BEACON STREET CAPITAL, LLC

INVESTMENT MANAGEMENT

Separately Managed Accounts

October 1, 2006

Highlights

- *The U.S. stock market was again quite volatile in the third quarter, trading down in the first half to near lows of the year only to rebound through the balance of the quarter.*
- *Volatility for our portfolios remains nearly half that of their benchmark indices, and this dramatically improves the impact compounding has on long-term returns.*

Third Quarter 2006 Newsletter

Mideast turmoil and fears of higher energy prices and interest rates created downward pressure on stock prices early in the quarter as investors' expectations grew bearish. However, with growth potential, as we measure it, expanding in the face of contracting PE multiples we added several stocks at attractive prices prior to the late quarter market advance. While this did not help performance immediately it should generate a boost to returns going forward. Investors eventually move to those sectors where the greatest return can be gained for the risk assumed, and it's always best to beat the herd if possible.

While both our strategies had solid gains in the quarter, each trailed its respective benchmark. The DowJones/*Select* portfolio composite returned +3.81% in the third quarter, net of fees, compared to +4.74% for its benchmark, the Dow Jones Industrial Average (DJIA). Our S&P500/*Select* portfolio composite had a net gain of +1.94% compared to a gain of +5.67% (dividends included) for the Standard & Poor's 500-Stock Index (S&P 500). Cash levels remained essentially constant at 13%.

Despite under performing in the year-to-date period, we continue to add value over the long-term through our unique approach to stock selection. Since its July 1, 1997 inception[1] the DowJones/*Select* portfolio composite has returned a cumulative +228%, outperforming the DJIA (+52%) by a cumulative margin of 176 percentage points. Over the same period the S&P500/*Select* portfolio composite has returned a cumulative 221%, outperforming the S&P 500 (+74%) by a cumulative margin of 147 percentage points.

Best Regards,

BEACON STREET CAPITAL, LLC

[1]All results are un-audited and net of fees. Composite returns began November 2001 for the S&P500/*Select* and March 2002 for the DowJones/*Select*, are asset weighted and net of fees. Returns prior to November 2001 and March 2002 are total returns for model portfolios managed by Beacon Street Research, Inc., an affiliated company, on a real-time basis using the same methodology and manager, with stocks selected from those comprising the Standard & Poor's 500-Stock Index and Dow Jones Industrial Average. **Past performance is no indication or guarantee of future performance.**

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Third Quarter 2006 Newsletter

Exhibit 1:

DowJones/*Select*

Top Ten Holdings

United Tech.	9.7%
Microsoft	9.6%
McDonalds	9.0%
Procter & Gamble	9.0%
Caterpillar	8.7%
Honeywell	8.3%
Boeing	8.0%
IBM	7.7%
Home Depot	7.2%
Wal-Mart Stores	7.0%

Exhibit 2:

S&P500/*Select*

Top Ten Holdings

Apple Computer	2.5%
Nvidia	2.3%
Lockheed Martin	2.0%
Aetna	1.8%
Caterpillar	1.8%
Lab Crp. Of Am.	1.8%
Network Applian.	1.8%
Penney, J.C.	1.8%
Coventry Health	1.7%
Darden Restaurants	1.7%

Market Review

Once again the U.S. stock market showed significant volatility in the third quarter. The Dow Jones Industrial Average (DJIA) fell by nearly -4% in the first half of July before rising +8.8% through the end of the quarter to finish up +4.7%, only 44 points below its all-time closing high set in January 2000. The Standard & Poor's 500-Stock Index (S&P 500) mirrored this action falling by more than -2.5% in July only to rally by almost +8% before quarter-end to finish higher by +5.7% (dividends included). At quarter end the S&P 500 remained 14% below its all-time closing high set in 2000. The rally in stock prices from the low point in the quarter was precipitated by the belief that the FOMC would end their strategy of raising short-term interest rates in early August. The confirmation of this policy change at the August FOMC meeting combined with declining oil and other commodity prices in August and September, which kept inflation fears in check, provided the fuel for the sharp rise in equity prices.

Several factors will weigh in on equity prices going forward including the strength of the economy, interest rates, oil prices, and the mid-term elections in November. Many are predicting a soft landing for the economy with sustainable growth that will allow recent inflationary fears to subside. This would allow the Fed to maintain a neutral policy stance or even to cut short-term rates early in 2007 which should stem the declines in housing prices while giving confidence to consumers to maintain their spending patterns. This should provide a healthy environment for the stock market. Some of the speculative activity in oil prices and other commodities appears to be eroding. Oil prices could continue to decline in the future if supplies and inventories remain adequate and if no major disruptions occur due to weather or terror related activities. On the election front, the make-up of Congress for the next session is anyone's guess at the moment, but the good news is that the speculation and the uncertainty will end in early November. This, along with 2007 being the third year in a presidential election cycle, has historically been a significant stimulus for positive stock activity. Given the relative attractive valuation of the stock market currently and the expectation that corporate profits will remain strong over the next several quarters, we would not be surprised to see the stock market continue to move erratically higher from current levels.

After moving to somewhat lower levels of cash in the second quarter, our portfolio allocations to cash remained essentially unchanged in the third quarter at the 13% level. We experienced sector rotation into information technology,

Exhibit 3: Sector Weighting

	3Q06	2Q06
Information Tech.	23%	18%
Industrials	17%	19%
Health Care	15%	12%
Cash	13%	13%
Consumer Disc.	12%	14%
Consumer Staples	11%	9%
Energy	6%	9%
Financial	2%	4%
Materials	1%	2%

health care and consumer staples; while money flowed out of industrials, consumer discretionary, energy and financials; and to a lesser extent materials.

The recent underperformance of our portfolios relative to their benchmarks reflects to some extent the lag between identifying changes in growth potential and the market's reaction to these changes. Of course not every stock we select will be a winner, nor will every cast of the fly-rod bring in a satisfying trout, but we have found that over the long-run a majority of the stocks we select will add to our goal of building wealth for our clients and ourselves. We have learned that while staying with our discipline of stock selection increases our chances for long-term out performance, we will need to move to new streams from time to time.

Herron P. Weems
Managing Director

Performance Summary

DowJones/*Select*: During the quarter we made only one change to the portfolio composite adding Boeing Corp, (BA) on July 26, at $80.20 per share. BA closed the quarter at $78.85 for a loss of -1.7% since purchase. After this change we now own 11 stocks in the composite and we have a 13% cash position. This cash would allow us to buy the stocks of one or two additional companies should any in our universe start to show positive growth potential.

We owned several of the top performing stocks in the DJIA this quarter with Microsoft (MSFT, +17.3%), McDonald's (MCD, +16.4%) and Procter & Gamble (PG, +11.5%) leading the way. Other positive performers in the DJIA that we owned included Intel (INTC, +8.6%), International Business Machines (IBM, +6.7%), Wal-Mart Stores (WMT, +2.4%), Honeywell International (HON, +1.5%), and Home Depot (HD, +1.3%). Negative performers included United Technologies (UTX, -0.1%), Boeing (BA) as mentioned above, and Caterpillar (CAT, -11.7%). CAT has been one of our stalwarts and although it was down by -11.7% in the quarter we still have an 80% gain in the stock since our initial purchase in May 2004, in addition to the gain we took on a portion of our holdings two quarters ago. Caterpillar's financial performance continues to be strong and growth potential continues to be positive.

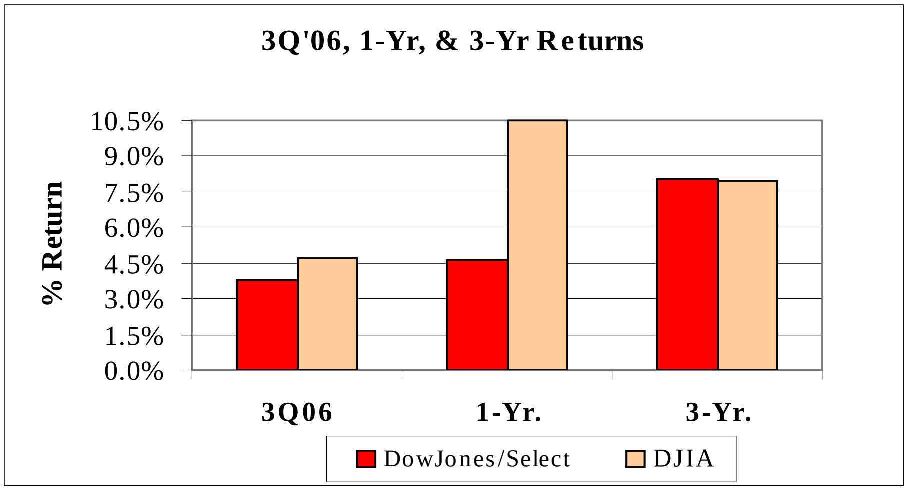
The industrial sector in general was one of the worst performing sectors in the quarter and all of the five negative performers in the DJIA this past quarter were industrial companies. This is due more to investors' bearish expectations since the underlying growth potential remains solid. Many of these companies, CAT in particular, we believe should continue to benefit from the growth and build-out of the economies in emerging countries such as India and China.

Our DowJones/*Select* portfolio composite had a gain of 3.81%, under performing the Dow Jones Industrial Average which improved by 4.74%. However, as the chart in Exhibit 4 shows, over the past three years the Dow Jones/*Select* has returned 8.04% annually compared to 7.99% for the DJIA.

Exhibit 4: DowJones/*Select* Net Return versus Benchmark

	3Q06	1Year	3Yr. Avg.	Inception
DowJones/*Select*	3.81%	4.64%	8.04%	13.67%
Dow Jones Ind. Avg.	4.74%	10.51%	7.99%	4.65%

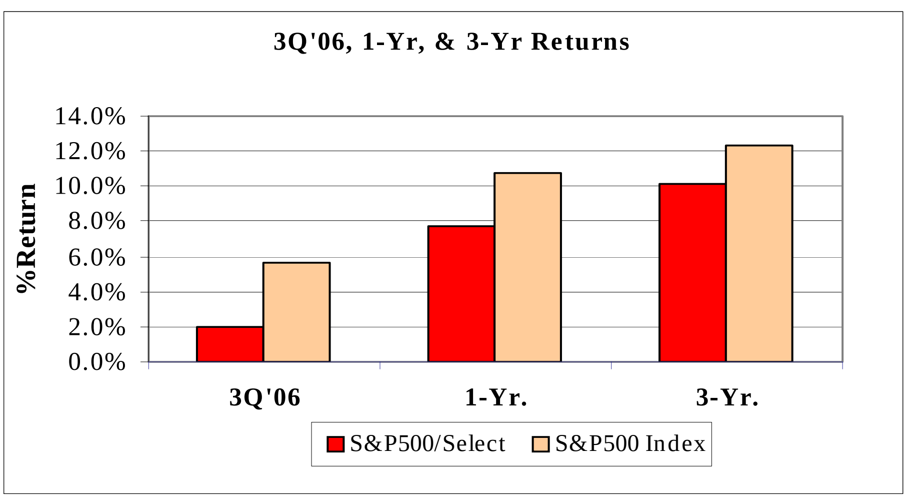
Exhibit 5:



S&P500/*Select*: During the quarter we purchased eight new stocks and sold six, and now hold a total of 57. Of the new purchases in the quarter, Nordstrom Inc (JWN, +17.1%), Emerson Electric Co (EMR, +5.8%) and Agilent Technologies Inc (A, +5.7%) have performed the best from the date of purchase through the end of the quarter while CVS Corp (CVS, -3.4%), Boeing Corp (BA, -1.7%) and Qualcomm Inc (QCOM, -1.5%) have under performed.

Our S&P500/*Select* portfolio composite gained 1.94% in the quarter as the chart in Exhibit 6 shows, underperforming the S&P500-Stock Index which gained 5.67%. The primary reasons were the end of quarter rally in utility stocks, in which we have no position, and financials. These sectors usually surge in the late phase of a contraction. As this is being written utility stocks are pulling back and early expansion sectors, such as information technology and industrials where we are primarily focused, appear to be moving ahead.

Exhibit 6:



From a broader perspective, over the past three year period the S&P500/*Select* has returned 10.14% annualized compared to 12.29% for the S&P500-Stock Index. The following table in Exhibit 7 provides additional comparisons.

Exhibit 7: S&P500/*Select* Net Return versus Benchmark	3Q06	1Year	3Yr. Avg.	Inception
S&P500/*Select*	1.94%	7.69%	10.14%	13.45%
S&P 500-Stock Index w/ dividends	5.67%	10.79%	12.29%	6.20%

But return is only half of the story. Risk, or volatility, is another factor that is important to consider because of its major impact on the compounding of returns. As Exhibit 8 shows the volatility for the DowJones/*Select* and the S&P500/*Select* composites over the past five years, as measured by standard deviation (SD) of returns, continues to be well below that of their respective benchmarks.

Exhibit 8: 5-Year Risk Reward Characteristics: 4Q'01 – 3Q'06

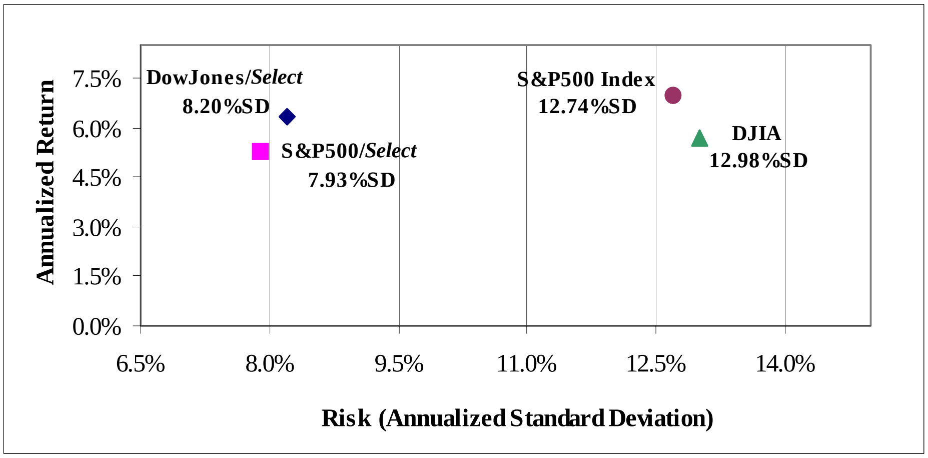


Exhibit 9 compares the risk and reward characteristics of our DowJones/*Select* and S&P500/*Select* composites with both the DJIA and the S&P 500 Index.

Exhibit 9: Risk Statistics	**DowJones/*Select***	**DJIA**	**S&P500/*Select***	**S&P 500 Index**
Annualized Std. Deviation (5 Yr.) [1]	8.20	12.98	7.93	12.74
Sharpe Ratio (5 Yr.) [2]	0.53	0.33	0.41	0.43
Information Ratio (5 Yr.) [3]	0.01	N/A	-0.24	N/A
Beta [4]	0.85	1.00	0.44	1.00
Alpha (5 Yr. Average) [5]	1.50%	N/A	2.22%	N/A
Correlation[6]	.78	N/A	.80	N/A
Annual Turnover (5 Yr. Average)	34%	N/A	63%	N/A

Our Philosophy

Quarterly relative performance is mentioned only as a point of reference as these quarterly benchmarks do not drive our investment process. While we strive to significantly outperform our benchmark returns quarter-to-quarter, *our focus is on outperforming and building wealth over the long term.* As we have demonstrated, a disciplined stock selection process can dramatically increase the chances for long-term outperformance, so when companies with strong financial situations, leading market positions and excellent growth prospects are being valued in the market similarly to, and in some cases below, companies with average prospects it is best to stay the course. When the market eventually recognizes these differences in fundamentals and establishes a premium market value those investors who have not already staked out a position will find it too late to capitalize. Furthermore, patience will be rewarded with low volatility which enhances the wealth effect of compounding returns (see illustration at www.beaconstreetcapital.com).

Terry E. Burke
Chief Executive Officer

Definitions:

[1] *Standard Deviation:* A measure of volatility, or the range of a portfolio's performance. The more an investment's return varies from its average, the higher the standard deviation. Unlike *beta*, which measures volatility relative to the market, standard deviation is a measure of total risk, or the total variation of the return. The lower the standard deviation the lower the risk, or volatility of the portfolio.

[2] *Sharpe Ratio*: A measure of risk-adjusted return. The Sharpe Ratio incorporates the standard deviation and the excess returns over 90-day Treasury bills to measure the reward per unit of risk. The higher the ratio over 0.0 the better the investment's historical risk-adjusted performance.

[3] *Information Ratio*: One of the most important tools for measuring the performance of an active manager against an appropriate benchmark. It is the ratio of excess returns to standard deviation of excess returns of the portfolio, and is used to estimate the return added by the manager for each 1% of risk added by the manager. A 5-year average *Information Ratio* over 0.50 is considered "good", over 0.75 "very good", and over 1.00 "exceptional".

[4] *Beta*: Measures volatility in relation to the benchmark (or market). A portfolio with a *beta* of 1.5 means that the portfolio return is expected to move 1.5 times the benchmark return. If the benchmark return is 10%, the portfolio return is expected to be 15%. If the benchmark return is -10%, the portfolio return is expected to be -15%. A low *beta* represents lower volatility, which is often associated with low returns; a high *beta* represents higher volatility, which is often associated with high returns. It is unusual to have a combination of high returns and low volatility. However, a good manager picking outstanding stocks can provide excess returns without adding excess risk. This is call "adding *alpha*".

[5] *Alpha*: Measures the return added by the manager. It is the excess return over the benchmark return, adjusted for volatility.

[6] *Correlation:*: Measures the correlation between the portfolio return and the benchmark return, or how well they fit from a statistical standpoint. A correlation of a 1.00 means a perfect fit and any number over .70 means the *Alpha* and *Beta* measurements are meaningful.