Mitchell McLeod Pugh & Williams
Investment Adviser

3RD QUARTER 2006

MMPW
MITCHELL MCLEOD PUGH & WILLIAMS
INVESTMENT ADVISER

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S&P Sector Performance (YTD 9/30)	
Consumer Discretionary	*6.75%*
Consumer Staples	*8.57%*
Energy	*10.37%*
Financials	*9.25%*
Health Care	*4.75%*
Industrials	*5.40%*
Information Technology	*1.65%*
Materials	*4.51%*
Telecom Services	*22.55%*
Utilities	*7.93%*

Source: Standard & Poor's. Returns are price change only

Special points of interest:

- With strong balance sheets and a favorable interest rate environment, U.S. companies issued $204 billion in investment grade bonds during the third quarter. They are on track to surpass the annual record of $689 billion set in 2004.
- The U.S. budget deficit (FYE 9/30) fell to $423 billion, down $71 billion from the same period last year. Increased tax revenues outpaced governmental spending to account for the decline. The White House attributed these growing tax revenues to their reduction in *tax rates* and the subsequent promotion of economic growth.

POSITIVE MOMENTUM IN 3RD QUARTER

Capital Markets	*YTD*	*QTD*	*2005*	*5YR*
S&P 500 (1336)	8.53%	5.67%	4.91%	6.97%
S&P500 / Citi Growth	5.07%	6.07%	1.14%	3.71%
S&P500 / Citi Value	12.14%	5.28%	8.71%	10.15%
S&P 400 (754)	3.12%	-1.08%	12.56%	13.08%
Dow Jones Industrials	10.86%	5.35%	1.72%	8.07%
NASDAQ (2258)	2.41%	3.98%	1.37%	8.55%
MSCI EAFE (Foreign)	14.49%	3.93%	13.54%	14.26%
LB Interm Govt/ Credit	3.02%	3.20%	1.58%	4.34%
3 Month Treasury Bill	3.73%	1.30%	3.34%	2.34%

Source: Morningstar Principia. Returns are total returns. The 5yr return is annualized

As the third quarter of the year began, investors were unsure what to expect from their stock investments during the summer months. The second quarter had seen general declines and increased volatility in equity markets. Furthermore, the Federal Reserve was still raising rates, and the news around the world continued to be unsettling. In typical fashion, however, contrary to what might have been expected, U.S. capital markets produced solid returns during the quarter.

Several factors combined to give equity investors reason to bid up stocks. Signs of moderation in GDP growth, combined with lower energy prices, gave the Fed enough comfort to hold rates steady at its August 8th and September 20th meetings. The feeling was that the economy was moving forward, albeit at a slower and uneven pace. The prospects of a "soft landing" and an end to the Fed's rate tightening cycle were positives for equities. From a sector standpoint, investors moved out of cyclical industries (energy and materials) and into financials, healthcare, telecom and technology. Large capitalization stocks remained the preferred defensive choice in a slowing economy. The bond market also produced positive returns for the quarter. Here, investors pushed down rates (the 10yr treasury fell from 5.25% in June to 4.63% at quarter end) based on the prospects of slower economic growth and tame inflation. The same sentiment that allowed the Federal Reserve to stop raising rates was translated into higher prices for bonds. Now, two weeks into the 4th quarter, interest rates have begun to creep back up, but the U.S. stock market has continued its positive momentum across most sectors.

WELCOME SHANNON CAULEY TO MMPW / UPCOMING CLIENT INFORMATION REQUEST

Please join us in welcoming the newest addition to our firm. **Shannon Cauley** has recently joined us from Wachovia Securities, where she was a Registered Account Administrator. She will be working closely with Carmen Williams who manages our Operations and Trading area. Shannon brings with her over ten years of experience in the investment management field. She is a holder of the Series 7, Series 63, Series 65 and Insurance licenses. We hope you will stop by and meet her.

Upcoming Information Request - MMPW clients will soon be receiving a request to provide additional contact information such as e-mail addresses and cell phone numbers. This is part of our Disaster Recovery planning and will help us serve you better.