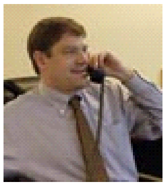
INVESTMENT UPDATE NEWSLETTER
ALLEN TRUST COMPANY

APRIL 2006



William A. Harris, CFA
Portfolio Manager

First Quarter review

As this first table shows, 2006 started off well for stock investors and poorly for bond investors. Generally your portfolios reflected those results, though with less pain than was felt by the broader bond market. Allen Trust's equity portfolios edged past their S&P 500 benchmark, while our bond holdings beat their Lehman Aggregate benchmark by nearly 80bp – not an insignificant margin when you're talking bonds, but still just better than breakeven in absolute terms.

Total Return, First Quarter 2006	
Allen Trust Equities	4.79%
S&P 500	*4.21%*
Allen Trust Bonds	0.15%
Lehman Agg Bond	*-0.64%*

Bond Market: Breaking Downward
When I opened the year reflecting on 2005's range-bound yields and the flat term structure of interest rates, I emphasized the relative superiority of short maturity issues. And my explanation (in February's newsletter) that "low duration fixed income portfolios can provide a brake on losses <if the bond market deteriorates>"pretty well sums up how our bond holdings stayed nose-above-water while most of the market was slipping underneath.

Let's put some numbers on what has happened. In 2005, the 10-year Treasury yield poked about between 3.9% and 4.6%, and finished the year just 0.15% higher. As of this writing, however, the 10-year bond has jumped 68bp since we sang *Auld Lang Syne* and breached the 5.0% line for the first time in almost four years. Whether crossing 5.0% proves to be just a psychological threshold or a movement of some deeper, tectonic significance remains to be seen. Either way, the tidy range that made last year seem so placid is a goner.

Remember, higher yields mean lower bond prices. This can be lousy if you already own bonds, but it can be a good thing if you are periodically buying more, as is the case for most of you, given our preference for short ladders since 2004. When the short pieces we've been buying mature, you'll have cash to take advantage of significantly higher rates. In other words, whereas the story in recent years was unfavorable to income portfolios from a cash flow perspective (as higher-yielding bonds matured only to be reinvested at rock bottom low yields), now the opposite situation prevails: you're able to reap cash as you reinvest from maturing low-yield bonds to new positions with higher yields. Current beneficiaries of net income trusts in particular should cheer.

Stock Market: Broad Strength
The table below disaggregates the S&P 500's performance by industry and paints a picture of a market finding few faults with itself.

S&P 500 Sector	1Qtr06	Weight
Energy	8.6%	9.6%
Materials	6.8%	3.1%
Industrials	6.5%	11.5%
Consumer Discretionary	2.7%	10.2%
Consumer Staples	1.0%	9.3%
Health Care	0.9%	12.9%
Financials	2.6%	21.0%
Information Technology	4.0%	16.0%
Telecommunications	13.4%	3.3%
Utilities	-2.1%	3.2%

The sole sector in negative territory was Utilities, which is partly explained by the rise in interest rates (utilities being stocks historically favored for their bond-like dividend streams) and perhaps also by mean reversion (as Utilities handily beat every sector but Energy last year, it's not surprising that they'd surrender some gains). Telecom's double-digit rally reflects both an addition of pre-acquisition premia to takeover candidates as the industry consolidates and a recovery of ground given up last year, when the sector (in our opinion) overshot to the downside.

Next month I will have more to say about stocks, and particularly about the meaning of "Core."

William A. Harris, CFA
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Firm News

Allen Trust Company welcomes Edwina Swart, a former US Bank trust officer with decades of experience in trust administration and estate settlement. Our clients and we are lucky to have you, Edwina!