



January 19, 2007

Enclosed is our quarterly newsletter we send to clients.

Portfolio Overview

Stocks did well in 2006, with smaller-caps continuing their run of outperformance that began in 1999. Small-cap indexes gained a little more than 18%, while the large-cap S&P 500 index gained 15.6%. The value indexes vastly outperformed their growth counterparts across all market caps with the Morningstar composite US Value Index gaining 24.1% and the US Growth Index gaining 6.9%. On the fixed-income side, domestic investment-grade bonds gained 4.3%. Foreign bonds were aided by a currency tailwind, lifting developed markets bonds to a 6.1% gain, while developing local markets short-term bonds (in which we have a tactical position) gained 12.3%. Currency and strong local stock markets helped foreign stock funds earn a very healthy 26.6%. Our commodity allocation lost 2.7% as measured by the Dow Jones AIG commodity index.

The performance of our portfolios for 2006, while good in absolute terms, was below that of our benchmarks, with our all-equity portfolios returning 12.8%. The major factors that benefited our performance were our overweight to foreign stocks and the overall performance of our bond allocation. The major negative factors that hurt our performance were our commodity allocation and our overweight in growth stocks. Some of our managers, most notably Oakmark Select, underperformed their benchmark significantly. For Oakmark Select, their return was 13.6% compared to the benchmark return of 24.1%. Oakmark Select has been managed by Bill Nygren since its inception over 10 years ago and has earned its' shareholders over 17% per year over the last 10 years. We recognize that it is not realistic to expect a manager to beat a benchmark each and every calendar year, since in order to outperform in the long term, a manager has to have the conviction to look different from the benchmark. Going forward, we have a high level of confidence that over the long run Nygren and our other managers will earn their management fees by providing us superior performance.

Economic Outlook

Fed policy was a big driver of the markets in 2006. Today, there is talk of the possibility of a recession that would lead the Fed to begin cutting rates again. In the last eight months, the market went from concerns about rising rates damaging the economy, to relief that the rate hikes were over, to fears of a cyclical recession which would lead to

falling rates and stock prices. In the real world, underlying fundamentals seldom change that quickly. We think the message is that objective analysis that focuses on the long-term is an advantage over being in "reactive mode" by listening to all the "noise" generated by various market pundits.

The big question on most people's minds is will there be a recession caused by the housing market bubble bursting and the high level of private and government debt, and what would the fallout be. A broad analysis last year suggested that while the risk of declining housing prices was very high, the magnitude and spill-over into the broader economy was not sufficiently high to warrant a defensively oriented portfolio move. We're glad we stuck to our guns on that, since a defensive posture would have caused us to miss out on a portion of the very good stock market returns for the year.

Every January Fort Lewis College hosts an Economic Forum here in Durango where several economists present their outlook for the regional, national and international economy. Richard Wobbekind with the University of Colorado and Scott Anderson Chief Economist with Wells Fargo Bank have participated in this event for many years. Scott presented two sets of data that I found compelling. First, despite a \$700 billion decline in housing wealth, the total net worth of all households in the US went up about \$2 trillion in 2006. And secondly, he quoted studies that have determined how consumers change their spending as their housing wealth and investment wealth change. The studies found that for every dollar change (up or down) in investment wealth resulted in 18 cents of spending increase or decrease. In contrast, changes in housing wealth only caused 5 cents of spending change. In other words, our liquid investment wealth is much more important than housing wealth in determining the outlook for the consumer.

Their outlook for the economy in 2007; even as the housing market continues to be soft, the consumer should hold up well enough to prevent a recession in 2007. While nothing about trying to predict what the economy will do is certain, I find their analysis compelling.

Market Outlook

Looking ahead, with some indexes reaching record levels, stocks may for some seem like they should be getting expensive. In fact, stock valuations have not inflated because earnings have risen strongly along with prices. It's worth remembering that the new highs reached by some indexes are only now eclipsing levels that were first seen nearly seven years ago. Stocks actually look somewhat undervalued by most of the measures we use, particularly large cap stocks. Bond returns should be on the low end of their historical range but will still serve our portfolios well by controlling volatility and reducing the magnitude of losses whenever the next bear market comes out of hibernation. We will maintain our allocation to short-term emerging-markets bonds to hedge the risks of a dollar fall against emerging market currencies. We will also maintain our allocations to the commodity index fund, probably buying in the near future to rebalance our portfolios.

Selected American Shares

For most of our portfolios Selected American Shares is our largest holding, representing our core large cap US stock fund. The founder of Davis Advisors, Shelby Davis, wrote a great summary of their investment philosophy and process that I just posted on our web site at www.CompFinancial.com on the Documents page under Articles of Interest. It's a great read and I would point out in particular the section titled "Diversifying for Consistency" where they detail how they diversity their fund holdings. This is the same process we use to diversify our portfolios by using many funds that have low correlations to each other.

Another hallmark of their funds is their extremely long term outlook. The reported turnover in their fund is 4% which loosely represents the percent of their holdings that have been traded over the last year. This low turnover improves the tax efficiency of the fund and also keeps their trading costs down. Most of you are probably not aware that trading fees mutual funds pay to brokerage companies are not reflected in the expense ratios of the funds. Keeping turnover low and using independent mutual fund companies that are not owned by a brokerage company (who will hire themselves to be the broker of course) will enable us to keep more of the returns from our investments.

Shelby has been investing clients money since the 1940s and, along with his grandson Chris Davis the current co-manger of Selected American Shares and the other principals at the firm have over \$2 billion of their own money invested in their funds. This is one of the many reasons why they are only one of 11 mutual funds that got Morningstar's highest stewardship grade overall and in all subcategories out of 1,245 funds evaluated.

Retirement Income Redesigned

Our book of the quarter is edited by Harold Evensky and Deanna Katz and is a compilation of 20 papers from top advisors and educators in the industry. While the subtitle "An Adviser's Guide for Funding Boomers' Best Years" indicates the book is written for the advisor and is rather technical in nature, I would recommend it for anyone who wants to find out what on earth to do with your retirement nest egg once you get to retirement. How much can you withdraw from your accounts and from which accounts? How will funds withdrawn be taxed? How can you assure you will not outlive your nest egg? For most of us Social Security is our only Pension plan, so the risk of outliving our assets is the biggest risk we face. I look forward to discussing your plan at the appropriate time.

Some Milestones In Our Business

Having started our business over three years ago, I recently earned my CFP(R) certification from the Certified Financial Planner Board of Standards. Having done so, I also became a National Association of Personal Financial Advisors (NAPFA) Registered Financial Advisor. The NAPFA standards are the highest in the industry, requiring a fee-only compensation at all times, adhering to a fiduciary standard with all clients and requiring 60 hours of continuing education every two years. I've been a provisional member for three years and have benefited tremendously from my association with many of the best advisors across the country.

I look forward to meeting with you to discuss your financial situation. Please give me a call to set up a time. Thank you for your continued trust and confidence.

Sincerely,

Stan Johnson, CFP(R)
Registered Investment Advisor
CERTIFIED FINANCIAL PLANNER(tm)
Comprehensive Financial Planning, Inc.