INVESTMENT LETTER

A PUBLICATION OF CALDWELL TRUST COMPANY

MARKET SNAPSHOT: JULY 31, 2006 DJIA: 11,185.68 NASDAQ: 2,091.47 S&P 500: 1,276.66 10 YEAR TREASURY NOTE: 4.98%

STOCKS

Each day most of us see charts and graphs that show the stock market as moving up and down in no obvious direction. The easy conclusion is that nothing is happening to entice investors to want to buy stocks. The long term Chart on the back of this Letter shows a slightly different and, we believe, a more useful picture. Two exceptions to the long term upward trend stand out, and it is important for stock investors to understand both. The first was the 1960-1980's flat market as inflation was rising sharply, seemingly out of control. The second was the tech boom that pushed stock prices to unwarranted highs in the late 1990's.

Regarding the first exception, it is instructive to note that the stagnating share price pattern coincided almost exactly with the rampant rise in inflation—and the weakening confidence within financial markets that it would or could be checked—lest the U.S. begin to look like a very large banana republic. The Dow Jones Industrial Average peaked above the 1000 mark in the '60's but it took almost two decades before investor confidence was restored sufficiently to allow share prices to finally move back above that mark. Some today are apparently, but wrongly, fearing a repeat of that experience. We say this with confidence because it is now nearly impossible for inflation to move out of control in the modern world where world monetary leaders closely control currency exchange rates.

In the last days of the Carter administration in the 1970's, double digit inflation produced doom and gloom everywhere, and interest rates skyrocketed accordingly. It took a hard line by Fed Chairman Paul Volcker in the early 1980's under President Reagan to tame things, which he did by once again reinstating currency stability and control of money supplies. Rates plummeted and pushed the Economy into a recession that in hindsight was more severe than was preferred by politicians and investors at that time. But once the recession began to subside, the stock market took note of the honest change that was taking place in monetary policy, which coupled with Reagan's efforts to slow out-of-control federal spending, persuaded investors it was time to own stock in our major companies again. The rest is history as the Dow Jones Industrial Average rose from the lowly 1000 level to over 11700 during the course of the next two decades. This was an extraordinary time to have been a stock investor, notwithstanding the few naysayers who still like to refer to that horrific "black October day" in 1987 which today is shown to have been little more than a blip in the long term upward trend.

But, as almost always happens, stock investors got caught up in the high tech boom of the late '90's, which led to what Greenspan referred to as "irrational exuberance." This was the second exception to the trend of the past 60 years—this time taking share prices above warranted levels—especially for young, aggressive newer companies and startups. The DJIA peaked in late 1999 and this time the resulting sudden correction forced share prices back below warranted levels. Stocks have been attempting to climb out of a hole ever since, but just a cursory glance at this Chart shows clearly these two periods were exceptions for understandable reasons, neither of which appear likely to be feared again for a while. Standing out very clearly and starkly, however, is the steady upward share price pattern on this Chart since WWII that is still pretty closely tracking economic growth and corporate profits in the U.S. over this long period.

If anything, there are very few good reasons to explain why share prices are lagging this economic success and still undervaluing our major public companies. We are well aware that there exists considerable doubt and uneasiness. What is actually causing this, however, is not clear. In a current economic environment that is still producing unbelievable increases in corporate profits on a regular basis *(up over 12% in the latest quarter)*, share prices today are most certainly not reflecting how well most companies are faring.

Our own view is that today's lackluster stock market is apparently something altogether different than can be explained by financial fundamentals, as was true over the past half-century. Neither inflation nor exuberance can be said to be potential concerns. Perhaps a good guess

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would be that worldwide terrorism is now the culprit. And, although high oil prices plus the emergence of formerly secondary economies as key players in the world, have both taken place during this period of social unrest around the world, neither are factors of sufficient concern to cause today's current negativity.

CONCLUSION: The pattern of stock prices over a long span of time is both understandable and logical. For an investor seeking to maximize returns on invested wealth, there can be no better vehicle for getting desired results than to buy and own shares of major public companies, both in the U.S. and abroad. Eventually, terrorism must become a manageable social issue that, in the end, can only be remedied by economic success. In fact, prosperity and capitalism may, in the end, prove to be the answer and only those with the patience and heart to stay the course will share with the ultimate beneficiaries, the people around the world.

Roland/Kelly

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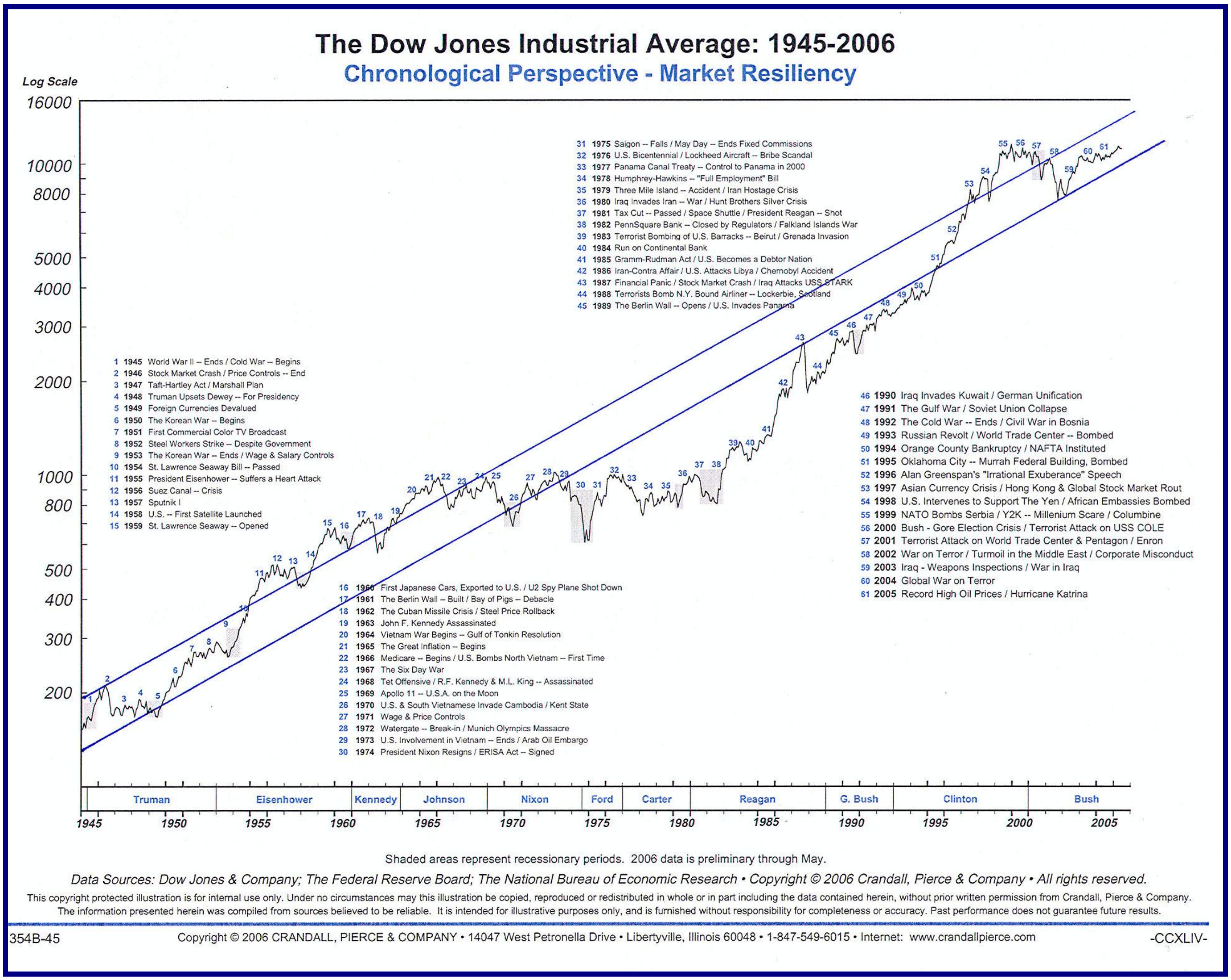

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