, which pays an annual dividend of \$0.17. ❖

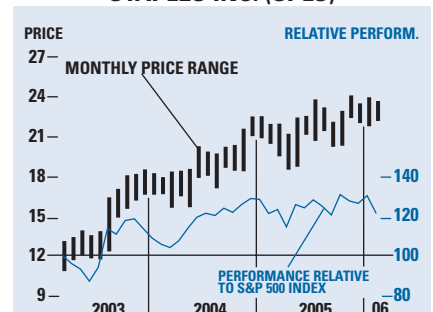
BEST BUY CO. (BBY)



JO-ANN STORES INC. (JAS)



STAPLES INC. (SPLS)



Views of a Longtime Metals Industry Observer

Leo Larkin is a senior industry analyst with more than 21 years of experience at Standard & Poor's. For the past 11 years, Larkin has been following metals companies. Here is his insight on current market conditions.

Q. Gold has been in the news a lot lately, as its price soared to a 19-year high of \$575.35. What are the supply-demand dynamics that have driven gold prices higher?

A. We believe that gold has been in a bull market since the spring of 2001 for several reasons. First, equity market returns in the early part of the 21st century have lagged behind the returns of the mid-to-late 1990s by a wide margin and thus have posed much less competition for gold and other alternative investments. Second, commodity prices as measured by the Commodity Research Bureau (CRB) Commodity Price Index, have been rising, albeit irregularly, since 1999 as a result of consolidation of commodity-producing industries and continued global economic growth. This rise in commodity prices has also helped strengthen the demand for gold. The gap between production and consumption has widened as gold production has stagnated and physical demand has increased. We believe the low level of gold prices seen in the late 1990s led to sharply reduced exploration expenditures, which we believe will lead to flat to lower global production even if the metal price continues to rise. Finally, greater volatility in the world's major currencies has increased the attractiveness of gold as a central bank monetary reserve asset. Whereas many central banks were sellers of gold in the late 1990s, we think central banks could become gold buyers in the years ahead in an

effort to diversify their holdings of paper currencies.

Q. What is your outlook for gold in the next 12 months?

A. Although in the near term we expect gold to move down to sideways following the sharp increase in late 2005 and early 2006, we see it moving higher over the next 12 months for the reasons previously cited.

Q. There's been a great deal of merger & acquisition activity among gold-mining companies since 2000. How have those deals worked out?

A. Since the stock prices of the acquiring companies have risen, we are tempted to say that the mergers have worked out well. However, given that the gold market has been rising steadily since 2001, these companies have had a nice wind at their back. Consequently, it is hard to say definitively that the mergers have achieved most of their stated goals or have justified the price paid. In general, we think mergers are good for the industry because they result in greater concentration of production in the hands of fewer companies and should lead to lower costs. In addition, the mergers result in a larger market capitalization for the newly merged companies and greater liquidity for the stocks. In turn, this makes the group more attractive to institutional shareholders.

Q. Are there any government initiatives or regulatory developments that could affect gold stocks in the next 12 months?

A. A policy decision by the Federal Reserve to increase the level of interest rates could make gold and gold stocks less attractive than Treasury

bills and money market funds. More stringent regulations for dealing with environmental waste or issuing mine permits could affect gold stocks in the next 12 months, but we are not aware of any plans by the U.S. government to change existing laws.

Q. Can you discuss some properties of gold aside from its glitter?

A. Typically, gold has been viewed as a hedge against inflation, and that appears to be an accurate assessment. Gold significantly outperformed financial assets in the late 1970s when inflation reached double-digit levels. However, gold declined sharply after hitting a record price of \$850 an ounce in January 1980, and remained in a bear market until 2001. We believe the bear market in gold was triggered by an increase in interest rates to high double digits and a large drop in the general level of commodity prices. Thereafter, a decline in interest rates, combined with gradually decreasing rates of inflation and a prolonged drop in commodity prices, increased the demand for financial assets. These developments caused demand for gold as an inflation hedge and as an investment asset to decline.

Gold has also been regarded as a hedge against currency depreciation. Since gold is far more expensive to produce than paper currencies, it has a much higher intrinsic value than paper currency and thus offers protection against currency devaluation. However, gold pays no interest or dividends, which is a disadvantage vis-à-vis paper currencies and financial assets.

Q. Which gold stocks do you recommend?

A. We have buy recommendations

on Barrick Gold (ABX, 28 ★★★★★), the world's largest gold producer, and Newmont Mining (NEM, 58 ★★★★★), the second largest.

Assuming the completion of its planned merger with Placer Dome (PDG, 23 ★★★), Barrick would have reserves totaling 149 million ounces and annual gold production of 9.2 million ounces. Barrick would also have copper reserves totaling 6.5 million pounds. Barrick has a large portfolio of development projects that should help lower its future costs and add to profits. Also, Barrick has the industry's strongest balance sheet, in our opinion, and low costs at its existing operations. One drawback to Barrick is that it still has some of its gold production hedged. This limits its exposure to the spot gold price and is a drag on profits in a rising gold market. However, Barrick plans to reduce the hedge as market conditions allow, which, in turn, should improve its long-term profit potential.

Newmont Mining had reserves totaling 92.4 million ounces at the end of 2004 and has annual production of about seven million ounces. Unlike Barrick's, Newmont's production and reserves are totally unhedged. We think this gives Newmont more exposure to spot gold and greater profit potential. Newmont's drawbacks, in our view, include higher costs for current operations and more geopolitical risk than Barrick. Two of Newmont's properties are in countries with high political risk — Indonesia and Peru.

Q. Several exchange-traded funds (ETFs) that track the gold market have recently been launched, including StreetTracks Gold (GLD) and iShares Comex Gold (IAU). What are the advantages of investing in an ETF vs. a gold-mining company?

A. A gold ETF entails less risk than the stock of a gold-mining company.

FAVORED METALS STOCKS

	QUALITY STARS	*S&P RANKING	*S&P INDEX	—EARN. PER SH. (\$)—	INDIC. DIVID. (\$)	2005-2006 PRICE RANGE	CURRENT PRICE	†P/E RATIO	YIELD %	
AK Steel/AKS	5	C	...	d0.01	1.28	None	18.23 - 6.23	12	9.4	Nil
Barrick Gold/ABX	4	B	...	E0.65	0.90	0.22	32.14 - 21.07	28	31.1	0.8
Newmont Mining/NEM	4	B-	500	E0.95	1.85	0.40	62.72 - 34.90	58	31.4	0.7
● Nucor Corp./NUE	4	B	500	8.26	8.15	0.60	88.38 - 45.55	86	10.6	0.7
U.S. Steel/X	4	B-	500	7.00	6.20	0.40	63.90 - 33.59	58	9.4	0.7

●Master List issue. *500—In S&P 500 Index. E—Estimated. d—Deficit. †Based on estimated 2006 earnings. ◊Actual earnings in this column are as reported.

Investing in a gold ETF allows investors to benefit from a rise in the gold price while at the same time avoiding risks associated with mining companies, such as nationalization of property, financial failure, reserve replacement, and physical failure of individual mines. The main drawback to an ETF is that it doesn't pay dividends and lacks the same degree of capital appreciation potential as a gold-mining stock.

Q. Other commodities, including aluminum and copper, have also had soaring prices in the past year. What caused those run-ups?

A. Strong demand from the world in general, and China in particular, combined with low levels of inventory and strike activity drove the copper price higher in 2005. The price of aluminum also rose in response to higher demand and tighter supply. Both metals hit a trough in 2002 and have been rising ever since.

Q. Which non-gold stocks do you recommend?

A. Currently, we are recommending AK Steel Holding (AKS, 12 ★★★★★), Nucor Corp. (NUE, 86 ★★★★★), and United States Steel (X, 58 ★★★★★), based on valuation.

Of this group, we think AK Steel carries the most risk but potentially the greatest reward. It is a highly speculative special situation turnaround, in our opinion. AK Steel has undergone substantial cost cutting but needs to obtain large con-

cessions from its workforce to eliminate the cost disadvantage it currently has with its major competitors. If the company is successful in eliminating its cost disadvantage, profits should increase dramatically, as we see it. Recently trading at 2.4 times its yearend cash per share, AK Steel is an attractive turnaround play, in our view.

Nucor is the nation's largest minimill steel producer and also the most profitable company in the domestic steel industry. It has the most diverse product line of any domestic producer, which acts as a buffer against weakness in any one segment. We believe Nucor has the strongest balance sheet of all the steel companies we follow, and it generates substantial free cash flow. Despite making an acquisition, paying supplemental dividends, and buying back shares, Nucor ended 2005 with cash of \$11.59 per share. Recently trading at 7.3 times its yearend cash per share, we think Nucor represents solid value.

We view U.S. Steel as an attractive special situation. In recent years U.S. Steel has acquired low-cost steel companies in Eastern Europe, and it acquired National Steel in 2003. The company managed to negotiate lower labor costs with both its existing workforce and the workforce acquired with the National merger. In addition, it has aggressively paid down debt and finished 2005 with cash per share of \$11.42. Recently selling at 4.9 times its yearend cash per share, U.S. Steel is attractively valued, as we see it. ♦

Investing All Around the World

Global funds, which meld U.S. and international investments, offer a good way to diversify your portfolio.

U.S. investors voted with their feet in 2005, and global equity funds — those that can invest in both domestic and foreign stocks — won by a landslide. The average global stock fund had a total return of 10.9% for the year vs. 4.9% for the S&P 500.

Among developed economies, Japan had the best-performing stocks in 2005 in dollar terms, notes Alec Young, Standard & Poor's equity market strategist. Japanese financial services stocks did particularly well because of the anticipated reform of Japan's huge postal system, which serves as the world's biggest savings bank, with more than \$3 trillion in assets.

The S&P Latin America 40 index surged 50.2% in 2005. Gains were led by the energy and materials sectors, which together constitute 40% of the index. Young says that as a net exporter of oil and other industrial commodities, the region has been a prime beneficiary of the current bull market in commodities.

The index consists largely of companies based in Brazil (49% by market-cap weighting) and Mexico (38%), with Chile contributing 10%, and Argentina 3%.

In general, S&P is bullish on stocks for 2006. "Equities are the asset class of choice for the year," says Young. "While bond yields are higher in some of the emerging markets, we think they're low enough to make equities the more attractive place this year." Indeed, emerging market stocks, soaring on the insatiability of a commodity-hungry world, have been a compelling story.

Investing heavily in the hottest markets, however, hasn't been a requirement for achieving high overall returns. Polaris Global Value Fund (PGVFX) delivered "reasonably well diversified" returns in

2005 without favoring any particular geographic area, says manager Bernard Horn. An overweight position in materials probably contributed the most to the fund's 10.5% gain last year, Horn says, citing Impala Holdings Ltd. (South Africa), Showa Denko K.K. (Japan), and BHP Billiton Ltd. (U.K.) as top contributors.

Another highly ranked portfolio is Janus Orion Fund (JORNX). Portfolio manager Ron Sachs says that despite the mediocre gains of the S&P 500 last year, he achieved returns of about 20% on both his domestic and international holdings, partly because he doesn't track a global benchmark and invests in what he deems good investments anywhere he can find them.

Given the steep jump in Japanese stocks last year, S&P expects to see some profit taking, after which the equity markets should recover modest gains by the end of 2006.

Young feels that with China and the U.S. absorbing Japanese exports, largely information technology and materials, Japan should do well as long as other nations continue to grow, as S&P expects them to. Companies likely to benefit from this trade include Toyota (TM, 108 ★★), Honda Motor (HMC, 30 ★★), Sony (SNE, 48 ★★), Canon Inc. (CAJ, 62 ★★★★★), and Matsushita (MC, 21 ★★★★★). Young says products in demand could include iPods, game consoles, liquid crystal displays, televisions, and cars.

"The best growth at a reasonable price is to be found in the emerging markets, where you have 15% earnings growth, just like in Japan, but P/E multiples of 10 or 11," says Young. "We're expecting another year of double-digit gains in earnings."

He believes that Western investors don't keep enough money in emerging markets, which have recently been the best-performing regions in the world. These stocks tend to be more volatile than those of developed markets, partly because they are usually smaller-cap issues.

"One of the basic tenets of investing is higher return, higher risk," Young says. "When people are making 30% a year, they don't complain." He noted that while emerging markets fell 7% in October 2005, they have since rebounded. "We're recommending these things on a long-term basis for peoples' retirement," he adds.

The Outlook's model asset allocation portfolio using exchange-traded funds (ETFs) calls for a 3% weighting in iShares MSCI Emerging Markets Fund (EEM).

Like Japan, Latin America would suffer if either of its two primary export customers, U.S. and China, endured an economic slowdown, which we do not expect. Although the upcoming presidential election in Mexico is a wild card, S&P believes the key political parties are much more market-oriented than in the past, which should limit equity volatility regardless of outcome.

Sachs, who reported outstanding returns from Brazilian steel, iron ore, and basic materials companies, says the risk of currency devaluation in the country is mitigated by the global demand for its basic materials. "If the currency goes down, their cost structure gets even lower," he says.

The S&P Asia 50 index, which comprises stocks from Hong Kong (33%), Korea (32%), Taiwan (25%), and Singapore (10%), was up about 20.6% in 2005. These economies are largely export-driven,

RECOMMENDED GLOBAL STOCK FUNDS

ASSETS 12-31-05 (MIL. \$)	FUND NAME / TICKER SYMBOL	♦ RANK- ING	STURN- OVER %	THROUGH 1-31-06				12 MOS. YIELD %	EXP. RATIO %	◊STAND DEV. 36 MOS.	◊SHARPE RATIO 36 MO.	FEES			MIN. INITIAL INVEST- MENT (\$)	TELEPHONE NUMBER (800)	
				% TOTAL RETURN†	YTD	12 MOS.	36 MOS.					60 MOS.	FRONT LOAD %	BACK LOAD %			12B-1 %
394	Amer. Century Global Growth/TWGGX	4	36	6.5	29.1	26.0	3.4	0.7	1.30	11.2	2.1	0	2.00	0	2,500	345-2021	
42,102	Capital World Growth & Income/CWGIX	5	21	4.7	21.6	26.7	11.0	1.9	0.77	9.8	2.5	5.75	0.00	0.23	250	421-0180	
3,161	Janus Contrarian/JSVAX	4	42	5.7	26.1	32.5	8.0	0.2	0.93	13.8	2.2	0	0.00	0	2,500	525-3713	
818	Janus Orion/JORNX	4	68	7.1	31.4	30.3	3.3	0.7	1.01	13.4	2.1	0	0.00	0	2,500	525-3713	
417	Merrill Global Value/MDVLX	5	83	6.3	43.9	32.3	7.3	0.1	1.50	12.5	2.4	5.25	0.00	0.25	1,000	637-3863	
277	Polaris Global Value/PGVFX	4	15	5.1	17.5	29.1	16.0	0.9	1.48	12.1	2.2	0	1.00	0	2,500	*263-5594	
177	T. Rowe Price Global Stock/PRGSX	4	155	7.4	34.7	26.4	5.2	0.1	1.18	10.7	2.3	0	2.00	0	2,500	638-5660	
2,676	Vanguard Global Equity/VHGX	4	19	5.4	19.7	27.3	12.6	1.1	0.90	11.4	2.2	0	0.00	0	3,000	662-2739	
EXCHANGE-TRADED FUNDS																	
374	iShares S&P Global 100 Index/IOO	2	4	3.2	10.2	17.0	-0.7	1.8	0.40	9.4	1.6	0	0.00	0	1		
91	StreetTracks DJ Global Titans/DGT	1	36	2.7	8.0	13.3	-2.1	2.0	0.51	8.3	1.4	0	0.00	0	1		
Average Global Stock Fund				5.1	19.2	22.2	3.0										

DATA: Standard & Poor's ♦ Rankings: 5 indicates top 10% of peer group, 4 the next 20%. †Turnover rate (%) for latest 12-month period. †Total returns including reinvested dividends and capital gains, all annualized except year to date (YTD); calculations do not reflect the effect of sales charges. ◊Standard deviation: Ratio of deviation from the fund's average monthly returns over 36 months. ◊Sharpe Ratio: Fund return for the measurement period less the return of 3-month Treasury bills divided by standard deviation of fund return. * 888 number.

and their outlook is influenced by currency fluctuations.

Standard & Poor's recommends overweighting Pacific ex-Japan equities in 2006. The index's largest sectors, information technology and financials, should be held at market weight, while materials should be underweighted because of industrial overcapacity in China that may limit commodity demand in 2006. We also see better growth prospects in consumer staples and utilities, and advise overweighting those sectors.

As for China, S&P maintains a cautious stance given concerns about overcapacity and lower profit margins. We recommend underweighting the region.

Standard & Poor's outlook for Europe in 2006 is also cautious, based on our belief that the run-up in 2005 has discounted much of the good news for 2006. S&P European strategist, Clive McDonnell, is looking for a year of consolidation in the market.

The economy remains too dependent on exports and the business sector at the expense of new job creation, wage growth, and stronger earnings, Standard & Poor's

believes. The Continent also faces weak domestic demand on the heels of high unemployment, low wage growth, and high taxes. Standard & Poor's expects a decline of 1% in the S&P Euro 350 index in 2006. Given a 3% dividend yield, the index would be slightly positive on a total-return basis.

S&P advises underweighting Europe, particularly financials, the index's largest sector, because of concern over higher interest rates and the negative effect on the mortgage lending and housing markets.

"Cyclical sectors are at high valuations, justifying a more defensive stance," says Young.

Meanwhile, fund managers have still been finding opportunities. The Polaris Fund reported a number of winning stocks in the region in the industrial sector, the fund's second most important source of returns.

At Janus Orion Fund, Sachs says Swiss pharmaceutical firm Roche Holding Ltd. was a top performer, along with Israel's Teva Pharmaceutical Industries (TEVA, 43 ★★★★★). Sachs says Turkey's integration into the E.U. has created a "lot of opportunity" as the country has lowered interest rates and rapidly expanded

its banking sector.

With regard to the U.S., Standard & Poor's sees the potential for large-cap stocks to offer the best value in 2006. Young expects an 11% per share earnings gain for the S&P 500, and GDP growth of 3.5%, a rate that is "slowing but still respectable." The S&P 500 is now trading at 14.8 times the earnings forecast for 2006. "This is relatively low," Young notes, "so there's still some value in the Citigroups, Pfizers, and General Electrics of the world."

The table above lists some highly ranked global stock mutual funds. In addition, there are two broad-based ETFs that invest globally: the iShares S&P Global 100 Index Fund (IOO) and the streetTRACKS DJ Global Titans Fund (DGT). Both hold stocks of large multinational companies. As of the end of 2005, the iShares S&P Global 100 had roughly a 50-50 split between U.S. and international stocks, while StreetTracks DJ Global Titans had 63.4% of its assets in the U.S. and 36.6% abroad. Both feature low expense ratios. ♦

— Carol A. Wood
S&P Global Editorial Operations

Master List Stocks Update

Our three supervised Master List groups of stocks, recommended as core holdings for long-term investors, are regularly featured on these two pages. Group 1, highlighted this week, consists mainly of large-cap stocks.

ANHEUSER-BUSCH COS.

BUD, 42, NYSE ★★★; Quality Ranking: A+

The shares of this major brewer were down 2.4% this year through February 23 vs. a 3.2% gain in the S&P 500 index. We see net sales rising 2% in 2006, following a gain of slightly less than 1% in 2005, because we expect domestic weakness to be partly offset by strength in international sales. In our view, wines and spirits pose the biggest competitive risk for Anheuser-Busch. While we do not think BUD's current marketing strategy is effectively combating these threats, we believe the company can improve its marketing efforts over time. We expect net revenue per barrel to rise about 1% in 2006 and see moderate growth in worldwide shipment volumes because of acquisitions and strength in China and Canada. However, we expect a less favorable pricing environment in the future. In our opinion, the operating margin will narrow in 2006, as higher packaging and energy costs, increased marketing efforts, a less profitable international business mix, and option expensing outweigh limited price increases and possible volume gains. But we believe the operating margin will benefit from reductions

in promotional activity in 2006. We forecast 2006 operating earnings of \$2.52 per share vs. the \$2.37 posted in 2005. Because we think the company is facing some near-term challenges, we do not recommend adding to positions. Still, the shares, which currently yield 2.6% from the \$1.08 annual dividend, are a sound long-term holding, in our opinion. We have a 12-month target price of \$45, derived from discounted cash flow and relative valuation analyses.

PEPSICO INC.

PEP, 59, NYSE ★★★★★; Quality Ranking: A+

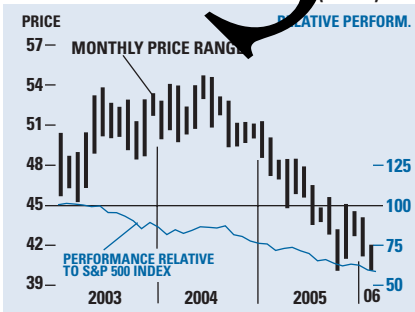
This beverage and snack food company's stock rose 1% this year through February 23. Despite the recent underperformance, we remain bullish on the shares because we believe the company is on target for another good year in 2006. We expect PepsiCo to post balanced growth in all business segments this year, and we believe its cash flow will remain strong. The company has been introducing a large number of new products, which, combined with pricing initiatives, geographic expansion, and cost and productivity savings, should lead to solid operating profit growth, in our view. For all of

Group 1 has trailed its benchmark so far this year, rising 0.6% vs. a 3.2% gain for the S&P 500 through February 23.

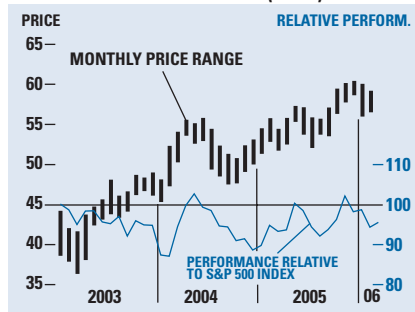
The top performers in the group this year are Procter & Gamble (+6.2%), Ingersoll-Rand (+4.5%), and Walgreen (+3.9%). Those three and Gannett (+3.4%) have outperformed the index so far this year. The worst performers so far this year are UnitedHealth Group (-4.3%), Sysco (-3.5%), and Wal-Mart (-2.4%).

Group 1 consists of stocks with S&P Quality Rankings of A- or better, which indicates an above-average 10-year history of earnings and dividend growth and stability. Stocks must have a four- or five-STARS ranking to enter the group, but equities lowered to a three-STARS (hold) ranking will not automatically be dropped. Stocks lowered to rankings of two or one (sell) will be dropped, as will any issue that falls below an A-Quality Ranking. ❖

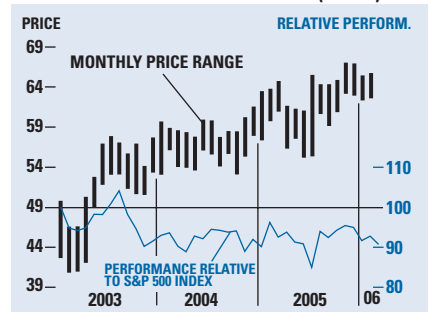
ANHEUSER-BUSCH COS. (BUD)



PEPSICO INC. (PEP)



SIGMA-ALDRICH CORP. (SIAL)



GROUP 1: CORE STOCKS FOR LONG-TERM CAPITAL APPRECIATION

Earnings per Share (\$)	Est. 2006	Indicated Divid. (\$)	2005-2006 Price Range	Recent Price	P/E Ratio	Yield %	STARS	Quality Rank	Name (Year-End) [§]	Annual Growth Rates for Latest 5 Years (%)		Interim Earnings Trend (%)	Price Action vs. Market			Most Recent Write-up
										Earn.	Div.		10-12-90 to 3-24-00	3-27-00 to 10-9-02	10-10-02 to Current	
6.87	6.60	0.60	82.92 - 62.20	76	11.5	0.8	3	A+	Ambac Financial Group	+15	+12	+5	¹ N.A.	2.48	1.18	3/1/06
2.37	↓2.52	1.08	51.32 - 40.15	42	16.7	2.6	3	A+	Anheuser-Busch	+7	+10	-14	0.78	2.11	0.69	11/16
1.79	1.94	0.74	48.11 - 40.37	45	23.2	1.6	5	A+	Automatic Data (June)	+6	+13	+10	0.44	0.88	1.06	12/14
6.73	7.94	0.10	89.85 - 69.09	89	11.2	0.1	5	A+	Capital One Financial	+25	0	+2	² N.A.	0.79	2.60	12/21
4.92	5.20	1.16	82.41 - 58.37	63	12.1	1.8	4	A	Gannett Co.	+9	+4	-3	1.20	1.12	0.78	2/1/06
3.09	3.44	0.64	43.96 - 35.12	42	12.2	1.5	5	A	Ingersoll-Rand	-2	+11	+27	1.33	1.01	2.35	12/14
1.38	1.36	0.60	41.67 - 32.83	37	27.2	1.6	4	A	Linear Technology (June)	+9	+35	-3	¹ 8.25	0.88	1.45	12/21
2.39	2.95	1.04	60.34 - 51.34	59	20.0	1.8	5	A+	PepsiCo	+9	+4	-14	0.54	1.81	1.21	3/1/06
2.66	2.65	1.12	62.00 - 51.16	62	23.4	1.8	5	A	Procter & Gamble (June)	+16	+10	+1	0.89	2.24	0.62	12/14
3.76	3.85	0.84	67.10 - 55.34	65	16.9	1.3	3	A+	Sigma-Aldrich	+10	+12	+11	0.35	2.88	1.25	3/1/06
0.67	0.80	0.01	17.26 - 13.05	17	21.3	0.1	4	A-	Southwest Airlines	-3	0	+77	2.90	1.80	1.17	1/25/06
1.47	1.44	0.68	38.04 - 29.62	30	20.8	2.3	3	A+	Sysco Corp. (June)	+17	+26	-4	0.84	2.01	0.90	10/19
2.48	2.90	0.03	64.61 - 42.62	60	20.7	0.1	5	A+	UnitedHealth Group	+35	NM	+21	3.24	2.85	2.22	12/14
1.52	1.75	0.26	49.01 - 39.66	46	26.3	0.6	3	A+	Walgreen Co. (Aug.)	+12	+10	+3	2.27	2.00	1.20	2/1/06
2.63	↓2.92	0.60	54.60 - 42.31	45	15.4	1.3	5	A+	Wal-Mart Stores (Jan.*)	+14	+24	+7	0.42	1.20	0.76	12/21

§If not noted, year ends December. *Of following year. ↑Upward change in earnings estimate or dividend rate since last publication of the Master List; ↓downward change. E-Estimated. A-Actual. N.M.-Not meaningful. N.A.-Not available. Price/earnings ratios are based on latest shown estimate earnings. ▲▲ figure above 1.0 indicates that the stock outperformed the S&P Industrials stock price index in this period, which represents either a major uptrend or downtrend in the overall market. It is computed by taking the ratio of the stock's price at the end of the period vs. the beginning of the period and dividing it by the corresponding ratio of the index. This column compares share earnings of the latest six months with those of the corresponding year-earlier period. ¹Trading began 1991. ²Trading began 1994. ◊Actual earnings in this column as reported.

All of the views expressed in this research report accurately reflect our committee's views regarding equity and all of the subject securities and issuers. No part of the committee's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

2006, we expect net sales gains of about 8% and division operating profit growth of more than 9%. Including estimated stock option expense, our 2006 operating earnings estimate is \$2.95 per share vs. \$2.66 in 2005. Over the long term, we forecast annual earnings gains of about 11%. We believe PepsiCo's strong cash flow will allow the company to fund acquisitions and aggressively repurchase shares. PepsiCo repurchased \$3 billion of its common stock in 2005, and we expect about the same level of activity in 2006. In light of the company's strong brands, free cash flow, and steady earnings, we strongly recommend purchase of the shares, which yield 1.8% from the \$1.04 annual dividend. Our 12-month target price of \$68 is derived from discounted cash flow, relative valuation, and sum-of-the-parts analyses.

SIGMA-ALDRICH CORP.
SIAL, 65, NASDAQ ★★ Quality Ranking: A+

The shares of this major supplier of research chemicals advanced 2.3% in the year through February 23. Sigma-Aldrich reported fourth-quarter earnings of \$0.84 a share, including unusual charges totaling \$0.11, vs. \$0.79 in the same quarter a year ago. Sales rose 17%, or 7% excluding acquisitions, on solid growth in all of the company's major industry sectors and key geographic regions. It is worth noting that Sigma-Aldrich's volume growth had been virtually flat for two years, until early 2005. In the fourth quarter, online orders accounted for 32% of worldwide sales of research products vs. 25% in the year-earlier period. Research products make up about 74% of Sigma-Aldrich's total sales. For all of 2005, the company posted earn-

ings of \$3.76 a share, including \$0.10 of currency benefits, vs. \$3.34 in 2004. Our 2006 earnings estimate is \$3.85 per share, including \$0.15 a share in estimated stock option expense and a higher effective tax rate. We expect two acquisitions made in 2005 to contribute to earnings in 2006, after diluting earnings by approximately \$0.16 in 2005. The company has increased its dividend each year since 1975, including a recent increase of 10.5% to \$0.84 annually, and the shares yield 1.3%. Although the stock is trading at a P/E that is higher than that of the S&P 500, we believe SIAL is worth holding because of the company's solid long-term earnings and dividend growth record. Our 12-month target price of \$66 is based on a P/E of about 17, its current level, applied to our 2006 earnings estimate. ♦

S&P's Platinum Portfolio

Platinum Portfolio stocks are a rare breed — each, on joining the portfolio, carries the highest investment ranking from Standard & Poor's highly regarded equity analysis team and from our Fair Value quantitative stock-screening system.

The STARS ranking system is designed to meet the needs of investors seeking superior market performance over a 12-month period. Stocks with the coveted five-STARs ranking are expected to outperform the total return of the S&P 500 by a wide margin over the coming 12 months, with shares rising on an absolute price basis.

Our Fair Value model employs a proprietary algorithm to calculate the price at which a stock should be trading at current market levels. Criteria include fundamental data such as ratio of price to book value, return on equity, and earnings estimate revision trends. Fair Value ranks stocks in five tiers. Those ranked 5 are considered to be the most undervalued and to have the most price appreciation potential.

This "best of both worlds" approach has delivered superior results: from December 31, 1986 through the end of 2005, the portfolio appreciated an average of 17.9% per year vs. 9.1% for the S&P 500. This year through February 21, the portfolio gained 4.1%, handily outperforming the S&P 500's 2.8% return.

Stocks are removed from the Platinum Portfolio only when they lose the top ranking in both systems. Any additions or deletions are listed on the STARS Status page of *The Outlook* each week. ❖

PLATINUM PORTFOLIO

	RANKINGS				EARNINGS		PRICE		P/E RATIO
	FAIR VALUE	STARS	QUALITY	*S&P INDEX	—\$ PER SHARE— ◊2005	E2006	FAIR-VALUE	MARKET	
Abercrombie & Fitch/ANF	5	5	B+	Mid	13.66	14.32	73.40	65	15.0
● Allstate Corp./ALL	5	5	B	500	2.64	6.00	60.80	54	9.0
Altera Corp./ALTR	5	5	B	500	0.74	0.80	22.20	20	25.0
Amdocs Ltd./DOX	5	5	NR	...	71.35	71.55	35.80	34	21.9
Amgen/AMGN	5	3	B+	500	3.22	3.48	82.40	74	21.3
Apollo Group/APOL	5	3	B+	500	62.39	62.85	73.30	57	20.0
Consol Energy/CNX	5	5	NR	...	6.26	4.85	71.80	65	13.4
CVS Corp./CVS	4	5	B+	500	1.45	1.60	29.10	28	17.5
Cadence Design Systems/CDNS	5	4	B-	Mid	0.16	0.93	19.90	18	19.4
● Capital One Financial/COF	5	5	A+	500	6.73	7.94	122.90	89	11.2
Cendant Corp./CD	5	3	B	500	0.82	1.30	18.00	15	11.5
Charles River Labs/CRL	5	4	NR	Mid	1.96	2.40	51.20	47	19.6
● Chattem Inc./CHTT	5	5	B	...	91.77	92.16	39.10	38	17.6
● Chevron Corp./CVX	5	5	B+	500	6.54	7.00	59.50	58	8.3
Cimarex Energy/XEC	5	5	NR	Small	4.90	4.89	57.00	45	9.2
Cisco Systems/CSCO	5	4	B+	500	50.87	50.93	23.40	19	20.4
Coach Inc./COH	2	5	NR	500	41.00	41.33	31.50	36	27.1
Computer Sciences/CSC	5	5	B+	500	34.22	33.28	78.10	54	16.5
● Constellation Brands/STZ	2	5	B+	500	21.59	21.78	22.10	26	14.6
Cree Inc./CREE	5	4	B	Mid	41.18	41.20	30.80	27	22.5
Dow Chemical/DOW	4	5	B	500	4.64	6.00	43.20	43	7.2
E*Trade Financial/ET	3	5	B-	500	1.16	1.35	23.30	25	18.5
EMC Corp./EMC	5	5	B	500	0.47	0.57	15.30	14	24.6
Endo Pharmaceuticals/ENDP	5	5	NR	...	1.52	1.74	32.70	30	17.2
FMC Corp./FMC	4	5	B-	Mid	3.11	5.00	63.30	62	12.4
Flextronics Int'l/FLEX	5	4	NR	...	30.58	30.70	14.60	11	15.7
Genentech Inc./DNA	4	5	NR	...	1.18	1.72	83.90	84	48.8
Goldman Sachs/GS	5	5	NR	500	911.21	912.00	151.70	143	11.9
Grainger (W.W.)/GWVW	3	5	A-	500	3.78	4.10	65.30	72	17.6
Guitar Center/GTRC	5	5	B+	Small	2.67	2.96	55.80	51	17.2
Hartford Financial Services/HIG	5	5	B	500	7.46	8.30	99.20	84	10.1
Home Depot/HD	5	5	A+	500	12.96	13.12	44.80	42	13.5
IndyMac Bancorp/NDE	4	5	B+	Mid	4.00	4.94	39.20	39	7.9
● Ingersoll-Rand/IR	2	5	A	500	3.09	3.44	34.80	42	12.2
Ingram Micro/IM	5	5	B-	Mid	1.32	1.74	32.50	20	13.9
Johnson & Johnson/JNJ	4	5	A+	500	3.46	3.70	58.70	59	15.9
Kohl's Corp./KSS	4	5	B+	500	2.42	2.90	47.10	45	15.5
Matsushita Electronic Ind./MC	5	5	NR	...	30.55	30.55	24.60	21	38.2
McAfee Inc./MFE	5	5	B-	Mid	0.83	1.09	30.10	23	21.1
Microsoft Corp./MSFT	5	5	B+	500	41.12	41.31	27.10	26	19.8
Movado Group/MO	5	5	A-	500	11.27	11.43	25.30	23	16.1
Nabors Industries/NBS	5	5	B	500	4.07	6.50	127.40	69	10.6
Occidental Petroleum/OC	5	5	B	500	12.89	12.00	111.30	92	7.7
Petco Animal Supplies/PE	5	4	NR	...	11.31	11.41	27.10	20	14.2
PetsMart Inc./PETM	5	5	B-	Mid	11.17	11.44	27.00	26	18.1
Pfizer Inc./PFE	5	4	A-	500	1.09	2.00	28.50	26	13.0
Quiksilver Int'l/ZQ	4	5	B+	Small	80.86	80.90	13.40	15	16.7
Regina-Schwaninger/SANM	5	3	C	500	71.93	70.25	6.20	4	16.0
Sony Corp./SMTCT	4	5	B	Mid	10.38	10.60	19.60	19	31.7
Steak 'n Shake/SNS	5	3	B+	Small	71.08	71.08	20.00	18	16.7
Tricycle Int'l/TRCL	3	5	B	Mid	1.51	2.43	57.50	60	24.7
Superior Energy Services/SPN	5	4	B	...	0.93	1.75	36.70	25	14.3
Teva Pharmaceutical/TEVA	4	5	NR	...	11.57	1.92	41.80	41	21.4
Tex Instruments/TXN	4	5	B	500	1.39	1.50	32.00	31	20.7
UnitedHealth Group/UNH	4	5	A+	500	2.48	2.90	59.20	60	20.7
Vishay Intertechnology/VSH	5	4	B-	Mid	0.34	0.71	18.10	15	21.1
● Wal-Mart Stores/WMT	3	5	A+	500	12.68	12.92	43.60	45	15.4
WebEx Communications/WEBX	5	3	NR	Small	1.10	0.95	33.00	28	29.5
WellPoint Inc./WLP	5	5	NR	500	3.94	4.60	81.50	77	16.7
Zimmer Holdings/ZMH	5	4	NR	500	2.93	3.40	88.20	69	20.3

● Master List issue. *500-In S&P 500 Index; Mid-in S&P MidCap 400 Index; Small-in S&P SmallCap 600 Index. E-Estimated. d-Deficit. †Based on estimated 2006 earnings. ◊Actual earnings in this column are as reported. ¹Year ending January of following year. ²Year ending February of following year. ³Year ending March. ⁴Year ending June. ⁵Year ending July. ⁶Year ending August. ⁷Year ending September. ⁸Year ending October. ⁹Year ending November.

The portfolio was launched on July 28, 1995. Performance calculations between December 31, 1986 and July 28, 1995 are based on backtested results. Performance calculations do not represent the results of actual trading using client assets but were achieved by means of the retroactive application of a model designed with the benefit of hindsight. These backtested results were calculated by applying the model to historical data and determining the annual performance of the stocks identified by the model portfolio. Performance calculations do not take into account reinvestment of dividends, capital gains taxes or brokerage commissions and fees. If the foregoing had been factored into the portfolio's investment performance, it would have been lower. Performance calculations also do not take into account timing differences between the portfolio selections and purchases made based on those selections by actual investors. Over certain periods, the portfolio incurred losses and over time the portfolio is expected to continue to pose a risk of negative investment returns. Because the portfolio has a high turnover rate, we believe it is best suited for tax-deferred accounts such as IRAs. Investors should seek financial advice before investing based on the portfolio. The portfolio does not address the specific investment objectives, financial situation, and particular needs of any person. Stocks in the portfolio will not be suitable for all investors.

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