



TO: U.S. Private Clients of Oliver Capital Management, Inc.
FROM: Mark K. Oliver, President – Senior Investment Advisor
DATE: April 15, 2006
RE: **First Quarter (Q1) 2006 Quarterly Report**, including the Strategically Engineered Portfolio Program (SEPP) Performance Report and related materials.

Dear Oliver Capital Management Private Client:

There are two sections to the following Q1 2006 Quarterly Report:

1. The Strategically Engineered Portfolio Program (SEPP) Performance and Statistical Information
2. The Economy, The Markets and Business in general

THE STRATEGICALLY ENGINEERED PORTFOLIO PROGRAM (SEPP)

The Model Strategically Engineered Portfolio Program (SEPP) had an exceptionally strong first quarter, actually generating a greater Total Return during the first three months of 2006 than it did for the entire 12 months of 2005! As shown on the enclosed SEPP Performance and Statistical Summary spreadsheets, **the model Strategically Engineered Portfolio Program (SEPP) materially outperformed all four major market indexes during the first quarter of 2006, gaining +7.50%** (vs. the S & P 500 +4.21%, the Dow Jones Industrial Average +4.25%, the NASDAQ Composite +6.37% and the Russell 3000 +5.31%. The average Q1 2006 gross total return of all four major market indexes was +5.04%). This material out-performance is even more noteworthy from the perspective that the Model SEPP contains a fixed income (bond) portfolio as part of its diversified asset allocation structure.

In addition to the Q1 2006 performance information, I have also enclosed the model SEPP's trailing twelve months total return as well as its average annual 1, 3, and 5 Year performance history for your review. Again, you will see that the model SEPP strategy has significantly outperformed the average gross total return during all of these popular bench-marking time periods. In particular, the closely watched trailing five year gross total return as of 12/31/2005 for the model SEPP is +7.28% annually, compared to the average total return of all four major market indexes of only +0.47% annually (see enclosed SEPP Performance Summary Report). **This material out-performance was achieved with significantly less risk than the major market indexes, as measured by standard deviation.**

As you probably noted on your January statement mailed out in early February of this year, **we rebalanced all six (6) of our core SEPP portfolios** (Large-Cap, Mid-Cap, Small-Cap, International, Fixed Income and Dividend) back to their original benchmark weightings, systematically selling the portion of the asset classes that are above their original benchmark weighting and buying more of the asset classes that were below their original benchmark weightings. **This rebalancing technique / philosophy that was incorporated into our proprietary Strategically Engineered Portfolio Program (SEPP) years ago was recently applauded in a Seattle Times P.I. Article (http://seattlepi.nwsourc.com/money/261696_mutu04.html).** The article well articulates some of the virtues and attributes of systematically re-balancing portfolios annually, as we do every January.



Please take a minute right now and turn to the back of these materials and read through the short and concise article.

Another one of the of the key, value added features of the SEPP strategy is investing 10% of client portfolio assets into the worst performing economic sector for the trailing twelve month period every January when we re-balance the six core portfolios that make up the SEPP. As mentioned in our 2005 Year End Report, **the strategically selected contrarian portfolio for 2006 is the Telecommunications Portfolio**, as it was the worst performing sector of the US economy in 2005 (out of 11 total). Given that re-iteration of this aspect of the SEPP, I'd like to point out that our strategically selected contrarian portfolio was the best performing portfolio in Q1 2006 out of all seven of the SEPP asset classes, **returning +15.08% in just the first three months of the year (that's more than three times the return of the both the S & P 500 and the Dow Jones Industrial average during the same time period...please refer to the attached SEPP Performance Report)!** While there is still a lot of time left in 2006, and just about anything can happen form now until the end of the year, it is always gratifying to see the contrarian approach working, no matter what time period we are comparing.

Enclosed, you will also find a report listing the TOP 20 HOLDINGS in each of the seven Portfolios that make up our model Strategically Engineered Portfolio Program (as of 03/31/2006).

In conclusion, once again the out-performance achieved by our model SEPP Portfolio clearly supports our conviction that a somewhat contrarian approach to investing (i.e. buying more of the underperforming sectors and asset classes and selling some of those sectors and asset classes that have recently out-performed the rest of the market) is not only prudent from a (decreased) risk perspective, but can be quite profitable as well.

THE ECONOMY, THE MARKETS AND BUSINESS IN GENERAL

From an historical perspective, the markets and the overall economy (both domestically and internationally) were relatively strong throughout the first quarter of 2006, which more than likely contributed to the Fed's decision (along with Ben Bernanke, a.k.a. Alan Greenspan's replacement) to raise the Fed Funds rate twice during the most recent quarter. With these two unanimously voted upon interest rate increases, the Fed has now raised interest rates at 15 straight Fed meetings, starting back in June of 2004. **The Fed Funds rate is now at 4.75%, its highest level in five years.**

This increase in the Fed Funds rate (i.e. short term interest rates) will be reflected in higher borrowing costs (i.e. mortgages, etc.) and greater returns for lenders and savers in the near future. For example, the cash / checking / money market rates offered to clients here at Oliver Capital Management is now approximately 4.54% ...that's more than 3 times greater than it was just 2 years ago!

In my opinion, the most recent quarter point rate hike was the last "routine" decision; however, the Fed very clearly left the door open for additional interest rate increases if the potential for inflation continues to linger.

Lastly, over the past few quarters, I have begun to receive calls from clientele wondering if they should have more exposure to the International and Emerging Market asset classes. Moreover, I am also seeing the topic make more and more headlines and news-stories than in recent years. This type of media exposure causes a slight bit of concern in that it has the potential to artificially inflate an asset class's performance while it has its day (or years) in the "lime-light." While I am not necessarily convinced of these two asset class's movement one way or the other over the next few years, I simply



want you to know that it is on my radar. **I will continue to monitor the International and Emerging Market asset classes going forward and will make recommendations as I deem appropriate.** Please keep in mind two important facts: 1. over the years, the International and Emerging market sectors have historically underperformed the US markets significantly and done so with significantly more volatility (i.e. risk), and 2. they have actually been one of the best performing asset classes over the past few years, contradicting its historical trend. **Given that the International and Emerging markets have been one of the best performing asset classes over the past few years, and the fact that we take more of a contrarian approach to investment management here at Oliver Capital Management (versus following the herd), I am less compelled at this time to increase its percentage weighting in the Strategically Engineered Portfolio Program (SEPP).**

Thank you for taking the time to read through this report and please do not hesitate to call or e-mail me if you have any thoughts or questions about any of the information contained in this report, or any other aspect of your financial plan and investment portfolios.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'Mark K. Oliver'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Mark K. Oliver
President – Senior Investment Advisor



STRATEGICALLY ENGINEERED PORTFOLIO PROGRAM (SEPP) FIRST QUARTER PERFORMANCE REPORT AS OF MARCH 31, 2006

Model SEPP Portfolio Component	Weight	First Quarter 2006 Total Return	Trailing Twelve Month Average Annual Return as of 3/31/2006	One Year Average Annual Return as of 12/31/2005	Three Year Average Annual Return as of 12/31/2005	Five Year Average Annual Return as of 12/31/2005
Large Cap Portfolio	10.00%	4.21%	11.73%	4.91%	14.39%	0.54%
Mid-Cap Portfolio	20.00%	7.63%	21.62%	12.56%	21.15%	8.60%
Small-Cap Portfolio	20.00%	12.84%	24.07%	7.68%	22.38%	10.76%
International Portfolio	10.00%	9.40%	24.41%	13.54%	23.68%	4.55%
Aggregate Bond Portfolio	10.00%	-0.65%	2.26%	2.43%	3.62%	5.87%
Select Dividend Portfolio	20.00%	3.02%	8.57%	3.79%	16.86%	11.63%
Strategically Selected Portfolio *	10.00%	15.08%	6.46%	3.31%	22.79%	-0.18%
Oliver Capital Management Model SEPP Portfolio		7.50%	15.34%	7.23%	18.53%	7.28%

Index / Benchmark	Symbol	Weight	First Quarter 2006 Total Return	Trailing Twelve Month Average Annual Return as of 3/31/2006	One Year Average Annual Return as of 12/31/2005	Three Year Average Annual Return as of 12/31/2005	Five Year Average Annual Return as of 12/31/2005
S&P 500	SPX	100.00%	4.21%	11.73%	4.89%	14.37%	0.54%
Dow Jones Industrial Average	DJIA	100.00%	4.25%	8.27%	1.72%	11.16%	2.00%
NASDAQ	NASDAQ	100.00%	6.37%	18.03%	1.37%	18.18%	-2.24%
Russell 3000	RUA	100.00%	5.31%	14.28%	6.13%	15.88%	1.58%
Average of all Four (4) Major Market Indexes			5.04%	13.08%	3.53%	14.90%	0.47%

* In 2001 through 2005, the Strategically Selected Portfolios were telecommunications, technology, technology, telecommunications and then technology again respectively.
 In 2006, the Strategically Selected Portfolio is telecommunications.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. The results and conclusions made herein are not intended to recommend any specific investment or type of investment, and should not be construed as such. SEPP performance numbers contained herein are that of the Model SEPP as of the printing of this report and do not necessarily reflect that of any OCM client portfolio. All performance data above, for both the Model SEPP and Indexes, are based on Total Return which includes capital appreciation and assumes all dividends and interest are reinvested. Market returns are based upon the midpoint of the bid/ask spread at 4:00 PM Eastern time (when NAV is normally determined for most iShares), and do not represent the returns one would receive if shares were traded at other times. Before making any investment, all aspects associated with it, including, but not limited to, applicable fees, charges, expenses and tax implications, should be considered. The information and results contained herein are based upon data obtained from sources we believe to be reliable (including, but not limited to, Ibbotson Associates, Barclays Global Investors, SEI); however, Oliver Capital Management, Inc., and/or its affiliates, do not guarantee the completeness or accuracy thereof. One cannot invest directly in an index. All SEPP Portfolio components and Index performance is based upon information provided by Barclays Global Investors, N.A. and other sources. **All SEPP and Index performance returns above do not reflect management fees, transaction costs and/or expenses.**



STRATEGICALLY ENGINEERED PORTFOLIO PROGRAM (SEPP)

Performance Summary (Years 2000 through 2005)

Oliver Capital Management	2000 Total Return	2001 Total Return	2002 Total Return	2003 Total Return	2004 Total Return	2005 Total Return	Trailing 3 Year Avg. Annual Return ¹	Trailing 5 Year Avg. Annual Return ²	Trailing 6 Year Avg. Annual Return ³
Model SEPP Portfolio	15.28%	0.01%	-13.23%	33.15%	16.87%	7.23%	18.53%	7.28%	8.86%
Index	2000 Total Return	2001 Total Return	2002 Total Return	2003 Total Return	2004 Total Return	2005 Total Return	Trailing 3 Year Avg. Annual Return ¹	Trailing 5 Year Avg. Annual Return ²	Trailing 6 Year Avg. Annual Return ³
S&P 500	-13.38%	-14.88%	-23.37%	26.38%	8.97%	4.89%	11.16%	2.00%	-3.33%
Dow Jones Industrial Avg.	4.71%	-5.43%	-15.01%	28.26%	5.29%	1.37%	14.37%	0.54%	2.44%
Nasdaq	-39.21%	-21.05%	-31.53%	50.01%	8.56%	1.37%	18.18%	-2.24%	-9.68%
Russell 3000	-7.44%	-11.46%	-21.55%	31.04%	11.91%	6.13%	15.88%	1.58%	0.01%
Average of All Indexes	-13.83%	-13.21%	-22.87%	33.92%	8.68%	3.53%	14.90%	0.47%	-2.64%

1 Data From January 1, 2003 through December 31, 2005

2 Data From January 1, 2001 through December 31, 2005

3 Data From January 1, 2000 through December 31, 2005

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STRATEGICALLY ENGINEERED PORTFOLIO PROGRAM (SEPP)

Performance Detail Showing Gross Total Return of \$1,000,000 Invested in Model SEPP (Years 2000 through 2005)

Oliver Capital Management Model SEPP Portfolio	Weight	Amount	2000	2000	2001	2001	2002	2002	2003	2003	2004	2004	2005	2005
			Total Return	Dollars	Total Return	Dollars	Total Return	Dollars	Total Return	Dollars	Total Return	Dollars	Total Return	Dollars
Large Cap Portfolio	10%	100,000	-9.10%	90,900	-11.89%	80,092	-22.10%	62,392	28.68%	80,286	10.88%	89,021	4.91%	93,392
Mid-Cap Portfolio	20%	200,000	17.51%	235,020	-0.60%	233,610	-14.52%	199,690	35.62%	270,819	16.48%	315,450	12.56%	355,071
Small-Cap Portfolio	20%	200,000	11.80%	223,600	6.54%	238,223	-14.62%	203,395	38.78%	282,272	22.65%	346,206	7.68%	372,795
International Portfolio	10%	100,000	-14.17%	85,830	-21.72%	67,188	-15.64%	56,680	38.59%	78,552	20.25%	94,459	13.54%	107,249
Aggregate Bond Portfolio	10%	100,000	11.63%	111,630	8.44%	121,052	10.25%	133,459	4.10%	138,931	4.34%	144,961	2.43%	148,483
Select Dividend Portfolio	20%	200,000	24.86%	249,720	13.09%	282,408	-3.94%	271,281	30.16%	353,100	18.14%	417,152	3.79%	432,962
Strategically Selected Portfolio *	10%	100,000	56.08%	156,080	-12.77%	136,149	-38.66%	83,514	51.05%	126,147	18.70%	149,737	3.31%	154,693
Model SEPP Totals		\$ 1,000,000	15.28%	1,152,780	0.01%	1,158,722	-13.23%	1,010,410	33.15%	1,330,107	16.87%	1,556,986	7.23%	\$ 1,664,645

Index	Weight	Amount	2000	2000	2001	2001	2002	2002	2003	2003	2004	2004	2005	2005
			Total Return	Dollars	Total Return	Dollars	Total Return	Dollars	Total Return	Dollars	Total Return	Dollars	Total Return	Dollars
S & P 500	25%	250,000	-13.38%	216,550	-14.88%	184,327	-23.37%	141,250	26.38%	178,512	8.97%	194,524	4.89%	204,037
Dow Jones Industrial Avg.	25%	250,000	4.71%	261,775	-5.43%	247,561	-15.01%	210,402	28.26%	269,861	5.29%	284,137	1.72%	289,024
NASDAQ	25%	250,000	-39.21%	151,975	-21.05%	119,984	-31.53%	82,153	50.01%	123,238	8.56%	133,787	1.37%	135,620
Russell 3000	25%	250,000	-7.44%	231,400	-11.46%	204,882	-21.55%	160,730	31.04%	210,620	11.91%	235,705	6.13%	250,154
Average of All Indexes		\$ 1,000,000	-13.83%	861,700	-13.21%	747,913	-22.87%	594,535	33.92%	782,231	8.68%	848,153	3.53%	\$ 878,834

* In 2001 through 2005, the Strategically Selected Portfolios were telecommunications, technology, technology, telecommunications and then technology again respectively.

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**2006 Strategically Engineered Portfolio Program (SEPP)
 Top Twenty Holdings Report**

**LARGE CAP PORTFOLIO
 TOP 20 HOLDINGS AS OF 3/31/2006**

<u>Name</u>	<u>Ticker</u>	<u>Market</u>
1 EXXON MOBIL CORP.	XOM	NYSE
2 GENERAL ELECTRIC CO.	GE	NYSE
3 MICROSOFT CORP.	MSFT	NASDAQ
4 CITIGROUP INC.	C	NYSE
5 BANK OF AMERICA CORP.	BAC	NYSE
6 PROCTER & GAMBLE CO.	PG	NYSE
7 PFIZER INC.	PFE	NYSE
8 JOHNSON & JOHNSON	JNJ	NYSE
9 AMERICAN INTL GRP	AIG	NYSE
10 ALTRIA GROUP INC.	MO	NYSE
11 JPMORGAN CHASE & CO.	JPM	NYSE
12 CISCO SYSTEMS INC.	CSCO	NASDAQ
13 INTL BUSINESS MACHINES	IBM	NYSE
14 CHEVRON CORP.	CVX	NYSE
15 WAL-MART STORES INC.	WMT	NYSE
16 INTEL CORP.	INTC	NASDAQ
17 WELLS FARGO & CO.	WFC	NYSE
18 AT&T INC.	T	NYSE
19 VERIZON COMMUNICATIONS	VZ	NYSE
20 PEPSICO INC.	PEP	NYSE

**MID CAP PORTFOLIO
 TOP 20 HOLDINGS AS OF 3/31/2006**

<u>Name</u>	<u>Ticker</u>	<u>Market</u>
1 LEGG MASON INC.	LM	NYSE
2 PEABODY ENERGY CORP.	BTU	NYSE
3 SANDISK CORP.	SNDK	NASDAQ
4 EXPEDITORS INTERNATIONAL	EXPD	NASDAQ
5 CH ROBINSON WORLDWIDE INC.	CHRW	NASDAQ
6 COGNIZANT TECH SOLUTIONS	CTSH	NASDAQ
7 PRECISION CASTPARTS CORP.	PCP	NYSE
8 ENSCO INTERNATIONAL INC.	ESV	NYSE
9 SMITH INTERNATIONAL INC.	SII	NYSE
10 MICROCHIP TECHNOLOGY INC.	MCHP	NASDAQ
11 NOBLE ENERGY INC.	NBL	NYSE
12 VARIAN MEDICAL SYSTEMS INC.	VAR	NYSE
13 CHICO'S FAS INC.	CHS	NYSE
14 JOY GLOBAL INC.	JOYG	NASDAQ
15 OMNICARE INC.	OCR	NYSE
16 WR BERKLEY CORP.	BER	NYSE
17 COMMERCE BANCORP INC.	CBH	NYSE
18 HARRIS CORP.	HRS	NYSE
19 FIDELITY NATIONAL FINANCIAL	FNF	NYSE
20 MEMC ELECTRONIC MATERIALS	WFR	NYSE

**S&P SMALL CAP PORTFOLIO
 TOP 20 HOLDINGS AS OF 3/31/2006**

<u>Name</u>	<u>Ticker</u>	<u>Market</u>
1 OSHKOSH TRUCK CORP.	OSK	NYSE
2 NVR INC.	NVR	AMEX
3 GLOBAL PAYMENTS INC.	GPN	NYSE
4 CIMAREX ENERGY CO.	XEC	NYSE
5 RESMED INC.	RMD	NYSE
6 FRONTIER OIL CORP.	FTO	NYSE
7 JLG INDUSTRIES INC.	JLG	NYSE
8 SHURGARD STORAGE	SHU	NYSE
9 COMMERCIAL METALS CO.	CMC	NYSE
10 HELIX ENERGY SOLUTIONS	HELX	NASDAQ
11 CERNER CORP.	CERN	NASDAQ
12 RESPIRONICS INC.	RESP	NASDAQ
13 MASSEY ENERGY CO.	MEE	NYSE
14 MANITOWOC CO.	MTW	NYSE
15 IDEX CORP.	IEX	NYSE
16 IDEXX LABORATORIES INC.	IDXX	NASDAQ
17 LANDSTAR SYSTEM INC.	LSTR	NASDAQ
18 NEW CENTURY FINANCIAL	NEW	NYSE
19 RELIANCE STEEL & ALUMINUM	RS	NYSE
20 UNIT CORP.	UNT	NYSE

**INTERNATIONAL PORTFOLIO
 TOP 20 HOLDINGS AS OF 3/31/2006**

<u>Name</u>	<u>Ticker</u>
1 BP PLC	BP/
2 HSBC HOLDINGS PLC	HSBA
3 TOYOTA MOTOR CORP.	TM
4 GLAXOSMITHKLINE PLC	GSK
5 TOTAL SA	FP
6 VODAFONE GROUP PLC	VOD
7 NOVARTIS AG	NOVN
8 MITSUBISHI UFJ FINANCIAL GROUP INC.	MTSBF
9 ROYAL DUTCH SHELL PLC-CLASS A	RDSA
10 NESTLE SA	NESN
11 UBS AG	UBSN
12 ROYAL BANK OF SCOTLAND GROUP PLC	RBS
13 ROCHE HOLDING AG	ROG
14 SANOFI-AVENTIS	SAN
15 BANCO SANTANDER CENTRAL HISPANO	BSTNF
16 ROYAL DUTCH SHELL PLC-CLASS B	RDSB
17 NOKIA OYJ	NOK1V
18 ASTRAZENECA PLC	AZN
19 ENI SPA	ENI
20 MIZUHO FINANCIAL GROUP INC.	MZHOF



**2006 Strategically Engineered Portfolio Program (SEPP)
 Top Twenty Holdings Report**

**AGGREGATE BOND PORTFOLIO
 TOP 20 HOLDINGS AS OF 3/31/2006**

<u>Name</u>	<u>Credit Rating (S&P)</u>
1 FNMA TBA 30YR	AAA
2 UNITED STATES TREAS	TSY
3 UNITED STATES TREAS	TSY
4 FNMA TBA 30YR	AAA
5 FHLMC GOLD TBA 30 YR	AAA
6 UNITED STATES TREAS	TSY
7 FEDERAL HOME LN MTG	TSY
8 UNITED STATES TREAS	TSY
9 FEDERAL NATL MTG ASS	TSY
10 FHLMC GOLD TBA 30 YR	AAA
11 UNITED STATES TREAS	TSY
12 FNMA TBA 30YR	AAA
13 FHLMC GOLD TBA 30 YR	AAA
14 FNMA TBA 15YR	AAA
15 UNITED STATES TREAS	TSY
16 FEDERAL HOME LN MTG	TSY
17 UNITED STATES TREAS	TSY
18 FHLMC GOLD TBA 15YR	AAA
19 FEDERAL NATL MTG ASS	TSY
20 FHLMC GOLD TBA 15YR	AAA

**SELECT DIVIDEND PORTFOLIO
 TOP 20 HOLDINGS AS OF 3/31/2006**

<u>Name</u>	<u>Ticker</u>	<u>Market</u>
1 ALTRIA GROUP INC.	MO	NYSE
2 BANK OF AMERICA CORP.	BAC	NYSE
3 PNC FINANCIAL SERVICES	PNC	NYSE
4 DTE ENERGY CO.	DTE	NYSE
5 COMERICA INC.	CMA	NYSE
6 PINNACLE WEST CAPITAL	PNW	NYSE
7 FIRSTENERGY CORP.	FE	NYSE
8 MERCK & CO. INC.	MRK	NYSE
9 FPL GROUP INC.	FPL	NYSE
10 UNITRIN INC.	UTR	NYSE
11 KINDER MORGAN INC.	KMI	NYSE
12 KEYCORP	KEY	NYSE
13 AT&T INC.	T	NYSE
14 NATIONAL CITY CORP.	NCC	NYSE
15 BRISTOL-MYERS SQUIBB CO.	BMJ	NYSE
16 LINCOLN NATIONAL CORP.	LNC	NYSE
17 AMSOUTH BANCORP	ASO	NYSE
18 WASHINGTON MUTUAL INC.	WM	NYSE
19 PPG INDUSTRIES INC.	PPG	NYSE
20 BELLSOUTH CORP.	BLS	NYSE

**US TELECOMMUNICATIONS SECTOR PORTFOLIO
 TOP 20 HOLDINGS AS OF 3/31/2006**

<u>Name</u>	<u>Ticker</u>	<u>Market</u>
1 VERIZON COMMUNICATIONS	VZ	NYSE
2 AT&T INC.	T	NYSE
3 SPRINT NEXTEL CORP.	S	NYSE
4 BELLSOUTH CORP.	BLS	NYSE
5 ALLTEL CORP.	AT	NYSE
6 NII HOLDINGS INC.-CLASS B	NIHD	NASDAQ
7 CENTURYTEL INC.	CTL	NYSE
8 BCE INC.	BCE	NYSE
9 QWEST COMMUNICATIONS	Q	NYSE
10 NEXTEL PARTNERS INC.-CLA	NXTP	NASDAQ
11 US CELLULAR CORP.	USM	AMEX
12 LEUCADIA NATIONAL CORP.	LUK	NYSE
13 CITIZENS COMMUNICATIONS	CZN	NYSE
14 NTL INC.	NTLI	NASDAQ
15 TELEPHONE & DATA SYSTEM	TDS	AMEX
16 TELEPHONE & DATA SYSTEM	TDS/S	AMEX
17 AMERICAN TOWER CORP.-CL	AMT	NYSE
18 LEVEL 3 COMMUNICATIONS II	LVL3	NASDAQ
19 CINCINNATI BELL INC.	CBB	NYSE
20 CROWN CASTLE INTERNATIC	CCI	NYSE



SEATTLE POST-INTELLIGENCER

Rebalancing tedious, but it works

Saturday, March 4, 2006

By **CHET CURRIER**

BLOOMBERG NEWS – Highlighting by Oliver Capital Management, Inc.



A **TEDIOUS** old housekeeping procedure in investing is being transformed right before our eyes.

It is coming out of its chrysalis as a sophisticated means of optimizing risk-adjusted returns. All it needs now is a sexier name.

To date, this maneuver has been known as portfolio rebalancing -- a label that has helped earn it the status of both useful tool for asset allocators and sure-fire insomnia cure. There is no "wow" in rebalancing.

The perception may be starting to change, thanks to boosts from the likes of **Vanguard Group, the mutual-fund giant in Valley Forge, Pa.**, and institutional money manager Grantham, Mayo, Van Otterloo & Co. in Boston.

"Portfolio rebalancing is a powerful risk-control strategy," Yesim Tokat, a Vanguard researcher, writes in a new report.

"To our minds, it also improves long-term returns," Ben Inker, director of asset allocation at GMO, says in a Web site commentary.

Surely an appropriately exciting label can be devised for something this important. In a few minutes of staring out the window, I came up with **SCORE**, for "strategic control of risk exposure." In the likely event that doesn't impress you, a marketing department somewhere ought to be able to dream up a better choice.

One of the basic idea's many virtues is simplicity. In an investment plan using, say, mutual funds, it describes the process of periodically moving money among funds to restore one's original allocation of assets.

Say I decided five years back to divide \$200,000 in stock-market money between the Vanguard Growth Index and Value Index mutual funds. Five years later, the sum in the Value Fund would have grown to \$112,590, while my Growth Fund holdings declined to \$93,920. To keep to my original asset allocation, I would rebalance now by taking \$9,335 out of Value and putting it in Growth.



Five years is a long time to wait. If I were serious about rebalancing, I should have gone through this exercise at least once a year. If I were obsessive-compulsive about it, or were investing professionally on a larger scale, I might do it every week, every hour, or even every minute.

Most likely, this would have cost me some investment gains, given that value stocks have beaten growth pretty consistently over those five years.

I shouldn't mind that if I truly want to manage risk as well as the reward. That's a particularly worthy aim, some would say, because stock- market reward doesn't readily lend itself to being managed or controlled anyway, whereas risk does.

Says Inker: "Given that the risk of overpaying for an asset is so deadly and the benefits of underpaying can be so material, rebalancing has the substantial benefit of automatically moving your portfolio away from asset classes that have done well, and are therefore at more risk of being overvalued, and towards asset classes that have done poorly, and are therefore most likely to be undervalued."

Consider, also, rebalancing's value as a discipline to keep investors' emotions from running away with them. It serves as an antidote to one of the most common money-management failings -- chasing past performance. In addition, it works to dispel the siren-song misconception that the goal of investing is to make as much money as possible as fast as possible.

Says Tokat at Vanguard: "Commitment to a long-term rebalancing strategy requires absolute clarity about goals and risk tolerance." Ah, there's the rub. In order to rebalance to a coherent asset-allocation plan, I must have a coherent asset allocation plan to begin with.

An alternative that may sound like more fun is "tactical rebalancing," in which one shifts money around according to one's feelings about which areas of the market might get hot next. On closer inspection, sorry to say, this is merely market-timing dressed in different clothing.

If market-timing worked on any consistent basis, nobody would ever have to think about anything as boring as rebalancing. It doesn't, which is why we do.

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