

Fagan Financial Report

VOLUME 9, ISSUE 4

FOURTH QUARTER 2006

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Fagan Associates, Inc.
Registered Investment Adviser

The Independent Financial Voice of the Capital Region

Locally owned and managed since 1989

No proprietary products

Individually managed portfolios

No outsourcing to institutional money managers

INVESTMENTS * FINANCIAL PLANNING * RETIREMENT PLANNING

Current assets under management exceed \$100 million.

www.faganasset.com

767 Hoosick Road, Troy, NY 12180

A Preview of the 2007 Financial Markets

.Calendar year 2006 brought Americans a rising stock market with the Dow Jones Industrial Average closing at near record highs. On the fixed income front, bonds were relatively flat as interest rates rose slightly. Furthermore, the Open Market Committee of the Federal Reserve, the body that determines the direction of short-term interest rates, has taken a break from the seventeen consecutive rate hikes that ended this past June. Finally, the economy slowed as the year went by, rising at an annual pace of 5.6% during the first quarter, 2.6% during the second quarter and by 2.0% during the third quarter. The Commerce Department has yet to release the results of the fourth quarter. However, the consensus is for fourth quarter GDP to have risen by an annual rate between 2.5% to 3.0%.

Now, looking ahead, it is our job to look into our "crystal ball" and see

perhaps what 2007 might bring.

Cutting right to the chase, we believe that the major stock indices, including dividends, will perform somewhat in line with their long-term historical average returns of between eight and twelve percent with the Dow Jones Industrial Average rising from its 2006 closing value of 12,463 to 13,929 for a gain of 11.76%; the Russell 2000 rising to 864 from its 2006 closing level of 788 for a gain of 9.65% and the Standard & Poor's 500 rising to 1,524 from its 2006 closing value of 1,418 for a gain of 7.48%.

We believe the NASDAQ Composite to be the index that will outperform rising to 2,716 from its 2006 closing level of 2,415 for a gain of 12.46%. Unlike our projection for 2006 which called for a "saucer-shaped" year with the best two quarters being the first and fourth, we believe 2007 will be remembered as one in which the

returns of the stock market accelerate as the year progresses. Furthermore, we would not be surprised if stocks take a breather during the first quarter, taking time to digest the gains from the fourth quarter of 2006.

The sectors of the stock market that outperformed in 2006 included Telecommunications, Oil & Gas, Utilities and Financial Service Companies while the underperforming sectors included (from worst to "least worst") Health Care, Technology, Industrials and Consumer Goods.

We believe that 2007 will result in solid out-performance in Consumer Services; Industrials; Financials and Technology; market-performance in Oil & Gas; Consumer Goods and Health Care and under-performance in Telecommunications; Basic Materials and Utilities. Looking in greater

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depth, we also expect large cap growth to continue to rebound, technology hardware to prosper, and financials to do well as the fed continues its policy of providing a watchful eye over the economy without moving on interest rates resulting in a normalizing of the yield curve. We also believe that the year in the Oil & Gas sector will be marked by fits of greed and fear, greed during the times of global tension and fears over a glut of inventory and mild weather. The housing market appears to have bottomed, but returns on housing stocks will remain in the doldrums. Finally, the “BRIC” countries, Brazil, Russia, India and China, will see some profit-taking early on, but recover and reach new all-time highs as the year progresses.

Names of Note

Lately, the market has focused on mid-caps and energy names ignoring the improving fundamentals of many top-quality large cap names which are becoming increasingly attractive. The following Fagan Associate, Inc large cap holdings illustrate this point.

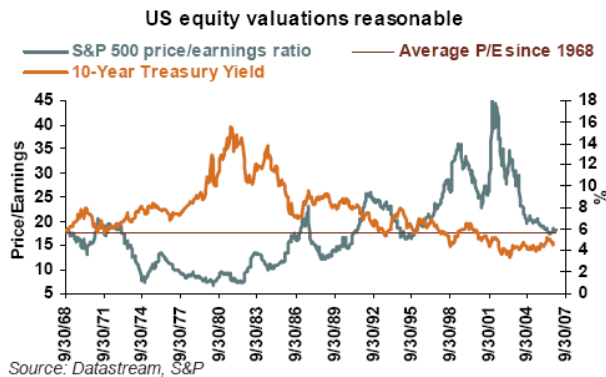
CITIGROUP (C) – this stock traded at \$49.59 on 11-30-2006 and is currently trading at \$56.01 for an advance of almost 13%. With 300,000 worldwide employees this global financial power has come to life lately. There has been continued speculation that Citigroup will spin off a subsidiary to enhance shareholder value. With a 3.6% dividend and a PE of 12 this seems a solid, value play especially if the Fed lowers interest rates during the course of 2007.

GENERAL ELECTRIC (GE) – OK, maybe we are like the “boy who cried wolf” but GE has shown some nice signs of life over the last month. Currently, \$37.89

the stock was changing hands at \$35.02 at the end of November. (A return of 8.2%) - A lower dollar and reasonable valuation may propel investors to continue to move GE higher. Capitol District investors (especially ex-GE employees) should monitor their exposure to GE keeping it at reasonable levels.

ABBOT LABS (ABT) This company is currently trading at \$49.37 – a 5.9% increase over the \$46.66 of 11-30-2006. Abbot closed 2002 at a split, dividend adjusted \$48.10. It has virtually gone nowhere despite the market’s stellar run. An aging population, a broadening health care line and a generous dividend (2.4%) might attract continued investor interest.

Despite all of the above, past years have taught us that, regardless of where stocks and bonds ultimately end up at the close of 2007, if we are blessed with good health and good friends, we are successful. Best wishes for a Happy, Healthy, Profitable 2007!



Fagan Associates, Inc. First Quarter 2007 Sector Strategy

OVERWEIGHT	EQUAL WEIGHT	UNDERWEIGHT
Consumer Services	Oil and Gas	Telecommunications
Industrials	Consumer Goods	Basic Materials
Financials	Health Care	Utilities
Technology		

Factors affecting the financial markets during 2007

Positives	Negatives
• Reasonable Valuations	• Yield Curve Inverted
• Overall and Core Inflation Under Control	• Historically High Energy Prices
• Fed Tightening on Hold	• Threat of Terrorism
• Favorable Election Cycle	• Government Spending Out of Control
• Corporate Cash Near All-Time Highs	• Investor Sentiment Bullish (Contrarian)
• Dividend Payout Ratio Near Lows	• Consumer Tied to Housing Market
• Earnings Growth Strong	• U.S. Dollar Weakening
• Moderate, Sustainable Economic Growth	• Housing Market in Recession
• Global Economic Growth Strong	• Durable of Bull Market Historically Long

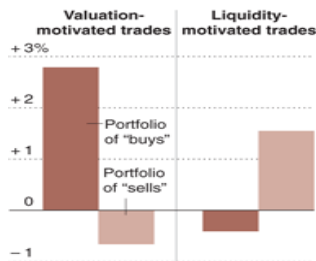
Contained within the text of the first page of this newsletter is the statement that “we also expect large cap growth to continue to rebound.” As this statement pertains to **domestic mutual funds**, we have positioned our holdings accordingly, with a specific emphasis on large cap stocks rather than the narrower large-cap growth stock sector. In fact, upon examining our five largest Domestic Equity Fund Holdings, three of the five are indeed large-cap oriented (Schwab 1000 Select Fund; American Funds Capital Income Builder; T. Rowe Price Growth Stock Fund) with the other two investing in the mid-cap arena (Baron Asset Fund and Marsico Focused Equity Fund). This expectation of relative out-performance by large-cap mutual funds should continue well into calendar year 2007.

Of note within our **international mutual fund** holdings is the fact that they are broadly diversified funds with exposure around the globe rather than to a specific region. We believe, that the best way to get predictable returns overseas, an investor needs to rely on the abilities of the fund manager to identify the regions that he/she deems opportunistic rather than attempt to identify the regions ourselves. Furthermore, a positive quality that often results in out-performance is long management tenure of the fund manager. In fact the average fund management tenure of our five largest international mutual fund holdings is more than ten years.

<i>Fagan Associates, Inc. Largest Mutual Fund Holdings as of December 31st, 2006</i>		
<i>Domestic Equity Funds</i>	<i>International Equity Funds</i>	<i>Hybrid/Fixed Income Funds</i>
Schwab 1000 Select Fund	William Blair International Growth	Janus Flexible Income
Baron Asset Fund	Tweedy Browne Global Value	WF Short-Term High Yield
AF Capital Income Builder	Harbor International	Northeast Investors Trust
TR Price Growth Stock Fund	Janus Overseas	Loomis Sayles Bond
Marsico Focused Equity Fund	Vanguard International Growth	Vanguard GNMA

The Motivation Factor

The performance of stocks that mutual fund managers buy and sell depends crucially on the motivation for the trades, a new study has found. So-called “liquidity-motivated trades” — undertaken to put cash inflows to work or to meet redemption requests — are generally less profitable. Below, the performance relative to the overall stock market (annualized).



Source: Gordon J. Alexander, Gjergji Cici, Scott Gibson

Stocks vs. Bonds

Average returns, by mutual fund category, for the fourth quarter of 2006.

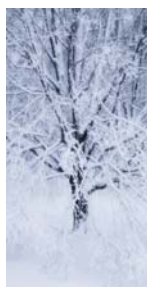


Sector by Sector

Major fund sectors posted gains in the quarter, and all but two had double-digit growth for the year.



Source: Morningstar Inc. The New York Times



More than 150 of our clients attended the year-end client seminar at the Century House in Latham. Dennis and Chris provided analysis and guidance for 2007 while guest speaker Wally Altes, host of WMHT’s Bottom Line, spoke about major issues/opportunities before the region.

Thanks to all who attended. We always look forward to the seminar and to spending time with our clients during the holidays. We appreciate the opportunity to assist you in attaining your financial goals.

Fixed Income

Our theme of “invest in stocks for growth and bonds for income” has been a consistent one for well over one decade at Fagan Associates as it pertains to **fixed income funds**. We do not expect this to change during 2007 and also subscribe to the theory that broad diversification over differing types of bonds (government, high grade corporates and high yield corporates) will result in a higher yield with less volatility. With this in mind, we believe 2007 will be marked by a return to a normalized yield curve during which longer-term maturities pay a higher rate of return than their shorter-term brethren. To achieve our objective of maximizing income with as little volatility as possible, we will maintain an average maturity of approximately five to ten years or more specifically, intermediate-term bond funds.

<i>Yield On Selected United States Treasury Obligations</i>						
	<i>Jan 12th, '07</i>	<i>Jan 5th, '07</i>	<i>Dec 29th, '06</i>	<i>Dec 31st, '06</i>	<i>Dec 31st, '05</i>	<i>Dec 31st, '04</i>
<i>3 month T-bill</i>	5.08%	5.04%	5.01%	5.01%	4.07%	2.23%
<i>6 month T-bill</i>	5.14%	5.09%	5.08%	5.08%	4.36%	2.59%
<i>2 year T-note</i>	4.88%	4.75%	4.81%	4.81%	4.39%	3.10%
<i>3 year T-note</i>	4.81%	4.67%	4.73%	4.73%	4.36%	3.26%
<i>5 year T-note</i>	4.76%	4.64%	4.69%	4.69%	4.35%	3.65%
<i>10 year T-note</i>	4.77%	4.65%	4.70%	4.70%	4.39%	4.25%
<i>30 year T-bond</i>	4.86%	4.74%	4.81%	4.81%	4.54%	4.85%
<i>Spread b/t 2- & 10 Yr.</i>	-11 bp	-10 bp	-11 bp	-11 bp	0 bp	115 bp
<i>Current Prime Rate</i>	8.25%	8.25%	8.25%	8.25%	7.25%	
<i>Current 3-mo LIBOR</i>	5.36%	5.36%	5.36%	5.36%		

The radio show has moved...



**Look for 810WGY's
Fagan Financial Report at a new time,
Sundays, 10:00 a.m. - 11:00 a.m.
following the Joe Gallagher Weekend Morning Show**

And, don't miss Dennis Fagan's weekly visit with Joe, Sundays, 8:30 a.m. - 9:00 a.m.

- A Recap of the past week’s financial markets, including company specific and economic news
- “The Record Review” – an outline of our column that appears in the *Sunday Record*
- “Widely Helds” – a look at the price action and news releases from the most widely held stocks.
- A spotlight on one or some of our **mutual fund holdings or ETF holdings**
- A look at the upcoming week, economic data and earnings reports
- Monthly notable changes to our investment portfolios after the close of the prior month
- Interviews with other industry professionals, including mutual fund managers, insurance professionals, accountants and attorneys
- Interviews with local community leaders

We take your calls, Sundays from 10:00 a.m. - 11:00 a.m. at 1-800-TALKWGY

Special guest, January 28, 2007 - Bill Fagan , President, Wm. J. Fagan & Sons
Insurance Property/Casualty

Common Stock Portfolio Holdings**
Ranked by Market Value as of December 31st, 2006

Percent of Common Stock	Company Name	As of Dec 31, 2006	As of Nov 30, 2006	As of Oct 31, 2006
6.17%	General Electric	1	1	1
4.91%	Exxon Mobil	2	2	3
4.88%	Citigroup	3	4	2
4.29%	JP Morgan Chase	4	5	4
3.61%	Apple Computer	5	3	5
3.21%	Bank of America	6	7	7
3.20%	Three M Company	7	6	6
2.47%	Loews Corporation	8	8	8
2.33%	American International Group	9	9	10
2.08%	Johnson & Johnson	10	10	9
1.92%	Las Vegas Sands	11	11	11
1.90%	Aetna Life	12	14	13
1.81%	ICICI Bank	13	13	16
1.74%	Keycorp	14	15	12
1.65%	Hewlett Packard	15	20	39
1.62%	NewsCorp	16	18	17
1.59%	Gilead Sciences, Inc.	17	17	14
1.51%	Valero Energy	18	12	15
1.45%	McDonald's Corporation	19	21	20
1.43%	Nabors Industries	20	16	18
1.39%	Trinity Industries	21	19	19

Portfolio Concentration: Top 20 holdings represent 53.75% of the common stock portfolio, as of December 31st, 2006.

Common Stock Portfolio Holdings**
Ranked by Share Balance as of December 31st, 2006

Notes & Stock Splits; Avg. Cost Per Share			Company Name	As of Dec 31, 2006	As of Nov 30, 2006	As of Oct 31, 2006
\$30.34	1	1	General Electric	91,068	91,493	91,993
\$39.50	2	2	JP Morgan Chase	48,741	48,741	48,832
\$37.59	3	3	Citigroup	48,060	48,185	57,823
\$20.76	4	4	NewsCorp	39,830	39,105	38,490
\$35.05	5	5	Exxon Mobil	35,160	35,380	35,970
\$31.13	6	6	Bank of America	32,948	32,881	29,363
\$33.16	7	7	Loews Corporation	32,741	32,741	32,741
\$10.75	8	8	First Niagara	30,829	31,338	36,241
\$18.54	9	9	ValueClick Inc.	26,825	27,985	27,985
\$32.59	10	11	Nabors Industries	26,355	26,640	26,640
\$10.68	10	10	Evergreen Solar	25,145	27,595	27,595
\$24.52	13	13	KeyCorp	25,055	25,355	26,165
\$26.43	14	14	Intel Corporation	24,520	24,870	24,445
\$33.12	17	17	Aetna Life	24,190	22,995	22,995
\$28.04	15	15	ICICI Bank	23,760	24,730	25,455
\$67.33	16	12	Apple Computer, Inc.	23,355	26,565	26,525
\$72.12	17	16	Three M Company	22,550	23,071	23,706
\$24.92	18	20	Statoil, ASA	22,180	20,735	21,810
\$16.09	19	18	Cisco Systems	21,964	21,809	21,809
\$39.51	20	22	Hewlett Packard Co.	21,941	19,691	10,241
\$34.44	21	19	Trinity Industries	21,645	21,795	21,115

Please note that all data listed on this and the preceding pages are for general information purposes only and are not meant to be specific recommendations. Any change in ranking, by either market value or share balance, is not meant to conclude that Fagan Associates recommends a purchase or sale of the referenced security. Please note that Fagan Associates, Inc or related persons buys or sells securities that it also recommends to clients. Consult with your financial advisor prior to making any changes to your portfolio.

Fagan Associates, Inc.
Underwrites
Locally Produced WMHT Business Series
Monday evenings at 7:30 p.m.
Rebroadcast Sunday at 1:30 p.m.



Second season premiere with guest Dennis Fagan
****Monday, February 5th at 7:30 p.m.****
Rebroadcast Sunday, February 11th at 1:30 p.m.

Host Wally Altes and Dennis will take an updated look at the economy in the Capital Region and discuss the factors, trends, and developments may affect you and your portfolio.

For more information go to: Bottom Line at www.wmht.org

Retirement Accounts

Contribution Limits and Calendar

Contribution Limits for Tax Years 2006 and 2007

Type of retirement account	Contribution limit		Additional "catch-up" contribution for account holders age 50+ as of December 31
	Tax year 2006	Tax year 2007	
Traditional IRA, Roth IRA, Custodial IRA	\$4000 or 100% of compensation, whichever is less	\$4000 or 100% of compensation, whichever is less	\$1000 for 2006 and 2007
SEP-IRA	Lesser of \$44,000 or 25% of compensation (20%* if self-employed)	Lesser of \$45,000 or 25% of compensation (20%* if self-employed)	None
Qualified Retirement Plan (QRP)	Lesser of \$44,000 or: <ul style="list-style-type: none"> Employer tax deduction-25% of compensation (20%* if self-employed) Participant contribution-100% of compensation 	Lesser of \$45,000 or: <ul style="list-style-type: none"> Employer tax deduction-25% of compensation (20%* if self-employed) Participant contribution-100% of compensation 	None
SIMPLE IRA salary deferral	\$10,000 or 100% of compensation, whichever is less	\$10,500 or 100% of compensation, whichever is less	\$2500 for 2006 and 2007
SIMPLE IRA non-elective contribution	\$4400	\$4500	None
Individual 401 (K) Includes employer contribution and salary deferral	\$44,000 total: <ul style="list-style-type: none"> Employer contribution- 25% of compensation (20%* if self-employed) Salary deferral- Lesser of \$15,000 or 100% of compensation 	\$45,000 total: <ul style="list-style-type: none"> Employer contribution-25% of compensation (20%* if self-employed) Salary deferral- Lesser of \$15,500 or 100% of compensation 	\$5000 for 2006 and 2007

*Self-employed individuals have a maximum contribution of 20%. This percentage of the business's net profit, after subtracting the self-employment tax deduction, is equivalent to a 25% employee contribution. Consult IRS Publication 560 for more information.

Name	Contribution Deadline	Account Establishment Deadline
<u>Traditional Contributory IRA</u>	April 15 (no extensions)	April 15 (no extensions)
Rollover IRA	N/A	N/A
<u>Roth Contributory IRA</u>	April 15 (no extensions)	April 15 (no extensions)
<u>Roth Conversion IRA</u>	N/A	Dec. 31
<u>Inherited/Beneficiary IRA</u>	N/A	N/A
<u>403(b)(7) Custodial Account</u>	N/A- Transfers Only	N/A
<u>Custodial Account</u>	Dec. 31	Dec. 31
<u>Custodial IRA</u>	April 15 (no extensions)	April 15 (no extensions)
<u>529 College Savings Plan</u>	Dec. 31	Dec. 31
<u>Education Savings Account</u>	April 15 (no extensions)	Dec. 31
<u>SEP-IRA</u>	Employer contribution deadline: Tax filing deadline, including extensions.	Tax filing deadline, including extensions
<u>SIMPLE IRA (Master Accounts)</u>		By Oct. 1 if deferrals are to be made for that calendar year.
<u>SIMPLE IRA (Participant Accounts)</u>	Employer contribution deadline: Tax filing deadline, including extensions Salary Deferral: Must be sent to plan custodian 30 days from the end of the month of withholding.	By the time the first salary deferral and/or the first employer contribution is made.
<u>Qualified Retirement Plan (QRP)</u>	Employer contribution deadline: April 15 (plus extensions)	Adoption and participant account deadlines: By employer's fiscal year end
<u>Personal Defined Benefit Plan*</u>	Employer's tax filing deadline, including extensions but not later than September 15 following tax year-end	Plan must be opened by end of business's fiscal year (usually December 31). For tax year 2004, Schwab must receive Funding Proposal Worksheet by November 1.
<u>401(k)</u>	Employer and employee contribution deadline based on employer's fiscal year	N/A
<u>Company Retirement Accounts (CRA)</u>		N/A

For specific recommendations, please consult a tax advisor.

Source: Schwab Institutional



We're back.... After a short hiatus, the Fagan Financial Report has returned to *The Sunday Record*.

Please note that the opinions of the authors are not a recommendation to buy or sell the stock, bond market or any security contained therein. Securities contain risks and fluctuations in principal will occur. Please research any investment thoroughly prior to committing money or consult with your financial advisor. Fagan Associates, Inc. services are offered only to United States citizens and residents. The information on this site is intended solely for such persons. Copyright 2006, Fagan Financial Report. All rights reserved. Broadcast, publication, or storage is strictly prohibited. Information in this document is provided "as is," without warranty of any kind, either expressed or implied, including but not limited to the implied warranties of merchantability, fitness for a particular purpose and freedom from infringement. The user assumes the entire risk as to the accuracy and the use of this document. We will not be liable for any damages of any kind arising from the use of this information, including, but not limited to direct, indirect, incidental, punitive, and consequential damages.