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Enclosed is our quarterly letter we sent to clients.

Market Overview

Our portfolios suffered losses in the 2nd quarter. However, the losses were less than our market benchmarks. Our most aggressive portfolios lost 1.9% vs. the benchmark loss of 2.2%. Despite the down quarter, all-equity portfolios under management returned 14.9% net all fees for the year ending 6-30-06, compared to the benchmark return of 11.4% over the same period.

The markets bounced around quite a bit during the second quarter, with the S&P 500 reaching a year-to-date high in early May before sliding sharply, then recovering at the end of June to finish the quarter down 1.4%. The small-cap Russell 2000 Index dropped 5%, while foreign stocks managed a slight gain for the quarter. Value stocks continued their dominance over growth stocks in the second quarter. Domestic investment-grade bonds and emerging market short-term bonds (local currency) were flat, but commodity futures fared better, gaining roughly 6% over the three-month period.

The past couple of months has seen the equity markets volatility increase, first on the upside and then on the downside. For a few years now, investors seem to have taken comfort in a number of things: the fundamentals looked good in most parts of the world, we'd gone more than three years without a market correction, and there was lots of money looking for a home.

The market's primary worry is clearly the fear of higher inflation and the subsequent rise in interest rates. Aside from the direct damage of inflation, there is risk that the Fed will overshoot in trying to choke off inflation and that higher rates will push us into a recession. The hope among investors has been that the Fed will stop soon and that the economy will slow just enough to bring inflation back within the Fed's targeted range while leaving the economy healthy enough for decent growth. As economic growth has continued to surprise on the upside-and the Fed has continued to raise rates-the risk of an overshoot (and the ensuing recession) has increasingly been on people's minds.

What are the odds that continued inflation will lead the Fed to tighten to the point that the economy ultimately tips back into a recession? Cutting to the chase, we believe that the longer-term inflation picture is not too troubling. Given the sizable rate increases that have already occurred, and signs that the economy is slowing somewhat, our guess is that further rate increases will be limited and a near-term recession isn't too likely. The risk is still there, but even if it materialized, we have the benefit of going into this environment

with stocks already at fairly attractive valuations, so a cyclical bear market shouldn't be too bad, and this could actually set stocks up for nice returns going forward.

Watching stocks go down isn't fun, but the net effect for long term investors is the prospect of increased returns in the future. By objectively looking at the data and considering what it implies in the real world, we can begin to differentiate between a serious long-term threat to investors and the short-term noise that causes many market participants to react based on emotion or fear. In recent years, the fundamentals have been generally good or improving in most parts of the world, so there has been little in the way of market-rattling fear and a notable dearth of attractively priced asset classes. But if investors around the globe do act based on irrational fear, bringing markets lower in the shorter term as they demand a greater premium for taking on risk, we will welcome the opportunities it creates for longer-term investors like us.

Fortune Article

For those of you who are not subscribers to Fortune magazine, you may not have seen my quote in the June 26th issue in the "Can We Talk" article. The subject was how does home equity fit into a retirement plan. For most of my clients, friends and family they will continue to want to own their home, and maybe even a second home. Most people want to stay where they have lived for many years vs. downsizing or moving to a less expensive home.

Great Estate Planning Book

I have read several books on estate planning but recently I found a gem. The "Baby Boomer's Guide to Estate & Medicaid Planning" by Jon Iverson does a great job of putting this complex subject into clear and easy to understand prose. The Medicaid planning section is a little out-of-date since the new law making it harder to qualify for Medicaid was passed last year. Still, after reading this book you will have a good understanding of why everyone needs at least a will, living will and durable power of attorney. He also does a good job of explaining some of the traps people get into and describing real life examples. This one should be put on your required reading list, not only for dealing with your own situation, but also for your parents.

Another 6 Months, Another New Tax Law

This one, signed into law two months ago is called the "Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA). From the name you would think they would not be increasing any taxes. Sorry, but for those who have kids, effective this year the new law increases the age that kids are subject to the kiddie tax from 14 to 18. This essentially subjects the child's income to taxation at the parents rate after a limited deduction. For those of you who use Custodial accounts (UTMA) for the kids, this could increase your taxes.

There is some good news here also. The maximum tax rate on capital gains and dividends of 15% has been extended for two more years through 2010. The higher AMT exemption that was in place last year but scheduled to go down this year has now been extended for 2006. The bad news is the exemption will go down in 2007 under current

law. Go to my web site for the full article at www.CompFinancial.com on the Documents page.

Focus on Fiduciary Campaign

The fee-only financial planning association that I am a member of has initialed a campaign to inform the public about the varying levels of fiduciary responsibility among financial advisors. Go to www.FocusonFiduciary.com to find out more. You can go to my web site to see the "Fiduciary Questionnaire" that I have filled in that demonstrates I have an obligation to work in your best interest at all times. This is why sometimes I may offer advise that you may not want to hear. If I was just a salesperson, I would be trained to find out what you will buy and sell it to you.

Please let me know if you or anyone you know would be interested in learning more about my services.

Sincerely,

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