



JANUARY 2006 — MARKET REPORT

HAPPY NEW YEAR!!

With our Model Portfolio tripling the S&P 500 index in 2005, we certainly enter 2006 on a high note. While we are proud of our work in the past year, we remain focused on the future.

The good economic news may be harder to ignore. GDP continues to be stronger than anticipated with the third quarter being revised up to a 4.3% annual rate. Core inflation fell in the third quarter. U.S. corporate profit growth using pre-tax National Income Product Accounts (NIPA) data rose 16.5% above the third quarter of 2004, which is astounding considering the third-quarter hurricanes and the spike in oil prices. Consumer confidence is up again, and even the housing statistics are stronger than expected.

We continue to believe that the economy is robust and the companies with a high level of cash will keep potentially negative influences at bay in 2006. We have previously mentioned the different strategies available to companies who have enormous amounts of cash: mergers and acquisitions, record amounts of share buybacks, increased dividends, and upgraded information systems. One item we may see more of in 2006 is an increase in wages to employees. In the past three years, corporate profits have grown 60% and wages only 10%. We have unemployment at the lowest levels in decades and companies poised to increase wages. This bodes well for consumers. As we see home prices stabilize and wonder where the U.S. consumer will find money to spend, it may come from their paychecks.

Over the past several years, earnings, revenue and cash flow are on the rise, yet stock prices are lagging behind. Stocks are building up pressure for a big catch-up move. Look at the Dow Jones earnings:

2002 -- +11.4%
2003 -- +13.5%
2004 -- +17.4%
2005 -- +16% (projected)

During this four-year period in which the Dow's earnings rose 78.7%, the Dow index rose only 7.9%! We see this as a major reason to not feel threatened by some trading turbulence in today's market. We believe that the downside risk is minimal and the upside potential is great.

All of this allows us to view the stock prices as attractive. We happily hold and buy U.S. stocks waiting for the inevitable upswing. Just think of where we would be if we got out of the market when the habitually negative screamed for us to stay away a couple of years ago -- the 15% returns in 2004 and 2005 would be replaced with 2% money market returns!!

In 2005, The Palmer Knight Company established a corporate website (www.palmerknight.com), had some of our work published in the Jacksonville Business Journal, and we signed a lease for new office space in the soon to be restored and renovated Medical Arts Building in Five Points. Hopefully, we will move the latter part of February. We are very pleased with not only the growth in our portfolios, but also with the growth of the Company.

We are very appreciative for your support!