The Outlook

A.R.Schmeidler & Co., Inc.

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As of December 27, 2006		
Index	**YTD % Change**	**Market Value**
Dow Jones Industrials	16.73%	12510.60
S&P 500	14.30%	1426.84
Nasdaq Composite	10.24%	9179.40

It is estimated that over the next ten years close to one billion new middle class consumers will enter the global market place continuing the strength of world trade. The industrial growth occurring in China, India and the rest of Asia is affecting 2.5 billion people, whereas the Industrial Revolution in the U.S. from 1870 to the 1940's affected a population of about 140 million people. While it took seventy years for the Industrial Revolution in the U.S. and Great Britain to double their population's real income per capita, China's Industrial Revolution will have accomplished the same feat for their population in just 9 years.

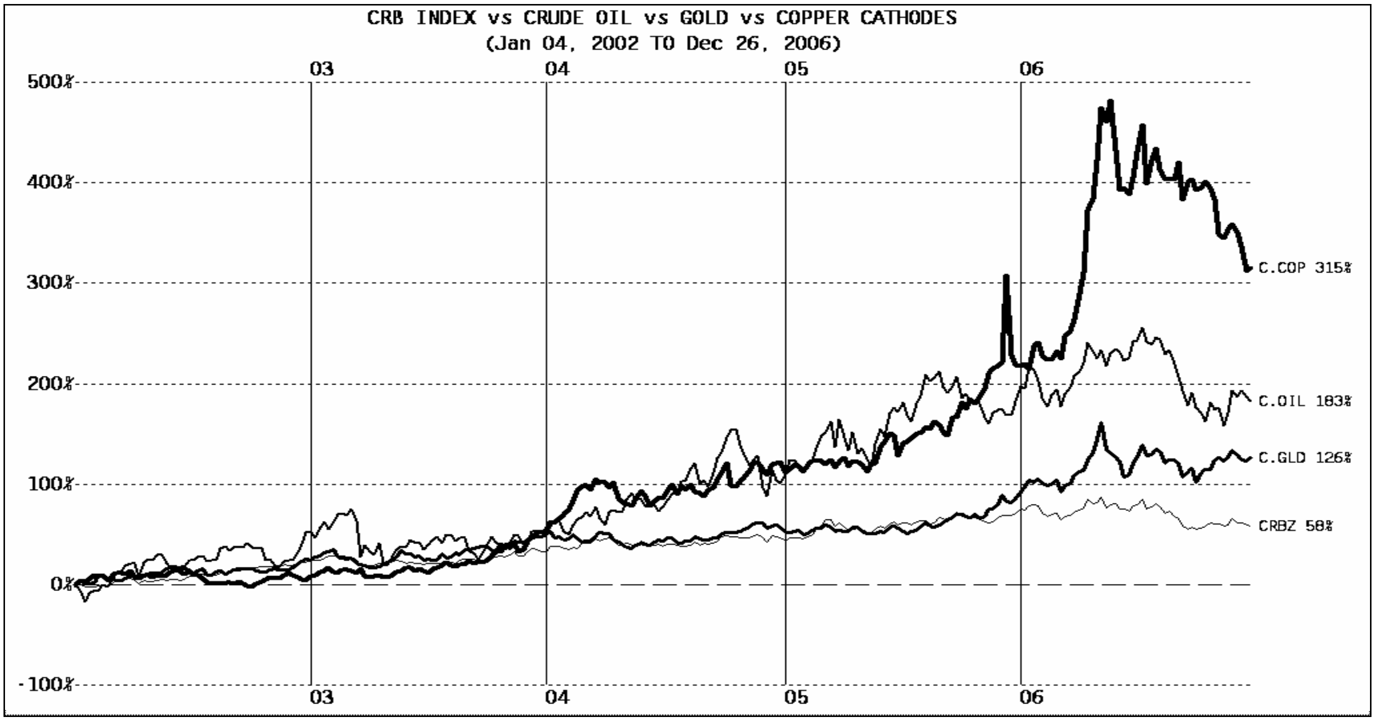
Emerging Economies Are Driving World Growth

In 2005 emerging economies accounted for more than 50% of global gross domestic product and 43% of global exports. **The emerging low-cost manufacturing economies are driving global economic growth which has had an immense impact on maintaining low inflation.** These economies consume more than half of the world's energy and have also accounted for 80% of the growth of oil demand in the past five years. If they continue to grow at the 6-8% range over the next few years, as they have in the past five years, the financial impact on the companies benefiting from these dynamics will continue to be enormous.

Globalization has dramatically increased world trade and capital flows over the past few years and the effect on world growth and demand for resources has further accelerated since China entered the World Trade Organization in 2001. This has considerably increased the growth of China's middle class which in turn has created new and exciting markets for U.S. goods and services. Over time this is a positive development for the U.S. that will help to reduce our trade deficit with China.

The Demand For Resources Remains Strong

The effects of the emerging markets' growth on the demand for resources can be seen below:



Twenty years of under-investment in developing the world's industrial, transportation, mining and energy resource infrastructure now clashes with a powerful and rising global demand. Unfortunately the supply/demand imbalance cannot be corrected quickly. **Furthermore, U.S. industrial, energy and transportation infrastructure needs, totaling an estimated $1.6 trillion over the next ten years, are accruing at the same time as the emerging growth of China and the rest of Asia are putting upward pressure on the world's resources.** China recently announced a $160 billion program between now and 2010 to add 10,000 miles of railroad track to begin connecting the countryside to the cities. China is also presently constructing a 41,000 mile national highway system.

China's share of global industrial metals consumption has grown from 10% to 25% since 1996. More relevant is that from 2002 to 2005 China accounted for 50% of the increase in world demand for copper and nearly all the increase in nickel demand. Since the year 2000, global energy consumption has been growing at 2.6% per year vs. 1.3% during the previous decade. Despite this growth, China still uses considerably less oil and other raw materials than do the major developed economies. **China accounted for 1/3 of**

the increase in oil consumption in 2006. To put China's consumption of oil into perspective, we note that China consumes approximately 2 barrels of oil per person per year as compared to the U.S. which consumes 25 barrels of oil per person per year.

Dynamic Sectors Least Represented In The S&P 500

The industries and companies least represented in the S&P 500 stand to be among the biggest beneficiaries of this outlook. We note below the industries' respective weightings:

Strategic Assets

Sector / *Industry*	S&P Weighting
Energy:	9.80%
Industrials:	
Defense	*2.41%*
Machinery	*1.44%*
Railroads	*0.67%*
Materials:	
Construction	*0.06%*
Metals & Mining	*0.27%*
Gold	*0.16%*
Steel	*0.27%*

As highlighted in the Financial Times, "**Goldman Sachs is planning to step up its pursuit of investments in these sectors and has raised more than $6.5 billion for its first dedicated infrastructure fund.** The fund, which is expected to close shortly, will be one of the largest single pools of capital dedicated to infrastructure investing, which is attracting growing interest from banks, insurers and pension funds eager for assets that offer stable, long-term returns. In the past year a string of high-profile infrastructure assets have changed hands as investors seek out businesses with reliable, inflation-proof cash flows that can be used to service large amounts of debt while providing returns that match pension liabilities."

Industry Consolidation Continues

There has never been as much global corporate and investment buying power as there is today. The acquisition pace in 2006 involved $3.9 trillion in global deals (which is, incidentally, 16% higher than that caused by the height of the internet boom in the year 2000). Hostile bids rose dramatically to 355 this year from 94 last year. U.S deals in 2006 totaled $1.4 trillion, and merger & acquisition activity will likely continue at a torrid pace next year as managements are under shareholder pressure to deliver more profitable growth. Merger & acquisition activity in markets such as China and Russia totaled $619 billion; a small example is Russia's Evraz bid of $2.3 billion for Oregon Steel. U.S. corporations hold record amounts of cash on their balance sheets, with the S&P 500 industrial companies alone having more than $610 billion. **Add to this the cash horde of private equity firms' estimated $2 trillion of buying power and the ability to finance many more mergers in the future, and we can expect to see mergers and acquisitions to continue at a high level.**

Federal Reserve Interest Rate Policy

The Cleveland Fed's Consumer Price Index gauge shows that October prices rose 3.6% vs. 2.7% of one year ago. Because Federal Reserve Board Chairman Bernanke would like inflation to be between 1% and 2%, we do not expect the Federal Reserve Board to reduce interest rates anytime soon. With Federal Funds at 5.25% and 10-year treasuries at 4.5% this inverted yield curve is likely to remain in place for an extended period of time. From what we have observed, our expectations for interest rates are not consensus thinking. **Moreover, the probabilities that the U.S. economy will go into recession in 2007 seem relatively remote to us.**

Conclusion

Global trade and competition has brought inexpensive products to nations first tasting the fruits of modern industrialization. At this juncture global trade and competition are creating a new global consumer base. However, the biggest beneficiaries will not be necessarily the global consumer products companies themselves, because the ease of entry of low-priced consumer goods in emerging markets is a fundamental negative in appraising the value of those corporations as investments. **Our interest is in finding companies which have a growing demand for their products, but have high barriers to entry in their respective markets. These are companies that have businesses that are extremely difficult, costly and time consuming to replicate.** In addition they are the very companies which lend themselves to the merger and acquisition activity that we have experienced up to now and are likely to see continuing. Because many of these corporations generate significant excess cash flow and have with strong balance sheets, our expectations for high and/or rising dividends can also be realized.

Successful portfolio management involves strategic decisions that can exploit industry groups and the companies within industries that are benefiting in the global economy. Investing in well-managed companies within these industry groups at low valuations is a good recipe for investment success.

We wish our readers a happy, healthy, peaceful, and prosperous New Year!