



Financial Focus

PEGASUS ASSET MANAGEMENT

January 2007 • 1st Quarter

2006 ANNUAL MARKET WRAP

Looking back on 2006, there were several reasons for concern: inflation worries, a declining U.S. housing market and the unraveling of Iraq. Even so, overall, the stock market has seen a record-breaking year for 2006.

For many residential real-estate markets in the U.S., 2006 started off with an advantage to sellers and ended with buyers holding the upper hand. Even in the midst of a downturn, 2006 will be the third-best year on record for home sales. Interest rates began to stabilize in the second half of 2006; a turnaround that was initiated this past summer. Another reason to entice buyers in the current housing market: 30-year fixed rate mortgages currently averaging just above 6%, making now not such a bad time to buy.

In its last meeting of the year, the Federal Open Market Committee gave no indication that it would cut interest rates anytime soon. This was the fourth-straight meeting with no change in monetary policy. In his latest remarks on the economy, Fed Chairman Ben Bernanke said the economy continues to grow, outside the housing and auto sectors. He contends that inflation remains the key risk to the economy.

It was a year to remember for commodities such as crude oil, copper, gold and platinum. At the beginning of 2006, still reeling from the effects of Hurricanes Katrina and Rita, crude futures climbed to a record of nearly \$78 a barrel by mid-July, then dropped down to \$58 within a three-month span. The lack of disruptive hurricanes in the Atlantic for the 2006 hurricane season was partly the cause for the price decline. Nevertheless, crude prices are still hovering at around \$60 a barrel, implying that prices are still at high levels, due to demand from China and India. Gold futures reached a 26-year high back in May, well above \$700 an ounce. Also notable were performances by both copper and platinum. Both metals reached record levels: copper topping a record above \$4 a pound; platinum reached an all-time high above \$1,300 an ounce.

U.S. stocks were higher on the last trading day of the year, setting the Dow Jones Industrial Average on course for an annual record year-end close. The Dow ended the year at 12,463.15, for an increase of 16%, posting its best annual performance since 2003. The S&P finished the year at 1418.28, up 14% on the year. The NASDAQ composite gained 10%, ending the year at 2415.29. The 10-year Treasury closed at 4.71% for the year, up from 4.39% at the start of 2006. The Russell 2000 Index finished the year at 787.66, up 17% on the year.

Large-cap value funds surged 18.6% on average and the large-cap core category rose 14.3%. Large-cap growth funds trailed, up 6% in the quarter and 6.2% on the year. In addition to large-cap value's impressive result, small-cap value funds gained 17.8% on average and midcap value funds added 16.8%.

What to watch for in 2007? The consensus seems to be emphasis on the following areas: recession, interest rates, the housing market, inflation, and the job market. The economy grew 3.3% this past year. Expectations are that the economy will grow at a lower rate into the first two quarters of 2007, but then pick up within the second-half of the year. Reasons cited for this expectation: a stable market for both housing and oil. Other notable factors for economic strength in 2007 could be attributed to easing interest rates, as well as rising wages, in turn raising consumer confidence, spending, thus lifting the economy.

In the commodities market, 2007 may be the year that investors rediscover hard assets. Crude continues to top the interest list for 2007, as well as uranium, corn and orange juice. High metal prices will continue to be of interest as well.

Sources: *MarketWatch*, December 2006; *Barron's*, January 2007

Retirement Corner...

Did you know?

That Company Sponsored Retirement Plans, such as 401(k)'s, account for the sole savings of more than 50% of plan participants? With such an important part of the nest egg, what are your employees doing to ensure it is being managed properly? We can help. For more information contact John Sebastiano at 845-369-9422 or jms@pegasusassetmgt.com.

Introducing ROTH 401(k)'s

Beginning in 2006, 401K plans will be permitted to allow employees to designate their contributions as Roth contributions. These Roth contributions will be subject to the same rules as Roth IRAs. This will allow employees to contribute money that has been taxed into a Roth where contributions and earnings will grow tax free until the participant retires.



NUMBERS TALK

Household median income for the United States in dollars...46,326

Average household net worth for the United States in dollars...465,970

Percentage of all of the world's wealth controlled by the richest 2 percent...51

Percentage of all of the world's wealth controlled by the poorest 50 percent...1

Estimated percentage of US taxpayers who will be eligible for the free federal tax-preparation software by earning less than \$52,000 in 2006...70

Percentage of adults who have saved an adequate amount of money in cash equivalent accounts to cover 3 months worth of living expenses...39

Average square foot floor space for a private American one-family home in 1990...1,905

Average square foot floor space for a private American one-family home in 2005...2,227

Percentage of Americans in their 70's who are shorter than 5' 6" tall...24

Percentage of Americans in their 20's who are shorter than 5' 6" tall...10

Average number of days per year that American adults and adolescents spend watching television...64

In millions, number of adult Americans who go on line to access news...97

In millions, number of adult Americans who purchased a product online...92

In pounds, amount of solid waste produced per day by Americans in 1980...3.7

In pounds, amount of solid waste produced per day by Americans in 2005...4.4

Percentage of American households who owned stocks and mutual funds in 2005...51

Number of American men who earned professional degrees in 1970...33,000

Number of American women who earned professional degrees in 1970...2,000

Number of American men who earned professional degrees in 2004...42,000

Number of American women who earned professional degrees in 2004...41,000

In dollars, the average pay of the top 126 hedge fund managers in 2005...363,000,000

Estimate range of billions of U.S tax dollars avoided each year by the use of offshore tax havens...40 to 70

Number of the Forbes American wealthiest 400 people with a worth of less than 1 billions dollars...0

Number out of the top 10 of the Forbes American wealthiest 400 people who dropped out of college...5

Number of the Forbes American wealthiest 400 people who are younger than 40...7

Percentage chance that a women 65 years or older will enter a nursing home sometime in her life...44

Percentage chance that women are more likely than men to enter a nursing home sometime in their life...60

Percentage of new mortgages in 2003 that were interest-only...10.2

Percentage of new mortgages in 2005 that were interest-only...26.7

Estimated percentage of companies that have used back dated stock options...29.2

*If you would like to discuss any of the topics contained in this issue of "**FINANCIAL FOCUS**," contact either Rodd Berro or John M. Sebastiano, at 845-369-9422 or e-mail us: rberro or jms@pegasusassetmgt.com.*

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