Schaper, Benz & Wise
INVESTMENT COUNSEL, INC.

Economic and Market Summary

April, 2006

The worldwide economy is booming. The economies of China, India and many other developing countries are leading this growth. The U.S. economy is growing at a steady 3-4%. Japan's economy is beginning to function normally again after more than a decade of dormancy. Even Europe is experiencing faster, though still sub-par, growth. There are positives and negatives associated with these booming conditions. The most obvious positives are strong corporate earnings growth and increased consumer spending power due to rising employment and compensation. The most significant negative associated with the current boom is the inflationary pressure that is building due to many years of underinvestment in basic necessities such as oil, coal, copper, iron ore and other industrial commodities required to support growth, particularly in developing countries. We believe, however, that these pressures will ease. Normal market forces are already driving significant investment into exploration, mining, machinery and other infrastructure-related areas, which will lead to increased supply. Also, rising interest rates throughout the world are likely to moderate economic growth somewhat, which should help to relieve pressure on commodity prices.

In the U.S., we expect Real GDP growth of 3-4% in 2006. Inflation, as measured by the CPI, was 3.6% on a yr./yr. basis, down from a peak of 4.7% last September. Looking forward, inflation indicators are decidedly mixed. We expect the CPI to trend down and core inflation (CPI excl. food and energy) to trend up slightly during 2006 converging at roughly 2.5% later this year. Regarding oil price worries, we believe that supply and demand fundamentals support oil prices well below the current $70 range. Geopolitical issues and hoarding by oil intermediaries to protect against supply disruptions are supporting current price levels. We expect labor costs to begin exerting upward pressure on inflation due to the tightening labor market. It is notable that the 10 yr. moving average for the Gross Domestic Product Price Index has ticked up for the first time in over 20 years. Disinflation has been a core component of the U.S. economy and a key driver of declining nominal and real interest rates since the early 1980's. An upward shift in the long-term trend of inflation could negatively affect pricing of financial assets, particularly bonds. We continue to have a cautious outlook toward bonds despite the increase in yields over the past 2 quarters. 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. The Federal Reserve is signaling that it will increase the federal funds rate another .25-.50% from today's 4.75% level. If the economy remains as strong as it is currently, further increases beyond that are likely.

We are frustrated with the foibles of our elected leaders in Washington D.C. Strong federal revenue growth has been offset by uncontrolled, politically-driven spending, which has resulted in persistently large budget deficits. To foster continued economic strength, it is particularly important that the 2003 tax cut on investment income is preserved and that protectionist legislation is not enacted.

We expect corporate profit growth to be about 10% in 2006. Since the last cyclical peak in 2000, profits for the S&P 500 are 35% higher while the S&P 500 index is 14% lower. Valuations (PE ratio) on stocks have declined 42% from 26.4x to 15.3x. During this period, valuations on real estate and commodities have soared. Our outlook for the stock market remains positive. Moderating economic growth should favor larger, consistent growth companies. Cyclical companies that have benefited from booming growth the past few years are, likely, now experiencing peak earnings.

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