A.R.Schmeidler & Co., Inc.

The Outlook

July 31, 2006

As of July 31, 2006		
Index	**YTD % Change**	**Market Value**
Dow Jones Industrials	5.8%	11185.68
S&P 500	3.4%	1276.66
Nasdaq Composite	-5.2%	2091.47

The global economic outlook is strong, and our investment views remain unchanged. The sectors we have highlighted in our recent outlooks are still the major beneficiaries of continuing global economic strength. Accordingly, recent market volatility should not dissuade investors from either taking advantage of lower equity prices or from remaining optimistic about the companies that are the beneficiaries of world growth. The recent volatility in the financial markets is attributable to several factors; first and foremost is the U.S. Federal Reserve interest rate policy. Recent economic data showing a possible slowing of the economy has also raised short-term concerns about corporate profitability.

We highlight below some current market concerns:

Market Concerns	**Impact**
Central Bank raising interest rates	Money supply being reduced and speculators leaving the markets
Energy / Commodity prices on the rise	Inflationary pressures
Gross Domestic Product (GDP) slowing to 2.5% from over 5%	Slower economic growth
Rise in inventory of unsold homes and rise in cancellations for new homes	Weakening one of the pillars of the U.S. economy
Reset of Adjustable Rate Mortgages and Home Equity Loans	Cost of living will rise for many Americans, impacting discretionary spending
Spread of Israeli / Hezbollah conflict	Growing concerns over energy supplies and prices

Inflation and Rising Interest Rates

There is little question that central banks around the world including our own Federal Reserve have been concerned about rising inflation and therefore have been raising interest rates. However, as long as productivity

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remains strong, central banks should be expected to raise interest rates only modestly. We recognize that if productivity in the United States is not strong enough to offset rising labor and raw material costs, the Federal Reserve will feel compelled to raise interest rates further. **However, in this scenario many of our portfolio investments would still stand to benefit.**

Pragmatic Decisions

Macro-economic concerns, as well as a host of market and company-specific issues, reach an audience of investors and speculators that often have a predominantly short-term focus. The hedge fund community alone has an estimated 1 trillion to 1.5 trillion dollars of available capital and has several times more buying power with the use of leverage. It is no surprise when market reaction in either direction is excessive and overdone. **For investors like us the most pragmatic decisions, and the ones that are likely to yield the greatest returns on investment capital, are those that take advantage of price weakness and the relative price changes occurring in the equity market.** For example, some years ago, a leading company in a sector we favored saw its shares decline to $18 from the mid-high 30's where we had been purchasing them. Instead of selling these shares from portfolios, we made major additional purchases at the depressed prices. The company was then selling for a total equity value of less than $12 billion and had a growing sales backlog of product orders in excess of $40 billion. Within the next two years the shares fully recovered and ultimately rose to over $60. At that price the shares were no longer a value and were sold. The compound rate of return came to more than 20% per year for the total holding period.

The fundamental purpose in owning equities is to compound rates of return over time in order to build capital and to meet present and future capital and income needs. Unfortunately, the fundamental purpose in owning equities gets lost in the day-to-day news and commentary from the financial media to which we are all exposed.

Shortages of Skilled Labor, Materials and Equipment

The large and growing U.S. current account deficit is problematic for the nation's long-term outlook and may get even worse over time. Just last week General Electric announced that it plans to manufacture a majority of its products overseas over the next three years because costs are lower, and there is no shortage of skilled workers and engineers abroad as there is currently in the United States. The Bureau of Labor Statistics said we need 135,000 computer professionals a year, but our universities are producing only 49,000 computer science graduates per year. Moreover, both China and India are graduating far more citizens with bachelor degrees in engineering, computer science, and information technology than is the U.S.

The world's natural resources should remain in strong demand for a long time to come barring a major global downturn. The mining industry has also been badly affected by the lack of skilled workers, and many engineers will be retiring in the next decade. The energy industry will continue to struggle to find the people it needs within the U.S. labor force. In 1983 there were 11,000 petroleum-engineering students in undergraduate schools. That number, according to the Society of Petroleum Engineers is now about 1,700. **Every industrial company we contact has the same story. There is a secular shortage of quality people, materials, and equipment, and there is no short-term solution on the horizon.** We note here that many of these companies are selling at low multiples of earnings and cash flows, have strong balance sheets, and represent excellent investments in our view.

Valuation Judgments

The expectation for appreciation of market sectors and individual equities requires us to make valuation judgments. It is important that the current market price of an individual equity properly reflects the forecasted profit, cash flow, and other fundamental value expectations that can be achieved realistically within a given time period. These judgments are ultimately the most important facet of our work. The judgments we make influence our equity market sector and fixed-income asset allocation decisions and the overall construction of individual portfolios. **While analysts on Wall Street have their preferences for valuation measures of individual stocks they must, at the end of the day, address the basic issue as to whether the current market price of an individual equity properly reflects the forecasted profit expectation and the risks of error in the forecast. We expect the companies we favor in the sectors mentioned in our *Outlooks* to continue to do well.** We particularly believe that industrial companies are undervalued relative to their future earnings potential and core assets. We do not believe that the major changes that have taken place in the industrial sector are properly understood today. **We also expect merger and acquisition activity to remain robust as long as the under valuation and the significantly improved earnings and cash flow potential are not fully reflected in equity values.**

Corporate-Profits

We are optimistic about the prospects for all the companies that we like in the sectors we favor. Strong quarterly results should particularly benefit those in the Industrial Equipment, Energy, and Basic Materials sectors. Several of our favored investments have recently split their shares, raised dividends, declared special dividends, and bought back stock. Some are being acquired now and we expect others will be targeted as time goes on by larger, cash-rich companies. **The high price of energy, the industrialization and economic growth in China and India, strong industrial activity in other parts of the world, demand for raw materials, and the growing need for low-cost transportation (barges and railroads) is currently being born out by strong company earnings reports.**

Conclusion

Federal Reserve policy-makers are scheduled to meet again on August 8th. Investors are clearly concerned about higher interest rates and the fact that any sign of renewed economic strength and inflation will increase the Federal Reserve policy-makers' resolve to continue raising interest rates through the summer. Chairman Ben Bernanke is on record for recently saying that he expects moderating economic growth to push inflation down in the coming months. This would help reduce the need to further raise interest rates. However, the financial markets are currently putting 50/50 odds on the Federal Reserve either raising its short-term interest rate target to 5.5% or leaving it at 5.25%.

There is no doubt that today's investment climate is more difficult, and this is being reflected in market volatility. This is also providing us with an opportunity to purchase many of the companies that we favor at particularly attractive prices. We also anticipate an increase in merger and acquisition activity in the sectors mentioned. If this occurs, we expect substantial premiums to the current market prices to be offered. The imbalances evident today should result in capital and income gains over the next several years for the companies positioned for this outlook.