CEDAR HILL
WEALTH MANAGEMENT

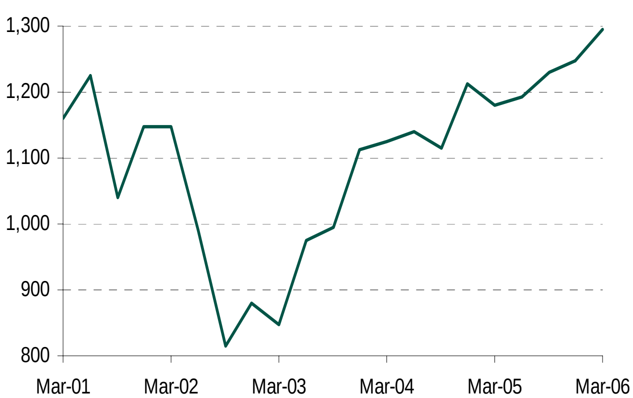
Quarterly Investment Review

March 31, 2006

Financial Review

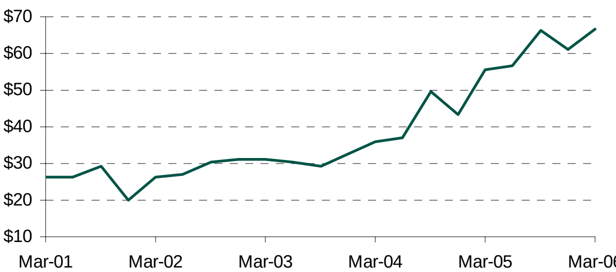
Equities rallied in the first quarter of 2006, as investors became more optimistic that economic activity would remain sufficient to support decent corporate earnings growth, despite elevated interest rates and energy costs. Large-cap stocks, as represented by the S&P 500 Index, gained 4.2% for the quarter, while the benchmark index for small-cap stocks, the Russell 2000 Index, soared 13.9%. International stocks also performed very well, with the benchmark EAFE index up 8.8% for the quarter.

S&P 500 Index



Although not posing much of a roadblock to investor enthusiasm for stocks in the first quarter, investor sentiment seems most directly tied to the future direction of energy prices and interest rates.

Crude Oil ($/Barrel)



Spot prices for crude oil have held near cycle highs, as concerns over supply disruptions linger. Tensions in Iran and Nigeria have recently received greater investor scrutiny – Iran for the potential conflict stemming from its desire to develop nuclear weapons, while Nigeria is becoming increasingly hazardous to produce crude as gangs attack and kidnap oil-workers to protest the impoverished country's close ties to the oil industry. Compounding these supply fears is the inability of private companies to discover and exploit new reserves to provide sufficient production required to meet today's energy needs. Although many oil companies are publicly announcing significant outlays for future reserve development, recent history suggests there will not be a material "discovery" to greatly enhance the supply situation.

Meanwhile demand, in the face of oil prices exceeding $60/barrel (and $2.50/gallon gasoline), has been remarkably resilient both domestically and globally. Although consumption was partly abated after the price shocks during the hurricane season, demand has largely remained constant. The lack of price sensitivity at these elevated levels suggests to us that energy prices will likely head higher in the coming years.

Interest rates moved higher in the quarter, as the Federal Reserve maintained its policy of tightening money supply by raising short-term rates an additional 50 basis points. Yields for longer-term maturities have also risen, as bond investors have become more worried about inflationary pressures – likely the result of a tightening labor market adding to fears already stoked by rising commodity prices. Although long-term rates are heading higher, yields have not moved dramatically suggesting the inflationary worries are somewhat muted - perhaps in the belief that the economy has effectively been steered toward a perfect balance of modest growth and inflation.

Higher interest rates should be expected to dampen corporate profit growth, however, as bonds issued by corporations become more costly. A secondary impact to profits will be the effect of higher consumer rates on discretionary spending. Although we do not believe the higher financing costs will cause a dramatic consumer slowdown, we are concerned that growth rates will slow below current expectations.

For 2006, we expect GDP growth to approximate 3%, with slightly higher growth in the quarter just completed. Corporate earnings for the members of the S&P 500 Index could grow about 7% (year-over-year) which might suggest that the strong showing in the market in the first quarter has largely discounted profit growth for the entire year. Under this backdrop, we are cautious that equity investment returns for the rest of the year may disappoint compared with the first three months.

Core Equity Portfolio

Core equity portfolios generated strong returns in the quarter, as our energy holdings generally rallied to new highs. Schlumberger, the world's largest oil services company, was the best performer in the quarter, rising over 30%. Since our original purchase slightly more than a year ago, the stock has nearly doubled as operating earnings have advanced by more than 65%. The most disappointing performance came from drug manufacturer Schering-Plough, which was down about 9% for the quarter as some investors question the sustainability of the company's turnaround. We initially purchased Schering-Plough in 2004 after the company embarked on a massive restructuring subsequent to losing patent protection on its most significant product (Claritin). We expect the company to maintain earnings growth momentum over the next few years as recently marketed drugs grow in significance and new products come to market.

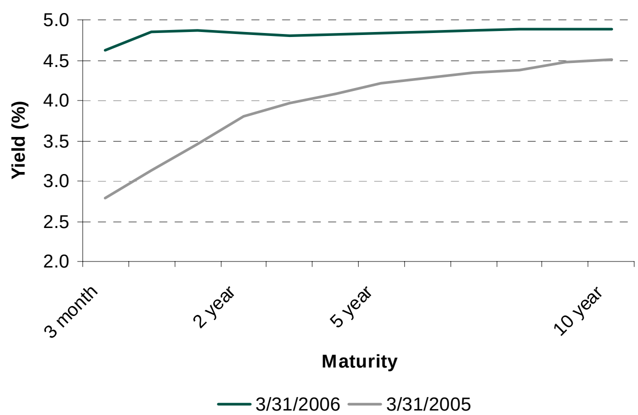
During the quarter we initiated a position in Nabors Industries, an energy company focused on land drilling and well servicing. Our reason for purchasing Nabors is our belief that substantial investment in advanced equipment and technology will be required in the coming years. Nabors is enjoying strong pricing for its rigs as worldwide demand far outstrips supply – a condition that is likely to persist for at least the next few years. We expect substantial cash flow growth over the coming years, with much of the growth locked in under longer-term contracts.

Our purchase of Nabors adds to our already significant energy position in equity portfolios. Although we believe energy prices will move modestly higher, our primary thesis with energy stocks is to shift emphasis toward companies that will continue to grow should energy prices remain range-bound between $60 and $70 per barrel over the coming year. We believe companies providing equipment and technology that enhance production levels will enjoy superior returns - rather than the major integrated oil companies who will be forced to spend considerably to replace declining reserves. We expect future portfolios will add positions in companies that are less dependent on the discretionary spending of consumers and businesses - as higher outlays for energy and financing costs restrict individual and corporate budgets.

Fixed Income Markets

The transition from Federal Reserve Board Chairman Greenspan to new Chairman Bernanke yielded no apparent change in the Board's direction, as the Fed raised short-term rates by another 50 basis points in the first quarter. Reactions to recent comments by the Bernanke, as well as speeches by other members on the Board, suggest concern that rates may continue to rise more than previously thought. The markets are now anticipating a greater likelihood of two more rate hikes in the coming quarter, with additional moves dependent on whether the economy slows sufficiently to head off potential long-term inflationary pressures.

Treasury Yield Curve



The yield curve is essentially flat, and recent market activity suggests long-term rates may begin to move in a more pronounced manner. We are keeping duration at slightly below benchmark levels due to the flatness of the yield curve. For taxable accounts, callable agency bonds remain the most attractive in today's environment.

Alternative Investments

Alternative investment strategies experienced their best quarter since 2003. Most strategies posted positive gains, with emerging market and technology – focused funds faring best.

Equity Long/Short managers on average again outperformed the S&P500 returns. Managers with net exposure to small-cap and international stocks performed very well on an absolute basis. Successfully shorting stocks is still a rare talent in this space. Many funds we see are using more index and ETF shorting strategies, while dedicated short-only managers were one of the few groups to lose money in the quarter.

Merger Arbitrage managers had an excellent start to the year. Deal spreads at the end of 2005 were widening, and many of these transactions closed as expected in the first quarter. M&A activity remains high, especially in Europe, and these funds appear to be well positioned for further profits. Success in this area is also aiding **Convertible Arbitrage**, where new issuances are picking up at the same time as they are realizing profits on the merger activity. Volatility overall still remains low, but deal activity has proven to be more important at generating returns.

Distressed Securities performed well in the quarter in the absence of any big headline events. The financial condition of GM has not improved, and industries such as airlines and packaging remain tenuous. The level of high yield debt issued over the past three years should lead to more financially stressed opportunities in the near future, and we remain optimistic that the return potential in the space will be significant.

New Investments

Qualified clients invested in a project to develop an 83-room extended stay hotel located in Fort Wayne, Indiana. The project should be completed by the end of spring at which point our partners will continue to manage the property. We have negotiated a preferred return for our investors and a back-end performance fee that should be realized upon sale or refinancing of the property.

Final Note

This letter as well as other significant communications can be emailed to you instead of sent through regular mail. Please send your email address to **info@cedhill.com** to be added to our email distribution list.

One Year Economic Overview

		Mar 2006	Mar 2005
Stock Market			
S&P 500 Index	▲	1,294.83	1,180.59
Russell 2000 Index	▲	765.13	615.07
Fixed Income Yields			
3-Month Treasuries	▲	4.62%	2.79%
5-Year Treasuries	▲	4.83	4.21
10-Year Treasuries	▲	4.89	4.51
30-Year Treasuries	▲	4.90	4.73
Inflation Monitor			
CPI-Trailing 12-Month Growth	▲	3.5%	3.1%
CPI-(Excluding Food/Energy)	▼	2.0	2.3
Market Expectations*	▼	2.3	2.4
Gold (per ounce)	▲	$581.80	$428.70
Crude (per barrel)	▲	66.63	55.40

*Comparison of yields for 10-Year Treasury and 10-Year TIPs