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In our last quarterly client letter, we highlighted the fact that the U.S. stock market had not experienced a 10% decline in more than three years. Given that market history indicates that an investor should expect such a decline about once every year, we concluded that “a stock market correction looms in the future.” While the market continued to trend higher into April and early May, the foreseen correction finally developed. From its May 5<sup>th</sup> peak to a possible June 13<sup>th</sup> low, the S&P 500 fell 7.5%. For the full quarter, though, the index was down only 1.4% and is still up 2.7% year-to-date. Not surprisingly, the technology-heavy NASDAQ Composite and the small-capitalization Russell 2000 Index experienced sharper declines, down 7.0% and 5.0% respectively in the second quarter. Interestingly, foreign stocks were actually up 1% in the second quarter, as measured by the MSCI EAFE Index. The bond market, meanwhile, was essentially flat with the Lehman Aggregate Index down 0.1% in the quarter.

Our accounts were well positioned for the recent market correction. First, in most cases, the stock allocations of our portfolios were below their target allocations. Second, our growing emphasis on managers that focus on very large, high quality, blue chip stocks served us well. The Dreyfus Appreciation Fund (added to portfolios in early 2005) and the SSgA International Growth Opportunities Fund (added earlier this year) were among the better performing funds in the quarter. Finally, our ongoing strategic allocations to the American Century Global Gold Fund and the PIMCO Commodity Real Return Strategy Fund benefited us as both funds rose in the second quarter.

Looking forward, our analysis indicates that the recent market decline will be short-lived and that further market gains await us in the second half of the year. Accordingly, we used the recent decline to modestly increase the equity exposure of many portfolios (where such an increase was appropriate given the specific Investment Policy). This move, however, represents a marginal shift, and was done in the context of our continuing belief that we are still in an extended period where annualized stock returns will only be in the mid-single digits. These are confusing and difficult times for many investors, but we believe that it is in such times that our diversified and risk-averse approach to investing is particularly well-suited.

On a personal note, my wife, Caroline, and I welcomed our second son, Owen David Ackerman into the world on May 22, 2006. Caroline is doing well and Owen is something to behold!

Sincerely,

A handwritten signature in black ink, appearing to read "David B. Ackerman". The signature is fluid and cursive, with a long horizontal stroke at the end.

David B. Ackerman, CFA, CFP  
Partner