Lesjak Planning CORPORATION

The Advisor

SPRING 2006

Market Comment

The impending deadline for filing income tax return imparts finality on a closing of the books on the previous year. With that said, we take a look back at the year 2005 and the many headlines that were generated. Oil prices were in the news all year as they marched upwards to near seventy dollars per barrel. Disasters like the destruction of drilling rigs by hurricanes and increasing demand by China and India and constant talks of short supply sent the prices spiking. As evidenced by the daily change in gasoline prices at your corner station, oil has taken on the characteristics of a commodity that is bid on daily. It seems that the energy markets no longer focus on the current supply/demand balance, but are looking at the demand several years out and causing prices to rise based on worse case scenarios.

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In actuality, it seems that China's demand increases are slowing, and the U.S. dependence on oil has actually declined since the last oil crisis in 1974. Over the past 30 years, the U.S. economy has expanded by 140% while total energy consumption increased by only 30%. Combine with this the fact that over 200,000 hybrid automobiles were sold in the U.S. last year and record amounts of money are being committed to alternative fuels, the dependence on oil will further decrease. The record profits that the oil companies have earned recently have filtered down to large increases in their research and development commitments. Analysts we have talked to propose that oil prices will run in a cycle and we may very well be near the higher end of the cycle.

Prices of real estate and the debate over whether or not certain areas of the country were experiencing a bubble that was ready to burst also have been in the headlines. Supply and demand is very evident in real estate pricing and of course the more desirable places to live have the most demand. Throw in the low cost of money due to historically low interest rates this decade, and you really ramp up speculation in hot markets.

Purchasing property in this type of climate without doing considerable research can be quite costly. Remember the difference between investing and speculating. Quick, easy profits are few and far between. Rising interest rates, along with an oversupply of housing is already having a negative effect on pricing and length of time on the market.

Interest rates have risen at a clip of one quarter of a percent almost every quarter since mid 2004 and have caused some concern about renewed inflation and a stalling economy. So far, the American consumer has proved to be a resilient bunch that has maintained their desire to spend. As rates continue to inch upward over the next year, we can assume that spending will eventually slow down. Higher costs to borrow normally hit

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bigger ticket items such as autos, home improvement and travel first. American business will continue to make productivity gains through technology which should offset needs to increase prices. As far as bond investing goes, we should continue to see total returns on the low side until the rate increases have run their course.

The equity markets closed an up and down 2005 with very little, if any, gains. The major indexes, which act as a barometer for the overall markets, reflected the same basically flat performance for the year. Equity managers that did not invest to just mirror the overall market, and invested where their research uncovered undervalued businesses did considerably better. The top quartile of those managers produced double digit gains in their portfolios. 2005 was similar to previous flat market years when active management outperformed the static indexes. Small and mid sized companies along with their international counterparts led the surge in prices versus the large companies.

Proper allocation that included exposure to these different styles helped not only to diversify the risk in a portfolio, but also greatly increase the overall return. As stated in other articles in the newsletter, index investing is really a form of chasing past performance as well as not properly diversifying into regions outside of the U.S. which can hurt overall performance.

This new year has started with pretty much the same worries as last year and although we don't expect either an exceptional year or a disastrous year in the markets, there are plenty of quality companies both here and abroad with good potential to increase their prices. We need to continue to do the work to find them.

Market Summary
Year to Date

Dow Industrials	+ 2.25%
Dow Transportation	+ 6.53%
S&P 500 Index	+ 2.40%
NASDAQ Composite	+ 3.66%
Russell 2000	+ 8.61%
International	+ 5.92%

Hidden Drawback to Indexing

Over the years, there has been an ongoing debate as to whether one is better off index investing versus using active money managers. Certainly, there are benefits to using investments that mirror selected market indices. Typically, they have very low costs and can be tax efficient if used properly. However, there are also drawbacks that do not always make their way to the mainstream media.

By nature, any investment that mirrors an index must constantly align itself to have the same sector weightings as its designated index. For example, an S&P 500 Index fund must always be sure to have the same percentage of its money in technology stocks as the S&P 500. Unfortunately, this creates a very unfavorable situation for those who invest monies into index funds. Since it is the manager's job to match the index, the higher a stock goes the more the manager must buy no matter how expensive it gets. Therefore, index investors see more and more of their assets being shifted into the sectors that were the hottest.

For example, in 1997 technology stocks comprised 14% of the S&P 500 index. That weighting swelled to 34% by March of 2000 as the technology bubble reached its highest point. Managers of the index funds were forced to continue adding monies to their technology holdings regardless of how expensive the shares became. Basically, the index funds were buying shares of technology companies in droves as they reached their highest point. Since March of 2000, the technology sector has averaged -15.85% annually and now comprises 17% of the S&P 500 index. Consequently, index fund managers have been forced to pair back their holdings of technology funds. In essence, S&P 500 index managers over the past eight years bought technology stocks at or near their highs and sold them at or near their lows. Thus, the saying that index funds are followers, not leaders rings true.

Certainly, not all active money managers are able to outperform their benchmark indices. However, those who do outperform their benchmark have proven philosophies and systems in place to consistently find attractively valued companies with long term earnings potential. This approach, combined with a shareholder first mentality, is only a couple of the criteria we look for when evaluating and choosing money managers for you. **If you would like to discuss our search process in more detail please feel free to give us a call.**

New IRS Limits for 2006

Keep in mind, contributions to IRA's are also limited by your adjusted gross income. If you have any questions regarding how much you can contribute please give us a call to discuss the details.

	Contribution Limit	Catch-up (over age 50)
Traditional IRA	$4,000	$1,000
Roth IRA	$4,000	$1,000
401k, 403b, SAR-SEP	$15,000	$5,000
Simple IRA/401k	$10,000 + COLA	$2,500
SEP IRA	$42,000	$0

Federal Estate Tax Exemption	$2,000,000
Annual Gift Tax Exclusion	$12,000

A Case for World Markets

The U.S. stock markets, as measured by the S&P 500, continued their 20 plus year streak in which they did not top all the world markets in overall return. Our markets actually finished 9th in 2005 out of the other 20 countries that make up the MSCI EAFE Index (Europe, Australia, Far East). The EAFE Index had a return in 2005 of 13.54% and the closest U.S. Index was the Russell Midcaps (which measures mid-sized companies) which had a gain of 12.65%.

Of the countries that make up the EAFE Index, Canada had the best overall market return with 28.31%. Following in order was Japan at 25.52%, Switzerland at 16.33%, Australia at 16.02%, Germany at 9.92%, France at 9.88%, Hong Kong at 8.4%, the United Kingdom at 7.35% and then the U.S. at 5.14%.

These figures confirm the importance of diversifying not only across company size in the U.S., but also internationally. The U.S. market has had a nice run the past three years, but to put that into perspective, our market has been ninth overall in each of those past three years. This type of diversity is what allows a portfolio which contains that exposure to outperform more concentrated portfolios and actually lessens overall risk.

Medicaid Rules Get Tougher

Often times elderly individuals attempt to qualify for long term care services through Medicaid by gifting away their assets. Previously, Medicaid rules allowed the government to look back at gifts for the past three years when determining eligibility. The new rules, which went into effect on February 8, take into account all gifts within the past five years.

For example, an elderly individual gives $100,000 to his children in 2002 and then applies for nursing home care coverage through Medicaid in 2006. If the government determines the $100,000 gift reduced his assets enough to qualify for Medicaid, then the individual would need to pay for the first $100,000 of care out of his own pocket. Anyone who was under Medicaid prior to February 8th is not affected by the new rules. However, those who are currently utilizing a gifting strategy to spend down their assets will need to seriously consider revising their plan.

Many experts agree that the new rules are a step in the right direction for Medicaid and the government. For years individuals have gifted their assets away to children with the sole purpose of qualifying for Medicaid services. Making these changes will help to minimize those activities and allow Medicaid to provide services to those it was originally intended for.

Mark Your Calendars and Gather Your Foresome!

September 18th, 2006
is the date for Lesjak Planning Corporation's 3rd Annual Charity Golf Classic being held at Red Tail Golf Club. Details will follow.

Stat Bank

8 . . . Number of times the Federal Reserve raised interest rates in 2005.

15,000 . . . Number of tax law changes since the 1986 tax act.

4.1 . . . Percentage increase in monthly Social Security income for 2006, the largest increase since 5.4 percent in 1991.

41 . . . Percentage of workers age 45-54 who have less than $25,000 saved for retirement.

53 . . . The average amount, *in cents*, Americans personally saved in June 2005.

Code of Ethics

The SEC requires that as a management client, you be offered the annual opportunity to obtain a copy of Lesjak Planning Corporation's Code of Ethics. A copy will be sent to you at no charge upon request.

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Information cutoff date: 3/7/06