Stamper Capital & Investments, Inc.

"Focusing on Upside Potential with Downside Protection Since 1995."

January 2007 Market Commentary

(In this discussion we will go over Stamper Capital's Upside Potential/Downside Protection Analysis on the Economy, Equities, Real Estate, Gold & Silver, High Yield Bonds, High Grade Bonds, and Municipal Bonds.)

First, what happened in 2006 or by the close of 2006?

Dow Jones Industrial Average:	Up 15% for 2006, up 7% from 2000 top
S&P 500:	Up 12% for 2006, still down 6% from 2000 top
NASDAQ:	Up 8% for 2006, still down 52% from 2000 top
Russell 2000:	Up 15% for 2006, up 69% from January 2000
S&P 600 Small Cap Index:	Up 12% for 2006, up 117% from January 2000
CRB Commodity Index:	Down 10% for 2006, down 15% from July 2006 top
Oil:	Down 8% for 2006, down 24% from the July/August 2006 double top
Gold:	Up 14% for 2006, down 15% from May 2006 top
Silver:	Up 36% for 2006, down 13% from May 2006 top
Copper:	Up 64% for 2006, down 27% from the September 2006 top
Real Estate:	A regional asset, most certainly topped around the country between mid-2005 and mid-2006.

U.S. Treasury Rates	1/3/06	1/2/07	Change
3 month bill	4.11	5.04	up 92 basis points
2 year note	4.33	4.79	up 46 basis points
5 year note	4.30	4.68	up 37 basis points
10 year note	4.36	4.68	up 32 basis points
30 year note	4.55	4.79	up 24 basis points

OK, those are the raw numbers but what really happened in 2006?

That is some interesting information. Actually, I find the longer term information more interesting than what happened in 2006. Basically, in the equity markets, the larger categories, the DOW Jones Industrials, the S&P 500 and NASDAQ had a decent 2006 just earning their keep for the risk that was taken but are still definite underperformers since their 2000 tops. However, the winners since 2000 were the small caps, represented here by the S&P 600 Small Cap Index and the Russell 2000 Index.

Also interesting is that most commodities were down over 2006 as evidenced by the CRB index - I bet most people would have gotten that wrong, even after the fact. Even oil was down 8% - and oil is down 24% from the July/August double peak - you don't hear much about "peak oil" these days. While most commodities were down, gold and silver had an up year but both have May 2006 tops from which they dropped by 15% and 13%, respectively to year end. Copper had a huge up year in a parabolic rise but has dropped 27% since its September 2006 lifetime peak.

Real estate is tough since it is really a regional asset and real estate is not as homogenous as stocks or even bonds. However, I think most people will agree in hindsight that it peaked in areas around the country between mid-2005 and mid-2006. (See our **DEFLATION WATCH** WEBLOG and **ELEMENTS OF MARKET TOPS** WEBLOG for plenty of documentation on the real estate market. You can find those pages here: http://www.risk-adjusted.com/).

As for interest rates, the yield curve started the year fairly flat and got even flatter with higher rates across the board and with shorter rates rising more than longer rates. In fact, the curve is mostly slightly inverted currently. However, most bond categories had income that offset the capital losses.

Our Performance is in the table below - You decide if the return was superior for the risk that was taken. The Fund's average credit quality over the last several years has been AA or higher and its duration (a measure of interest rate risk) has been less than three years (of course there are numerous other risks for all investments that we detail on this site):

Morningstar Rankings

Short-term Municipal Bond Funds
Period ending December 31, 2006

PERIOD	Stamper Capital Sub-advised Fund Rank	NUMBER OF COMPETITORS	CATEGORY AVG. TOTAL RETURN	SCI Managed Fund TAX-FREE TOTAL RETURNS	Fund PRE-TAX EQUIVALENT TOTAL RETURN	SCI Managed Fund Share Class
1-YEAR	7	133	2.89%	3.98%	6.21%	I
3-YEARS	1	120	1.76%	3.37%	5.18%	I
5-YEARS	1	85	2.56%	3.74%	5.75%	I
10-YEARS	5	56	3.44%	4.14%	6.36%	A

The pre-tax equivalents are based on the highest federal tax bracket of 35%.
Please see Disclaimer Section Below.

Where we are now (January 2007) - We believe that the commodity peak and downward direction indicates that we are back in disinflation and probably tripping into outright deflation - so we will be keeping an eye on the commodities downtrend. Silver and copper are fairly reliable indicators of where the economy is headed and they are both heading south. Dropping prices of real estate give us more confidence in this forecast. Also, several of the equity indices have recently put in lower lows and lower highs, indicating that we may just have passed a top or are near one and likely a significant one given the record low risk premiums (see below).

Of course, we use our **upside potential/downside protection analysis** in addition to looking trends. First, in our opinion, based on previous analysis posted in our previous annual reviews and in our Weblogs, prices of risky assets are still grossly overvalued. One easy piece of evidence is that Sam Zell, nicknamed "the grave dancer," just sold out his largest real estate holding a month or so ago and is now slyly singing the praises of "liquidity." He plays it a bit coy but basically he indicated that right now there is huge supply of liquidity...and, we add, that when there are boat loads of liquidity, it is almost always the best time to sell. Think about real estate - up till mid-2005 or so huge liquidity enabled quick real estate sales and an up market. Now the lack of liquidity means taking a huge hit on real estate if you want to sell out in any reasonable period of time.

OK, that was too easy so we will provide some additional statistics and analysis. Again, similar to real estate at its top, almost everyone is now bullish on risky equities - almost all broker economists and analysts are forecasting rosy returns and a rosy economy for 2007. This is at the same time that several indicators are signally risky asset prices have no more room to go up (no upside potential) and historically have had very large negative returns from such levels. Indicators flashing no upside potential and no downside protection are:

- U.S. Corporate Option-Adjusted Spreads - now at essentially record tightness even tighter than at the 1998 top (right before the Asian Contagion and Russian Crises)
- Treasury Option Volatility Index - now at essentially record tightness
- Emerging Markets BBB-Rated, Option Adjusted Spreads - essentially at record tightness
- European Credit Defaults Swaps Index, essentially at record tightness
- VIX Index (Chicago Board volatility index for stocks), now at essentially record tightness

Thus, the "yield premium" investors demand to own risky assets, be it junk bonds, stocks, emerging markets equity or debt or even long duration U.S. Treasuries is at a record low. At the same time, **we are seeing record bullishness in all these categories (and in precious metals). We see this record bullishness on essentially all risky asset categories as evidence that there is no one left to become irrationally exuberant** (which would be the end of the recent long term trend in irrational exuberance first highlighted years ago by Fed Chairman, Alan Greenspan). One thing that we think most will agree on (if pointed out to them): all these risky asset categories can't have a good year together at the same time from these record high levels; however, we want to point out that they could all have a terrible year together. In fact, they are all trending together in terms of risk tolerance and liquidity rather than fundamentals. They have all risen as risk tolerance and liquidity have grown to record levels. At the same time, they have all risen as the U.S. Dollar has dropped. We could see a scenario from these exceptionally high valuation levels where prices of essentially all risky assets drop substantially as the dollar rebounds, commodities continue to drop, low quality bonds plummet, long term interest rates rise, liquidity dries up and risk premiums explode from their current record low levels.

Thus, we believe prices of risky assets including stocks, low quality bonds, long term bonds, commodities, real estate, and even precious metals have very poor upside potential and almost no downside protection currently. To us, these risky asset prices are currently priced to "proverbial perfection" and are best avoided until they correct substantially. We continue to recommend high quality, short term bonds to weather this likely storm.

As previously, for us "safety" is the watchword for this decade.

(Posted January 7, 2007)

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Stamper Capital & Investments, Inc. has been the sub-adviser to this Fund since October 1995 and B. Clark Stamper, our President, has been its Portfolio Manager since June 1990.

Past performance does not guarantee future results, and current performance may be higher or lower than the performance data quoted. Investment return and principal value of an investment will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost.

Returns - Figures quoted are total returns calculated for the share class and time periods shown. Performance includes the reinvestment of income dividends and capital gains distributions. Performance does not reflect the deduction of taxes that a shareholder would pay on a fund distribution or the redemption of fund shares. Please go to Morningstar's and/or Lipper's websites for more information.

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