

MARKET COMMENTARY

“CREATING EFFICIENT STRATEGIES TO BUILD AND PRESERVE WEALTH”

Our Take on the Markets in 2007

Pacific Asset Management Group



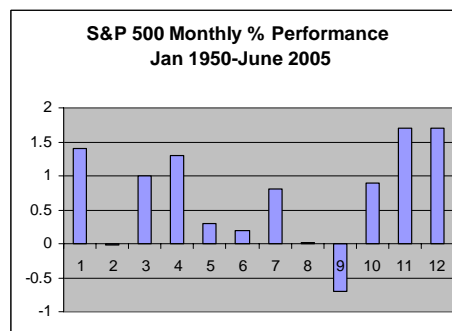
Securities offered through First Allied Securities, Inc.
Member NASD/SIPC
Clearing through Bear Stearns Securities, Corp.

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

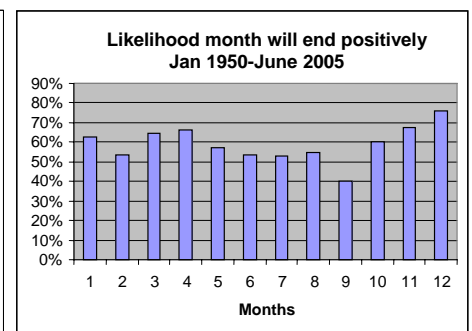
Phone: 800-344-7060
www.pacificassetmgmt.com

What a year! Despite expectations for moderate growth in the 7% range for 2006, both the Dow Jones and the Standard and Poors 500 closed the period with gains in excess of 14%. Although the year ended with a rosy conclusion the markets didn't rise convincingly above the breakeven point until July 21st and September 14th for the more aggressive NASDAQ stocks. Spikes in oil prices and interest rates along with declines in home sales contributed to much of the anxiety last year and like a pendulum swinging, should continue to influence the direction of our economy and financial markets in 2007. The question is which way will these factors swing next?

A consensus of economists and forecasters polled by BusinessWeek for their year end special edition, believe once again, after offsetting likely positive and negative scenarios the economy will “steadily improve in 2007” and the S&P 500 index will be up just over 7% by year end. They believe that the top sector in 2007 will be technology. In 2006 technology was also recommended but advances in the sector did not materialize partly due to Microsoft's unexpected delay in rolling out their new Vista operating system. Microsoft's delay is an example of what Donald Rumsfeld would call an “unknown unknown” which last year also included such things as the war in Lebanon and uncertainty over the nuclear issue with Iran. Undoubtedly, new unknowns will appear on the horizon. These may include a decline in home sales as winter storms make their way across the nation. Reverberations from the execution of Saddam Hussein or the possibility that Turkey will invade Iraqi Kurdistan (if the planned 2007 referendum on Kirkuk is not in Turkey's favor). If any one of these events happens during a seasonally weak month in the markets the effects could be heightened. For example, in 2006 oil prices surged to record highs in August, a month that is often historically the third weakest of the year.



(Stock Trader's Almanac 2006)



The good news is the underpinnings of our economy should again be strong enough to overcome many of the possible challenges we will face in 2007. Additionally, once the new Vista operating system is rolled out it will likely trigger a new round of hardware and software sales as companies and households shift to the new version of Windows. Computer manufacturers and

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.pacificassetgmt.com

chip makers will use the rollout to generate demand for new laptops and desktops. Software makers will launch new versions of existing products.

Regarding the tripartite of oil prices, interest rates, and housing we see the following. First, the International Energy Agency projects that oil demand will only grow by 1.7% in 2007 and that demand could be revised downward if the U.S. economy moderates as many predict. Secondly, mortgage rates have currently dropped to their lowest levels in months and many forecasters do not see them rising substantially above 6%. Combined with increasing consumer income and job growth this could keep enough demand in the housing market to allow the overhang in inventory to be worked out at a gradual pace. If you do the arithmetic and factor in the current size of the housing market, the decline in sales will likely only pull 1% off GDP in 2007 and should leave a number of industries unscathed and the economy on track.

To be sure, there are risks that may cloud this rosy picture but it is important to point out that 2007 is a pre-presidential election year and historically these years have been good years for stocks. Statistically, from 1833 through 2001 the total gain in all pre-election years was 457.6% compared to the total gain in all election years being only 288.3%.

	Post Elect Year	Mid Term Year	Pre-Elect Year	Elect Year
Total % Gain	67.9%	159.7%	457.6%	288.3%
Avg. % Gain	1.6%	3.7%	10.6%	6.7%
# Up Years	19	25	32	29
# Down Years	23	18	11	14

(Stock Trader's Almanac 2006)

The end of January is often a good time to re-balance your portfolio

After great years in the markets like 2006 or 1999, it is often the tendency for people to pour more of their savings into stocks. However, when it comes to investing it is often more important to sit down and re-balance your portfolio back to your original framework or target allocation. This can often mean cutting back on stocks which can seem incredibly counter intuitive. This forced rebalancing discipline helps keep your portfolio in line with your appropriate level of risk and may also boost returns in the long run as you purchase out of favor securities at times when they are attractively priced. Comparing the Vanguard S&P 500 Index fund to an annually balanced portfolio we found that investors would have been substantially better off with the balanced portfolio. This is important to note because at the end of 1999, six of the nine components of the balanced portfolio had returns that did not exceed the S&P 500 and would have been out of favor by most investors.

\$100,000 invested from 12/31/99 – 11/30/2006

	Cumulative Return	Best 3 Yrs	Worst 3 Yrs	Final Value
S&P 500	5.93%	17.07%	-16.14%	105,928
Bal. Port.	71.51%	20.53%	-4.92%	171,506

(Balanced Portfolio: 60% U.S. Stocks (6% VIGRX, 8% VFINX, 6% VIVAX, 20% VIMSX, 20% NAESX), 10% International Stocks (10% VWIGX), 5% Real Estate (5% VGSIX), 25% Fixed Income (20% VWESX, 5% VFISX). S&P 500 (100% VFINX). Past performance does not guarantee future results. Illustrations do not include transaction costs, management fees or tax expenses. (Morningstar Principia used for analysis)

This document is prepared for general circulation and is for informational purposes only. It is not intended as an offer or solicitation for the purchase or sale of any financial instrument or service. All data, recommendations, opinions and other information are not warranted as to completeness or accuracy and are subject to change without notice. Any comments or statements made herein do not necessarily reflect those of First Allied Securities, Inc., its subsidiaries or affiliates. The views expressed are the views of advisors of Pacific Asset Management Group only and are subject to change based on market and other conditions.