

Lowly Analyst Newsletter

Volume 6, Issue 9 September Free Newsletter

Website www.CurtFey.com

In this issue:

The Economy and the Market

Fundamental Index Funds

Xerox 401(k) Funds

The Economy and the Market

US Consumer prices rose at an annual rate of 4.3%. Rise in oil prices is a tax on consumer spending. Retirement may cost you more than you think. The Federal Reserve gives no clear signals on interest rates; periods of transition usually don't end well. The economy is slowing.

The biggest concern is how soon and how hard will residential housing hit a floor? REIT's are usually not affected by weakness in residential markets. They invest in business rentals and apartments. As housing becomes expensive, apartments become more attractive.

Rising housing prices were confined to about 1/3 of the country. So a fall in housing prices is large enough to have a significant effect on the economy. The key ratios to watch are housing price to income now 3.8 and rental income to housing. Both suggest that housing is overpriced. The Rochester area did not participate in the boom and the fall in housing prices.

Stocks tend to bottom in the months before elections and historically decline in September.

Asset Classes: For the 6 months, REIT up 12%, natural resources 8%, large-value up 6%, small value 6%, small growth 6%, mid value 4%, large growth -1%, mid growth -4%, microcap -5%.

Sectors: For the 6 months, gold up 11%, utilities 9%, energy 8%, telecom 8%, consumer goods 6%, financial 4%, financial services 4%, basic materials 3%, technology -4%.

Foreign Investing: For the past 6 months Peru up 43%, China 28%, Russia 19%, Venezuela 17%, Indonesia 16%, Poland 15%, Britain 11%, Spain 11%, France 10%, Netherlands 10%, Belgium 9%, Sweden 9%, Thailand 9%, Switzerland 9%, Pacific Rim 8%, Developed Countries 8%, Latin America 6%, India 6%, Canada 5%, Europe 4%, Australia 3%, Pacific Rim 3%, US 2%, Emerging Markets -1%.

Fundamental Index Funds

1. Introduction

This is a continuation of the discussion of Index Funds in previous Newsletters. All these funds were market capitalization (price times shares outstanding) weighted, as is appropriate for benchmarks for which they were constructed.

It has been shown that different weighting schemes have higher returns and lower risks and are hence more suitable for investing.

These funds are called fundamental Index funds. They will be discussed in this newsletter.

In June 06 Wisdom Tree introduced a series of indexes and Mutual Funds that use dividend yields and total dividends paid as weights. In their short history, they have lived up to their expectation. The dividend indexes are weighted by total dividends paid; the high yielding indexes are weighted by dividend yield (annual dividend divided by share price).

Because of the short history we can only discuss the indexes and not the funds. All US data is for the period from 1964 through 2005, international indexes for 1996-2006. We show the ticker of the corresponding fund, the annualized total return, annualized volatility, and the Sharp Ratio. The Sharp Ratio is the average annual excess return (return minus 3 Month Treasury Bill rate) divided by the volatility. We compare the fundamental index to the capitalization weighted one. The data, except foreign small caps, comes from Wisdom Tree.

2. WisdomTree Domestic Index Performance WisdomTree Dividend Index DTD:

	RTRN	Volat	Sharp
Index	11.9%	13.3%	0.53
Total US Market	10.6%	15.2%	0.40
Dividend Yield	3.2%	Expenses	0.28%

WisdomTree LargeCap Dividend Index DLN:

Index	11.2%	13.3%	0.48
US Large-Cap	10.3%	14.8%	0.38
Dividend Yield	3.0%	Expenses	0.28%

WisdomTree MidCap Dividend Index DON:

Index	14.1%	15.1%	0.64
US MidCap	12.8%	17.6%	0.49
Dividend Yield	3.7%	Expenses	0.38%

WisdomTree SmallCap Dividend Index DES:

Index	15.8%	16.1%	0.75
US Small Cap	13.3%	21.0%	0.49
Dividend Yield	5.4%	Expenses	0.38%

3. WisdomTree High Yielding Equity Indexes**RTRN Volat Sharp****WisdomTree Hi-Yielding Equity Index (DHS):**

Index	13.6%	12.9%	0.69
Top 30% Market Cap	10.2%	14.8%	0.38
Dividend Yield	4.3%	Expenses	0.38%

WisdomTree Dividend Top 100 Index (DTN):

Index	12.9%	13.5%	0.61
Top100 Market Cap	9.7%	14.6%	0.35
Dividend Yield	3.9%	Expenses	0.38%

4. WisdomTree International Dividend Indexes**WisdomTree DIEFA (International) DWM:****RTRN Volat Sharp**

Index	11.6%	13.9%	0.66
MSCI EAFE Index	6.2%	14.9%	0.29
Dividend Yield	3.7%	Expenses	0.48%

WisdomTree Intl LargeCap Div Index DOL:

Index	10.7%	14.5%	0.57
International LargeCap	5.6%	15.4%	0.25
Dividend Yield	3.6%	Expenses	0.48%

WisdomTree Intl MidCap Div Index DIM:

Index	13.6%	13.6%	0.82
International MidCap	8.6%	14.4%	0.48
Dividend Yield	3.9%	Expenses	0.58%

WisdomTree Intrntnl Small Cap Div Indx DLS:

Index	15.8%	13.9%	0.98
International SmallCap	9.4%	15.6%	0.54
Dividend Yield	4.0%	Expenses	0.58%

WisdomTree Europe Dividend Index DEB:

Index	12.9%	14.6%	0.72
MSCI Europe Index	9.8%	15.8%	0.50
Dividend Yield	3.9%	Expenses	0.48%

WisdomTree Europe Small-Cap Div Indx DFE:

Index	18.4%	14.3%	1.10
Continental Small Co	14.0%	14.4%	0.76
Dividend Yield	4.4%	Expenses	0.58%

WisdomTree Japan Dividend Index DXJ:

Index	2.0%	19.2%	0.06
MSCI Japan Index	0.0%	20.4%	0.0%
Dividend Yield	1.4%	Expenses	0.48%

WisdomTree Japan Small Cap Div Index DFJ:

Index	3.3%	22.4%	0.03
Japan Small Co	0.6%	26.2%	-0.1
Dividend Yield	1.4%	Expenses	0.58%

WisdomTree Div Index of Pacific Region (Ex-Japan) DND:

Index	12.0%	19.5%	0.52
MSCI Pacific Ex-Japan	5.9%	20.8%	0.25
Dividend Yield	4.3%	Expenses	0.48%

International Dividend Top 100 Index DOO:

Index	14.5%	14.3%	0.85
MSCI EAFE Value	8.6%	15.2%	0.43
Dividend Yield	4.4%	Expenses	0.58%

5. WisdomTree Hi-Yielding Intl Indexes**WisdomTree DIEFA Hi-Yldng Equity Index****DTH:****RTRN Volat Sharp**

Index	15.7%	14.6%	0.89
MSCI EAFE Value	8.6%	15.2%	0.43
Dividend Yield	4.7%	Expenses	0.58%

WisdomTree Europe Hi-Yielding Equity Index**DEW:**

Index	15.9%	14.4%	0.92
MSCI Europe Value	12.5%	16.8%	0.63
Dividend Yield	5.0%	Expenses	0.58%

WisdomTree Japan Hi-Yielding Equity Index**DNL:**

Index	4.4%	20.0%	0.16
MSCI Japan Value	2.4%	20.5%	0.10
Dividend Yield	1.9%	Expenses	0.58%

WisdomTree DIPR (Pacific Region Ex-Japan)**Hi-Yldng Equity Index DNH:**

Index	16.8%	19.1%	0.74
MSCI Pacific Ex-Jap Val	7.4%	22.9%	0.28
Dividend Yield	6.3%	Expenses	0.58%

6. Other Fundamental Index Funds

iSharesDow Jones Dividend Index DVY: 100 of the highest dividend-yielding securities in the Dow Jones U.S. Total Market Index, weighted by Div/Shr. Risk Grade 46, Volatility 12.3%, Large Value 40%, Expenses 0.40%. Yield 3.2%

FTSI RAFI US 1000 PRF: Selects and weighs components on a number of fundamental factors. Risk Grade 54, Volatility 12.5%, Large Value 40%, Expenses 0.40%. Yield 0.06%

Morningstar Dividend Leaders FDL: The index consists of the top 100 stocks, based on dividend yield, weighted by dividends of free float (shares available to public). Risk Grade 49, Volatility 19%, Large Value 90%, Expenses 0.45%, Yield 2%

Power Shares in 2003 launched a family of funds based on the Intellidex™ Index that uses rules-based quantitative analysis.