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INVESTMENT THOUGHTS FROM CHRIS AND DON

Dear Clients,

A Bulgarian Proverb declares that one should "seize opportunity by the beard, for it is bald behind." The Bugg/Dean team could not agree more. As your financial advisors, our goal is to have the foresight to help you take advantage of opportunities that we feel will put you in the best financial position possible. In this newsletter we address an opportunity which has been fundamental to our investing philosophy for quite some time: international investments. What follows is your traditional reminder of the importance of investing in Roth IRA's and an update on contribution limits.

INTERNATIONAL INVESTING

Appropriate asset allocation has always been at the core of our investing philosophy; however, we must place emphasis on *appropriate,* especially when discussing international investments. It is easy to see the enormous hype international stocks are now generating. Even though we also promote investing overseas, it is vital to maintain a balanced and diversified stock portfolio consisting of both U.S. and non-U.S. stocks. It is possible to seize opportunity's beard and refrain from grasping at straws by chasing the "hot stock."

For the past several years we have held that an appropriate allocation includes a significant exposure to international investments. We decided early that international companies not only help in diversification, but they also present good opportunities for growth. Results from recent years and current trends indicate the success that international companies have had as well as the continued opportunities presented by overseas firms.

Figure 1

Industry	U.S. Companies in Top-10	Non-U.S. Companies in Top-10
Engineering & Construction	0	10
Electronics	1	9
Automaking	2	8
Banking	3	7
Telecommunications	3	7
Food & Drug Stores	4	6
Pharmaceuticals	5	5

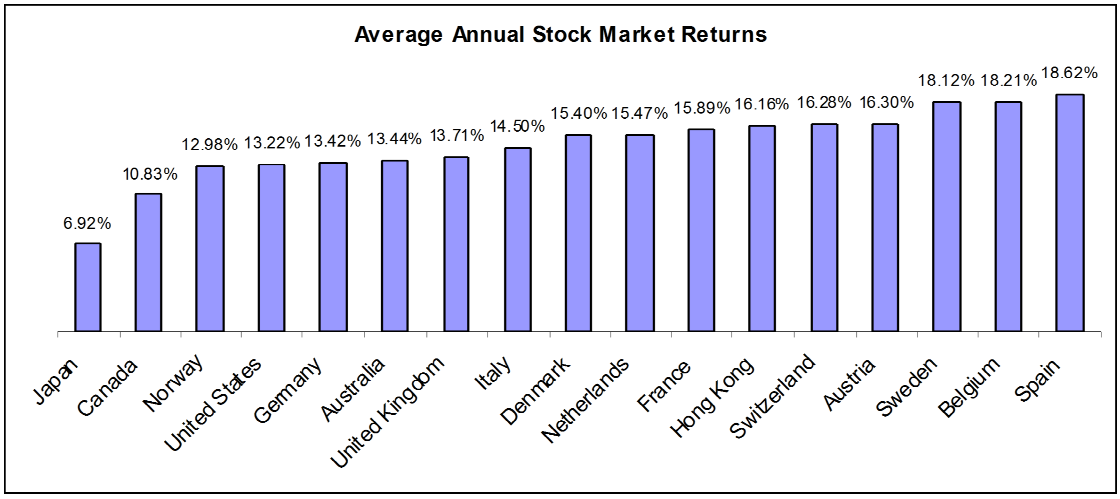
According to Phoenix Funds, 276 out of the world's 500 largest public companies are located outside of the United States. Many of those 276 firms are top-10 industry leaders and household names including Sony, Toyota, Bayer and Nestle. Figure 1 shows a simple breakdown of top-10 industry leaders. The number and historical growth of these international companies is significant. While extrapolation of these numbers is a risky proposition and not something we encourage, it is difficult to imagine a world where foreign firms will not continue to exert significant influence on the global economy.

International stocks do more than just show great potential. They have also yielded positive results. Like the United States, many international countries have produced strong returns over the long haul. Using data from Morgan Stanley Capital International, Figure 2 shows the average annual stock market returns for the 20 years ended 12/31/04. The United States has provided competitive returns but was outperformed by the returns of many foreign markets. As shown by the graph, the U.S. stock market has

International Investing… continued from page 1

returned 13.22% on average while several foreign markets have average annual returns of over 18%. We are fortunate enough to have captured some of these returns by recognizing the international movement early.

Figure 2



Because of the continued success of international investments and the opportunity for growth, we will continue to encourage clients to maintain adequate exposure to international stocks.

INVESTING IN A ROTH IRA

Since its inception, we have always maintained that investing your after-tax dollars in a Roth IRA is a sound investment strategy. If you are eligible, Roth's are generally regarded as the first place to save after contributing to your retirement plan. To be eligible to fund a Roth IRA, you need to be single with income below $95,000 or married and filing jointly with income below $150,000. There are major advantages to investing in a Roth IRA. Distributions of principal (contributions) from a Roth IRA are never subject to federal tax when received, an advantage during an emergency cash shortage but we never recommend it! In addition, withdrawals of earnings that are "qualified distributions" are also free from federal taxation when made. Qualified distributions are distributions made after a five-year waiting period and after the taxpayer reaches age 59 ½; or in the event of the taxpayer's death; or because the taxpayer becomes disabled; or to pay for "qualified first-time home buyer" expenses (limited to $10,000, which must be used within 120 days of withdrawal); or to pay tuition for higher education

We strongly recommend, if possible, that clients contribute the yearly maximum to a Roth IRA.

The chart below shows 2006 retirement plan changes and contribution limits.

401(k), 403(b), and 457 Contribution Limits		*Simple IRA Contribution Limits*		*Traditional and Roth IRA Contribution Limits*	
Maximum	"Catch-up"	Maximum	"Catch-up"	Maximum	"Catch-up"
$15,000.00	$5,000.00	$10,000.00	$2,500.00	$4,000.00	$1,000.00

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