



Les Jepsen

**Investment Management
Retirement Planning
Goal Setting / Achievement**

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Dear Investors,

It's been very warm here this week – hope you are enjoying your summer so far. We've got a class reunion and a Centennial celebration in my hometown in North Dakota next week and looking forward to being there.

How are you doing on your Be, Do, Have List? Take the time to write down the things you really want in your life. Review your goals and your Be, Do, Have List regularly. Writing and reviewing your goals regularly gives you a 10 times greater chance for success. Write down your major goals daily!

To recap 2005, the Large Cap Index gained 3.0%, the Small Cap Index gained 3.3%, the International Index gained 13.3%, the European Index gained 6.6%, the Pacific Index gained 20.9%, the Emerging Markets Index gained 29.9%, the Real Estate Index gained 5.4%, the Long Term Bond Index gained 1%, the Short Term Bond Index lost 1%, the High Yield Corporate Bonds backtracked 3.6% and the High Yield Tax-Free Bond Index was up fractionally. Asset allocation and diversification always work!

So far in 2006, the Real Estate Index is up 12.8%, the International Index is up 6.6%, the Small Cap Index is up 4.2%, the Emerging Markets Index is up 1.5%, the Large Cap Index is up 1%, the Long-Term Bond Index is off 7.3% and the Short-Term Bond Index and High Yield Bond Fund are off 2%.

I understand how you may be feeling right now; the average investor at this point in time is concerned about the inflation and the market the last few weeks. Many investors in market downturns have felt the same way. In October, 2002, just over two years after the general peak of the market, most of the major stock indexes had backtracked between 41% and 52% from their peak in March of 2000. Investing in bonds or cash may have seemed to be a great idea as bonds returned between a positive 22% to a positive 35% in that same 2 ½ year timeframe.

The momentum shifted after October of 2002, and even after the slight turmoil in the equity markets during the last 75 days, the Large Cap Index is up 62%, the Small Cap Index is up 107%, the International Index is up 126%, the Pacific Index is up 114%, the European Index

is up 120%, the Emerging Markets Index is up 196%, the Real Estate Index is up 139% and the High Yield Corporate Index is up 28% in just under 4 years. The remainder of the bond markets have returned anywhere from 3% to 10% comparatively.

Bonds have still been among the best performing indexes since January of 2000; the High Yield Bond Index is currently yielding more than 7.5% annually and the Long Term Bond Index is yielding almost 6%. Bonds are an important part of your retirement and pre-retirement.

One thing is for sure going forward; the markets and the economy will be in constant change. Inflation will be ever-present; energy prices will be fluctuating; negative economic news & political unrest has been present since the beginning of time. We must look at inflation in the big picture. Currently, the inflation figure for all of 2006 will be 4.7%, with higher energy costs causing 40% of that inflation figure. Fuel oil is 25% higher and electricity is 13% higher than 12 months ago, however that is already included in the overall 4.7% total inflation picture.

Other than the year 1990, inflation has been under 5% every year since 1981. The borrowing rate was as high as 21.5% in 1981; the average mortgage interest rate was 17% (as high as 22%) and inflation in 1979 and 1980 was 13.3% and 12.4%. The markets over that historic time period responded and ended up doing quite well. There will be fluctuations in every aspect of the economy and we must be prepared to deal with every scenario, not just the best-case scenario. Mortgage rates in 3 to 5 years could range anywhere from 5% to 12%, gas prices could be \$2.50 to \$4.50 per gallon, oil could range anywhere from \$50 to \$115 per barrel. We are ready for every scenario. If you are redeeming no more than 5%-7% from your portfolio each year in retirement, the inflation factor is built in for you.

The Fed funds rate has moved up in two years from 1% to 5.25% currently. The current prime lending rate is 8.25%, up from 4.0% three years ago. With inflation being 4.7% and the Fed funds rate at 5.25% there's less pressure to move rates higher. That was echoed in new Federal Reserve Chairman Ben Bernanke's positive remarks today.

Thank you very much for your business; it's a pleasure to serve you. As always, the SEC standard disclosure form is available for your review at anytime.

Sincerely,



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P.S. The best and quickest way to reach me is my direct dial (612) 730-7750 and e-mail works great as well at jepsen@msn.com. Thanks!