FIRST Trust ADVISORS L.P.

TALKING POINTS

A Recap of June 2006

The Economy

"Recent indicators suggest that economic growth is moderating" said the Federal Open Market Committee (FOMC) statement following their June 29th meeting. At that meeting the Fed hiked the fed funds rate to 5.25%, the 17th consecutive meeting that has ended with a rate hike. However, as the quote clearly demonstrates, Fed models are forecasting an economic slowdown leaving further tightening by the Fed in doubt. While it goes without saying that economic growth throughout the rest of the year will be lower than hurricane-rebound-fueled real GDP annualized growth rate of 5.6% in Q1, there is little evidence that the economy will dip into a sustained period of below trend growth. During the three months ending in May, capital goods orders (excluding aircraft and defense) jumped an annualized 10.4%, while non-farm proprietor's (small business) income increased by 8.5%. Both of these are signs that the entrepreneurial life blood of our economy remains strong. As a result, our fears lie not with an economic slowdown, but with the mounting evidence that shows accommodative monetary policy is causing inflation to build. Since the Fed indicated that a pause might be in order, gold prices have jumped and the dollar has fallen. The markets are signaling to the Fed that a pause now would be bad with respect to inflation. With a full slate of economic data and the Humphrey Hawkins monetary report to Congress, July is going to be a busy month for Fed watchers. We believe that those expecting a moderation in economic activity will once again be surprised by the resilience of the US economy, while those expecting inflation to slow will be disappointed. As a result, the prospects of an August rate hike will slowly build in the coming month.

Indicator	Values	Trend
Real GDP	**5.6%** (Q1) 1.7% (Q4)	⇧
Business Investment	**14.2%**(Q1) 4.5% (Q4)	⇧
Domestic Auto Sales	**12.43M** (Jun) 12.18M (May)	⇧
Core CPI (YOY)	**2.4%** (May) 2.3% (Apr)	⇧
Housing Starts	**1.96M** (May) 1.86M (Apr)	⇧

The Stock Market

The three major indices were mixed in June with the DJIA, S&P 500 and Nasdaq Composite returning -0.4%, +0.1% and -0.3%, respectively. Small-cap stocks, as measured by the Russell 2000 Index, rose 0.7%. Some of the top performing S&P 500 groups in June were as follows: Internet Retail (+11.7%); Drug Retail (+10.3%); Diversified REITs (+8.5%); Trucking (+8.2%); and Office REITs (+7.9%). In June, the dividend-payers in the S&P 500 (equal weight) posted a total return of 0.44%, vs. -2.48% for the non-payers. Y-T-D through June, the dividend-payers gained 4.94%, vs. 1.10% for the non-payers. For the 12-month period ended June 2006, payers gained 12.74%, vs. 9.95% for the non-payers. The number of dividend increases (S&P 500) year-to-date totaled 179, nearly matching the 180 registered over the same period in 2005, but still well above the 140 increases registered in 2004. A total of 385 companies in the S&P 500 currently pay a dividend. The dividend yield on the S&P 500 was 1.85% at the end of June. The S&P 500's streak of 16 consecutive quarters of double-digit earnings growth may come to end in the second quarter, according to S&P. S&P's Investment Policy Committee has set its year-over-year earnings growth estimate for Q2 at 9.1%. The silver lining in the story is the committee has forecasted earnings growth of 13.27% for Q3 and 11.19% for Q4. The earnings growth estimate for 2006 is 12.14%, down slightly from the 12.97% earnings growth posted in 2005.

Indicator	Values	Trend
S&P 500 (**Equal Weighted/Price-Only**)	**-0.4%** (Jun) -3.0% (May)	⇩
AAII Sentiment Index	**38.6% Bullish** (6/30) 33.0% Bullish (5/27)	⇧
Short Interest (NYSE)	Jun: **9.09B** (+5.6%) May: 8.61B (+3.1%)	⇧
Margin Debt (NYSE)	May: **$230.5B** (-4.6%) Apr: $241.5B (+2.0%) *$278.5B in March 2000*	⇩

The Bond Market

The yield on the 10-Yr. T-Note rose two basis points in June closing at 5.14% – 122 basis points higher than on June 30, 2005. The returns on seven Lehman Bros. benchmark indices were as follows (June & **Y-T-D**): ***U.S. Treasury: Intermediate*** (0.19% & **-0.20%**); ***GNMA*** (30-yr.) (0.12% & **-0.56%**); ***Municipal Bond (22+)*** (-0.40% & **0.61%**); ***U.S. Aggregate*** (0.21% & **-0.72%**); ***U.S. Corporate High Yield*** (-0.35% & **3.14%**); ***Global Aggregate*** (-0.79% & **2.29%**); and ***Emerging Markets*** (-0.37% & **0.67%**). With the exception of speculative-grade corporate bonds, most debt groups have been negatively impacted by rising rates. As the total returns referenced above show, most categories are up only slightly or in the red in 2006. The yield on the 10-yr. T-Note jumped 75 basis points in the first half of 2006. The fed funds rate rose 100 basis points. A healthy global economy is helping to keep default rates down. The global speculative-grade default rate increased from 1.6% in April to 1.7% in May, according to Moody's. The default rate is close to a 20-year low, according to Standard & Poor's. The default rate on senior loans is also low, closing out June at 1.55%, according to Standard & Poor's LCD.

Key Rates as of June 30th

Rate	Value
Fed Funds	5.25%
2-Yr. T-Note	5.15%
10-Yr. T-Note	5.14%
30-Yr. Mortgage	6.82%
Bond Buyer 40	4.93%

Key Yield Spread

The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 349 basis points on June 30. The yield on the index was 8.63%. The spread was 411 basis points on June 30, 2005, when the yield was 8.03%.

2006 Debt Issuance through June

(Source: Thomson Financial)

Debt Category	$ Amount (Billions)	% change over '05
Corporate	$614.7	+22.1%
Convertible	$4.7	+210.9%
Asset-Backed	$677.8	-2.0%
Municipal	$133.3	-19.5%

The Investment Climate

Net new cash flow into equity funds totaled $1.9 billion in May, way down from $26.3 billion in April, according to the Investment Company Institute. Bond funds had outflows totaling $2.5 billion, vs. inflows totaling $937 million in April. Money Market funds reported inflows totaling $50.8 billion, vs. outflows totaling $27.1 billion in April. Y-T-D through May, net cash flows into equity funds totaled $120.8 billion, vs. $20.7 billion for bond funds.