Client Bulletin
April 2006

Investment Review – We had an unusually good start to the year, with an average net gain of 4.6% across all client accounts for the past three months. The stock market is choosing to see the glass as half full, while the bond market is struggling to stay above water. Cash, or money market yields are now over 4%. For the majority of clients we maintain a balanced approach across different asset classes to reduce risk, while still catching most of the upside when equities move higher. Feel free to call and schedule a review session with us to discuss your individual situation.

Stock Funds – International funds maintained their dominance over domestic funds, with top honors last quarter going to the **American Funds – New World Fund**, (+11.7%). Other holdings posting notable gains were the **Dodge & Cox International Stock Fund** (+9.9%) and **First Eagle Overseas Fund** (+9.7%). U.S. stock funds joined the party with the best returns posted by **Wasatch Small Cap Value** (+9.9%) and **Vanguard Capital Opportunity** (+9.6%). Our energy sector funds popped again, with the exchange traded **Energy Select Sector SPDR** (+8.4%) and the **T. Rowe Price New Era Fund** (+9.7%). Utilities, financials, and health care lagged.

In early March we finally succeeded in getting the new **Wintergreen Fund** approved for purchase through Schwab and initiated positions for our clients. We are expecting good things from this global value offering, and are off to a profitable start with David Winters, age 43, the portfolio manager and experienced value investor who departed Franklin/Mutual Series last year to establish his own firm. Remember who wins the race between the tortoise and the hare? This fund is like a big tortoise, making slow and steady progress forward.

Stocks – Individual stock holdings will vary among client accounts. Top-performing stocks for us over the last quarter came from a variety of industries. Notable winners were entertainment giant **Walt Disney Co.** (DIS), +17.7%; **Qualcomm** (QCOM), +17.9%, the digital wireless leader out of San Diego; our friends at **Charles Schwab** (SCHW) +17.5%; Australian natural resource producer **BHP Billiton Ltd Adr** (BHP), +20%; and networking powerhouse **Cisco Systems** (CSCO), +26%. Our laggards were home improvement retailer **Lowe's** (LOW) - 3.4%; **Motorola** (MOT) -5.7%; **St. Paul Travelers Cos.** (STA) - 5.9%; and **Yahoo!** (YHOO) -17.4%. We have held existing positions and are selectively adding to these issues.

We sold **Chevron Corp.** (CVX) at a profit and re deployed the sale proceeds into **Chesapeake Energy** (CHK) to increase our exposure to natural gas through a well-managed energy company out of Oklahoma City. With a P/E of 9 and high 22% return on equity, it's a good value. Insiders have been buyers in recent months. Chesapeake is one of the largest independent drillers in the U.S. and is levered 92% to natural gas. The company hedged 50% of their '06 production several months ago at $9.09 per mmBTU, up from a recent $7.20 spot price.

Seaspan Corp. (SSW) was featured in a Barron's article and we were attracted by the depressed price and high yield. This Hong Kong based company owns new container ships and charter them under long-term fixed-rate contracts with cargo companies. The article talked about Dennis Washington's Washington Group, one of the largest privately held U.S. companies, creating Seaspan and managing the operation. Its fleet is young and growing, with the oldest ship built in 2001 and the full planned fleet of 23 ships set to be complete in less than two years.

The stock went public on 8/9/05 @ $21/share with a 0.425 quarterly dividend, for an 8.1% yield. You have to love those dividends and our purchase price was below the IPO price. The company is insulated from fuel prices, as customers pay. As global trade continues to grow, owning shares in Seaspan will be a good way to participate.

Fixed-Income Securities – The majority of our clients have completed their working careers and we typically manage the vast majority of their investment dollars. Preservation of capital is always a primary objective, so we layer in a good mix of fixed-income securities to reduce volatility and provide steady interest and dividends to boost our total returns.

Under new chairman Ben Bernanke, the Fed boosted short-term interest rates a 15th consecutive time to 4.75% last quarter, and Treasury bill yields continue to rise. The banks are always slow to react in passing through higher money market rates to their savers, so we have a money market mutual fund with a credible brokerage firm, like Schwab Institutional, to access the current 4.17% yield now available on ready cash with free check writing.

Our fixed-income holdings held up well in spite of interest rates ticking up across the yield curve. With an emphasis on closed-end bond funds and preferred stocks, we earned high dividend yields and actually had price increases on our newer holdings like **PIMCO Floating Rate Fund** (PFL) 8.1% yield, and **Global High Income Dollar Fund** (GHI) 8.5% yield.

We hated to lose **Coastal Finance** preferred with its 8.375% dividend, but the company called it in and paid us the $25/share par value in cash. Most all preferred stocks are callable at par by the company five years after being issued. Our **Maytag** 7.875% preferred jumped in price when the U.S. Justice Department brushed aside anti-trust concerns and approved the company's merger with Whirlpool during the last week of the quarter.

Competitive tax-free yields are harder to find, as we are leery about extending maturities to reach for higher yields. The **Nuveen** and **PIMCO** closed-end municipal funds have done a good job of providing above market yields with reasonable price movement. Using these diversified funds in conjunction with a short-term ladder of individual municipal bonds makes sense for the tax-free portion of a portfolio.

We have also been buying short-term notes from the **Federal Home Loan Bank**, a U.S. government agency with a AAA credit rating. Six-month paper is available at par with coupon rates just under 5%. Unlike certificates of deposit, these notes are not subject to CA income tax.

Schwab eConfirms – In order to qualify for the lowest security commission rates from Schwab, we encourage clients to discontinue paper trade confirmations and go for eConfirms. Last year, Schwab sent out a confirmation email to all clients that needed to be returned to Schwab for eConfirm activation. We have discovered that some clients did not respond and activate this service. If you are still receiving paper trade confirmations and would still like to go paperless, please email lisa@walkerfinancial.com and we'll have Schwab resend a consent email to you.

Schwab eStatements – A second step is required for on-line Schwab statement access. You must activate your account by going to www.schwaballiance.com and clicking on the "Web activate your accounts" link under New User and following the prompts. Feel free to contact Schwab Alliance directly at 800-515-2157 with any questions about this process. Beginning in mid-2006, accounts that are activated to receive statements online will no longer receive paper statements. Monthly email reminders will be sent when statements are ready to view.

Reconciling the Numbers – We have changed our policy regarding the presentation of accrued interest on bonds. In the past, we included accrued interest as a separate line item on our quarterly statements. If we were to put a bond out for bid to sell it, a buyer would be required to pay us any accrued interest since the last regular payment; so including accrued interest was an accurate reflection of the bond's total value. However, Schwab's brokerage statement does not include accrued interest, so we have decided to eliminate it from the quarterly statement you receive from Walker Financial. Our statement will now balance to the penny with your Schwab account statement.

To good health so we may enjoy the fruits of our investment success.

Best regards,
Scott Walker
April 7, 2006