

GREENWOOD

CAPITAL

Insights



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The Stock Market

The market started 2006 off with a bang and did not look back for the rest of the quarter. The S&P 500 advanced over 1.6% on the first day of trading in the New Year and finished up approximately 2.6% for the month of January. After an up and down February, the market continued higher in March, reaching levels not seen since the beginning of 2001. For the quarter ended March 31, 2006, the S&P 500 index closed at a level of approximately 1295, up 3.7% (4.2% including dividends).

Market breadth was balanced in the first quarter, with roughly half of the names in the S&P 500 outperforming the overall index. On a sector level, five out of the ten sectors outperformed the market, with all but one, Utilities, in positive territory for the quarter. After consistently being one of the worst performing sectors over the past five years, Telecom took first place honors during the quarter, up 13%, driven by M&A activity in the sector. Energy continued its bull run and was the second best performer, up approximately 9%. The top five sectors were rounded out by Materials (+7%), Industrials (+7%) and Technology (+4%). After finishing as the second best performing sector in 2005, Utilities suffered from rising interest rates and finished down 2.0% as the worst performing sector. Consumer Discretionary, Financials, Consumer Staples and Healthcare rounded out the underperforming sectors in the index.

With the major indices gravitating higher in the first quarter of 2006, market participants seem to be discounting an end to the tightening campaign of the Federal Reserve. However, with economic growth still robust, the Fed may have to continue to raise interest rates longer than expected. This would no doubt slow the equity market advance, at least temporarily. Still, valuations appear reasonable and should provide support if we hit an air pocket in the 2nd or 3rd quarter of this year.

The Bond Market

The more things change, the more they stay the same. The Federal Reserve gave us a new Chairman in Ben Bernanke, who promises a continued fight against inflation and more transparency into the Fed's actions. His first meeting as Chairman on March 28th resulted in the same action as Alan Greenspan's last 14 meetings – a 25 basis point increase in the Federal Funds Rate with a bias for more tightening.

The continued increases in the Fed Funds Rate and the strength of some economic indicators pressured bonds, causing yields to be higher along the yield curve. The reintroduction of an old friend – the 30 Year Treasury bond – was met with early interest that eventually deteriorated into quarter-end. The first issuance of this bond since February of 2001 was priced at par to yield 4.50%, but lost over 5% of its value by the end of the period.

The treasury yield curve remains flat as shorter term bond yields are within a few basis points of longer bond yields. Additionally, the risk premium investors expect to be paid on corporate bonds remains low. Given these factors and our economic outlook, we remain focused on intermediate term treasury bonds, high quality corporate bonds, and high quality municipal bonds.

Market Indicators

(Total Return Through 3/31/06)

	52-Week Change	Changes Since 12/31/05
S&P 500	3.73%	4.21%
DJIA	3.66%	4.24%
NASDAQ	6.10%	6.38%
RUSSELL 1000	4.02%	4.54%
RUSSELL 1000 Growth	2.79%	3.11%

Source: Bloomberg

Economic Outlook

The economy was more resilient during the first quarter of 2006 than anyone anticipated. After a lethargic fourth quarter when growth as measured by Gross Domestic Product (GDP) was only 1.7%, growth during the first quarter appears to have made a dramatic rebound. Initial estimates show the economy growing between 4% and 5%.

The mild weather that the entire country experienced during the winter months can help explain a great deal of the rebound. Businesses continued to spend on construction and capital goods, but even more importantly, the consumer, who accounts for around two-thirds of our GDP, was able to get out of the house and shop, especially during January. Real consumer spending appears to have expanded at a 5% pace during the quarter after a miserable gain of only 0.9% during the fourth quarter.

The increasing use of gift cards during the holiday season can also explain some of the rebound. Gift card spending is counted in the quarter during which the card is redeemed, thereby shifting some of the holiday spending into the first quarter of this year. The mild weather in January also contributed to an earlier redemption than normal of these cards.

Reacting to the strength in the economy, the Federal Reserve (Fed) raised interest rates twice during the quarter. These increases resulted in banks raising their prime lending rate from 7.25% to 7.75%. The Fed has now increased rates 15 times since June of 2004. The Fed remains concerned with the fact that stronger growth can cause the inflation rate to accelerate. Up to now inflation has not been a problem, but the Fed would rather be safe than sorry. Through February the core Consumer Price Index has increased by only 2.1% from a year ago, nothing to worry about.

Looking forward, we do not expect economic growth to continue the torrid pace of the first quarter. Energy prices are high and have increased to levels that should impact the economy by taking funds from the consumer that would be spent. Likewise mortgage equity withdrawals (MEW) which have been a major source of funds for the consumer is drying up given the higher rates that consumers have to pay. Higher rates are also impacting housing, both construction and sales, which has been a major source of growth over the past several years.

Even though growth is expected to slow, we do not forecast a recession. Growth will likely be around 2.5% to 3% over the next several quarters. The employment picture is still strong and business spending is expected to continue to grow. Also, with foreign economies improving we should experience growth in exports that will add to GDP.

If our expectations become reality, over the next year the Federal Reserve will change from a policy of moving rates higher to one of possibly lowering rates. The Federal Reserve has a history of overshooting as they raise rates in order to prevent inflation, and if history can be a guide, they will in a relatively short period of time want to take some of these excesses back and contemplate lowering rates. This transition from a rising rate policy to a stable or falling rate environment should be very positive for the financial markets, especially for better quality financial assets.

Management Team Spotlight

John D. Wiseman

Greenwood Capital is proud to announce the addition of John D. Wiseman. John has been hired as Senior Vice President – Fixed Income.



In this capacity Mr. Wiseman will manage fixed income portfolios for both taxable and non-taxable accounts as well as provide insight and commentary on overall economic market conditions. Mr. Wiseman has more than ten years of investment experience and prior to joining Greenwood Capital, he was Senior Portfolio Manager for Sovereign Advisers, a \$2 billion fixed income investment firm in Charlotte, NC. Before that, he spent four years in the State of South Carolina Treasurer's Office co-managing the fixed income assets of the State and its Retirement System. He was responsible for constructing and implementing investment strategy for the \$17 billion pension fund and \$5 billion general funds of the State. He is a graduate of Wofford College and completed a professional study program at the Institute for Public Finance, Kellogg School of Management, Northwestern University.



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