Schaper, Benz & Wise
INVESTMENT COUNSEL, INC.

Economic and Market Summary

January, 2006

Despite headlines to the contrary, U.S. economic growth is performing well and is on very sound footing leading us to believe that Real GDP growth of 3% or more is likely in 2006. We're also increasingly optimistic that inflation will remain contained at 2-2.5% for the year. As we suspected, the impact on growth and inflation from last year's hurricanes was temporary. Improving economic conditions in Japan and Europe are also encouraging developments for equity investors.

There are four primary components of economic growth and for the first time in recent memory, we believe all four will be positive contributors in 2006. 1.) Consumption growth, which has been the primary driver of growth since 2002, will likely slow in 2006. Higher mortgage rates and a softer real estate market will reduce the stimulative effect that refinancing-led home equity withdrawal activity has created in recent years. However, strong job creation and accelerating compensation growth will provide a positive offset. 2.) Investment will continue to be a driver of growth. Corporations are flush with cash, financing is readily available and cheap, capacity is tightening, and improving worldwide economic conditions are creating growth opportunities. 3.) Net exports are poised to become a contributor to growth as opposed to a substantial detractor in recent years. Slightly slower domestic consumption, rising consumption in foreign markets, declining oil prices and a weak dollar are all variables arguing for better trade performance in 2006. 4.) Government spending will also contribute to economic growth, but this isn't necessarily good because it tends to be inflationary and prevents useful resources from participating in more productive activities. Of these four components, the outlook for U.S. consumption is most critical. Consumer debt and debt service levels are above historical norms and if interest rates rise too much, problems could result.

We continue to expect bond yields to rise, but we've tempered our pessimism due to our more constructive outlook for inflation. We expect reported inflation to trend down and core inflation (ex. food and energy) to trend up during 2006 converging with each other in the 2-2.5% range by mid-year. While energy and materials prices remain stubbornly high, increased supply should eventually force prices back down. Booming conditions for mining and construction equipment throughout the world support this view. We also believe that rising speculative investment in commodities is temporarily distorting prices somewhat. We remain concerned that bond price support from excess foreign government reserves and from speculative investment strategies known generically as "carry trades" could reverse, leading to market volatility and higher real yields. The Federal Reserve is signaling that it will increase the federal funds rate another .25-.50% and that future moves will be predicated on inflation indicators.

Corporate profit growth will be about 13% in 2005 continuing a remarkable, but largely unappreciated, run that began in 2002. Strong productivity trends and solid economic growth should support continued above average profit growth of 8-10% 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 still 14% lower, resulting in PE ratio contraction from 26.4x to16.8x. During this period, valuations on fixed income, real estate and commodities have soared. We believe both fundamentals and valuations favor stocks going forward, especially those of larger, consistent growth companies. Our dividend discount model supports this view with an indication that the S&P 500 is 20% undervalued.

Bradley E. Benz, President

To request our SEC Form ADV Part II, please contact Michael L. Wise, Chief Compliance Officer, at the address below.

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