

Second Quarter Expectations

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

With the first three months of 2006 behind us, this year is living up to our expectations. The stock market in general as measured by the Standard and Poors 500 is up more in this first quarter than any other first quarter in the past six years and on track for a fourth straight year of equity gains after the brutal bear markets of 2000 through 2002. We believe that there are a number of strong underlying forces propelling the economy today and these influences will continue to push the financial markets higher as the year progresses. These forces include: A robust job market, relatively low interest rates, and an accelerating corporate capital spending. While there's nothing wrong with being optimistic, prudent investors should ask what could disrupt this view, and more importantly, how can they modify their portfolios to cushion any potential downside. The most serious concern, barring an escalation of the tensions in Iran and Iraq, is that the Federal Reserve overextends their interest rate increasing cycle. Over the last decade the Federal Reserve, on a number of occasions, has cleverly used ambiguity in lieu of actually shifting interest rates as an effective means of nudging financial markets. The most famous of course was the “irrational exuberance” comments of 2000. Our concern is that though the Federal Reserve is unlikely to raise rates much further, for fear of hurting the housing market, they maintain a strong bias towards raising rates that unnerves the stock markets. We believe two events could tip the scales in this direction and create a short term soft patch in equities. First, stronger than anticipated growth in the economy (which we believe is highly likely) and second, short term increases in oil prices appear to be on the horizon with the June 1st start of the summer driving season and official hurricane season. The saving grace here is that it is statistically unlikely New Orleans with its massive oil infrastructure will suffer another direct hit this year. Also after being burned so badly last year, the President will likely be more willing than ever to pump an unimaginable amount of simulative aid to any effected area. Again, we reiterate these are “potential” concerns. A more probable outcome is that the Federal Reserve will astutely be able to guide our economy higher while at the same time keeping inflation under control and the financial markets from overreacting.

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

Equities

If our projections are correct 2006 could be a very good year for equities. This analysis is based on the simple notion that over the long run stock prices closely track corporate profit growth. Currently, corporate profits are increasing. One simple reason for this is what we have coined the “corporate Walmart effect,” basically because of the advancements in technology, productivity and transportation, companies can essentially shop anywhere in the world for the cheapest labor and materials. This is essentially keeping a lid on costs and if you combine these savings with robust growth in overall sales, corporate financial statements will look better than ever in the months ahead. Another factor that encourages us is that we believe technology stocks will benefit from the rollout later this year of Microsoft’s long awaited new windows operating system called “Vista.” This could usher in a broad computer and software replacement cycle. In the short run it is important to note that historically in 6 of the last 11 years stocks, in general, have seasonally traded lower from April through as late as October. With this said investors would be wise to exercise caution or use any market dips as entry points.

Fixed Income

Because the “corporate Walmart effect” described above, is essentially keeping inflation under control, we believe that the Federal Reserve will be able to limit the amount of any future rate increases. With this said, we believe we are nearing a point when investors can start to look at shifting assets into longer maturing higher yielding bonds and certificates of deposit. The only fear here is that as Europe and Japan have started to raise interest rates, this could cause the amount of foreign investment into U.S. Bonds to decrease and cause the U.S Treasury to raise rates to entice buyers to fund our ever growing budget deficits. Our hope is that with an election season approaching, politicians will finally gain some sense of fiscal responsibility and actually cut waste and spending, though admittedly this is unlikely.