FUHRMAN MANAGEMENT ASSOCIATES, INC.
602 Office Center Drive, Suite 115
Fort Washington, PA 19034
www.investab.com 215.619.4000

April 2006

INVESTMENT COMMENTARY

Market Review – *Even more of the same…and that's a relatively good thing!* As in each of the past two quarters, stock market returns were generally strong, especially foreign stocks, and bond market returns were lackluster. On March 30, the National Bureau of Economic Research released final statistics for the fourth quarter 2005. Despite the drag of high energy prices, rising interest rates, and the horrific hurricane season, Gross Domestic Product grew by +1.7%[1]. Corporate profits rose +16.4% for 2005 and +21.0% for the fourth quarter. Equity markets benefited from strong corporate profit growth, continued economic growth, benign inflation[2], and historically low interest rates.

Comparative Performance Indices Total Return for periods ending March 31, 2006[3]		Quarter	Year	3-Year Average Annual Return
U.S. Stocks	Russell 3000 Index	+5.3%	+14.3%	+19.1%
Foreign Stocks	MSCI EAFE Index	+8.8%	+21.5%	+28.1%
Taxable Bonds	Lehman Brothers Aggregate Bond Index	-0.7%	+2.3%	+2.9%
Municipal Bonds	Lehman Brothers Municipal Bond Index	+0.3%	+3.8%	+4.1%
The indices above are representative of investment asset classes. The Lehman Brothers Aggregate Bond Index is composed of U.S. Treasury, U.S. government agency, corporate bond, and mortgage-backed securities. The Lehman Brothers Municipal Bond Index is composed of general obligation (GO) and industrial revenue bonds issued by state and local governments. The Russell 3000 Index is composed of the 3000 largest U.S. companies based on total market capitalization, representing approximately 98% of the investable U.S. equity market. The Morgan Stanley Capital International Europe, Australia and the Far East (MSCI EAFE) Index is a widely followed group of stocks from 20 countries, excluding the U.S. It is not possible to invest directly in an index.				

In the bond market, the yield curve remained essentially flat despite the Federal Reserve Board raising short-term rates another ½%. February saw the return of the 30-year U.S. Treasury bond as the U.S. Treasury conducted its first 30 year bond auction since 2001. Demand was extremely strong, resulting in the lowest ever 30-year yield of only 4.5%. The bond market continued to express confidence in the Fed's ability and commitment to controlling inflation. However, bond market returns were mostly flat in the face of gradually increasing bond yields.

Many indicators are consistent with a glut of global liquidity, i.e. readily available capital, as espoused by the new Fed chairman, Ben Bernanke:

- Rock bottom 30-year U.S. Treasury bond yields of 4½% reflect tremendous demand from foreign governments and U.S. institutions in need of safe, long duration assets.

- Increasing corporate profits, especially from foreign operations, have been fueling share repurchases, rising dividends, acquisitions, or simply cash-rich balance sheets.

[1] Bear Stearns expects first quarter 2006 GDP growth of 4%.
[2] Bear Stearns expects 2006 core CPI to rise moderately to 2.7%.
[3] Data from Lipper and WSJ Market Data Group as published in the Wall Street Journal, April 4, 2006.

- Private equity funds of more than $10 billion are no longer uncommon. To efficiently deploy such huge sums, managers are often purchasing entire public companies and complete portfolios of real estate, timber, or other assets.

- Hedge funds, now with an estimated $1.5 trillion under management, are now competing with private equity and venture capital funds to finance private companies[4].

With so many liquid assets chasing a finite set of investment opportunities, returns to capital are likely to fall below historical norms…or worse!

Market Outlook – With capital plentiful and interest rates still relatively low across the entire maturity structure, our expectation of *low return* markets continues. Over the next several years, we expect low single digit returns from fixed income (bonds) and high single digit returns from equities (stocks). Risks to a low return outcome include the following:

- Geopolitical events – the ever-present possibilities of terrorism, energy supply disruptions, and war would each have severe consequences for the markets and for the global economy.

- Direction of capital flows into real estate assets - continuing inflows suggest moderating price appreciation, while outflows could become powerful drivers of equity appreciation.

- Reduction/reversal of the large U.S. capital account surplus – the balancing side of the large U.S. current account deficit could be reduced due to foreign attitudes toward the US dollar, expectations of rising U.S. inflation, and/or protectionist reactions.

Having just completed a strong quarter for stocks and with the yield curve just starting to reacquire its normal positive slope, our portfolio management posture has become moderately cautious. On the stock side of our portfolios, we have been capturing gains while retaining some cash for better buying opportunities ahead. We continue to favor dividend-paying stocks with proven business models, attractive industry fundamentals, conservative balance sheets, and experienced management teams. With bonds, the purchase of longer maturities entails significant risk without much more return. Since we expect interest rates to continue moving upward and the differential between short and long term rates to increase, better buying opportunities for intermediate-term and long-term bonds are likely to be in front of us. Under these conditions, a little cash is not necessarily so bad.

[4] Wall Street Journal April 5, 2006.