



As we begin to reflect back on 2006 and strategize for 2007, a couple of puzzling questions about our economy need to be analyzed...and investor sentiment and perception is especially important to the assessment as well.

To oversimplify, 2006 has been a year without any clear trend or persistent theme. Let's face it; the equity markets prefer leading indicators which are crystal clear, and Wall Street likes to identify with leading industry sectors that direct the way. You saw this phenomenon occur in 2004 and 2005; the energy sector was the dominant winner, with metals and materials coming in a strong second, followed by financials and special situation stocks.

While the benchmark barometers like the DJIA, S&P 500 and NASDAQ performed flatly and rut-like in that 2½ year stretch between 2004 and mid-2006, the pent-up and under-valued opportunities in the broader market are beginning to take center-stage. **Large-cap growth and large-cap value seem to be the smartest places to be.** I will elaborate further later on, but suffice it to say that this combo represents a **win-win situation, acting as both a defensive move against an economic slowdown and an indirect way to take advantage of overseas growth.**

The last few months have been encouraging and when you combine the 3 major stock indices and take an average of their YTD results, you come out with a nice 10.4% composite return...impressive since the general blue-chip market that these 3 indices represent hasn't seen positive double-digit returns in 6 years.

**One caution for the coming year centers on the inflation story. The recent 3.5% CPI number doesn't take the whole picture into account, tending to underweight the energy, insurance and food components while ignoring wage inflation altogether.** Just last week Fed Chairman Bernanke warned that inflation remains "uncomfortably high". After 4 months of rate pauses I think the Fed is correctly "waffling" on the inflation issue. To continue raising rates now would be a mistake. Remember though that investors don't like uncertainty or waffling because it "clouds" the clear direction of the economy and puts it in question. It is this "fog" coupled with the slowdown in the housing market (and by consumers in general in a modest 2.2% GDP economy) that best defines the weak link in the recovery chain. Many pundits warn that if the Fed doesn't heed the concerning signs on housing and less spending in general, by loosening the credit reins, that a recession could follow.

It is why I believe that we could see a couple of rate cuts by mid-2007. The faltering strength in the US dollar is also predicting this, especially if you look out to bond yield futures for next July and August. The “futures” window is an interesting precursor that is right about 80% of the time.

As you know, CAM strives to outperform by **buying the best companies with the least risk that have the potential for the best reward. This thought process is multi-faceted and reflects both a conservative approach and degree of attentive management or patience (depending on the situation and client preference and comfort-level).**

### Favorite Large Caps - Growth and Value

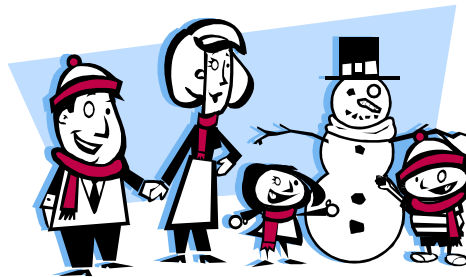
Destined to outperform the averages, they are all rated A or better in their financial strength and have a positive earnings momentum.

Name and Symbol	Price	And/Or	Price	And/or	Price
1) Conoco Philips (COP)	\$67	Chevron Texaco (CVX)	\$73		
2) Amer. Cap. Strat. (ACAS)	\$45	Allied Capital (ALD)	\$30		
3) Exxon Mobil (XOM)	\$77	BPT Oil (BPT)	\$75	Petro China (PTR)	\$128
4) Schlumberger (SLB)	\$67	Halliburton (HAL)	\$33		
5) Stryker (SYK)	\$53	Zimmer Holdings (ZMH)	\$74		
6) Procter & Gamble (PG)	\$63	Colgate Palmolive (CL)	\$65		
7) Aetna (AET)	\$42	MetLife (MET)	\$58		
8) Toyota Motors (TM)	\$120	Honda Motors (HMC)	\$34		
9) Bell South (BLS)	\$45	Verizon Comm. (VZ)	\$34		
10) Pepsi (PEP)	\$62	Coca-Cola (KO)	\$46		
11) Boeing (BA)	\$89	Precision Castparts (PCP)	\$75		
12) Caterpillar Tractor (CAT)	\$61	General Electric (GE)	\$35		
13) American Express (AXP)	\$59	Citigroup (C)	\$49	Bank of America (BAC)	\$52
14) Disney (DIS)	\$33	Hilton Hotels (HLT)	\$34		
15) Wells Fargo (WFC)	\$35	Wachovia Bank (WB)	\$54	a Regional bank	
16) Starbucks (SBUX)	\$35	Whole Foods (WFMI)	\$48		
17) Johnson & Johnson (JNJ)	\$66	Pfizer (PFE)	\$24	CVS Corp. (CVS)	\$29
18) Waste Management (WMI)	\$37	Stericycle (SRCL)	\$72		
19) Corning Glass (GLW)	\$21	Google (GOOG)	\$485	NASDAQ top 100 (QQQQ)	\$44
20) Oracle (ORCL)	\$19	Cisco Systems (CSCO)	\$27		
21) CSX (CSX)	\$36	Norfolk Southern (NSC)	\$50		
22) Southern Copper (PCU)	\$55	Newmont Mining (NEM)	\$46		
23) Paychex (PAYX)	\$39	Auto. Data Proc. (ADP)	\$48		
24) FedEx (FDX)	\$116	United Parcel Service (UPS)	\$77		
25) Duke Energy (DUK)	\$32	Fla. Power & Light (FPL)	\$58		

26) Genentech (DNA)	\$83	Amgen (AMGN)	\$68
27) Berkshire Hathaway (BRK.B)	\$3,589	Templeton Dragon Fd. (TDF)	\$26
(a well-diversified "value" fund with long-term resilience, but no income)		(a high-grade Asian fund with a 5% yield)	

CAM continues to work on year-end tax planning and would welcome your calls at any time.

CAM would like to wish everyone a happy, healthy and prosperous Holiday Season...we all have much to be thankful for and can rank our families and friends as our greatest assets and rewards.



Disclosure Information

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