

Markets

ESTATE

Planning Professionals



Another Good Year for Upgraders

Despite a significant summer correction and choppy market leadership, 2006 turned out to be a very profitable year, and Upgraders sailed ahead. The average U.S. diversified stock fund returned 12% in 2006, double the gains of 2005. But again, for the fourth-straight year, international funds were the place to be. International stock funds gained 24% on average, double the domestic fund average return.

As always, attempts at forecasting added little or no value and markets confounded the pundits. At the beginning of last year when stocks were stagnating and the market appeared directionless, most “experts” expected mediocre returns. A pervasive forecast back then called for the end of small-cap leadership and a rotation from value to growth. In fact, value funds had a bang up year and small-caps held their own. Luckily, Upgraders follow a disciplined approach, which alleviates the need to forecast. We simply align our portfolios with what’s delivering results.

Early in the year, investor concerns over rising interest rates and oil prices led to an 8% drop in the S&P 500 index between May and June. Fear spread across the globe and the EAFE (Europe, Australia and the Far East) index lost 10% of its value during those months, while emerging markets lost 25%. Then oil prices backed off from their mid-summer highs and, after two years of interest rate hikes, the Fed left rates unchanged. After an ugly May and June, global markets resurged in the second half and stocks rose steadily through December.

Among domestic indexes, the large-cap DJIA finished first with an 18.9% gain, while the more diversified S&P 500 was up 15.7%. The Russell 2000 small-cap index gained 17%, but small-cap leadership was inconsistent as large-caps began to resurface and the performance gap narrowed. After six years of out-performance by small-company funds, large-caps finally came back into vogue, but only certain types. Large-cap value funds beat their smaller counterparts, but large growth and core funds still lagged.

The growth oriented Nasdaq Composite climbed 9.5%. Overall, value investment styles outperformed growth in all size categories in 2006, as they have since 2000, but this too was inconsistent.

Various sector and industry strength shifted as well. Utilities and telecom were among 2006’s biggest winners in specialized fund categories. Utility funds jumped 25%, helped by their abundant dividend yields, while telecom funds chalked up an average 21% thanks to a turnaround in that industry. Real estate funds again topped the charts, gaining 34% for the year.

Among internationals, emerging markets funds led the way with average gains of 32%. But strong performance last year came with a heavy dose of volatility as aggressive funds fell sharply in the summer before rebounding.

Latin American funds extended their winning streak to a fourth straight year of tremendous gains. For the first time in the decade, Asia/Pacific funds edged out Latin American funds, but both soared more than 40% for the year. China funds returned an average 54% last year, while Japanese funds, which were among the top performers in 2005, lost 2% on average.

The weakening dollar versus the Euro sharply boosted the value of euro-denominated securities to U.S. investors. Funds concentrated in Europe, such as ishrs MSCI EMU (EZU) were top performers.*

WISHING YOU A HAPPY NEW YEAR!!

Thank you for your business...

P. Michael Valley II

*Disclosure: Whenever you invest, you are at risk of loss of principal as the market does fluctuate. Past performance is not indicative of future results. Market Leadership numbers are provided by DAL Investments. You may obtain additional information from www.noloadfundx.com. Wall Street Financial Group, Inc. is not responsible for any information obtained from this website.

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