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# Investment Perspective

FROM THE BRETHERN FOUNDATION

APRIL 2006

## MARKETS AND ECONOMY

Stocks continued their positive performance in March. Domestic stocks approached a six-year high during the month, before retreating in the face of another interest rate hike from the Federal Reserve. Bonds fell broadly during the period as economic recovery in Europe and Japan provided competition for investors' funds (see the expanded discussion of interest rates below). Many analysts expect stocks to continue on an upward trend through 2006, although the path is not likely to be smooth.

The U.S. economy continued to grow in March. Businesses hired about 211,000 new workers during the month, pushing the unemployment rate down 0.1 percent. Hourly wages also rose in March, allowing workers to share more directly in their employers' growth. At the same time, manufacturing activity continued to increase although the rate of increase was lower than in February. By raising its key short-term interest rate, the Federal Reserve continued its efforts to dampen possible inflationary pressure. Although long-term interest rates have finally begun to rise, interest rates on long-term mortgages remained fairly stable, which means residential activity can continue even if the rise in short-term rates reduces the amount of real estate speculation.

The Standard & Poor's 500 Index picked up 1.2 percent in March, bringing its first-quarter gain to 4.2 percent. The MSCI/EAFE Index added 3.3 percent for the month; its year-to-date increase is 9.4 percent. The Lehman Brothers Government/Credit Index erased its previous gain for the year with a 1.1 percent drop in March. It is down one percent since Jan. 1.

## INTEREST RATES AND YOUR INVESTMENTS

Almost two years after the Federal Reserve began raising short-term interest rates, long-term rates have finally begun to rise. Is this good news or bad news? As with most investment topics, it depends.

Stock prices are rising and corporations are reporting strong profits in the U.S., Europe, and Japan. Interest rates generally rise during periods like this for several reasons. One is business demand. During good times, businesses want to buy new equipment, launch new projects, and finance larger inventories. This kind of demand for borrowed funds puts pressure on prices – in this case interest rates. Consumer spending has also been strong due to employment growth, housing price increases, and mortgage refinancing. When the economy is expanding, the Federal Reserve frequently raises rates to avoid an overheated economy and associated damaging inflation. Although the Fed does not control long-term interest rates, it can influence them by raising the Federal Funds rate, a key short-term interest rate.

Investors who hold bonds during periods of rising interest rates see their income hold steady, but the market value of their portfolios will fall because interest rates and bond prices move in opposite directions. Since market interest rates are higher, however, buying bonds during this period means the investor receives higher income going forward, regardless of what happens to bond prices.

In BFI's equity and bond funds, managers are looking for companies that will do well in this environment. Managers for the bond funds are buying and holding securities that promise to have a better combination of income and price appreciation over time.

*A Brethren Foundation representative can talk with you about the appropriate allocation of your organization's funds. Contact us to begin such a discussion.*

“Domestic stocks approached a six-year high during March, before retreating in the face of another interest rate hike from the Federal Reserve.”



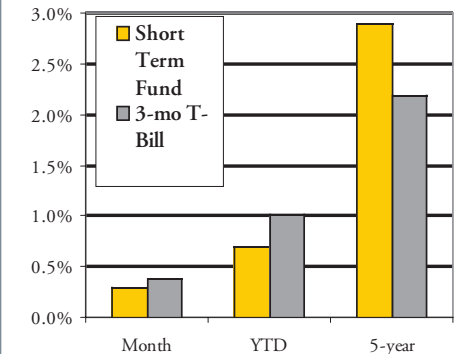
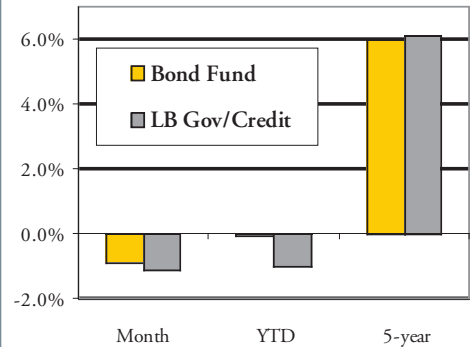
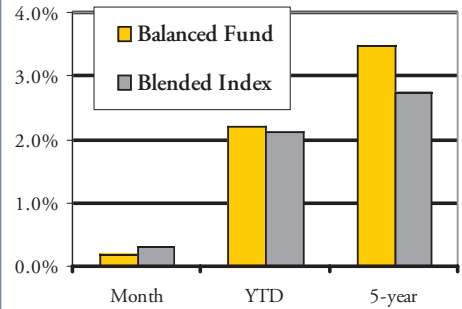
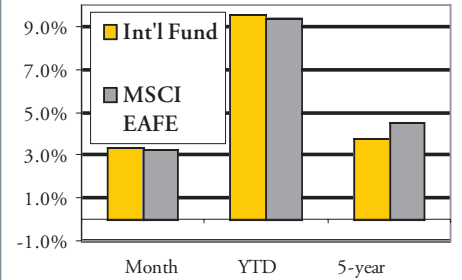
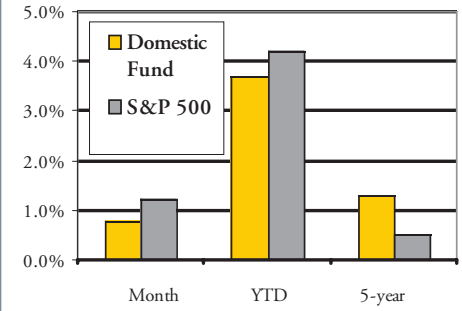
# Monthly Fund Performance Report

for the period ending March 31, 2006

# Performance Report

All Foundation investment funds must meet socially responsible investment guidelines.

FUNDS	BENCHMARKS
<b>Domestic Stock Fund:</b> <b>Rate of Return</b> Current month..... 0.8% Year to date ..... 3.7% Five years ..... 1.3%	<b>S&amp;P 500:</b> <b>Rate of Return</b> Current month..... 1.2% Year to date ..... 4.2% Five years ..... 0.5%
<b>Domestic Stock Index Fund:</b> <b>Rate of Return</b> Current month..... 1.2% Year to date ..... 4.5% Five years ..... 0.0%	<b>CPI:</b> <b>Rate of Return</b> Current month..... 0.2% Year to date ..... 1.0% Five years ..... 2.5%
<b>Small Cap Fund:</b> <b>Rate of Return</b> Current month..... 5.6% Year to date ..... 11.2%	<b>Russell 2000:</b> <b>Rate of Return</b> Current month..... 4.9% Year to date ..... 13.9%
<b>International Stock Index Fund:</b> <b>Rate of Return</b> Current month..... 3.4% Year to date ..... 9.6% Five years ..... 3.8%	<b>MSCI EAFE:</b> <b>Rate of Return</b> Current month..... 3.3% Year to date ..... 9.4% Five years ..... 4.6%
<b>Balanced Fund:</b> <b>Rate of Return</b> Current month..... 0.2% Year to date ..... 2.2% Five years ..... 3.5%	<b>Blended Balanced Index:</b> <b>Rate of Return</b> Current month..... 0.3% Year to date ..... 2.1% Five years ..... 2.7%
<b>Bond Fund:</b> <b>Rate of Return</b> Current month ..... (0.9)% Year to date ..... 0.0% Five years ..... 6.0%	<b>Lehman Bros Gov/Credit:</b> <b>Rate of Return</b> Current month ..... (1.1)% Year to date ..... (1.0)% Five years ..... 6.1%
<b>Bond Fund Core:</b> <b>Rate of Return</b> Current month ..... (0.9)% Year to date ..... (0.1)% Five years ..... 6.1%	<b>Lehman Bros Gov/Credit Interm.:</b> <b>Rate of Return</b> Current month ..... (0.4)% Year to date ..... (0.4)% Five years ..... 5.5%
<b>Short Term Fund:</b> <b>Rate of Return</b> Current month ..... 0.3% Year to date ..... 0.7% Five years ..... 2.9%	<b>3 Month T Bill:</b> <b>Rate of Return</b> Current month ..... 0.4% Year to date ..... 1.0% Five years ..... 2.2%
<b>Community Development Investment Fund:</b> <b>Rate of Return</b> Current month ..... 0.7%* Year to date..... 0.7%* *Interest accrues on a quarterly basis.	



Returns for periods longer than one year are annualized.