

MARKET COMMENTARY

“CREATING EFFICIENT STRATEGIES TO BUILD AND PRESERVE WEALTH”

Pacific Asset Management Group



Securities offered through First Allied Securities, Inc.
Member NASD/SIPC
Clearing through Bear Stearns Securities, Corp.

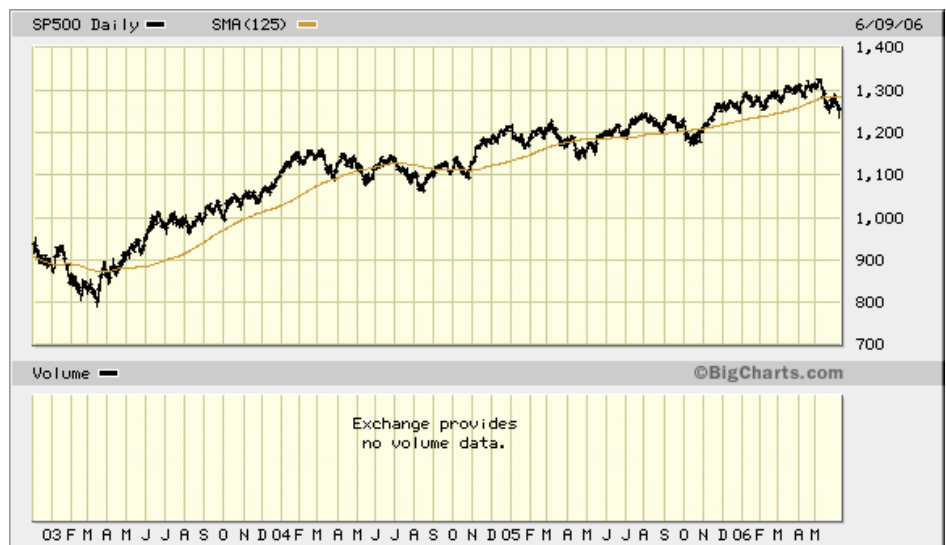
Pacific Asset Management Group
3130 Crow Canyon Place, Suite 425
San Ramon, California 94583

Phone: 800-344-7060
www.pacificassetmgmt.com

Does the Current Decline In Stocks Constitute a Buying Opportunity

It's hard to believe just a month ago the stock market as measured by the Standard and Poors 500 was trading at highs not seen in over 5 years. Why then the recent correction? To put it simply, the market runs until it's ahead of itself, out of breath, then it stops to catch up. In other words, when money is thrown at stocks especially in hot markets as we saw in the first quarter of this year, it has a tendency to push prices beyond underlying economic fundamentals. Unless the economy rises to justify these inflated prices, stocks are bound to drop back inline. In our last commentary we warned investors that "Historically in 6 of the last 11 years stocks in general, have seasonally traded lower from April through as late as October" and "investors would be wise to exercise some caution or use any market dips as entry points." The question is, does the current market retrenchment constitute a large enough decline to create a buying opportunity? Our answer is yes, with caution. Of course, we cannot predict the future, nor would it be prudent to believe we could do so. However, we believe there are several factors that help to support our opinion. They include:

1. How does the current correction stack up in terms of duration and magnitude to corrections experienced in the most recent business cycle? Since 11/02 there have been 10 market declines of at least 3%. The declines on average have lasted 31.5 days and dropped 5.76%. This is the 39th day of the current correction and so far the S&P 500 is down 5.64% from its' high on 5/9/06.



About:

Pacific Asset Management Group

We are registered investment advisors headquartered in the San Francisco-Silicon Valley, Bay Area. Pacific Asset Management Group develops and manages portfolios for individuals, trusts, estates, and retirement funds. Each portfolio is positioned to take into consideration our clients current needs, long-term goals, risk profile and other more personal issues including economic and social values. Our ongoing reviews and personal meetings help us to make adjustments and take advantage of trends in the financial markets while at the same time striving to keep our clients on a steady, long-term course towards their goals.



Pacific Asset Management Group
3130 Crow Canyon Place, Suite 425
San Ramon, California 94583

Phone: 800-344-7060
www.pacificassetmgmt.com

2. Is the current decline the start of a bear market or simply a short term pause in the current bull market? If the volume of auto traffic could be used as an indicator, those who attempted to leave town with their family on Memorial Day would answer the latter. Look around you, businesses are growing and the unemployment rate is at 4.6%, the lowest in years. The Bureau of Economic Analysis reported that profits of non financial companies rose 29.3% in the first quarter. The largest yearly advance in more than three years. Though things may moderate a bit, we think the current positive business has at least a few more years to go.
3. Will the Federal Reserve raise rates to the point of stalling the economy and housing market? We don't believe so. There are a great number of very intelligent men and women on the Federal Reserve Board whose role is to protect our economy. If you read the statements and minutes from their meetings you will notice that they are quite concerned about the effects their actions create and will likely continue making slow measured adjustments as needed. On the flip side we are quite please with the new opportunities in preferred stocks and other fixed income vehicles that higher interest rates are creating.

Our role as advisors is to help you look for ways to increase the stability and manage the risk associated with investing. This is why we recommend that clients consider purchasing equities on market dips. During bull markets these declining periods provide good entry points when stocks are more reasonably priced and offer less downside risk especially in comparison to purchasing them during short term market highs. The chart on page 1 provides a good illustration. We define a dip in the markets as a point where the index (SP500 Daily) trades below its 125 day moving average (SMA125). For example, purchases made during the correction of April / May 2005 provided a good opportunity. Warren Buffett once said "Be fearful when others are greedy and greedy when others are fearful." For those fully invested remember that during times like these, diversification is your best defense and history has shown in many cases your best offense as well.

(June 13, 2006)