Morningstar Market Commentary

4th Quarter 2005

Morningstar Market Barometer℠

4th Quarter Return %

	Value	Core	Growth
Large Cap	0.75	2.97	2.87
Mid Cap	1.43	2.35	4.52
Small Cap	0.56	1.87	2.08

< −8 −4 0 4 8 >

1 Year Return %

	Value	Core	Growth
Large Cap	7.05	3.83	3.43
Mid Cap	11.54	10.05	16.27
Small Cap	5.12	6.30	5.77

< −20 −10 0 10 20 >

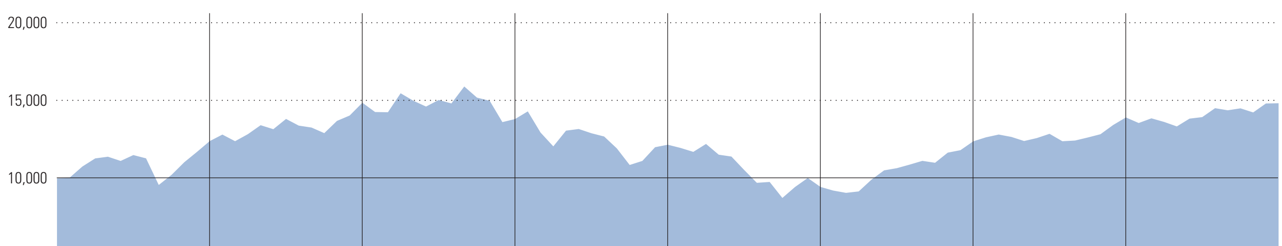
Stocks ended 2005 in the black, continuing an equities rally for the third straight year after the bursting of the technology bubble sent stocks reeling from 2000 through 2002. All nine Morningstar Style Indexes finished the year in positive territory, with mid-caps leading the way, and growth stocks showed signs of life. The Morningstar U.S. Market Index rose 6.5% for the year, putting on about 2.24% in the final quarter.

The market shrugged off debt downgrades at automaker General Motors, legal troubles and weak research pipelines at pharmaceuticals Merck and Pfizer, struggling traditional media and newspaper stocks Time Warner and Dow Jones, and airline and auto-parts bankruptcies. Difficulties at these businesses meant good news for rivals such as Toyota, Google, and Genentech. Additionally, mergers, acquisitions, and restructurings also supported equities. Among the bigger announcements and consummations were SBC/AT&T, Procter & Gamble/Gillette, Chevron/Unocal, and ConocoPhillips/Burlington Resources. Notable spin-offs included Expedia (from InterActiveCorp) and CBS (from Viacom). Morningstar analysts currently view Google as overvalued, but find newspapers and both InterActiveCorp and Expedia attractive.

While influential financiers sometimes instigated these corporate events, legendary investor Warren Buffett characteristically remained content to leave the managers of his holdings alone. His company Berkshire Hathaway picked up shares of brewer Anheuser-Busch, home improvement retailers Home Depot and Kingfisher PLC, computer-printer maker Lexmark, and industrial conglomerate Tyco. Morningstar Analyst Dreyfus Neenan views Berkshire as a bargain currently.

Equity markets also mostly ignored political and macroeconomic problems such as continued difficulties in Iraq, the "twin" budget and trade deficits, surging oil prices, the Federal Reserve's interest rate raising campaign, and the destruction wrought by Hurricane Katrina. Bonds, however, finally felt some of the Fed's pressure as they struggled to eke out gains, with the Lehman Brothers Aggregate Index up a modest 2.5%. Nevertheless, a "flat" yield curve (little difference between short-term and long-term yields) bespeaks their continued resilience, which is keeping the housing market humming. Alan Greenspan's successor, Ben Bernanke, will have to manage this, as he seeks to curb inflation without halting growth. Homebuilding stocks such as Toll Brothers, Pulte, and Centex suffered a fourth-quarter swoon, but still tacked on healthy gains for the year.

Morningstar US Market Index (Growth of $10,000)



	1998	1999	2000	2001	2002	2003	2004	2005
Total Returns	23.86	19.79	−7.02	−11.88	−22.16	30.73	12.35	6.52
Price/Earnings	33.46	37.99	31.78	30.73	24.97	26.74	23.72	22.05
Price/Book	8.15	10.45	7.54	5.39	4.13	4.49	4.22	4.17
Dividend Yield %	1.25	1.09	1.12	1.29	1.74	1.45	1.49	1.61
Earnings Growth (5 Yr)	15.87	18.80	18.15	15.22	13.19	12.76	12.55	12.80

Surveying the Sectors

Energy surged for the second straight year, leading all sectors and posting a 34% gain. However, the sector stumbled in the fourth quarter, shedding about 7%. Many of the larger exploration and production companies faltered toward the end of the year. In the fourth quarter, ConocoPhillips lost 16.3%, and ExxonMobil lost 11.1%, though they gained of 37% and 12% for the year, respectively.

Morningstar Sectors: 2005 Return %

	QTD	1 Year	3 Year
Information	0.32	–1.79	12.45
Software	0.83	–2.65	9.89
Hardware	1.13	2.47	17.69
Media	–2.55	–11.00	7.22
Telecommunication	0.47	–2.35	7.90
Service	5.40	7.17	15.48
Health Care	1.50	8.15	10.22
Consumer Services	4.66	1.95	17.44
Business Services	8.89	15.95	19.32
Financial Services	7.28	6.75	17.29
Manufacturing	–0.97	11.24	19.68
Consumer Goods	–0.22	2.14	11.78
Industrial Materials	5.21	2.87	18.43
Energy	–6.86	34.37	30.92
Utilities	–5.79	14.80	20.97

Morningstar analysts have been modeling lower commodity prices for the future, leaving the list of 5-star stocks bereft of an energy representative, save Suburban Propane. Analyst Elizabeth Collins thinks "Suburban's core business—propane distribution—enjoys high customer switching costs and generates impressive returns on invested capital." Morningstar energy analysts are also fond of the energy pipeline business, and Justin Perucki recently recommended Northern Border Partners and TC Pipelines when a price decline pushed the two stocks into 5 star territory.

Utilities also had a good year, putting up a 15% gain. The sector's strong multiyear run has also left it too rich to have a representative on the 5-star stock list.

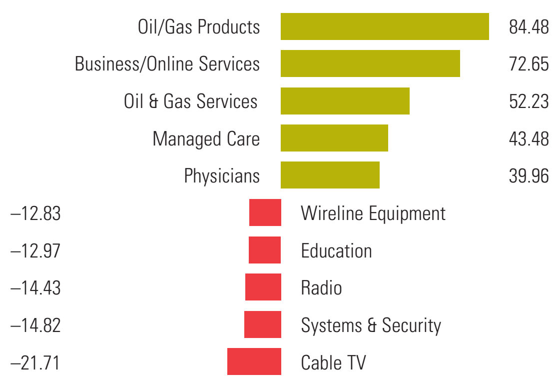
Only media posted a double-digit loss for the year, as newspaper and radio stocks lagged. Nevertheless, Morningstar Analyst Jim Walden continues to find value in Dow Jones, New York Times, and Tribune.

Industry Performance

Although oil products companies such as refiner Valero and oil services companies such as Schlumberger finished first and third for the year in industry performance, business and online service industry, that includes such companies as Google took second place. Analyst Rick Summer has awarded Google a narrow moat for its pre-eminence in online search, but he views the stock as too rich for purchase currently. Other online businesses enjoying strong performance include online advertising agency and consultant aQuantive and Blackboard, a provider of online educational content. Both of these stocks are currently trading above their fair values, according to our analysts.

Paper companies such as Domtar brought up the rear. Although Domtar is trading in 5-star territory based on Morningstar's fair value estimate, the business does not have a moat and has had difficulty generating free cash flow recently. Radio station content provider Westwood One also suffered, as advertising moved to the Internet. Nevertheless, analyst Michael Corty awards Westwood a narrow moat based on its lock on traffic reporting and information-gathering abilities.

Top and Bottom Five Industries: 2005 Return %

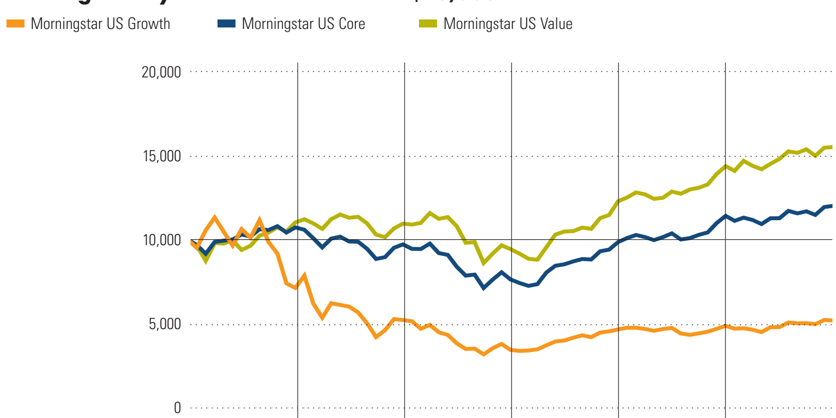


Style and Market Cap Indexes

Morningstar US Value Index +7.82%

The US Value Index beat its Core and Growth peers again, but lost ground relative to those peers in the fourth quarter. Late-year declines in oil giants ExxonMobil and Chevron and regional bell Verizon outweighed gains in international banks Citigroup, Bank of America, and J.P. Morgan Chase. Morningstar analysts view the large oils as rich currently, but analyst Craig Woker views J.P. Morgan as a bargain at its current price of around $40 per share, awarding the banking behemoth a wide moat for its competitive advantages and an "A" for corporate stewardship.

Morningstar Style Indexes: Growth of $10,000



	2000	2001	2002	2003	2004	2005
Morningstar US Value						
Total Returns	10.06	–0.68	–13.68	29.75	16.85	7.82
Price/Earnings	20.19	21.85	20.53	18.58	16.79	14.98
Price/Book	4.15	3.00	2.17	2.83	2.57	2.53
Dividend Yield %	2.30	2.74	3.40	2.69	2.68	2.89
Earnings Growth (5yr)	11.52	10.21	9.08	8.48	8.77	8.00
Morningstar US Core						
Total Returns	7.10	–9.31	–21.18	28.63	15.62	5.19
Price/Earnings	33.53	28.24	21.46	23.75	21.90	20.92
Price/Book	8.12	6.03	4.24	4.64	4.33	3.95
Dividend Yield %	0.86	1.04	1.59	1.27	1.30	1.43
Earnings Growth (5yr)	14.94	14.35	12.46	12.11	11.89	12.13
Morningstar US Growth						
Total Returns	–28.45	–26.32	–33.20	34.12	4.37	6.41
Price/Earnings	44.60	47.43	32.89	38.45	33.50	30.62
Price/Book	10.56	6.92	5.61	5.93	5.96	6.04
Dividend Yield %	0.13	0.17	0.50	0.43	0.40	0.53
Earnings Growth (5yr)	28.12	21.75	17.52	17.26	17.74	18.17

Morningstar US Core Index +5.2%

The US Core Index, containing stocks that display both value and growth characteristics, rose 5.2% for the year and 2.78% for the final quarter. Industrial conglomerate General Electric was down 1.4% for the year, but tacked on 4.8% for the final quarter. Computer maker IBM dropped 16% for the year, including a 2.7% fourth-quarter surge. Beverage maker Coca-Cola shed 0.7% for the year, sliding 6% for the last quarter. Morningstar analysts find all three companies undervalued, but only Coke trades at a deep enough discount to our fair value estimate to put it in 5-star territory. Analyst Matthew Reilly thinks that Coke has yet to exploit the opportunity for greater sales of noncarbonated beverages.

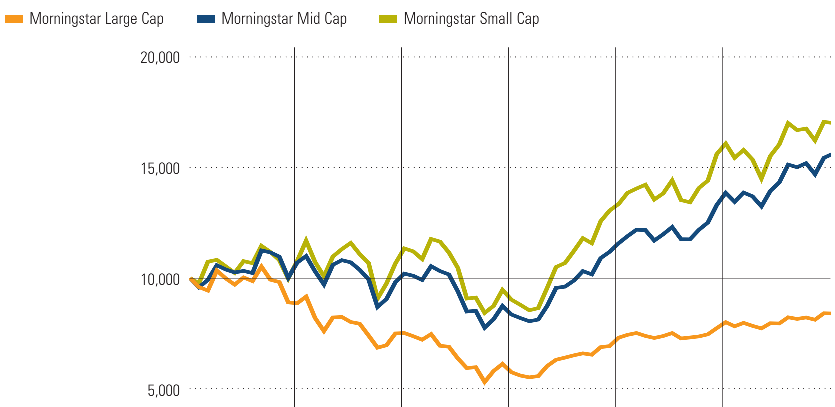
Morningstar US Growth Index +6.4%

Growth showed some signs of life, as the Morningstar US Growth Index put on 6.4% for the year, including a strong 3.15% fourth-quarter surge. Top index components Microsoft, Wal-Mart, and Johnson & Johnson posted negative 1%, negative 10.3%, and negative 3.4% returns, respectively, for the year. However, Microsoft put on 1.9% in the final quarter, and Wal-Mart put on 7.1% for that period, vindicating the many value managers who picked up shares earlier in the year. All three stocks remain in 5-star territory, as they trade at discounts to our analysts' fair value estimates. All of them also garner Morningstar's wide moat rating for their competitive advantages.

Morningstar Large Cap Index +4.9%

The Morningstar Large Cap Index finished third from the bottom of all diversified indexes for the year with a 4.9% gain. However, it made most of its gains in the fourth quarter, surging 2.2%. Top index component Procter & Gamble dropped 2% for the last quarter. Another top component, PepsiCo, added 15.2% for the year, including 4.6% for the last quarter. Pepsi is no longer in 5-star territory with its runup, but analyst Matthew Reilly thinks it is "one of the strongest consumer-products companies in the world." Embattled Time Warner posted a 9.8% loss for the year, though it still isn't trading at a discount to our fair value estimate. Nevertheless, Morningstar analysts view Google's recent attempts to invest in AOL as indicative of the importance of media content, which Time Warner has in abundance.

Morningstar Cap Indexes: Growth of $10,000



	2000	2001	2002	2003	2004	2005
Morningstar Large Cap						
Total Returns	–11.38	–15.10	–23.47	27.04	9.54	4.87
Price/Earnings	33.75	32.03	25.14	26.93	23.22	21.37
Price/Book	8.49	5.98	4.56	4.76	4.39	4.28
Dividend Yield %	1.02	1.29	1.80	1.54	1.62	1.77
Earnings Growth (5yr)	18.16	14.78	12.81	12.46	12.35	12.36
Morningstar Mid Cap						
Total Returns	6.94	–4.63	–18.06	38.38	19.66	12.70
Price/Earnings	27.01	26.96	25.97	25.89	24.60	23.90
Price/Book	5.35	3.96	3.19	3.86	3.89	4.00
Dividend Yield %	1.40	1.33	1.59	1.27	1.23	1.23
Earnings Growth (5yr)	17.74	16.14	13.94	12.57	13.03	13.62
Morningstar Small Cap						
TTotal Returns	7.66	5.26	–20.36	47.70	20.44	5.76
Price/Earnings	21.28	25.22	22.96	27.04	26.43	24.44
Price/Book	3.68	3.11	2.72	3.58	3.79	3.54
Dividend Yield %	1.35	1.18	1.56	1.09	0.97	1.15
Earnings Growth (5yr)	19.65	17.57	14.96	14.86	14.60	15.22

Morningstar Mid Cap Index +12.7%

Mid-caps were the darlings of the market, and the Morningstar Mid Cap Index surged 12.7%. Top component Federated Department Stores rose 16% for the year, as the market cheered its acquisition of rival May. Analyst Kimberly Picciola thinks that Federated's sales of its credit card business and some stores are good moves. Nevertheless, Federated does not have a moat or competitive advantage, and it trades around Picciola's fair value estimate currently.

Natural-resources stocks such as copper producer Phelps Dodge PD, which put on 53% in 2005, also helped the Mid Cap Index. Our analysts aren't fond of commodity producers and tend to prefer natural-gas pipelines such as top Mid Cap Index component Kinder Morgan. Kinder rose 30% for the year, and it's trading near analyst Michael Cumming's fair value estimate. Cumming thinks pipelines are attractive businesses because of the regulatory approval required to lay more pipes.

Marvell Technology also rose 58% for the year, including 22% for the final quarter, giving technology investors from the 1990s a sense of déjà vu all over again, as Yogi Berra would say. The chipmaker has a narrow-moat rating, despite the competitiveness and cyclicality of the semiconductor business. Nevertheless, the stock is trading well above its fair value estimate.

Morningstar Small Cap Index +5.8%

The Morningstar Small Cap Index barely outpaced the Large Cap Index for the year, leading observers to wonder if the "rotation" back to the big caps is finally taking place. We've been hearing fund managers say that and have warned investors about avoidance of the larger names. In any case, top index component Intuitive Surgical, maker of surgical consoles and robots, rose a whopping 193% for the year and 60% for the final quarter. Number two component Salesforce.com rose 89% for the year and 39% for the quarter. Although the stock is trading above his fair value estimate, analyst Rick Summer has awarded the company a narrow moat for its lead in the customer relationship management (CRM) software business.

Active vs. Passive, 2005

	Value	Core	Growth
Large Cap	36.13 / 7.05	76.02 / 3.83	76.85 / 3.43
Mid Cap	25.75 / 25.74	41.50 / 10.05	10.99 / 16.27
Small Cap	66.67 / 5.12	58.68 / 6.30	53.44 / 5.77

○ Percent of actively managed mutual funds outperforming their respective benchmark. Includes the oldest share class for all US diversified mutual funds with at least a one-year history. As of Dec. 30, 2005, there were 2,329 eligible funds. Morningstar classifies funds into style categories based on the average style score (using the same 10-factor methodology as underlying benchmarks) of all available portfolio holdings over a three-year period.

● Index Returns (%), 2005

Fund Categories vs. the Benchmarks

Active management scored some points against the indexes for the year, with large-growth, large-core, small-core, small-value, and small-growth funds outperforming their respective indexes on average. Large-cap victories may seem impressive, given the arguments for greater efficiency in that closely followed part of the market. However, since large-cap stocks have been floundering, funds willing to slide into mid-cap territory with some of their assets easily outperformed. Many funds took advantage of mandates allowing them to gain at least a modicum of mid-cap exposure, and benefited accordingly. Large-growth and large-core had the largest percentage of funds (77% and 76%, respectively) beat their indexes. Also, funds loaded up on natural resources and utilities outperformed.

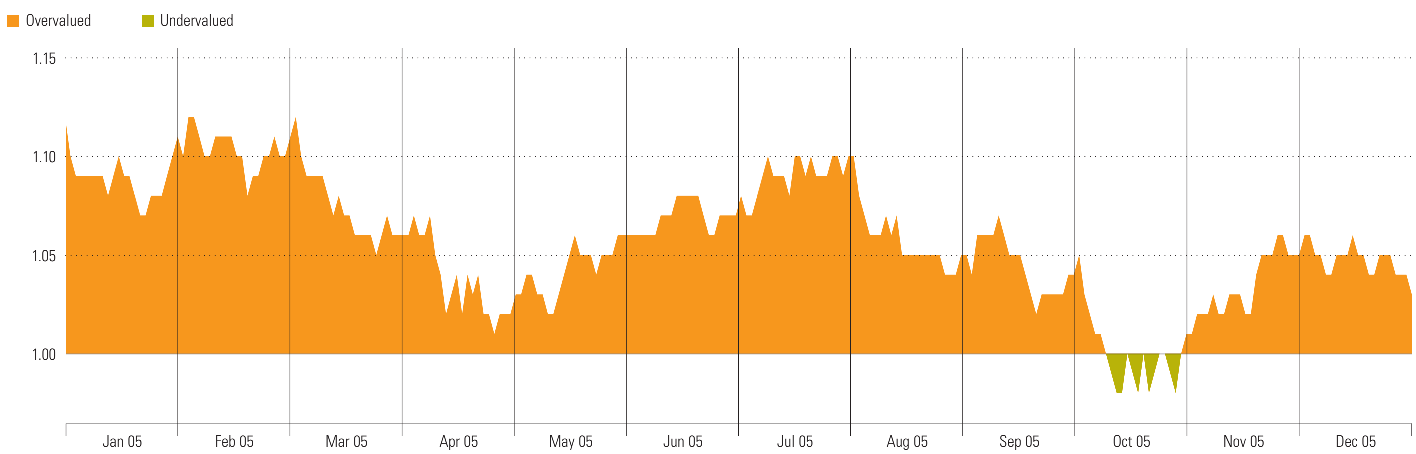
No mid-cap fund categories beat their respective indexes, perhaps suggesting that when a category is roaring, it's difficult to best the index. Indeed Morningstar's indexes are more "style pure" than others, meaning that only mid-cap stocks that exhibit clear value characteristics will fall in the mid-cap value index, for example. This means that the indexes will exhibit more pronounced performance characteristics, making them more difficult to beat when they're the darlings and easier to beat when they're the dogs.

Conclusion

Although the market was up, high energy prices, interest rate increases, and a flat yield curve—often signaling an economic slowdown—restrained stocks for most of 2005. Morningstar's market valuation graph shows stocks overvalued by around 5%, but the current 5-star stock list includes some businesses—such as Abbott Labs, Anheuser-Busch, Berkshire Hathaway, Boston Scientific, Coca-Cola, Diageo, Johnson & Johnson, Microsoft, Wal-Mart, and the Washington Post—that have earned Morningstar's wide-moat designation for their competitive advantages. All except the Washington Post are large-cap stocks. It's difficult to say when large caps will be in vogue again, and we don't counsel investors to try to time such rotations in any case. In other words, these stocks could get cheaper before they rise to our estimates of their fair value. However, our method of analyzing one stock at a time by estimating future cash flows of the underlying business has identified high-quality larger names suitable for purchase as long-term investments.

John Coumarianos
Mutual Fund Analyst.
John has positions in Merck, Expedia, Microsoft, InterActiveCorp, Berkshire Hathaway & Suburban Propane.

Market Valuation



52-Week High	52-Week Low	All-Time High	All-Time Low	2005 Close
1.12 (03-07-05)	0.98 (10-27-05)	1.14 (12-01-04)	0.78 (10-09-02)	1.03 (12-31-05)

Market Valuation Chart
The graph shows the ratio of price to fair value for the median stock in the universe of stocks covered by Morningstar over time. A ratio above 1.00 indicates that the stock's price is higher than Morningstar's estimate of its fair value; a ratio below 1.00 indicates that the stock's price is lower than our estimate of its fair value. The further the price/fair value ratio rises above 1.00, the more the median stock is overvalued. The further it moves below 1.00, the more the median stock is undervalued.

Trailing Returns %

Index	Quarter	6-Month	1-Year	3-Year	5-Year	10-Year
Morningstar U.S. Market	2.24	6.35	6.52	16.09	1.42	9.07
Large Cap	2.16	5.64	4.87	13.43	–1.06	8.28
Mid Cap	2.80	9.01	12.70	23.11	7.83	10.80
Small Cap	1.50	6.03	5.76	23.45	9.53	10.35
U.S. Value	0.88	4.71	7.82	17.80	6.98	NA
U.S. Core	2.78	6.48	5.19	16.10	2.26	NA
U.S. Growth	3.15	8.04	6.41	14.20	–6.01	NA
Large Value	0.75	4.64	7.05	15.52	4.81	NA
Large Core	2.97	5.97	3.83	13.86	–0.75	NA
Large Growth	2.87	6.43	3.43	10.63	–8.48	NA
Mid Value	1.43	5.10	11.54	23.52	12.23	NA
Mid Core	2.35	8.62	10.05	22.03	11.02	NA
Mid Growth	4.52	13.24	16.27	23.41	–0.12	NA
Small Value	0.56	4.36	5.12	24.74	16.11	NA
Small Core	1.87	5.77	6.30	23.28	12.10	NA
Small Growth	2.08	8.20	5.77	22.37	0.14	NA

Morningstar Market Barometer 4th Quarter Return %

		Value	Core	Growth
	US Market 2.24	0.88	2.78	3.15
Large Cap	2.16	0.75	2.97	2.87
Mid Cap	2.80	1.43	2.35	4.52
Small Cap	1.50	0.56	1.87	2.08

< –8.00 –4.00 0.00 4.00 8.00 >

Morningstar Market Barometer Trailing 4 Quarters Return %

1st Quarter 2005

0.43	–1.93	–5.44
0.44	–2.38	–1.51
–4.18	–3.13	–6.44

2nd Quarter 2005

1.87	–0.10	2.77
5.66	3.79	4.25
5.12	3.75	4.48

3rd Quarter 2005

3.85	2.91	3.46
3.62	6.13	8.34
3.78	3.83	5.99

4th Quarter 2005

0.75	2.97	2.87
1.43	2.35	4.52
0.56	1.87	2.08

Biggest Positive Influence on Morningstar US Market Index

	Style	Contribution %	1-Year	3-Year	5-Year
Exxon Mobil Corp.		0.31	11.80	19.30	7.07
Altria Group Inc.		0.27	27.30	27.08	14.84
Apple Computer Inc.		0.24	123.26	115.53	57.37
UnitedHealth Group Inc.		0.19	41.21	43.83	32.28
Hewlett-Packard Co.		0.17	38.05	19.43	-0.86
ConocoPhillips		0.16	36.73	36.12	17.05
Amgen Inc.		0.15	22.93	17.70	4.28
Schlumberger Ltd.		0.14	46.36	33.17	4.78
Genentech Inc.		0.14	69.91	77.27	17.81
Burlington Resources Inc.		0.13	99.01	59.83	28.27

Biggest Negative Influence on Morningstar US Market Index

	Style	Contribution %	1-Year	3-Year	5-Year
Dell Inc.		–0.21	–28.93	3.85	11.42
IBM Corp.		–0.21	–15.83	2.84	0.11
Verizon Communications Inc.		–0.19	–21.70	–3.52	–5.45
Pfizer Inc.		–0.17	–10.45	–6.03	–10.56
Fannie Mae		–0.16	–30.00	–5.89	–8.33
Cisco Systems Inc.		–0.12	–11.39	9.32	–14.84
eBay Inc.		–0.12	–25.70	36.56	39.24
Wal-Mart Stores Inc.		–0.11	–10.26	–1.49	–1.66
Tyco International Ltd.		–0.10	–18.13	19.89	–11.84
Ford Motor Co.		–0.09	–44.54	–1.38	–15.040

Biggest Influence on 1-year performance is calculated by multiplying stock returns for the year with their respective weight in the Index as of the start of the year.