



COLBERT INVESTMENT MANAGEMENT CO.

Equity Composite Portfolio Year-End Report – December 31, 2005

Our equity portfolio performance was up 2.48% (net) this year, while the S&P 500 Index including dividends was up 4.91% (gross).

Growth of \$100,000	
CIM Equity Composite	\$131,550 (net)
Standard & Poor's 500 Index	\$118,090 (gross)
If invested since inception on December 17, 2001, as of December 31, 2005	

Despite an unenviable performance in 2005, our objective to outperform the S&P 500 index over the long-term remains intact. The box above represents an annualized average of 7.3% (net) versus 4.2% for the S&P 500 index including dividends (gross). By coincidence, that is right in the middle of our 6% to 8% anticipated average annual return.

Annual performance is an easy way of checking how an investment manager is progressing, which is similar to taking the temperature of an athlete to see if he has a fever. We think that is nice but it doesn't really say how well one may perform in the long run. What is not immediately apparent is that our portfolio holdings have made much progress in their businesses: overall revenues, cash flows, profits, debt levels, and competitive positions improved vastly. Our dull investment results in 2005 stand in striking contrast to these positive developments.

By another measure, we have made considerable improvements in our selection. After selling several long-standing positions during the year, we had an unusually large amount of uninvested cash in the average client equity account by early September 2005. During the last four months of the year we used much of that cash to invest in businesses selling at very low prices compared to our estimates. Whether these were additions to previously established positions or completely new holdings to equity portfolios, all represent investments in companies long – *very long* in some cases – on our watch list, but only then reaching the desired entry point (low price-to-value).

I read once that confidence isn't optimism or pessimism, or even a character trait, but rather the expectation of a positive outcome. We have laid what we believe to be the foundation for bright prospective years ahead.

Thank you for your continued trust.

Sincerely yours,

Karim Armand
President

This document is intended for general information purposes only, and the information contained in it is not intended to be a solicitation or recommendation to buy or sell securities. Our company manages fixed income, balanced and equity portfolios, but only releases data here on the equity portion of clients assets, hence the large difference between the firm total assets-under-management ("AUM") and Core Equity AUM. Equity portfolio fee schedule is as follows: \$100,000-\$1,000,000 - 2.00%, Next \$1,000,000 – 1.75%, Next \$1,000,000 – 1.50%, Next \$2,000,000 – 1.25%, \$5,000,000 & over – 1.00%. The above ratios and percentages are averages based on most of the client equity accounts managed by Colbert Investment Management (CIM). Significant dispersion may occur between the holdings, ratios and percentages set forth above among the individual client accounts managed by CIM. This dispersion may be due to differences in account size, cash flow, the timing and terms of execution of trades, individual client needs, economic or market conditions and other factors. The CIM equity composite may be diversified across industries, countries and company sizes. Our portfolio is currently invested in 20 to 40 holdings. Most client accounts invested in stocks will have a similar, but not necessarily identical portfolio or performance.

*Performance for CIM equity composite is net of fees and expenses. Performance is based on most of the client equity accounts managed by CIM, with dividends and interest included. Performance does not include any income taxes that may be owed by the investor. The S&P 500 index performance assumes no fees or expenses are charged, and that dividends and interest are included. Investing in the stock market involves substantial amounts of risk. Past performance does not predict or guarantee future performance.