

ACKERMAN CAPITAL MANAGEMENT, LP
5956 SHERRY LANE, SUITE 1600
DALLAS, TX 75225
(214) 361-5383

April 24, 2006

The U.S. stock market began 2006 on a strong and encouraging note. In the quarter, the S&P 500 rose 4.2%, and the NASDAQ Composite gained 6.4%. Smaller capitalization stocks and foreign stocks, though, did even better. The Russell 2000 Index, a popular index of small stocks, jumped 13.9%, and the MSCI EAFE Index, the most widely used benchmark for foreign stocks, gained 9.5%. This continuation of the last year's fourth quarter rally and the breadth of the market's advance are signs of a healthy stock market. Further encouragement can be found in the historical ability of the market's January gains to predict the direction of stocks for the remainder of the year. This phenomenon is referred to as the "January Barometer". While its record is far from perfect, we can find some reason for optimism in the fact that since 1950, of the 25 times the S&P 500 has gained more than 2% in January, only three times did the index not rise further in the proceeding eleven months of the year. One area of concern, though, is rising interest rates. The Lehman Aggregate Bond Index fell 0.7% in the first quarter and in recent days the yield on the ten year U.S. Treasury has broken above 5%. Historically, rising interest rates have been a negative for U.S. stocks. Should interest rates continue to rise, a downward correction in stock prices should be expected.

Over a longer-term time horizon, our view of the stock market remains unchanged. We continue to believe that we are in a difficult environment for investors. We are expecting annualized stock returns in the low- to mid- single digits, which is below the 10% to 11% returns enjoyed over longer periods historically. I imagine that these modest gains will be the result of somewhat deeper and perhaps more frequent down years for the stock averages in the future than we experienced in the 80's and 90's. It is important to note that we have not seen even a 10% decline in the S&P 500 in over three years. Such an absence of downside volatility is rare, which is another reason to believe that a stock market correction looms in the future.

Our approach to investing is designed with the knowledge that stock markets, as well as other asset classes, do not always go up. The key to our approach is diversification. Our portfolios, generally, hold varying allocations to high-quality intermediate-term bonds depending on specific risk tolerances. Bonds have historically served as a good way to preserve capital in a falling stock market. Furthermore, most of our portfolios currently hold bond allocations at or above their target allocations, with the expectation that we may increase these allocations later in the year. Most portfolios also hold a commodity index fund and a gold fund, which diversifies us further, as these asset classes have low correlations to the direction of the major stock indices. Finally, within the stock market, we are invested in a number of different funds, (large and small, domestic and foreign)

with different investment philosophies, which means that the decline of any one stock or any one sector should be muted.

We are very proud of the fact that our portfolios held up well in the difficult markets of 2000-2002 (as well as profiting nicely in the rally that has followed in recent years). We are hopeful that our diversified and contrarian approach will continue to generate value-adding gains over the long-term, but more importantly, that we will continue to earn your trust by minimizing losses in more difficult times.

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