The Talon

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Hawk Investment Management, LLC
Registered Investment Adviser

Industry Sector Strategy

Allocations Change Like Seasons

With the winter solstice today, I am briskly reminded of Ohio's changing seasons. Autumn leaves, winter snow, springtime weeds, and summer sun wreak havoc on landscaping. Maintaining your lawn through changing seasons is critical to retaining landscaping glory.

Like the seasons, the stock market shifts industry sectors in and out of favor with little regard for investors who are unprepared to act on change. Perhaps Technology best illustrates this fact. Among eight S&P exchange traded sector funds, Tech scored the best returns in '99 but the worst consecutively in '00, '01, and '02. After resuming #1 in '03, Tech dropped to second worst in '04.

Rapidly shifting market conditions underscores the value a professional money manager can provide. Like maintaining landscaping, your money manager should sweep away fallen investments and sow money in fertile ground (i.e., sectors).

What follows is a brief description of our current sector investment opinions to help explain a component of Hawk's dynamic investment strategy.

Financial Hawk targets an overweight position in Financials. The largest sector by market cap (the total value of all shares outstanding) shows attractive investment potential. Ben Bernanke is preparing to take the helm at the Federal Reserve and the trend of interest rate hikes seems near an end. Stable to declining interest rates typically favors the financial sector by improving net interest margins on bank financials.

Consumer Hawk targets a market weight in Consumer stocks. Staples tend to be less cyclical and more stable due to inelastic demand. Meanwhile, Discretionary is cyclical since business depends on consumer discretionary spending. Valuation for these Consumer subsectors is within normal ranges relative to the market and relative to the sector's historical levels.

Technology Hawk is underweighting Tech due to a recent market correction following a period where valuation had reached historically high levels. Absence of any apparent "killer aps" on the horizon argue to underweight Tech's high valuation.

Health Hawk targets an overweight position in Health due to attractive valuation after several years of declining prices in the sector. Health plays into any portfolio as a strong defensive play in a weak market. S&P agreed with this opinion in its December 2005 "Market Month Standard & Poor's Investment Review & Forecast."

Industrial Hawk targets a market weight in Industrials with concern about capital intensive industries at this (late) stage in the economic cycle. Today's report from the Bureau of Economic Analysis of Third Quarter GDP showed slowing business investment which contributed to the less than expected 4.1% rise in GDP.

	Market Sector Weights	Hawk Target Weights
Financial	22%	25%
Consumer	22%	22%
Technology	19%	17%
Health	12%	15%
Industrial	9%	9%
Energy	9%	7%
Materials	4%	3%
Utilities	3%	2%

11/30/05. Source: Hawk Investment Management, LLC, BARRA, Inc.

Energy, Materials, Utilities Hawk targets an underweight position in each of the Energy, Materials, and Utilities sectors. These sectors tend to perform best under inflationary economic conditions. Capital intensive industries with heavy investments in inventory increase profitability with rising prices. November reports (Consumer Price Index down 0.8%, Producer Price Index down 0.7%) indicate inflation is minimal at most — a trend that should continue with a Bernanke-led Fed. Further, supply shocks from events like Hurricane Katrina exacerbated already lofty valuation schematics. Since September, market forces seem intent on dropping prices in these sectors until they return to normal ranges.

The table included herein presents sector weights based on Hawk's research and Hawk's own target positions for each of the major industry sectors discussed. Managing sector investments within a dynamic investment strategy, be confident that Hawk is maintaining your portfolio like finely manicured landscaping.

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