C Y P R E S S
ASSET MANAGEMENT, INC.

MARKET COMMENTARY

April, 2006

Stocks posted their strongest opening quarter in seven years, with the S&P 500 rising about 4% to levels not seen since early 2001. Both the U.S. economy and the equity markets continue to show an impressive resilience, despite no shortage of things to worry about from a hawkish Fed to mounting concerns over the Iraq war. We believe the major underlying themes supporting equities remain intact: 1) a powerful global economic expansion; 2) solid industry fundamentals with record corporate profits, cash flow and rising but sustainable levels of capital spending and investment; 3) attractive valuations with the S&P 500 trading at only 15 times 2006 consensus earnings, further supported by cash rich corporations that are increasing dividends, repurchasing stock, and stepping up M&A (merger and acquisition) activity.

The U.S. economy remains in remarkably good health. Thirty four consecutive months of job growth have lowered the unemployment rate to 4.7%, the lowest level in 5 years. Yet the economy shows few signs of overheating, with the Core Consumption Price Deflator now running under 2%. But the biggest story for investors is a booming global economy.

BRICs and the Global Economic Boom

Japan and Western Europe have finally joined the U.S. and the developing economies of the world to provide balance and depth to the current expansion. Even more significant for the global economy and its future, however, is the growing economic force that is the BRICs (Brazil, Russia, India & China). The ISI Group projects that sometime in 2006 the BRICs will be larger than Japan, at just over 10.2% of World GDP. Nominal GDP is increasing at 10% or better for the BRICs compared to just 3% for Japan. As a result, the BRICs will be the third largest "economy" in the world, behind the U.S. and Europe. The size and scale of the industrialization of China and India should not be underestimated in its impact on global economic growth. It is a long term event, one that has reached critical mass. The BRICs now matter to the world economy in a way that eclipses their impact merely five years ago. We would argue that the industrialization and rapid growth of the BRICs has revived not just the moribund economies of Japan and Western Europe but they have also given rise to a boom in resource rich economies from Mexico and the Middle East to, of greater interest to Cypress investors, Australia and Canada among the Western economies.

There is a powerful momentum behind the current global economy that increases the likelihood that growth will continue for some time. Part of this historic global expansion is a boom in infrastructure and construction spending. We will continue to look for good investment opportunities in the industrial and the energy and materials sectors. We see not only oil and gas, but other natural resources like coal as attractive long term investments. We also continue to see opportunity in the companies that provide the equipment, services and technology to find and produce hydrocarbons globally. Moreover, the boom in energy and resources is spreading to capital goods and equipment, as the BRIC economies modernize and industrialize. Diversified Industrials such as GE, Emerson and 3M are all seeing increased demand and will be long term beneficiaries of the global expansion.

Market Balance Sheet

POSITIVE	NEUTRAL	NEGATIVE
Interest Rates		Budget Deficit/Surplus
Economic Growth/Industrial Production	Liquidity (Monetary Growth)	
Economic Growth/Consumer Spending		Geopolitical Stability
Fiscal Policy	Inflation	
Valuation	Dollar	
Profit Growth/Margins		Energy Prices
Productivity	Employment	
Demographics	Free Trade Protectionism	Regulatory Environment

<u>POSITIVE</u>

Interest Rates

Still historically low and favorable to equity valuations. Inflation expectations have risen with the spike in energy prices and outlook for increased federal spending due to hurricane Katrina and rebuilding of New Orleans. While the Fed Funds rate is likely to rise to 5%, we are near the end of this cycle of rate increases.

Economic Growth

Should remain in a healthy 2.5% - 3.5% range for the next few quarters.

- Profits and corporate liquidity are surging, providing a strong foundation for 1) increased business investment and higher employment; and 2) rapid dividend growth and share repurchase.
- The economic growth driver has shifted from the consumer to capital spending and industrial production, and toward innovation, small business, and more entrepreneurial activity.

Fiscal Policy

Taxes on dividends and capital gains at lowest levels in over 60 years, not in jeopardy of change prior to 2009. Bush will push hard to make the tax cuts permanent, but this is made more difficult by the current surge in Federal spending (Katrina, Iraq with no offset from reductions in domestic spending) and concerns over budget deficit.

Valuation

Very reasonable at 15.5 times estimated 2006 S&P 500 operating earnings. Moreover, stocks are significantly cheaper than bonds, where the bellwether 10 year U.S. Treasury currently yields only 4.85%, and is thus valued at roughly 21 times "earnings" (its coupon).

Profit Growth/
Margins

Profit growth should moderate to 6% - 9% range during 2006; profit margins at high levels and supported by continued gains in productivity, but under some pressure from rise in energy costs.

Productivity

Continues to drive profit growth and keeps the U.S. economy the most competitive in the world; will moderate somewhat as economic expansion lengthens and we move closer to full employment.

Demographics

Baby boomers in the sweet spot of wealth and investing cycle, hungry for growth and income.

Liquidity
(Monetary Growth)

Money growth has picked up in recent months, running at levels at least in line with nominal GDP.

NEUTRAL

Inflation

Remains low, but inflationary pressures are still a potential concern. Hurricane related surge in natural gas prices has receded, but we still face the huge cost of rebuilding New Orleans and the Gulf Coast. Still, we believe any pick up inflation would prove temporary, as the global economy exerts relentless pressure on prices. In particular, China remains the dragon slayer of inflation, exerting downward pressure on U.S. wages and manufacturing. Low global bond yields (rates in Western Europe, Canada, even China and the Czech Republic are all below the U.S. ten year bond) and a flat yield curve in the U.S. also indicate inflation is well contained.

Dollar

After an almost 3 year period of weakness, the trade weighted dollars strengthened about 13% in 2005. A return of dollar weakness, however, could lead to higher short term interest rates in order to lend support to the dollar. The weaker dollar helps U.S. multinationals, but our trade deficit remains stubbornly high despite the competitive advantages of a lower dollar. It is also worth noting that about 30% of our trade deficit is due to imported oil (net energy imports are currently running at an annual rate of around $270 billion). This is a structural deficit, which has exploded in the last couple of years due to the declining dollar and doubling of global oil prices.

Employment

The employment picture remains quite healthy, with 34 consecutive months of job growth. The 4.7% overall unemployment rate is low by historical standards, and the lowest since mid 2001. Still, employment growth has been less robust than in typical recoveries, and the pace of job growth is likely to moderate further over the course of the year.

Free Trade/ Protectionism

Free trade and free market oriented reforms were given a recent boost by recent election results in Japan and Germany. Dubai Ports controversy and behavior of U.S. Congress does create the impression of protectionism.

NEGATIVE

Budget Deficit

Still a concern at 3% of GDP but was in an improving trend before hurricane Katrina. Would like to see more spending restraint in 2006. Tough to rebuild Iraq and New Orleans at the same time, but need for spending discipline has at least been recognized in Washington. Bigger issue is the persistent growth of medical care costs and the long term liability of retirement in our aging society.

Geopolitical Stability

Despite successful elections, Iraq continues to be plagued by terrorism. The global terrorist threat will be with us for some time. Although event risk remains significant, investors are becoming more accustomed to dealing with terrorism, scandals and unforeseen events.

Energy Prices

Despite a big decline in natural gas prices, crude oil prices remained strong and averaged above $60 in the first quarter. Without a global economic slowdown, it is difficult to make a convincing case for a collapse in energy prices. While high energy prices act as a drag on the global economy, on an inflation adjusted basis, oil prices have just now, in the mid $60 level, moved above the prior 1980 peak. We continue to find the sector fundamentally attractive from an investment standpoint.

Regulatory Environment

Federal and state investigations continue to impact individual corporations and entire industries. The pendulum of regulatory scrutiny appears to have swung from pre-Enron laxity to downright anti-business regulatory and governmental activity. Perhaps 2005 will mark the zenith of regulatory scrutiny and high profile investigations.