

MARKET COMMENTS

A toxic mix of rising oil prices, rising short-term interest rates, and hurricane damage on the Gulf Coast combined to outweigh the continued strength in the domestic economy and keep most major stock indices in negative territory for the year. The Dow Jones Industrial Average did manage a gain of 2.9% in the third quarter, but is still down 2% for the year. The Standard & Poor's 500, up 3.1% for the quarter and is up 1.4% for the year. The NASDAQ Composite Index rose 4.6% during the quarter, but is negative 1.1% for the year. Stock gains have been narrowly focused on energy related companies, health care, and utilities.

Last year a fourth quarter rally propelled the stock market to a positive gain for the year, whether this will happen again is a subject of continuing debate between bullish and bearish investors. Most forecasts call for only a modest stock market gain in the fourth quarter based upon the economic uncertainty of the effect of hurricane Rita and Katrina on the economy. Oil prices continues to remain above forecasted levels and the Federal Reserve has increased short-term interest rates at every Fed meeting this year. Initial post hurricane reports from retailers suggest some sign of a pullback in consumer confidence, and higher oil prices have resulted in slowing sales at low-end discounters, but whether this trend continues remains to be seen.

Politically, President Bush has seen his popularity drop to the lowest level of his presidency and his domestic agenda appears stalled. Chief Justice Roberts has been confirmed and Bush's latest Supreme Court nominee, Harriet Miers, will be reviewed by the Senate. The cost of the two hurricanes should increase the budget deficit, but long U.S. Treasury Bond rates are lower than when the Fed started increasing interest rates in June 2004. Congress may revisit the recently passed energy and highway bills for cost savings.

Despite natural and man-made blows, most domestic diversified stock funds posted gains during the third quarter. The average domestic stock fund posted a gain of 4.7% according to data from research firm Morningstar Inc. Small growth funds were top performers along with international stock funds. Domestic bond funds had a negative return of 0.6% for the quarter, reducing year-to-date performance to 1.4%. Money flows indicate that investors are shifting some bond funds to shorter maturity instruments and other investments.

We continue to be in the bullish camp for the stock market until mid year 2006. Our year end target of 11,400 for the Dow Jones Industrial Average seems unlikely given the stubbornly high level of energy prices. However, with the apparent peak in the housing market in the first half of the year, we expect some real estate investment dollars to rotate back to the stock market. Alan Greenspan retires at the end of January 2006, so only two more increases in short-term rates can occur on his watch. The investment risk in the market is a very cold winter and the blindness of the Federal Reserve. We continue to maintain a short maturity strategy in all fixed income portfolios. Allocation to stock investment is near our maximum.

KEY INTEREST RATES

September 30, 2005

Week Ending	T-Bill 90 Day	CP 90 Day	CD 90 Day	FF Over	Euro \$	TB 1 yr	TN 3yr	TN 10 yr	TB 30 yr
7/1	3.08	3.38	3.46	3.11	3.45	3.46	3.69	3.97	4.31
7/8	3.11	3.44	3.52	3.29	3.50	3.52	3.80	4.09	4.41
7/15	3.15	3.46	3.55	3.22	3.53	3.59	3.89	4.16	4.46
7/22	3.25	3.51	3.59	3.26	3.56	3.68	3.96	4.22	4.52
7/29	3.35	3.55	3.63	3.26	3.62	3.77	4.02	4.25	4.53
8/5	3.41	3.62	3.70	3.29	3.68	3.84	4.10	4.34	4.61
8/13	3.44	3.66	3.74	3.48	3.72	3.90	4.16	4.36	4.62
8/20	3.45	3.70	3.77	3.54	3.75	3.89	4.07	4.24	4.50
8/26	3.46	3.73	3.81	3.52	3.80	3.88	4.04	4.20	4.46
9/2	3.43	3.74	3.81	3.55	3.78	3.77	3.90	4.09	4.36
9/9	3.42	3.71	3.77	3.51	3.75	3.76	3.88	4.13	4.44
9/16	3.40	3.77	3.84	3.49	3.82	3.82	3.93	4.19	4.53
9/23	3.44	3.83	3.91	3.65	3.88	3.88	3.98	4.23	4.56
9/30	<u>3.44</u>	<u>3.89</u>	<u>3.99</u>	<u>3.77</u>	<u>3.97</u>	<u>3.97</u>	<u>4.11</u>	<u>4.30</u>	<u>4.59</u>
Net Change	+0.36	+0.51	+0.53	+0.66	+0.52	+0.51	+0.42	+0.33	+0.28

ECONOMIC STATISTICS

INDICIES

Leading Indicators

Mar	-0.6
Apr	0.1
May	0.1
June	1.1
July	-0.1
Aug	-0.2

Producer Prices

Mar	0.7
Apr	0.5
May	-0.6
June	0.0
July	1.0
Aug	0.6

Consumer Prices

Mar	0.6
Apr	0.5
May	-0.1
June	0.0
July	0.5
Aug	0.5

Unemployment

Mar	5.2
Apr	5.2
May	5.1
June	5.0
July	5.0
Aug	4.9

INDUSTRY

Construction Spending

Mar	-0.2
Apr	-0.4
May	0.4
June	-0.5
July	0.3
Aug	0.4

Factory Orders

Mar	0.7
Apr	0.0
May	4.2
June	0.9
July	-2.5
Aug	2.5

Industrial Production

Mar	0.2
Apr	-0.4
May	0.3
June	0.8
July	0.1
Aug	0.1

Merchandise Trade

Mar	-54.1
Apr	-57.7
May	-56.1
June	-59.5
July	-57.9
Aug	N/A

CONSUMER

Retail Sales

Mar	0.3
Apr	1.8
May	-0.3
June	1.9
July	1.8
Aug	-2.1

Housing Starts

Mar	-4.0
Apr	5.3
May	-4.6
June	2.4
July	1.6
Aug	-2.2

Personal Income

Mar	0.5
Apr	0.7
May	0.2
June	0.4
July	0.3
Aug	-0.1

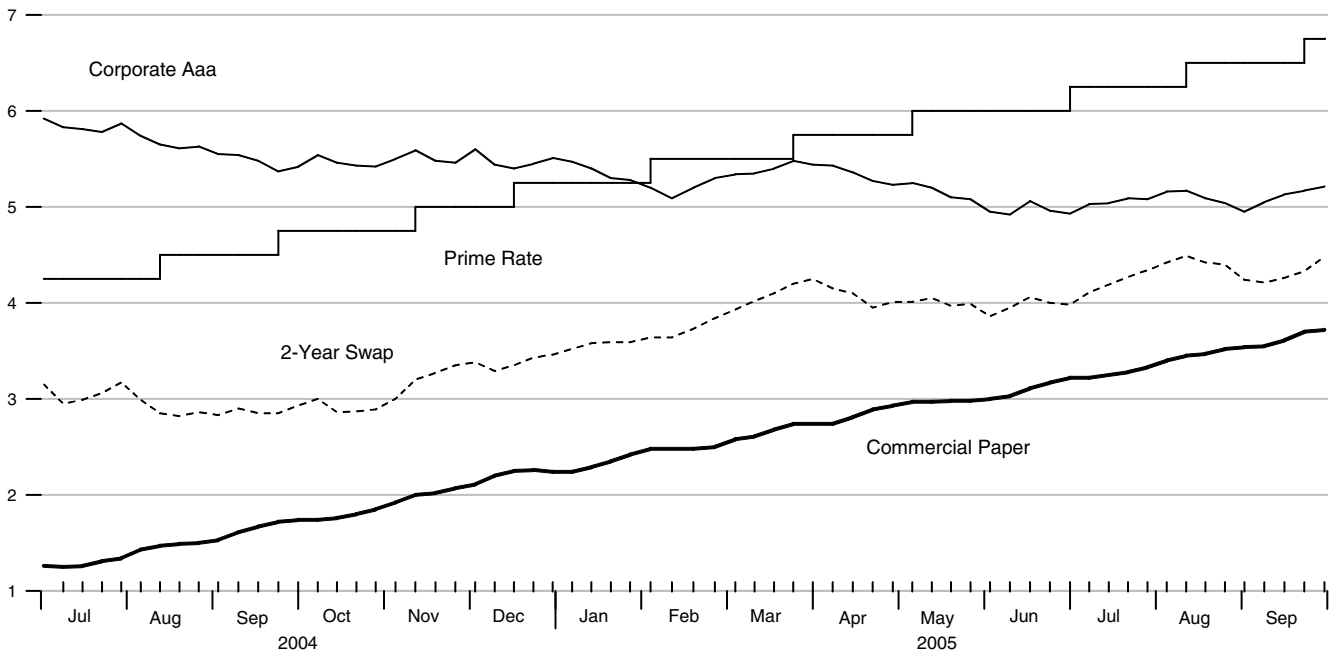
Durable Goods

Mar	-1.5
Apr	0.5
May	7.3
June	1.9
July	-5.3
Aug	3.3

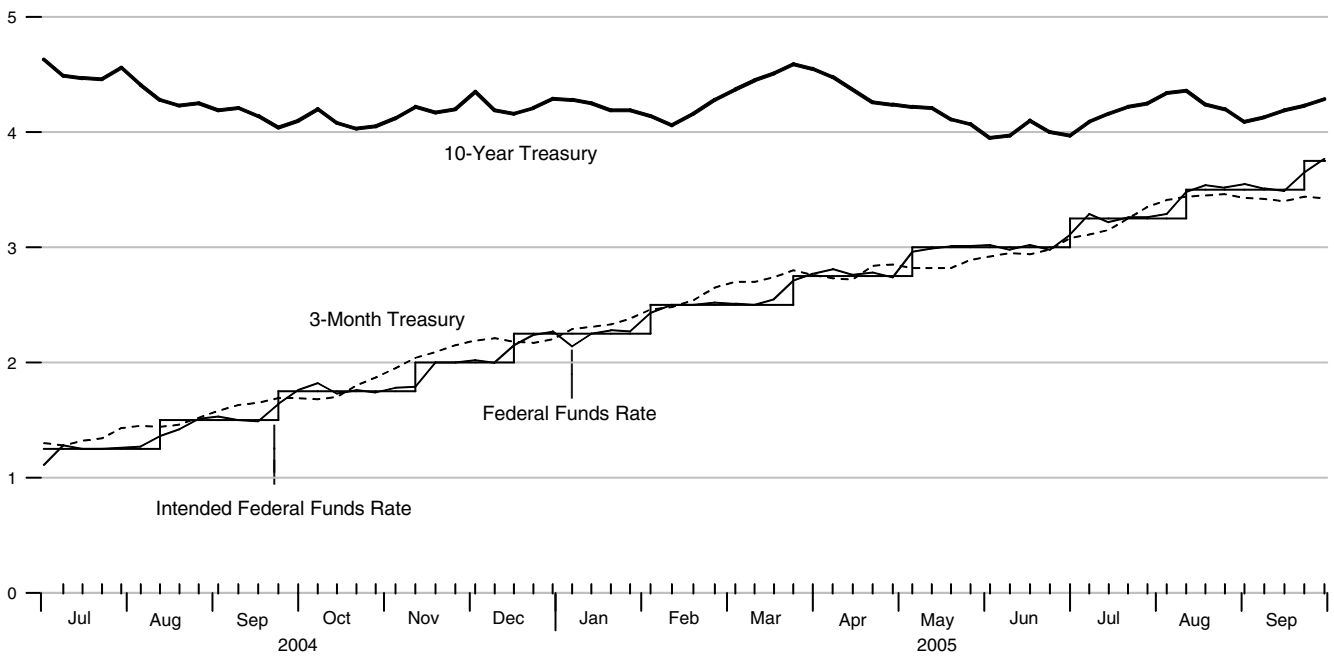
Yields on Selected Securities

Averages of Daily Figures

Percent



Percent



Interest Rates

Percent

		30-Day Comm. Paper	90-Day CDs	2-Year Interest Rate Swap	Corporate Aaa Bonds	Corporate Baa Bonds	Municipal Bonds	Federal Funds	3-Month Treasury Bill	2-Year Treasury Securities	5-Year Treasury Securities	10-Year Treasury Securities	20-Year Treasury Securities
Jul	8	3.22	3.52	4.11	5.03	5.93	4.27	3.29	3.11	3.76	3.87	4.09	4.41
	15	3.25	3.55	4.19	5.04	5.95	4.30	3.22	3.15	3.84	3.95	4.16	4.46
	22	3.28	3.59	4.27	5.09	5.99	4.36	3.26	3.25	3.91	4.02	4.22	4.52
	29	3.33	3.63	4.34	5.08	5.95	4.31	3.26	3.35	3.97	4.07	4.25	4.53
Aug	5	3.40	3.70	4.42	5.16	6.02	4.38	3.29	3.41	4.05	4.17	4.34	4.61
	12	3.45	3.74	4.49	5.17	6.04	4.37	3.48	3.44	4.11	4.21	4.36	4.62
	19	3.47	3.77	4.42	5.09	5.96	4.27	3.54	3.45	4.04	4.11	4.24	4.50
	26	3.52	3.81	4.40	5.04	5.91	4.25	3.52	3.46	4.02	4.07	4.20	4.46
Sep	2	3.54	3.81	4.24	4.95	5.84	4.18	3.55	3.43	3.87	3.94	4.09	4.36
	9	3.55	3.77	4.21	5.05	5.96	4.26	3.51	3.42	3.86	3.93	4.13	4.44
	16	3.61	3.84	4.26	5.13	6.03	4.30	3.49	3.40	3.91	3.98	4.19	4.53
	23	3.70	3.91	4.33	5.17	6.06	4.30	3.65	3.44	3.97	4.03	4.23	4.56
	30 *	3.72	3.97	4.48	5.21	6.12	.	3.77	3.42	4.08	4.12	4.29	4.58

*Averages of rates available

Money Stock and Components

Billions of dollars, seasonally adjusted

		M2	MZM	Currency	Small Time	Savings	Large Time	Retail Money
Aug	8	6533.0	6697.4	710.5	924.8	3562.3	1242.1	698.6
	15	6536.2	6693.2	712.1	927.4	3557.3	1271.5	696.5
	22	6560.1	6718.6	713.3	930.8	3550.0	1287.7	698.2
	29	6552.1	6723.8	714.3	933.4	3532.8	1297.6	699.4
Sep	5	6563.5	6736.3	713.0	936.0	3564.6	1308.7	700.9
	12	6557.0	6736.0	715.2	938.9	3577.4	1305.3	703.9
	19	6592.3	6776.3	715.3	941.6	3588.8	1295.0	706.3

Reserves and Base

Billions of dollars, seasonally adjusted

		Adjusted Monetary Base	Adjusted Reserves
Jul	6	805.078	95.088
	20	808.061	94.233
Aug	3	811.177	96.492
	17	809.129	93.238
	31	812.938	96.090
Sep	14	810.824	96.559
	28	821.095	.

Bank Loans and Credit

Billions of dollars, seasonally adjusted

		Bank Credit	Loans and Leases	C&I Loans (All)	C&I Loans (Large)	Comm. Paper (nsa)	Total Borrowings
Aug	17	7331.8	5270.5	1018.0	497.1	143.4	0.445
	24	7361.7	5294.1	1020.4	497.3	141.5	0.333
	31	7389.6	5303.2	1018.0	494.5	141.3	0.332
Sep	7	7404.5	5328.0	1018.9	496.3	143.9	0.321
	14	7381.5	5308.8	1019.9	495.9	147.3	0.312
	21	.	.	.	.	154.5	0.322
	28	.	.	.	.	143.6	0.350

Exchange Rates

		Major Exchange Rate Index	Broad Exchange Rate Index	Exchange Rate: Euro/\$	Exchange Rate: Yen/\$
Aug	19	84.3	110.7	0.815	109.9
	26	84.1	110.9	0.815	109.9
Sep	2	83.7	110.7	0.810	110.5
	9	83.1	110.0	0.804	110.0
	16	83.8	110.6	0.816	110.6
	23	84.0	110.9	0.823	111.6
	30 *	84.9	111.6	0.831	113.0

*Averages of rates available

