

HARMONY'S ETF NEWS

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Undercover Story...REITs

The three golden rules of real estate: "location, location, location." One new location for investors to examine is exchange-traded REITs.

Real estate investment trusts ("REITs") represent the securitization of real estate assets and offer a liquid manner in which to invest in real estate. They are considered a sub-category of securities listed in the Financial Sector. REITs act as operating companies that purchase, manage, maintain, and market real estate. Divided like the seven happy drafts by name and stature, the real estate investment industry has seven sub-industries: Diversified REITs, Industrial REITs, Mortgage REITs, Office REITs, Residential REITs, Retail REITs and Specialized REITs.

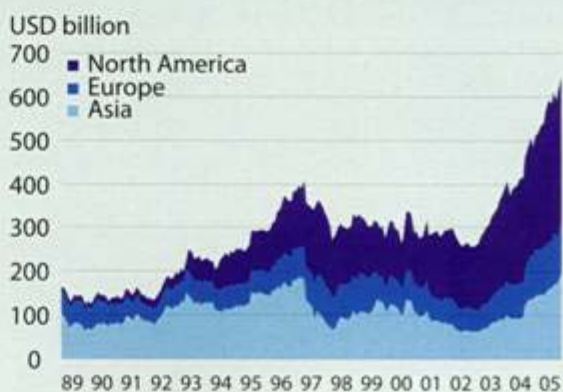
REITs are not all created equally. Property types vary in size and sector composition ranging from office/office-industrial real estate, industrial warehouses and factories, retail shopping malls and strip malls, all the way to residential apartments and housing, hotels and exotic resorts, and diversified storage facilities.

REITs offer a marketplace for investors looking for an asset class proxy that

physically approximates bricks-and-mortar ownership. But unlike brick-and-mortar, REITs trade publicly as securities on the world equity exchanges. Thus, investors have near instant liquidity and access to real estate worldwide, including North America, Europe, Asia and Latin America, rather than just in their local market.

Why are REITs good for you and your purse? REITs complement one's direct real estate investments, and diversify one's stock and bond assets. REITs have low correlations with both stocks and bonds. Historical data show that in a 5-year

Table 1: Growth of global REIT market capitalization: 1989-2005



Source: UBS Global Asset Management Real Estate Research based on data obtained from FTSE EPRA/NAREIT

Undercover Story....REITs

(continued from page 1)

correlation with the S&P 500, the S&P/Citigroup Global REIT is 0.283 (See Table 2: Returns and correlations for U.S. real estate). REITs have also typically had lower volatility than the broad equity markets. REITs are a viable, distinct alternative asset class that contributes to the diversification, improvement, and balance of risk/return profiles for your portfolio.

REITs are also a hedge against inflation over time, since rent and real estate cash flows increase with inflation and property values. Rental increases, in the case of REITs, convert into increasing dividends or dividend streams, which also help counter-balance inflation increases.

REITs have demonstrated strong cumulative performance. The five year average annualized return of the Cohen & Steers Realty Majors Index iShare is 21.96%. The five year average annualized return of the Dow Jones U.S. Real Estate Index iShare is 19.40%. The five year average annualized return of the S&P 500 iShare is 2.27%.

REITs were created in 1960 with the legislative creation of real estate investment trusts. The rapid expansion of REITs came in 1991 with the \$135 million initial public offering of KIMCO and in 1992 with the umbrella partnership Taubman Center UPREIT. Private and public real estate investment universes have experienced healthy growth in the last five years and extraordinary growth since Taubman. From 1971 to date over 250 billion dollars has been invested in equity REITs and over 150 REIT securities trade daily (See Table 1: Growth of global REIT market capitalization). The size of private world real estate markets (which is where REITs ultimately originate) at the end of 2004 was over \$6.6 trillion. Opportunities for REIT investing, especially exchange traded REITs, will continue to expand as the world's trillions in real estate become available to the wise and ready REIT investor. When you're confronted with the golden rule of 'location, location, location,' examine the benefits of exchange-traded REITs. ●

ETF Showcase

Cohen & Steers Realty Majors ETF

Symbol: ICF

Purpose: The Barclays Global Investors ("BGI") iShares Cohen & Steers Realty Majors Index Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of large, actively traded U.S. real estate investment trusts, as represented by the Cohen & Steers Realty Majors Index.

Number of REIT securities: 31

Top five holdings: Simon Property Group, Equity Office Properties, Vornado Realty Trust, Equity Residential, Prologis.

Beta (vs. S&P 500): .24

Standard Deviation: 14.96%

Market Breakdown: 77% large cap, 23% mid cap

Five year average annualized % return as of 2/28/06: 21.96%

StreetTRACKS WR REIT ETF

Symbol: RWR

Purpose: The StreetTRACKS Dow Jones Wilshire REIT seeks investment results that correspond generally to the price and yield performance, before fees and expenses, to the performance of the real estate sector of the U.S. equity market, as represented by Wilshire REIT Index.

Number of REIT securities: 94

Top five holdings: Simon Property Group, Equity Office Properties, Prologis, Equity Residential, Vornado.

Beta (vs. S&P 500): .76

Standard deviation: 15.66%

Market Breakdown: NA

Three year average annualized % return as of 2/28/01: 31.32%

Dow Jones U.S. Real Estate ETF

Symbol: IYR

Purpose: The BGI iShares U.S. Real Estate Index Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, to the performance of the real estate sector of the U.S. equity market, as represented by the Dow Jones U.S. Real Estate Index.

Number of REIT securities: 88

Top five holdings: Simon Property Group, Equity Office Properties, Equity Residential, Prologis, Vornado Realty Trust.

Beta (vs. S&P 500): .34

Standard Deviation: 14.30%

Market Breakdown: 14% large cap, 56% mid cap, 29% small cap

Five year average annualized % return as of 2/28/06: 19.40%

Vanguard REIT Vipers ETF

Symbol: VNQ

Purpose: The Vanguard REIT Viper seeks investment results that correspond generally to the price and yield performance before fees and expenses, to the performance of the real estate sector of the U.S. equity market, as represented by Morgan Stanley's REIT Index.

Number of REIT securities: 109

Top five holdings: Simon Property Group, Equity Office Properties, Prologis, Equity Residential, General Growth Properties.

Beta (vs. S&P 500): NA

Market Breakdown: NA

One year average annualized % return as of 2/28/06: 31.21%

ETF Benchmark Portfolios

| | Average annual return % | Annualized standard deviation % | Cumulative return % | Initial Value beginning 11/30/01 | Hypothetical Ending Value 2/28/06 |
|------------------------|-------------------------|---------------------------------|---------------------|----------------------------------|-----------------------------------|
| ETF Value Portfolio | 13.80 | 14.84 | 73.20 | 1,000,000.00 | 1,731,950.57 |
| ETF Growth Portfolio | 9.32 | 12.93 | 46.06 | 1,000,000.00 | 1,460,646.11 |
| ETF REIT Portfolio | 23.83 | 15.02 | 152.47 | 1,000,000.00 | 2,524,707.02 |
| ETF Dividend Portfolio | 11.61 | 12.56 | 59.49 | 1,000,000.00 | 1,594,901.67 |
| ETF Asia Portfolio | 22.57 | 14.39 | 137.49 | 1,000,000.00 | 2,374,855.66 |
| ETF Europe Portfolio | 15.26 | 16.89 | 82.98 | 1,000,000.00 | 1,829,774.67 |
| ETF Americus Portfolio | 29.90 | 20.53 | 203.96 | 1,000,000.00 | 3,039,620.51 |
| ETF Emerging Portfolio | 28.96 | 18.36 | 194.78 | 1,000,000.00 | 2,947,761.47 |
| ETF Top Fifteen | 27.83 | 15.73 | 183.94 | 1,000,000.00 | 2,839,397.40 |
| S&P 500 | 4.60 | 13.19 | 21.08 | 1,000,000.00 | 1,210,769.92 |
| MSCI | 13.33 | 14.19 | 70.18 | 1,000,000.00 | 1,701,779.88 |

The ETF Benchmark Portfolios are created and maintained by Harmony Asset Management LLC. These benchmarks are for illustrative purposes only and do not represent actual portfolio performance. The Benchmark Portfolios performances do not reflect any management fees, transaction costs or expenses. Past performance does not guarantee future results. Investors should carefully consider investment objectives, risk factors and charges and expenses before investing in any security and should always consult their investment professional prior to making any decision. The reader assumes full responsibility in determining the suitability and fitness of each benchmark to one's circumstances and risk tolerance. Each Harmony benchmark is created using ETFs germane to the given portfolio category. Value and growth portfolios are created using value or growth ETFs that are blends of large, mid and small caps, and international securities. The Harmony Top Fifteen ETF is constructed using the top fifteen performing ETF since 11/31/01, equally weighted and rebalanced each year on a set date.

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Table 2: Returns and Correlations for US Real Estate

| 1978 - 2005 | Mean | | Std dev | Correlations | | | | | | | |
|------------------|-------------|----------|---------|--------------|--------|-------|-------|------------|------------|-------|----|
| | Nominal (%) | Real (%) | | Nominal (%) | CPI | Bonds | Int'l | Lg. stocks | Sm. stocks | REITs | RE |
| CPI | 4.2 | - | 3.1 | 1.00 | | | | | | | |
| Bonds | 8.7 | 4.5 | 7.6 | (0.27) | 1.00 | | | | | | |
| International | 12.1 | 7.9 | 21.9 | (0.05) | 0.01 | 1.00 | | | | | |
| Lg. stocks | 13.1 | 8.9 | 15.6 | 0.01 | 0.25 | 0.52 | 1.00 | | | | |
| Sm. stocks | 16.1 | 11.8 | 19.6 | 0.20 | 0.01 | 0.32 | 0.59 | 1.00 | | | |
| REITs | 14.7 | 10.5 | 14.6 | 0.11 | 0.15 | 0.17 | 0.31 | 0.67 | 1.00 | | |
| Real estate (RE) | 9.9 | 5.7 | 6.4 | 0.46 | (0.26) | 0.18 | 0.07 | 0.02 | 0.05 | 1.00 | |

Source: UBS Global Asset Management Real Estate Research based on data obtained from the Lehman Aggregate Bond index, EAFE International Stock Index, S&P 500 Stock Index, Ibbotson Small Stock Index, NCREIF Property Index as of 31 December 2005. Means are annualized returns consistent with methodology used by NCREIF and are as of 31 December 2005. Standard Deviation and Correlations are based on December ending annual returns.

Tomorrow's Forecast



In 2000, the ETF marketplace had less than 100 billion dollars in assets. As of 12/31/05 the ETF marketplace has grown to over 300 billion dollars in assets. Barclays Global Investors (BGI) has over 57% of the entire ETF global market as represented by iShares.

- We expect that BGI will continue to dominate the ETF marketplace because of BGI's intellectual capital and the inherent efficiency of the BGI iShares.
- Our forecast for the ETF marketplace is 1 trillion dollars by 2010, and a proliferation of ETFs representing international and emerging markets and numerous industry sectors and sub-sectors.
- ETFs will, in the foreseeable future, dominate the mutual fund landscape. The mutual fund industry will succumb to the ETF industry, the latter will boom in assets under management, and diversification options for style, sector, country and regions. Perhaps Nancy Sinatra was singing about ETFs and mutual funds when she sang, "these boots were made for walking, and that's just what they'll do, one of these days these boots are gonna walk all over you."
- ETFs are one of the singular and standout inventions in the history of Wall Street Exchanges. ETFs will become a major tool of diversification for investment advisors. ●

Harmony Wisdom Wordly Thoughts

Love others as you love yourself. Love overshadows money and all things physical. Listening to others is the ultimate demonstration of love and respect. Those who focus the most on 'I', are remembered the least over time.

World history remembers those who impact others - whether for good or for bad - those who are other-centered, those who listen, and those who give more than they receive. "Love is the act of being other-centered: the act of listening to others and the act of giving." ●

Index Nutrition Facts

ETF's are healthy for mind, body and your portfolio. One serving of REIT ETF's fortifies six nutritious ways:

1. **REIT ETF's** are tax efficient: the Dow Jones IYR and Cohen & Steers ICF paid zero short term and long term capital gains taxes in 2005.
2. **REIT ETF's** are a low cost way of diversifying your portfolio into real estate. IYR and ICF have expense ratios of .60% and .35% respectively.
3. **REIT ETF's** are completely transparent by design and construction: you know exactly what individual REITs you own by security, sub-industry and geographic location.
4. **REIT ETF's** have generally outperformed, after fees and taxes, active mutual fund REIT portfolios.
5. **REIT ETF's** have significant trading flexibility: you own the respective REIT market in one single transaction, you can buy and sell throughout the trading day, you can place stop and limit orders, margin orders: there is no minimum or maximum trade.
6. **REIT ETF's** are the fastest growing investment vehicle in the REIT funds marketplace; this growth is a sign of market interest and demand. ●

Word Puzzle

There are exchange traded funds for most US indexes. Below are three large cap indexes. Can you put them in order, from largest market cap to lowest?

Russell 3000 Dow Jones Total Market S&P 1500

Word Puzzle answer:
Russell 3000 total market cap of \$13.16 trillion, Dow Jones Total Market cap of \$12.92 trillion, S&P 1500 total market cap of \$12.89 trillion.