

Market Data & Commentary:

Source: Vestek & Frank Russell

Index	Month	Q1'06	1 Yr
S&P 500	1.2%	4.2%	11.7%
Dow Jones Industrials	0.8%	4.0%	8.0%
NASDAQ	2.6%	6.1%	17.0%
S&P 500/Citigroup Value	1.7%	5.9%	16.0%
S&P 500/Citigroup Growth	0.8%	2.6%	7.6%
S&P 500 Equal-Weighted	1.7%	6.2%	17.7%
S&P 400 Midcap	2.5%	7.6%	21.6%
Russell 2000	4.9%	13.9%	25.8%

	Q1'06	1 Yr
Energy	10.3%	40.7%
Materials	15.6%	21.6%
Industrials	15.2%	31.2%
Consumer Discretionary	7.8%	10.3%
Consumer Staples	5.3%	3.4%
Health Care	5.3%	20.5%
Financials	6.1%	16.8%
Information Technology	10.5%	23.2%
Telecommunications	15.9%	23.1%
Utilities	1.5%	7.1%

After a lackluster end to 2005, equity markets welcomed the New Year with a sharp rally. The positive sentiment was fueled, in part, by generally better than expected corporate earnings reports and a belief that the FOMC was close to ending its unbroken string of interest rate increases. Energy stocks, due to higher oil prices, and stocks with the least attractive fundamentals (speculation and short covering) were some of the best performers in January. However, vacillating views regarding the strength of the US economy and the outlook for interest rates and the price of oil resulted in the market muddling through February and March. Major equity index returns: DJIA +4.0%, S&P 500 +4.2% and the NASDAQ +6.1%. More specifically, a number of underlying factors drove the market's performance during the quarter:

•**The Fed kept going and going.** The Fed added a further +0.50% (two +0.25% increases) to the Funds rate, which ended the quarter at 4.75%. The changing of the guard at the FOMC (Mr. Greenspan out and Mr. Bernanke in) passed with little fanfare. Based on current data, the consensus view is that the Fed will raise at least another +25 bps, which would bring the Funds rate to an even 5%. Given the historically low starting point (interest rates were at 40+ year lows when the Fed began this round of increases) we are only now approaching what many believe is a more neutral interest rate level. With this in mind, it likely that the most recent +25 bps increase and any subsequent increases should have a more significant dampening impact on the economy than the previous 10+ increases. With this in mind, the FOMC will likely move ahead cautiously, i.e. pause sooner rather than later vs. risk pushing the economy into recession, in our opinion.

•**Value beats Growth across the board.** Value was the winning style this quarter out-performing during the January rally January and the more subdued performance months of February (flat to negative) and March (moderately positive). Sector weighting, especially in extreme performing sectors, i.e. Energy, Materials, Industrials, Telecom and Utilities, continue to be likely drivers of style performance. For the quarter, the S&P/Citigroup Value index out-performed its Growth counterpart, returning +5.9% vs. +2.6%, S&P/Citigroup Mid-cap Value out-performed Mid-cap Growth +9.1% vs. +6.2%, and S&P/Citigroup Small-cap Value out-performed Growth +14.3% vs. 11.3%. Note: Value out-performed Growth in all but the small capitalization segment of the Russell Indices that we monitor.

•**Small-cap was the place to be!** The equal-weighted S&P 500 index out-performed the cap-weighted version by +200 bps in the quarter (+6.2% vs. +4.2%). Furthermore, the equal weighted index leads the cap-weighted index by +600 bps over the past 12 months (+17.7% vs. +11.7%) and also dominates over the 2, 3, 4, 5 and 10-year time periods. When comparing the cap-weighted indexes, January's speculative rally helped small-cap trounce large-cap, i.e. the Russell 2000 (small-cap) out-performed the Russell Top 200 and the S&P 500 (both large-cap indexes) by +1,070 bps and +970 bps, respectively.

•**Corporate earnings expected to log a 16th consecutive quarter of double digit year over year growth.** Q1'06 operating earnings for the S&P 500 are forecast to grow at just above +11% (y/y). The Energy sector (+45%) remains a key driver of earnings growth. After a dip below 10% in Q2, S&P 500 EPS growth is expected to move back above +10% for the remainder of FY'06. Consumer Discretionary, Financials and Materials sectors are expected to log average quarterly growth of +28%, +22% and +18%, respectively in Q3 and Q4 vs. -2% for the Energy sector. This "changing of the guard" appears to be based on stable interest rates, a pick-up in economic growth and moderating energy prices. Given the uncertain outlook for interest rates and energy prices these assumptions look far from certain.

For the quarter, the Telecommunications sector, up +15.9%, fueled by merger and acquisition activity, was the best performer. The Utility sector, up +1.5% was negatively impacted by a number of factors including: higher bond yields, valuation concerns and a warmer than normal US heating season. For the past 12 months, Energy, up +40.7% was the best performing sector while Consumer Staples, +3.4% was the laggard.

Model Attribution: First Quarter, 2006

Quint	Opt E/I	Earnings	Insider	DDM	Cashflow
5 (high)	10.0%	13.1%	7.0%	6.6%	8.2%
4	8.5%	9.2%	8.8%	8.4%	8.4%
3	9.4%	7.3%	9.1%	9.6%	7.4%
2	9.2%	7.8%	9.2%	9.9%	10.3%
1 (low)	8.9%	8.6%	11.8%	8.5%	11.7%
Spread	1.0%	4.4%	-4.8%	-1.9%	-3.5%

Note: "Spread" is the difference between the returns of the high (5) and low (1) quintiles by each model/measure.

The Shenandoah models posted mixed results for the quarter. The Earnings model, +4.4% was the best performing model. The OPT E/I model also recorded a positive spread, +1.0%. However, the Insider, Cashflow and DDM model spreads were all negative, -4.8%, -3.5% and -1.9%, respectively. The overall strength of the market during the period is exhibited by average returns beginning in the high single digits for all quintiles.

Excluding the performance of the strongest (Earnings - quintile 5) or weakest (Insider, DDM and Cashflow - quintile 1) quintile from our models, the average performance was clustered in the high single digit range (in line with the performance of the mid to small cap indices). This performance pattern is indicative of the sector and industry rotation that occurred during the quarter, primarily in the energy and interest rate sensitive areas of the economy, driving the performance at the model extremes. In addition, the speculative nature of the January stock market rally is reflected in the out-performance of stocks with the weakest fundamentals (quintiles 1 and 2) in all but our Earnings model. The following is an overview of factors that influenced the performance of our models during the quarter.

- **The Earnings model spread was +4.4%.** Monthly spreads were driven by the out-performance of Energy and Technology stocks ranked strongest (quintile 5) by this model, during the market rally in January. The slightly negative and positive model spreads in February and March, respectively essentially cancelled each other out.
- **The Insider Transactions model spread was -4.8%.** Clearly investors were focused on other factors this quarter. The negative spread was due, in part, to the relative under-performance of Financial and Utility stocks ranked best (quintile 5) vs. the general out-performance of stocks ranked weakest (quintile 1). **Note: Insider selling** remained at a **decidedly bearish** level as insiders sold into the market's strength. We believe that this is a **negative signal for the near-term performance of equities.**
- **The OPT E/I model (Earnings and Insider Transactions) spread was +1.0%.** The positive performance of the Earnings model, which is the most heavily weighted model in our process, was dampened by the negative Insider model performance. It is worth noting that, excluding the outsized performance of the stocks ranked strongest (quintile 5) the inter-quintile spread was slightly negative.
- **Our Value both recorded negative results: DDM -1.9% and Cashflow -3.5%.** The performance of the DDM quintiles appears random and driven by sector and industry concentrations within quintiles. The general out-performance of stocks ranked weakest (quintile 1) vs. the under-performance of Healthcare, Staples and Financial sector stocks ranked strongest (quintile 5), negatively impacted the Cashflow model spread this quarter.

The performance of the Shenandoah models during the past 12 months was mixed. The Earnings model, +12.9% (the most heavily weighted factor in our process), and the Insider Transaction model, -2.7% combined to provide an OPT E/I model spread of +10.7%. The valuation model spreads are significantly different; Cashflow +0.4% vs. DDM -8.0%. The disparate performance is due, in part, to the ranking of Energy stocks by the valuation models (a lack of Energy stocks ranked strongest (quintile 5) by the DDM model). The Earnings model has exhibited the clearest inter-quintile spread pattern (monotonic). The Insider and Cashflow model spread pattern is unclear, while the DDM model spread pattern is "upside down", stronger performance from relatively weaker ranked stocks.

Model Attribution: One Year

Quint	Opt E/I	Earnings	Insider	DDM	Cashflow
5 (high)	28.1%	29.7%	19.2%	16.3%	24.1%
4	20.3%	23.8%	23.1%	17.9%	22.1%
3	21.6%	19.3%	21.5%	19.6%	19.3%
2	20.1%	17.9%	21.9%	24.5%	18.1%
1 (low)	17.4%	16.8%	21.9%	24.2%	23.7%
Spread	10.7%	12.9%	-2.7%	-8.0%	0.4%