



January 15, 2007

RE: Fourth Quarter 2006 Client Overview Letter

Dear Valued Client:

<b>Market Summary:</b>	12/30/05		12/30/06		<u>2006 Price Range</u>			
					High		Low	
	\$		\$	%	\$	%	\$	%
S&P 500 Index (SPY)	124.5		141.6	13.7%	143.3	15.1%	122.4	(1.7%)
S&P 400 Index (MDY)	134.7		146.4	8.6%	150.3	11.6%	129.6	(3.8%)
G.S. Corp Bond Index (LQD)	107.7		106.7	(0.9%)	108.7	0.9%	102.3	(5.0%)

**A Roller Coaster of a Year!**

Anyone who doubts the power of the Federal Reserve to influence the immediate direction and volatility of the stock market has to look no further than 2006 for proof.

The first four months of 2006 started off well, but when the Fed continued to increase short-term interest rates past what many on Wall Street considered a reasonable level, the market reacted with a significant -9% correction that brought the S&P 500 back to the November 2005 level.

In August, the Fed, concerned about a weakening housing market, finally halted its historic actions of a 425% cumulative increase in short-term rates over 2¼ years (a 47-year record). The stock market celebrated by posting a significant rally from mid-July through December that brought year-end totals among the major U.S. averages between 9% and 18%.

*Based on concerns of a repeat performance of 1990, 1994, or 2000, I decided to stay defensive by trimming individual positions and holding cash until mid-September when the Fed confirmed its August decision to stop raising interest rates. I thought it would be wiser to be safe than sorry and to protect the gains made in earlier years.*

It looks like 2007 is going to be interesting, because as bull markets age, they tend to get more volatile. I would not be surprised to see significant swings in individual stocks as we move through this earnings season. Once again, much depends on the Fed. If it continues to hold (or actually cuts rates), then an 8% - 10% annual return is achievable. However, any interest rate increases will cause problems for stocks.

### **Bonds Finally Bottom Out**

I stated in the 2005 year-end letter, "Once the Federal Reserve stops raising interest rates, bond prices typically snap back quickly and bond inventories dry-up as new bond purchases are made by yield-hungry investors." This is exactly what happened, and we were able to purchase a significant number of income investments at low prices last summer. Most of these investments yield 7.5% to 8.5%.

It is important to remember that the primary objective of income investments is to provide steady cash flow with near certainty of principal returned at a future date. We are currently still able to find attractive income investments, but patience is required.

### **Other Items**

**Tax Loss Carry-Forwards (TLC):** Our policy has been to sell losing investments near year-end and to use those losses against current or future profits in order to reduce capital gains taxes. When you complete your 2006 tax returns, please check with your accountant to see if you have TLC left to offset gains in 2007 and forward the information to us.

**Client Restricted Investments:** Keep in mind that any investments listed under "Client Holdings" on your Portfolio Overview Report have not met our selection requirements and are not treated in the same manner as those we select. Please let us know what your objectives are for these holdings. Overall, we find these investments inferior to the Winans International standards and recommend that you allow us to sell them from your portfolio. In addition, you can call the brokerage house directly on trading these investments.

**Addendums:** If you have not returned previous mailings of contract addendums or letters of acknowledgement requiring your signature, these documents have been included in your packet. I ask that you take the time to sign and date and return them to Winans International for our Securities & Exchange Commission filing compliance.

If you have not already done so, please contact Sheila to set up a time for our annual meeting. I look forward to seeing or hearing from you.

Sincerely,



Kenneth G. Winans, CMT  
President & Founder