TRIVANT
CUSTOM PORTFOLIO GROUP, LLC

October 2006

quarterly INSIGHTS

Third Quarter 2006

EXECUTIVE SUMMARY

US Large Cap Stocks Shine in Strong Q3 2006

In the Third Quarter, the domestic S&P 500 Index increased 5.67% while the MSCI EAFE Index (foreign) returned 3.99%. There were three trends to note regarding Third Quarter 2006 performance:

- US Large Cap stocks rebounded from the Second Quarter
- Health Care and Technology recovered considerably to lead the sectors
- Dramatically declining crude oil prices caused the Energy sector to lag

The Market Rallied Amidst Paused Rate Hikes and Falling Oil Prices

The market rallied as the Federal Reserve Board (Fed) held the interest rate at 5.25% after 17 consecutive rate hikes that started June 2004. The Fed left room to change policy pending new economic data. Some economists believe that the Fed was overly aggressive with previous rate hikes and are predicting a rate cut by March 2007.

Crude oil prices declined 14.93% during the quarter, peaking at $77.05 per barrel (August 7, 2006) and closing at $62.90 per barrel (September 30, 2006). We believe the threat of terrorism and natural disasters (hurricanes) built a "fear premium" into oil prices. Fortunately, there was no domestic terrorist incident and the hurricane season was weaker than initially forecast. Accordingly, energy prices adjusted downward.

We Maintain Our 2006 Equity Market Forecast

We continue to expect global equity markets will advance 9%-13% for 2006 (Quarterly Insights, January 2006, 2006 Market Forecast, page 9). We correctly anticipated the pause in US rate hikes (Quarterly Insights, July 2006, Equity Market Review, page 3), which we believe will continue to be a market catalyst. Our forecast may be exceeded if we have a Fourth Quarter election year rally.

Fixed Income

Interest rates fell sharply across the US yield curve, causing bonds to appreciate in the Third Quarter. The Lehman Brothers Government/Corporate Bond Index, widely considered the broadest of the major US bond indices, rose 3.91% in the Third Quarter. Year to date, the bond index is up 2.71%. There are concerns that the previous Fed rate increases may slow economic growth.

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EXECUTIVE SUMMARY

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US interest rates are higher than most developed country interest rates. Global yield curves remain flat as indicated by the narrow spread between 2 and 10 year bond yields. Only Japan has a spread of more than 1.00% for developed markets. Flat yield curves indicate that economic growth should continue slowing.

We foresee minimal to very modest increases in US bond yields for the remaining year. There are no anticipated changes in our fixed income strategy. We continue to maintain our fixed income portfolio position in shorter term maturity bonds and Treasury Inflation Protected Securities (TIPS), with an average duration of five years. This area of the yield curve should be favored if the Fed lowers interest rates next year.

TRIVANT CUSTOM PORTFOLIO GROUP, LLC Third Quarter 2006 Review

Commentary in this review reflects our portfolio strategy. Many of our clients have different objectives and circumstances which are reflected in unique portfolio considerations. Please note that accounts may not contain all elements of the strategy discussed here. Additionally, individual client customizations and start dates may preclude certain elements of this strategy from being implemented. Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.

John Barber, CFA
Chief Investment Officer

Dan Laimon, MBA
President

Equity Market Review

US Large Cap Stocks Shine in Strong Q3 2006

In the Third Quarter, the domestic S&P 500 Index increased 5.67% while the MSCI EAFE Index (foreign) returned 3.99%.

There were three primary trends to note regarding Third Quarter 2006 performance:

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Equity Index Performance

Index	Q3 2006	Year to Date
S&P 500 (Domestic)	+5.67%	+8.53%
MSCI EAFE (Foreign)**	+3.99%	+14.91%
MSCI World	+4.57%	+11.23%
MSCI Emerging Markets	+5.01%	+12.71%
Russell 2000 (Small Cap)*	+0.13%	+7.78%
MSCI Japan	(0.68%)	+1.26%
MSCI UK (United Kingdom)	+4.25%	+18.47%
MSCI EMU (European Monetary Union)	+6.49%	+22.48%

* Performance data does not include dividends ** Europe, Australia and the Far East

The Market Rallied Amidst Paused Rate Hikes and Falling Oil Prices

The market rallied as the Federal Reserve Board held the interest rate at 5.25% after 17 consecutive rate hikes that started June 2004. The Fed left room to change policy pending new economic data. Some economists believe that the Fed was overly aggressive with previous rate hikes and are predicting a rate cut by March 2007.

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We Maintain Our 2006 Equity Market Forecast

We continue to expect global equity markets will advance 9%-13% for 2006 (Quarterly Insights, January 2006, 2006 Market Forecast, page 9). We correctly anticipated the pause in US rate hikes (Quarterly Insights, July 2006, Equity Market Review, page 3), which we believe will continue to be a market catalyst. Our forecast may be exceeded if we have a Fourth Quarter election year rally.

Currency, Country, Sector & Market Cap Performance at a Glance

The US Dollar

The US Dollar modestly appreciated in the Third Quarter. We continue to anticipate a relatively flat currency market throughout 2006.

U.S Dollar Appreciation vs. Foreign Currencies

Currency	Q3 2006	Year To Date
US Dollar/Euro	+0.94%	(6.88%)
US Dollar/Japanese Yen	+3.28%	+0.03%
US Dollar/British Pound	(0.99%)	(8.09%)

Source: MSCI

The pause in US rate hikes did not pressure the US Dollar. We continue to believe that current geo-political events/concerns (Iraq, Iran, North Korea) will "balance" the US Dollar because it remains the preferred global currency in times of uncertainty.

The US Dollar: Portfolio Strategy Considerations

We do not believe the US Dollar will fluctuate dramatically and consequently do not currently view the US Dollar as an important factor to determine US versus foreign equity exposure. However, there are other factors we have deemed important to determine the appropriate level of US stocks.

At the beginning of 2006, we slightly increased our US equity exposure due to our expectation of relatively higher 2006 US GDP (Gross Domestic Product) versus other developed countries, and to slightly reduce portfolio risk. This quarter, we further increased our US equity exposure in anticipation of the mid-term elections and the prospect of an election rally. This will raise the portfolio beta level (risk) at a time we believe will be opportune.

Japan

The Japanese market declined 0.68% for the quarter. It was the weakest performer of the developed countries for the second consecutive quarter. Japanese under-performance can no longer be attributed to oil prices (which dropped considerably), but can be attributed to politics.

Shinzo Abe, leader of Japan's Liberal Democratic Party, has become the youngest (51) Prime Minister of Japan since World War ll. Due to tensions on the Korean peninsula, Mr. Abe is expected to change the "pacifist" constitution, most notably the establishment of a military force. As a result, enthusiasm for Japanese stocks has dampened.

Japan: Portfolio Strategy Considerations

We view Japan less favorably at this time due to the rising uncertainty of a new Prime Minister coupled with high tensions on the Korean peninsula. Potential fiscal changes may affect industries differently and we will monitor developments. We have slightly reduced Japanese exposure and may continue to do so as opportunities arise.

Emerging Markets

Emerging markets continue to keep pace with foreign markets. Brazil, Russia, India and China have recovered from disappointing performances in 2005. There are more “middle class” consumers within these countries due to growing wealth. Domestic demand for consumer products has increased considerably. Local producers are becoming less reliant on exporting, and consequently less vulnerable to changes in US demand for their products.

Emerging Markets: Portfolio Strategy Considerations

This asset category can be very volatile and is susceptible to economic downturns. We have exposure to emerging markets because of its low historic correlation with developed markets. This exposure provides an important measure of portfolio risk control. The recent fall of crude oil prices may hurt some emerging market countries. We slightly reduced our emerging markets exposure from 4% to 3% in order to increase our US stock weighting.

Europe

European markets (+6.49%) continued a strong 2006 performance. The United Kingdom (+4.25%) also had a good quarter. The European Central Bank (ECB) raised rates to 3.25% on October 5th and is expected to increase rates again in December. This is the fifth rate hike over the past year. Given that GDP growth is expected to slow from 2.7% in 2006 to 2.1% in 2007, rising interest rates may further slow the European economy.

Germany and Italy are both becoming more fiscally restrictive as they deal with large deficits. Germany is increasing its Value Added Tax (VAT) from 16% to 19%. This is a significant tax hike that will affect all consumer products in Germany. A tax increase of this magnitude should distort German economic data in the fourth quarter as consumers rush to buy "big ticket" items before the January 2007 implementation.

Europe: Portfolio Strategy Considerations

European markets have been stronger than we expected. We believe a large degree of out-performance is attributable to favorable currency translation. However, the prospect of higher interest rates, more restrictive fiscal policies and lower relative GDP growth do not favor Europe.

We will likely reduce our European exposure modestly to increase US exposure.

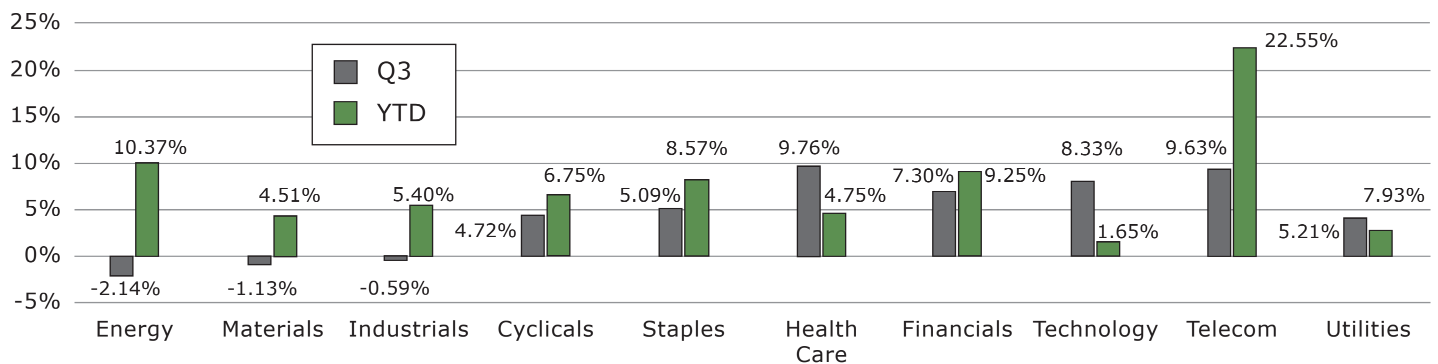
Sector Performance

By the end of Q3 2006, every sector was in positive performance territory year to date.

Technology and Health Care rebounded well from last quarter's disappointing returns. Telecom is now substantially outperforming other areas of the market for the year, although it is a relatively small (under 5%) sector component of the S&P 500 Index.

Energy and Materials, which had led the market earlier this year, continued their recent weakness by substantially lagging the markets in Q3 2006. Crude oil prices declined 14.93% during the quarter, peaking at $77.05 per barrel (August 7, 2006) and closing at $62.90 per barrel (September 30, 2006). We believe the threat of terrorism and natural disasters (hurricanes) built a "fear premium" into oil prices. Fortunately, there was no domestic terrorist incident and the hurricane season was weaker than initially forecast. Accordingly, energy prices adjusted downward, and this significantly impacted the sector.

S&P 500 Index Sector Performance



Source: Standard & Poor's

Sectors: Portfolio Strategy Considerations

We continue to overweight Health Care, Technology and Telecom. Health Care should prosper in a slower growth environment. Technology should benefit from deferred demand and healthy corporate balance sheets. Telecom has exhibited the sector growth potential we discussed in our Quarterly Insights, January 2006 report (page 6). Although over-weighting these three sectors has not benefited the portfolio to the extent we anticipated thus far, these sectors have performed well as of late. We believe the trend will continue.

While Financials have performed well, an inverted yield curve causes us to maintain our current portfolio underweight to Financials. The Energy sector has been quite volatile, and we believe our current portfolio underweight to the sector (and exposure to conservative versus speculative energy stocks) is prudent.

We see no compelling reasons at this time to change our sector strategy.

Market Cap Performance

Large Cap stocks fared much better than small cap stocks in the Third Quarter. This did not surprise us. We shifted the portfolio to a large cap focus several months ago (Quarterly Insights, April 2006, Large Caps Are Due, pages 8-10).

Yield curves are inverted in the US and United Kingdom, and flat everywhere else (See page 11). Inverted or flat yield curves indicate slowing economic growth, which should increase the risk in smaller companies.

Market Cap Performance

	Third Quarter 2006	Year To Date
Large Cap Performance		
World	4.57%	11.23%
Foreign	3.99%	14.91%
USA	5.37%	8.03%
Small Cap Performance		
World	0.20%	7.27%
Foreign	0.46%	7.09%
USA	0.47%	6.67%

Source: MSCI

Market Cap: Portfolio Strategy Considerations

We will maintain our large cap focus due to a more favorable risk/return tradeoff.

Style Performance

US growth stocks considerably lagged US value stocks, while foreign growth and value stocks were closer in relative performance. We are surprised at this quarter's results given that Health Care and Technology (growth) performed well while Energy (value) lagged.

Style Performance

	Third Quarter 2006	Year To Date
US Growth	3.44%	2.96%
US Value	7.22%	13.21%
Foreign Growth	2.35%	12.12%
Foreign Value	5.61%	17.70%

Source: MSCI

Style: Portfolio Strategy Considerations

We will maintain our growth bias due to slowing (but positive) global economic growth. Assuming a continued pause or a rise in domestic interest rates, we will maintain this stance. In the event of a Fed rate decrease, we would strongly consider a shift towards value stocks. At this time, we believe that growth is better positioned than value.

Midterm Elections: Harmony or Gridlock?

The state of political harmony versus gridlock affects stock and bond returns in a way that would surprise most investors.

Since it is tougher to enact fiscal policy legislation in political gridlock, many market observers have stated that gridlock is favorable for the market because it reduces economic uncertainty. However, market data does not support this contention.

A compelling study, "Gridlock's Gone, Now What?"[1], concludes that political harmony is favorable for stocks and political gridlock is favorable for bonds. In the study, market data from the years 1949 to 2004 was considered. Between these years, there was political gridlock for two-thirds of the time.

General Political Environment Between 1949 and 2004 in the US

Measure	Gridlock (Months)	Harmony (Months)
Average Duration	80.4	49.0
Shortest Duration Event	18 (June 2001 to November 2002)	5 (January 2001 to May 2001)
Longest Duration Event	144 (January 1981 to December 1992)	96 (January 1961 to December 1968)
Total Months	402	207

Source: Financial Analysts Journal

Specific Political Environments Between 1949 and 2004 in the US

From	Through	Length (Months)	Political State
Dec 02	Dec 04	25	Harmony
Jun 01	Nov 02	18	Gridlock
Jan 01	May 01	5	Harmony
Jan 95	Dec 00	72	Gridlock
Jan 93	Dec 94	24	Harmony
Jan 87	Dec 92	72	Gridlock
Jan 81	Dec 86	72	Gridlock
Jan 77	Dec 80	48	Harmony
Jan 69	Dec 76	96	Gridlock
Jan 61	Dec 68	96	Harmony
Jan 55	Dec 60	72	Gridlock
Jan 53	Dec 54	24	Harmony
Jan 49	Dec 52	48	Harmony

Source: Financial Analysts Journal

[1] Gridlock's Gone, Now What?, Beyer, Jensen, Johnson, Financial Analysts Journal, October 2006

Data from the study shows that stocks have performed better in states of political harmony versus gridlock. This is counter to conventional market wisdom. It appears that in periods of harmony, increased legislation has benefited stocks (especially small cap). This makes intuitive sense. When the government is better able to enact expansionary fiscal policy, smaller companies (the "engine" of the economy) are quicker to react to and benefit from these changes. In periods of gridlock, large cap stocks have fared better than small cap stocks.

Annual Stock Returns (Gridlock Versus Harmony)

Decile	Gridlock (Favors Large Cap)	Harmony (Favors Small Cap)
Decile 1 (Largest Cap Stocks)	8.27%	8.78%
Decile 2	8.30%	12.65%
Decile 3	8.65%	13.76%
Decile 4	8.76%	14.87%
Decile 5	7.66%	15.38%
Decile 6	7.74%	18.07%
Decile 7	7.12%	18.83%
Decile 8	7.04%	20.32%
Decile 9	6.77%	20.42%
Decile 10 (Smallest Cap Stocks)	4.65%	27.03%

Source: Financial Analysts Journal

Data from the study indicates that bonds have performed better in states of political gridlock versus harmony. Decreased legislation in periods of gridlock lowers government spending, inflation, and deficits. Lower borrowing demand from the government constrains interest rates. This is favorable for bonds. Remember that there is an inverse relationship between bond prices and interest rates. As interest rates increase, bond prices decrease, and vice-versa. In periods of harmony, increased government spending (to enact the legislative changes) will likely result in higher interest rates, which will pressure bond prices.

Annual Bond Returns (Gridlock Versus Harmony)

Bond	Gridlock (More Favorable)	Harmony (Less Favorable)
Long-Term Corporate	5.37%	(0.91%)
Long-Term Government	5.50%	(1.67%)
Intermediate Government	4.62%	(0.69%)
T-Bills	1.74%	0.04%
Inflation	3.89%	3.70%

Source: Financial Analysts Journal

Portfolio Strategy Implications

We consider many factors (in addition to politics) to derive our portfolio strategy.

Factors
Domestic Considerations
Market Sentiment
Leading Indicators
Monetary Policy
Fiscal Policy
Market Momentum
History
Corporate Profitability
Equity Valuations
Foreign Considerations
Currency Translation
GDP Growth
Government Policies
Other Considerations
Interest Rate Expectations
Inflation Rate Expectations

→

Strategy
Equity Strategy
Domestic versus Foreign
Sector Weighting
Average Market Cap
Style (Growth versus Value)
Portfolio Beta Level (Risk)
Bond Strategy
Government Bonds
Treasury Inflation Protected (TIPS)
Municipal Bonds
Corporate Bonds
Average Duration

Equity

We are in a state of political harmony at this time, of which the study, (Gridlock's Gone Now What?) indicates is a time for small cap stocks to lead. However, our portfolio is currently weighted heavily to large cap stocks because we believe large cap will out-perform small cap at this time.

Bonds

The study indicates that the current political state of harmony is less favorable for bond performance. However, this does not mean that within an entire time frame of political harmony there are no short periods of rising bond prices. For instance, the last quarter was good for the bond market (the Lehman Brothers Government/Corporate Bond Index rose 3.91%).

Conclusion

We find the research study of great interest and relevance, and will consider its conclusions in formulating current and future portfolio strategy. However, we will not consider the study in isolation, but rather in tandem with other portfolio strategy considerations.

If the political landscape changes in the mid-term November elections, and we move to a state of political gridlock, the study data supports our strategy bias towards large cap stocks. The study also indicates that this type of environment would be better for bonds. We believe our current portfolio is well-positioned in the event of political gridlock.

Bond Market Review

Interest rates fell sharply across the US yield curve, causing bonds to appreciate in the Third Quarter. The Lehman Brothers Government/Corporate Bond Index, widely considered the broadest of the major US bond indices, rose 3.91% in the Third Quarter. Year to date, the bond index is up 2.71%. Many market observers are concerned that the previous Fed rate increases may slow economic growth.

Key US Interest Rates

	June 30, 2006	September 30, 2006	Change
Federal Reserve Board Funds Rate	5.25%	5.25%	No change
2 yr Treasury (Constant Maturity)	5.15%	4.65%	- 50 basis points
5 yr Treasury (Constant Maturity)	5.10%	4.55%	- 55 basis points
10 yr Treasury (Constant Maturity)	5.14%	4.61%	- 53 basis points

Note: 100 basis points (bp) = 1.00%

Source: Bloomberg

US interest rates are higher than most developed country interest rates. Global yield curves remain flat as indicated by the narrow spread between 2 and 10 year bond yields. Only Japan has a spread of more than 1.00% for developed markets. Flat yield curves indicate that economic growth should continue slowing. Foreign short term yields have increased as central banks raised interest rates in an effort to control inflation. Concerns regarding energy prices and declining unemployment continue to fuel worry in bond markets.

Government Bond Yields

Maturity	US	UK	Japan	Germany
3 Month	4.89%	N/A	0.35%	3.31%
2 Year	4.65%	4.95%	0.69%	3.57%
5 Year	4.55%	4.76%	1.19%	3.60%
10 Year	4.53%	4.53%	1.74%	3.68%
30 Year	4.75%	N/A	2.49%	3.88%
2-10 Spread	(0.28%)	(0.42%)	1.39%	0.11%

Source: Bloomberg

Bond Market: Portfolio Strategy Considerations

We foresee minimal to very modest increases in US bond yields for the remaining year. There are no anticipated changes in our fixed income strategy. We continue to maintain our fixed income portfolio position in shorter term maturity bonds and Treasury Inflation Protected Securities (TIPS), with an average duration of five years. This area of the yield curve should be favored if the Fed lowers interest rates next year.

Closing Thoughts

We continue to expect global equity markets will advance 9%-13% for 2006. Reasons for our optimism include neutral interest rates, attractive price/earnings (PE) ratios, and continued corporate profitability levels. The market may have positive momentum as the mid-term elections conclude. The Federal Reserve Board has not raised interest rates during the time leading up to the mid-term elections, nor do we anticipate a rate hike. Consequently, we foresee minimal to very modest increases in US bond yields for the remaining year.

We see no reason to deviate significantly from our 2006 Market Forecast and 2006 Portfolio Strategy.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

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"Upon the subject of education, not presuming to dictate any plan or system respecting it, I can only say that I view it as the most important subject which we as a people can be engaged in.
Abraham Lincoln"

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