

Investment Perspective

First Quarter 2006

“Nine-tenths of wisdom is being wise in time.” -- [Theodore Roosevelt](#)

| SFP Core Strategies* | Quarter 1 | |
|-----------------------------|-----------|----------|
| | 2006 | One Year |
| US S&P 500 (Enhanced) | 3.97% | 10.72% |
| US Large Value | 6.21% | 16.86% |
| US Micro Cap | 14.39% | 29.20% |
| US Small Value | 15.04% | 27.71% |
| US Equity Real Estate | 15.40% | 40.31% |
| International Large Value | 12.34% | 29.13% |
| International Small Cap | 11.13% | 29.05% |
| International Small Value | 12.69% | 30.21% |
| Emerging Markets | 10.67% | 42.48% |
| Emerg Mkts Small Cap | 12.83% | 39.54% |
| Emerging Mkts Value | 13.69% | 44.67% |
| Ultra Short Fixed Income | 1.00% | 3.14% |
| Shrt/Inter Global Fixed Inc | 1.00% | 2.50% |
| SFP Model Portfolios | | |
| SFP Income Portfolio | 4.13% | 11.03% |
| SFP Balanced Portfolio | 6.09% | 15.58% |
| Non SFP Std Balanced | 2.14% | 7.64% |
| SFP Aggressive Growth | 8.09% | 19.87% |

Wow! I knew we were having a good quarter, but I didn't realize the magnitude of it until after tallying the final numbers. U.S. stocks were up 4.2 percent, while the overseas markets were up 9.4 percent (as measured by the S&P 500 and the MSCI EAF). These are good solid numbers, but our relative performance was frankly outstanding. Please take a look at the performance table to the left.

As can be seen, just about all the SKAGGS FINANCIAL PLANNING, LLC (SFP) Core Strategies dominated the market averages. This left our SFP Balanced Model Portfolio with a return for the quarter that was nearly triple that of a typical balanced portfolio and nearly double the returns for the last year (see the chart to the lower left) – both portfolios with 60 percent stocks and 40 percent bonds.

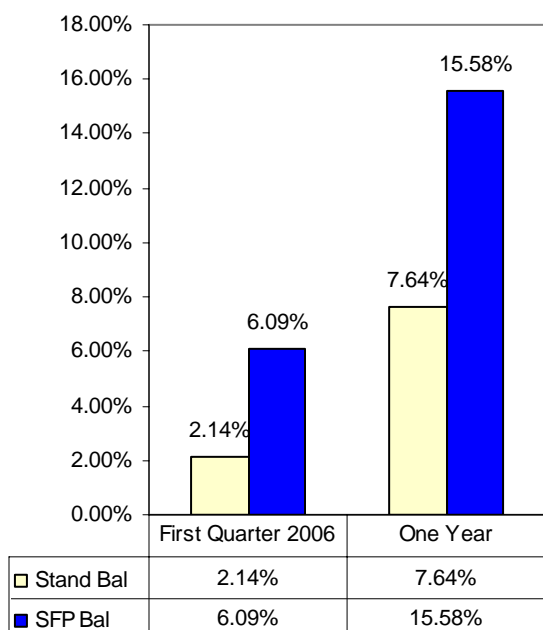
Why? Small companies and value stocks continued to really perform. I would tell you that it won't always be like this, but you already know that.

But wasn't the consensus from the Wall Street gurus yet again that it would be the large company stocks leading the way? Sure, the large caps (S&P 500) returned about 4 percent for the quarter, about 12 percent for the year, and 61 percent for three years. But our small company strategy returned about 14 percent, 29 percent, and 140 percent, respectively.

Our methodical approach takes time and discipline. But picking the best sector or the hot stock can be so ... seductive. And sticking with a passive approach and ignoring Next Big Thing can be so... boring. There's always that siren call: maybe *this* year active management will work.

On occasion, active managers, those who search for what they believe are undervalued stocks, can look pretty good. To illustrate, the S & P 500 Index had a total return last year of 4.9 percent. (The "S&P 500 Index" is the average price of the largest 500 U.S. stocks.) Of the 500 stocks that are in the S&P 500 Index, 91 stocks had a total return of 30 percent or more, while 31 stocks lost more than 30 percent.

Standard Balanced vs. SFP Balanced



But just how easy was it to identify the winners and losers in advance? A clue can be found in an article in *The Wall Street Journal* on March 7, 2005, which listed the ten “best” and ten “worst” companies in the S&P 500 Index, based on the earnings growth for the year that a consensus of analysts predicted (see chart below).

| Analysts' Consensus of the Ten Best and Ten Worst Stocks of 2005 Based on Company's Projected Earnings | | | |
|---|---------------------|----------|------------------------|
| Stock Performance for Year Ending December 31, 2005 | | | |
| Ten Best | Total Return | - | Ten Worst |
| | Total Return | | Total Return |
| Express Scripts | 119.30% | | Valero Energy |
| UnitedHealth Group | 41.23% | | Sunoco Corp. |
| Caremark Retirement | 31.34% | | Advanced Micro Devices |
| Coach | 18.22% | | ConocoPhillips |
| North Fork Bancorp | -2.03% | | Tellabs |
| Stryker Corp. | -7.69% | | Applied Materials |
| Bed Bath & Beyond | -9.25% | | Novellus Systems |
| Zimmer Holdings | -15.82% | | PMC-Sierra |
| Fifth Third Bancorp. | -17.22% | | Ford Motors |
| Dell Computer | -28.82% | | General Motors |
| | | | |
| Average | 12.92% | | Average |
| | | | 19.26% |

There were some big winners on the “10 Best” stocks list. Express Scripts, for example, increased over 119 percent in 2005, as the third-best-performing stock in the S&P 500 for the year. But the 10 Best also included losing stocks for the year like Dell Computer. Dell fell over 28 percent. This happened even though Dell Computer was listed in March 2005 in *Fortune* Magazine’s annual survey as “#1 among America's most admired companies”. Obviously, a money manager who relied on such intelligence as part of a stock-picking strategy might have made a mistake in investing too heavily in Dell.

What if an investor bought all of the Top Ten stocks? The average total return for the 10 Best stocks in the article was 12.9 percent. This, in fact, was higher than the S&P 500 Index’s 4.9 percent return. Pretty good, right?

But the ten stocks with the worst earnings outlook performed even better, with average total return of 19.3 percent! And out of 500 stocks to choose from, Valero Energy, the largest oil refiner in North America, made the 10 Worst list. Valero finished the year as the **#1 performing stock** in the S&P 500.

So here we come to the moral of the story: stock-picking as path to great returns is a waste of time. While it sometimes works, winners and losers can’t reliably be predicted in advance. Investing in a way that gives into emotional impulses can make it exceedingly difficult to succeed in the long run.

We’ll stick with trying to capture the overall market returns knowing that it will not always be fun, but will be successful in the long run. And if we want that possibility for a windfall, then maybe we should just plunk down a dollar for a Lotto ticket.

Thanks for another great quarter and have a wonderful spring!

Sincerely,

Brian J. Skaggs, CFP

The information in this newsletter should not be construed as investment advice. Investment advice is only given in the context of individualized interactions that ideally result in the development of a continually evolving financial plan. *Total returns as measured by the performance of associated DFA portfolios - advisor fees not included. This information is believed to be reliable, but we do not guarantee the accuracy of the information. Past performance is no guarantee of future performance.