WealthHealth
Personal Wealth Management

2006 Mid-Year Review

5 Becker Farm Road
Roseland, NJ 07068

Tel: 973.535.9577
Fax: 973.535.9777

www.wealthhealthllc.com
info@wealthhealthllc.com

In almost all asset markets, the second quarter of 2006 saw a significant retreat from the gains realized through May 2006. This recent retreat of the markets can be attributed to three main factors: inflation, interest rates, and economic growth.

In an effort to stimulate the economy after the bear market of the early 2000's, former Fed Chairman Alan Greenspan loosened monetary policy by lowering interest rates, which created excess liquidity and sent prices rising in most financial assets. While stimulative, these actions can also cause problems, as unwanted inflation can rear its ugly head after some time. With continued increases in energy prices and inflation fears imminent, the Fed began putting the breaks on the economy in June 2004 through interest rate increases. In an effort to slow down the economy amidst these fears of inflation, the Federal Reserve recently completed its 17th consecutive rate hike, leaving the Fed Funds rate at 5.25%.

Higher interest rates remove liquidity from our economy and generally cause downward pressure on assets. Why? Rising rates make it harder for home buyers to borrow and make mortgage payments, which affects housing sales and pushes home prices lower. In addition, rate increases can cause bond values to decline as yields on comparable debt cause your bonds to be worth less. Finally, equities lose value for various reasons, including higher applicable discount rates and more competitive alternative investments such as cash and other short-term investments.

Index	2006 2nd QTR	2006 Year-To-Date	3-Year Annualized	5-Year Annualized	10-Year Annualized
Standard & Poor's 500	-1.44%	2.71%	11.22%	2.49%	8.32%
Russell 1000	-1.66%	2.76%	12.04%	3.12%	8.56%
Russell 3000	-5.02%	8.21%	18.70%	8.50%	9.05%
Russell 2000	-1.98%	3.23%	12.56%	3.53%	8.52%
MSCI EAFE	0.70%	9.40%	23.94%	10.02%	0.64%
MSCI Emerging Markets	-5.11%	5.81%	30.98%	18.35%	4.08%
Lehman Aggregate Bond	-0.08%	-0.72%	2.05%	4.97%	6.22%

With respect to the equity markets, continued increases in interest rates exacerbated the downward pressure on stocks by removing the inexpensive borrowing rates. More costly borrowing caused many larger investors to sell off positions during the 2nd quarter of 2006, which contributed to the declines.

The growth of the US economy slowed from 5.6% in the first quarter of 2006 to 3.0% for the second quarter, as interest rates slowed housing sales and prices across the country. This slow down in growth along with inflation fears, increasing energy prices, and rising rates have many investors bearish on the market and anticipating the slowdown of the economic cycle. While some of the aspects do appear to signal this downturn, past slowdowns were not all caused by the same factors.

Although the yield curve remains slightly inverted with higher short-term rates, longer term bond rates are not yet signaling sustained long-term inflation. With the expected increases in rates by the Fed likely to cease in the near future along with the recent drop off in commodity prices, increased productivity, and no significant labor cost increases, inflation appears to be under control.

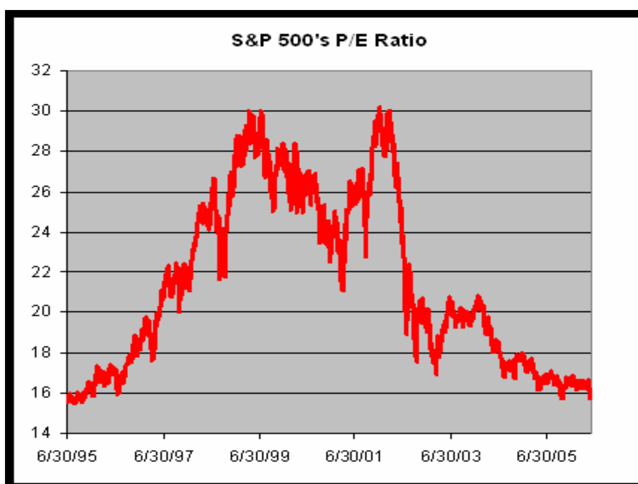
5 Becker Farm Road
Roseland, NJ 07068

Tel: 973.535.9577
Fax: 973.535.9777

www.wealthhealthllc.com
info@wealthhealthllc.com

Companies remain fundamentally strong, despite the economic headwinds. Many companies, especially the mega-cap stocks, are trading at attractive valuations, while the P/E ratios for most companies remain around their long-term averages. Expected increases in corporate profits remain in the coming quarters along with still large corporate cash balances (in excess of $2 trillion). With potential interest rate declines, many believe these cash balances may spur business investment which can offset depressed consumer spending.

Along with Fed policy, geopolitical concerns have been the primary catalyst for the recent volatility of the markets. The nuclear endeavors of North Korea and Iran and the recent Israeli-Lebanon conflict have been added to the ongoing war in Iraq and continued threats of terrorism at home. While these issues cause great concern for today's investors, the market is no stranger to these types of events. Such occurrences produce short-term reactions which should not derail a long-term investment strategy.



From www.bigpicture.com

What many feel may occur in the short-term in light of the recent geopolitical and economic events, is a flight to quality. Whether it be large high quality companies trading at attractive valuations or US Treasuries, these assets may be safer havens for investors in the coming quarters. Across Wealth Health's equity portfolios we see this quality. Matrix Large Cap currently invests the majority of its portfolio in large/mega cap stocks with high expected profits and contracted P/E's, as does our large cap core manager Abner, Herman, & Brock. The value oriented Schafer Cullen High Dividend portfolio continues to invest in companies trading with low P/E's, high dividends, and sound balance sheets. All of these managers are poised to add value to your portfolio should a flight to quality occur. Finally, a recent addition to our portfolios, The Merger Fund, continues to take advantage of absolute returns through its merger-arbitrage strategy. With corporate balance sheets flush with cash and M&A activity at an all time high, The Merger Fund should also continue to add significant value to portfolios for the remainder of the year.

We cannot deny the challenges that exist for the markets in 2006. Energy prices, inflation, interest rates, and world events continue the bad weather we have discussed in past commentaries. However, in light of the market threats, we believe opportunities remain in this volatile environment. A clearer Fed policy, attractive valuations, contained inflation, and growing corporate profits offer significant opportunities for your portfolio.

When markets get turbulent, we believe, as always, the best policy is ensuring that your asset allocation is in line with your long-term goals. We recognize that each of our clients is unique. That is why we customize your portfolio for your individual needs. Our most important objective is the preservation of capital and the fulfillment of your income needs.

We thank you for your trust and confidence and as always welcome your feedback.