FERGUSON ASSET MANAGEMENT, INC.

Investment Counseling & Asset Management for Individuals & Institutions

Year End Commentary

December 2006

This is a joyous, congratulatory, and upbeat message to you. It is also our hope and prayers for you and your new year. We extend our best wishes for a Merry Christmas, a Happy Hanukkah, and a year of peace for you and all religions.

Joyous, because you have a financial reason to be in a celebratory mood.

I may be presumptuous, but we expect this will be a year of decent, above historical, market average returns. I certainly don't expect any meaningful decline during the next 15 trading days.

The year started out on a positive note with most indices gaining from January through May. Then a number of concerns hit the markets. These included: rising interest rates, worries about inflation, rising oil prices (remember the "experts" predicting $100 and even $200 per barrel oil prices), an eroding housing market, and the deterioration of our military situation in Iraq and Afghanistan.

These worries contributed to three month double digit declines in most major indices. The television financial pundits were scaring investors away from the markets by projecting additional declines of 20% or more. But, a funny thing happened on the way to the crash. Oil prices stopped going up, interest rates stopped going up, and home sales were not plummeting. Mergers were building to record levels as institutions sought expansion by acquisition, believing that the to-be acquired corporations had under recognized "value".

The markets bottomed out during July, and by October, most indices had recovered all of the loss and were making new highs for the year. The domestic and international markets have continued to gain, and as I write this, most markets are near their highs for the year. The S&P 500 is ahead 13% for the year, while the NASDAQ 100 is up just over 9%. The Dow Jones Corporate Bond Index, which was negative for two-thirds of the year, is now ahead a little better than 4% for 2006.

Your personal year-end report will be sent to you during the third week of January. We wait until we have received all, or we hope all, distribution and dividend information from the reporting companies. Returns for most all clients significantly exceed the benchmark for your specific investment approach and risk preferences.

The January Commentary will be our standard year end report with tax information for you. We send additional reports directly to your accountant, with your permission.

Congratulatory, because you are a wonderfully caring and giving person.

We believe we know each of you on a somewhat personal level. You give to your children, parents, charities, and devote time and effort to helping those other than yourself.

We have recommended that some of you establish charitable trusts. This may be especially beneficial to you and those to whom you would like to give, and result in reduced estate taxes. For those of us who do not have such resources or needs, other avenues are available.

We can establish a charitable giving fund with as little as $5,000. You receive a tax deduction, and may direct which charity or charities receive the return on your investment.
These gifts to your charity may be in such a modest amount as $100.00

During 2006 and 2007, those of you over age 70 ½ may give up to $100,000.00 from your IRA accounts without incurring any personal tax liability. Since you already give, it is to your benefit to give from the IRA, but only if over age seventy.

We are delighted to contribute our time and effort to assist you in establishing any such charitable endeavor.

Upbeat, because the financial outlook is positive.

When we read and examine the annual reports of our largest companies, we note that they are optimistic about their ten-year earnings forecasts. Most expect a large part of their profit growth to occur from overseas. A number of countries are dramatically expanding their technology and infrastructure development, and many of our largest domestic corporations benefit because of the goods and services they provide.

Most of the interest rate hikes have occurred, and the latent housing demand has not subsided. Sure, housing prices have softened in many, but not all areas. We are an upwardly mobile, population expanding society, and when we speak with builders or developers, they are already looking at the home supply/demand equation 3-5 years down the road. They see demand exceeding supply.

We do not attempt to forecast where the stock markets will be 12 months from now. We do believe that prudent asset allocation, in keeping with client long goals, will achieve desired results. To that end, we pledge to you a responsible, no conflict of interest management of your assets.

Best wishes from all of us to you and your family for a healthy and happy 2007.