

December 31, 2006

2006 Year End Review

2006 can be broken down into two distinct halves: the first half of the year was marked by rising energy prices, inflation fears, and a stock market that gave up its gains at any bad news; and the second half of the year that was marked by falling energy prices, a rising bond market, and a stock market fueled by strong earnings and a general sense of economic optimism. When all was said and done, 2006 was a good year for stock investors. The bond market also had its best year since 2002 as interest rates peaked for this cycle.

This was the fourth straight year of positive gains for the stock market since the end of the bear market in 2002. This bull market currently ranks as the fourth longest in terms of duration since the 1920's. While it may seem that this bull market is getting old, remember that bull markets do not die of old age. They die from any number of forces that impact the ability of businesses to create wealth. Since 2002 operating earnings for the S&P 500 have risen more than 200%. This, ultimately, is what drives stock prices higher and is the reason why the stock market can continue to post gains without stocks becoming expensive as they were in the late 1990's.

The obvious question for the upcoming year is whether stocks can continue to rise. While unforeseeable events can always happen, we believe conditions are favorable for continued stock gains. Economists are about evenly split between those expecting the Federal Reserve to begin cutting interest rates and those expecting the Fed to start raising rates once again. This is generally a sign that the Fed is doing a good job in keeping the economy balanced between inflation and recession. We have seen strong job growth despite a huge slowdown in housing construction. This housing slowdown has helped ease inflation fears despite strong job creation and wage increases. While some are predicting the Fed will lower interest rates, we feel this is unlikely, especially in the first half of the year. We expect interest rates to remain steady until we get a clearer picture of where the economy is headed.

2007 is also the year that we here at Wabash Capital will celebrate our tenth year in business. From humble beginnings, we now help advise over one thousand clients with their investments across our various lines of business. We are excited about the future and feel that the best is yet to come and look forward to continuing to work with each of you. Please let us know if you would like to receive an updated copy of our Form ADV, which is on file with the SEC.

Wabash Capital