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**Newsletter: Thursday, December 29th, 2005**

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This is our closing Newsletter for 2005 sent a day early in the belief that all that appears true today will remain so at least through Friday.

We have made a couple of observations about 2005 which you may find of interest:

When compared to the 25% returns of European equities and 40% for the Japanese, the US equity markets had relatively modest returns of about 3.00%. When analyzed and measured in US\$, then the higher returns away from the USA are trimmed down dramatically to 5-6% in Europe and about 23% in Japan. It was a year that the USA yielded on its currency and the others on their Equities! Emerging Markets though, yielded very high returns from both (China apart). The Equity returns were realized into the headwind of major increases in energy and raw materials costs, and rising interest rates! There is more to the markets than meets the eye!

At Bedrock we believe that 2005 as a whole has told us that we are living a period of Global shifts in economic structure and power. This is driven by the emergence of China and India as powerhouses for global growth, the general rise of the emerging markets' economies and the shifting demographics of the Industrial world.

We expect the continued pressures on commodity prices in general and energy in particular, confirming the broad economic growth of the Global economy. Capital flows and resulting economic strength is expected to continue in favor of the emerging economies whilst the headwinds of rising interest rates may well abate into the New Year.

Yes indeed, we are optimistic into 2006!

Wishing you a Happy and Prosperous New Year,

**The Bedrock Team**

- Bonds drifted lower with the US\$ 10 year Notes yield round 4.35%. The important thing is that, for the first time in 5 years, the 2 year note yielded less than the 10 year! An inversion occurred and this is usually troubling... we will see if this tendency persists or if it is just an end of year move..

*We continue to recommend to our customers to stay out of the US\$ Bond Market for medium and long term maturities. We hold our short German Bund futures (FGBH6) as well as our short Japanese Government Bonds (JBH6).*

- Oil prices have held at around \$58.00 per barrel. We continue to believe that every correction in oil prices is to be bought amid declining production and supply fears.

*We remain long IYE and OIH (oil producers and Oil services trackers) expressing our long-term bullish outlook on oil, as well as oil futures (CLF6)*

- Japanese equities traded down and then rose to a Nikkei over 16'000, with broad European markets rises. We remain fundamentally bullish on Global equities!

*We hold our long equity positions into the expected continuation of the global rally.*

- We remain overweight in the pharmaceutical sector.

*We maintain our positions. We hold our iShares US Health Care, iShares S&P Global Health Care and Biotech HOLDRS Trust.*

- Currencies had another volatile week, but confined to relatively narrow bands. We expect that the unwinding of the JPY “carry trades” will probably last a while longer, which might induce increased volatilities in the thinly traded Holiday markets. We would caution not to reach directional conclusions on the coming week’s movements.

*We believe the JPY will gain into the New Year and that the US\$ in general will continue to drift in its band through year end.*

- Emerging Markets continued to rise, albeit in a slower mode. We continue to like and substantially overweight these markets, as we believe in their longer-term out-performance, with particular emphasis on Turkey, Russia, Israel, Brazil and the Asia Pacific regions.

*We hold our positions in the various country equity funds.*

- Commodity prices stabilized, with Copper flying up the charts to new highs almost daily whilst Gold held over \$500.00 We expect higher prices for Gold in 2006 coupled with a downward pressure on the US\$

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