Schaper, Benz & Wise
INVESTMENT COUNSEL
Trusted Advisor for Generations

18 Jewelers Park Dr., Suite 200 | P.O. Box 628
Neenah, WI 54957-0628 | 920.727.1137

Economic and Market Summary

July, 2006

Economic conditions throughout the world are unusually strong yet stock markets are struggling and investor confidence is waning. While U.S. economic growth slowed in the second quarter, ebbs and flows in quarterly GDP growth rates are normal and not always indicative of underlying economic strength. Trend line real GDP growth is 3.5-4% and we expect only a slight deceleration in growth over the next year. Outside the U.S., rapid growth in emerging and developing countries continues unabated. The Japanese economy seems to be in a sustainable expansion and European economic growth is accelerating. Strong economic conditions, low borrowing rates and tight-fisted expense management have led to booming corporate profits. While inflationary pressure continues to build, global competition and strong productivity seem to be governing the rate of increase. We believe that the Federal Reserve's gradual tightening policy of the past few years has been appropriate and is likely to continue until inflation begins to trend lower. This might mean more than one additional increase in interest rates yet this year, which will undoubtedly be a disappointment to many investors. Non-energy commodity prices corrected somewhat in the second quarter, though we suspect there is much more to go on that front as rising interest rates throughout the world begin to impact growth, especially in emerging and developing countries.

We continue to have a cautious outlook toward bonds. Yields have risen over the past year, but remain below levels that we believe reflect underlying inflationary pressure and a fair "real" return of at least 3%. We remain concerned that bond price support from excess foreign government reserves, "carry trade" strategies, and complicated derivatives could reverse, leading to higher "real" yields.

Frustration with our elected government representatives is reaching a fever pitch, particularly with regard to issues surrounding the war against terror, stalled immigration reform and the looming ramifications of our under-financed Social Security and Medicare programs. On a positive note, budget deficit estimates continue to decline, highlighting the benefit of lower tax rates. Despite the Democratic Party's lack of publicly-stated solutions to any of these issues, frustration with the status quo may motivate voters to give Democrats a chance. Potential policy changes are more likely to be negative than positive for investors. Geopolitical flashpoints involving Iran, North Korea and the Israeli-Palestinian conflict are causing nervousness as well. Cumulatively, these political issues are negatively influencing investor confidence.

With regard to stocks, the disparity between strong returns from lower quality cyclical stocks and modest returns from the higher quality consistent growth stocks that our investment philosophy favors has been a defining aspect of the market over the past 2½ years. It has been exasperating to see the stocks of good companies struggle despite posting solid financial results. We believe that the growing popularity of momentum-driven and sector-indexing investment strategies is a root cause of this disparity. As more investors embrace these strategies, a virtuous circle develops and stocks with upward momentum are driven to extreme valuation levels. While earnings growth has been strong for cyclical companies, current growth rates are not sustainable. When economic growth slows, today's virtuous circle could quickly become a vicious circle. Evidently, the collapse of telecommunications and internet stocks after a dramatic run-up in the late 1990's has not educated investors on the pitfalls of momentum-driven strategies. Our philosophy has not changed. Moderating economic growth and attractive valuations should drive improved performance of high quality, consistent growth stocks.

Bradley E. Benz, CFA

To request our SEC Form ADV Part II, please contact Michael L. Wise, Chief Compliance Officer, at the address below.