

INVESTMENT LETTER

A PUBLICATION OF CALDWELL TRUST COMPANY

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NASDAQ: 2281.39

S&P 500: 1280.66

10 YEAR TREASURY NOTE: 4.55%

A SHOT OVER THE BOW

Every once in a while we come face to face with something that cannot be avoided if investing smartly mandates changes. This Letter is about issues that are now front and center and prompts us to react as soon as possible.

Because the subject has political overtones it is our wish to avoid this quagmire as best we know how, by discussing the causes and effects that are now apparent and let the chips fall where they will. The issue we refer to is what seems to be now obvious regarding the fallout from having allowed the educational system in America to produce inferior results compared to systems in other countries, mainly in Asia.

As most know, America has long outsourced manufacturing to countries with lower labor costs. While this is beneficial to consumers who can purchase goods for less, it has been a catalyst for those bemoaning the loss of jobs here. Until recently this has not risen to a critical point because so many of the exported jobs were in industries using low skill employees, like textiles, shoes, etc. This movement started many years ago and while it impacted some geographic

areas more than others, arguably it has been positive for the U.S. Economy on the whole. At least unemployment and other data suggest the social impact has been highlighted more than the economic impact in the political sphere. We fear the arguments are now being neglected, and in fact may have exacerbated a much more important and vital matter.

A few years ago, reports began to appear in the press of American companies beginning to outsource "services," most notably high tech and related operations. IBM was one of the first to gain nationwide attention as a result of its decision to send some of its software and research work to India because more higher skilled and less expensive employees were available there than here.

A light went on for us after we began to think about all this—how it came to be, where it appears to be heading, and worst of all, what it is signaling to all of us regarding our, until now, recognized superiority in the realm of technology and innovation. We all know America remains the economic superpower, and as such is the engine of world prosperity in most major industrial societies. England held that role before us.

Some of the things that go along with being a country in this role include military and currency supremacy. As a democracy, defense of the free world stayed in the hands of leaders no longer having designs on territory. Likewise, with a free and open economic system, our dollar automatically became the world's "reserve" currency, against which all others are measured or priced in open market transactions.

In other words, there is a lot at stake when winds begin to blow as to whether our strength and supremacy in the area of technology is being challenged because of our political inability or lack of will to deal with a second rate educational system *vis-a-vis* emerging cultures. The discipline of Asians in regard to parental mandating of their children is legendary. As India, China, Japan and other countries advance economically, this discipline produces results that are no longer something America can ignore.

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Caldwell Trust Company

The terrible consequences of continuing resistance by those who become immobilized as a result of having goals that require a seeking of partisan advantage for political purposes are quickly becoming only too obvious.

Each American, regardless of political stripe, wishes only the best for his or her country. This patriotism is undeniable and apparent today even as we debate, legitimately and vigorously the merits of exposing our young to the horrors of armed conflict in far away lands where cultures are completely foreign to our own.

So it can only be described as odd that the public's response to the silent erosion of America's key role in the world remains mired in blatant and unworthy debates about matters that for the most part are now, or should be, relegated to the dustbins of history. It is in the future that we all live, not the past.

Once the realization becomes obvious to the economic world, an investment manager has no choice and is duty bound to make changes. He or she no longer has the liberty to look the other way and cannot wait for the politicians to put into place portfolios that are friendly to, rather than ignorant of, the needed educational remedies. Refocusing client portfolios is exactly what Caldwell Trust Com-

pany is now in the process of doing.

Accordingly, for some months now considerable research and effort has been underway to try to come up with the best way to move ahead so as to re-posture in a way that portfolios are geared to the investment climate we envision over the years ahead.

Recent Letters have dealt with some of the frustrations being confronted as a way is sought to deal with the responsibilities peculiar only to fiduciaries who are charged with conserving and enhancing the financial well being of those who have entrusted them to do just that.

Now it is time to implement some of the products of that research. To that end CTC trust portfolio managers and staff will be in contact over the weeks and months ahead to discuss recommended changes with our clients. We will be including new investment categories that will be an extension of what we have been moving toward for some time, which has been more dependent upon quantitative inputs than in the past. In other words, decisions will be driven by financial fundamentals as always, but will respond a little faster to corporate results that fail to live up to levels that we have set as needed and desirable for stockholders.

CONCLUSION: Stocks will clearly be emphasized, even more than in the past, for reasons that we have spelled out in past Letters regarding the decreasing attractiveness of fixed securities (bonds) in a world that now allows managers to manage risk better, less expensively, and faster. Another change that is anticipated is the inclusion of more companies with exposures to non-U.S. markets, especially those free countries that seem likely to benefit ahead from their own emphasis on educating their people and are increasingly penetrating the high technology areas that seem likely to reward investors best. More will be written and mentioned ahead as CTC continues its efforts to best serve its valued clients and their families in an economic and financial world that is much different, hopefully exciting, and even more rewarding than the familiar one in which most of us grew up.

Roland/Kelly

NOTE: *Looking for a good way to give to charities of your choice, but do it anonymously? Ask us about **Foundation Trust**, Caldwell Trust Company's very own Foundation, that was set up solely as a way to help us and clients help those less fortunate. Call 941-493-3600 for information.*



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