VTL Associates, LLC
Economic Report

October 2005

Presented by

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October 2005

Capital Markets Overview

THE U.S. ECONOMY

- The U.S. economy shed 35,000 jobs versus survey expectations of a decline of 150,000 jobs. The steep expectation survey was a result of Hurricane Katrina. This drop in payroll followed a 211,000 gain in August. Consequently, September's unemployment rate moved up to 5.1%.

- In August, personal income in the U.S. fell unexpectedly for the first time since January, 2005. This included $100 billion in uninsured losses from Hurricane Katrina. Personal spending fell more than expected, down 0.5%, the largest drop since May 2002.

- Rising prices and falling income contributed to the biggest drop in consumer confidence in 25 years, as reported by a University of Michigan survey released on October 7, 2005.

    - A Bloomberg News survey of sixty-six economists reported expected spending to drop .02% after a gain of 1% in June.

    - U.S. consumer confidence plunged after Hurricanes Katrina and Rita pushed gasoline prices to record highs. The University of Michigan Consumer Sentiment Index fell to 79.9% in September, down from 89.1% in August.

- Inflation adjusted spending on durable goods such as automobiles, furniture and long-lasting items slumped 8.9%. Spending on non-durable goods rose 0.1%, while spending on services, which accounts for nearly 60% of all spending, increased 0.2%.

- In August, automobile manufacturers sold an annual rate of 16.8 million cars and light trucks, trailing July's 20.9 million annual rate.

Capital Markets Overview (Cont.)

THE U.S. ECONOMY

- Manufacturing rose 2.5% in August, the third increase in four months, signaling a strengthening manufacturing sector.

    - Hurricanes Katrina and Rita appear to have had little adverse impact on the manufacturing sector. The sector's strong momentum prior to the two hurricanes hitting the U.S. has likely allowed orders to rise in September.

- Signs of strength in the manufacturing sectors reinforce expectations that the Federal Reserve will continue raising interest rates in an effort to contain inflation. Higher energy prices have pushed inflation near the upper end of the Fed's tolerance zone.

- The Dallas Federal Reserve Chief, Richard Fisher, stated that higher energy prices are causing businesses to become more willing to pass on increased costs to consumers.

October 2005

Capital Markets Overview

THE U.S. STOCK MARKET

- The U.S. Equity Markets have been flat for the year. Despite the strong economy, there is great concern over the impact of rising energy and commodity prices, particularly, the Federal Reserve's willingness to continue increasing short-term interest rates.

- During the first week of October, the S&P 500 was off 2.7% despite the largest drop in oil prices in six months. The Dallas Federal Reserve chief suggested inflation is becoming more of a concern.

- Reductions in earnings estimates are another issue. Analysts have cut projections for many companies outside the energy sector. There have been earnings reductions in 7 of 10 S&P sectors. In the past few weeks, the S&P 500 erased all of its gains for the year.

- The weekly survey of newsletter writers provided by Investors Intelligence indicates that investors are becoming less bullish, with only 49.5% of newsletter writers being bullish, down from 53.2% during the last week of September.

- Large-cap growth as measured by the Russell 1000 Large Growth is up 8.15% for the past year, but flat year to date. Large value as measured by the Russell is up 11.4% for the past year, indicating that the market continues to slightly favor value.

- Small-cap equities are up 12% for the past year with small value generating 12.4% versus small growth at 11.5%. The spread between value and growth is slowly narrowing. We would not be surprised to see growth edge out value in 2006.

- Core equities as measured by the Russell 1000 are up 9.63% for the past 12 months, but only slightly positive year-to-date, with a total 1.28% return through October 7, 2005.

- October has generally been a month where equities struggle. VTL Associates believes a base will build over the next quarter, setting the stage for a positive move for equities in 2006.

October 2005

Capital Markets Overview

THE U.S. BOND MARKET

- The fixed-income markets suffered heavy losses. Interest rates rose as much as 30-35 basis points across the curve.

- The U.S. Dollar Index rose 2% on the strength of increased yields in the U.S.

- The three-month Libor moved steadily higher finishing up 20 basis points for the month of September.

- High quality agency and corporate debt provided the best relative returns during September. Treasuries, lower duration mortgages and asset backed indexes returned -0.56% and –0.24, respectively. Treasury Inflation Protection Securities ("TIPS") declined 0.14%

- Bond market sentiment soured from the prior month, as the combination of persistent signs of price inflation and the likelihood of another Fed hike loomed over the market.

VTL ASSOCIATES, LLC — September 2005

Bond Market Watch

(Absolute Total Returns)

Ryan Labs Indexes	2000	2001	2002	2003	2004	2005	Month
2 Year Indexes							
Treasury	7.44	7.93	6.87	2.10	0.97	0.45	-0.37
FHLMC	8.07	8.81	7.19	2.39	0.84	0.34	-0.34
FNMA	7.50	8.92	7.51	2.42	2.14	1.35	-0.36
AAA Corporate	9.19	9.59	8.30	2.71	0.78	1.44	-0.42
AA Corporate	8.82	10.32	9.46	4.00	1.75	0.83	-0.47
A Corporate	8.76	9.81	9.38	4.79	2.42	1.19	-0.40
BBB Corporate	6.23	10.41	6.53	9.16	3.20	1.50	-0.42
5 Year Indexes							
Treasury	12.00	7.11	12.53	2.70	2.15	0.05	-1.21
FHLMC	11.45	9.63	13.29	2.90	3.52	0.70	-1.49
FNMA	11.87	9.49	13.73	1.55	2.94	0.68	-1.21
AAA Corporate	12.23	9.94	12.82	4.05	3.30	1.01	-1.00
AA Corporate	11.02	10.73	13.06	0.98	3.63	0.87	-1.09
A Corporate	10.20	10.32	13.43	6.78	4.74	1.54	-1.17
BBB Corporate	10.91	9.83	8.89	11.84	5.74	0.28	-1.21

Ryan Labs Indexes	2000	2001	2002	2003	2004	2005	Month
10 Year Indexes							
Treasury	14.54	4.44	15.80	1.38	5.06	1.93	-2.13
FHLMC	15.07	7.28	17.31	2.85	6.79	3.08	-2.05
FNMA	15.30	7.34	17.41	1.70	6.46	4.13	-1.87
AAA Corporate	15.90	7.37	14.36	4.77	6.23	2.47	-1.80
AA Corporate	12.10	7.91	14.48	5.60	6.02	3.11	-1.70
A Corporate	10.91	10.06	15.45	7.06	6.93	2.60	-2.04
BBB Corporate	10.26	9.54	7.63	13.65	7.70	1.79	-1.91
30 Year Indexes							
Treasury	20.25	4.18	16.17	0.77	8.86	7.30	-4.04
FHLMC	20.24	5.35	19.32	2.26	11.52	8.85	-2.77
FNMA	22.06	5.51	19.15	2.02	11.12	8.39	-3.54
AAA Corporate	16.06	12.14	16.89	5.86	10.45	5.87	-3.52
AA Corporate	11.95	12.30	17.30	6.60	9.09	4.80	-3.85
A Corporate	9.93	13.71	16.58	7.45	10.56	4.88	-3.98
BBB Corporate	8.90	11.65	6.67	17.08	10.90	1.39	-3.78

Source: Ryan Labs Risk/Reward Monitor