January 3, 2007

Wenzel
Analytics
Inc

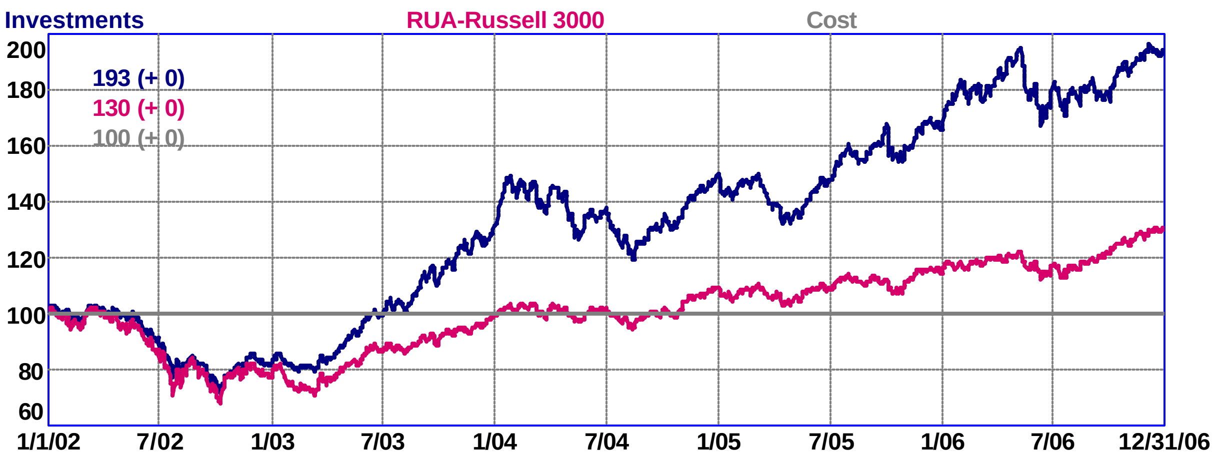
Clients,

General Performance Report

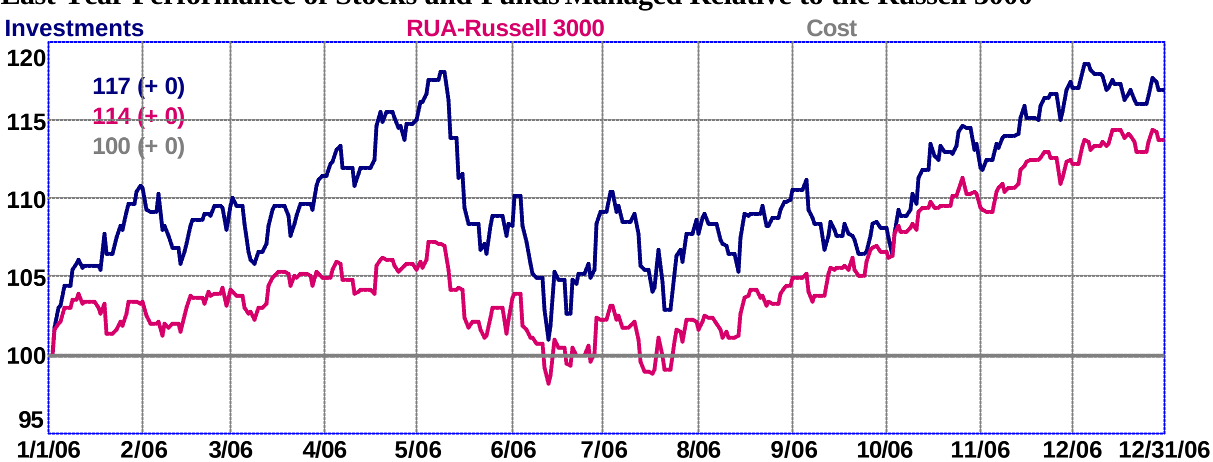
The full quarterly performance report for all accounts is posted every month on my website. Here I will only repeat some of the highlights from the first couple pages. Feel free to request a copy.

The annual rate of return for all stocks and funds for the five years since January 1, 2002, when Wenzel Analytics became a Registered Investment Advisor (RIA) is **14.6**% compared to **5.3** % for the Russell 3000 benchmark. The total gain, taking into account variations in invested amounts, was **93**% compared to **30**% for the Russell 3000 benchmark (see first chart). Since the blue line below represents over 5,000 transactions in varying market periods, it would not seem to be by chance. Amounts in cash are not included in these charts.

To Date Performance of All Stocks and Funds Managed Relative to the Russell 3000



Last Year Performance of Stocks and Funds Managed Relative to the Russell 3000



Based on dollars invested each day, the last year had an annual return rate of 18.0% compared to 13.7% for the Russell 3000 benchmark. The above chart showing 17% is based on daily price change.

This report is of past performance. Future performance is unknown and not guaranteed.

An alternative to mutual funds.

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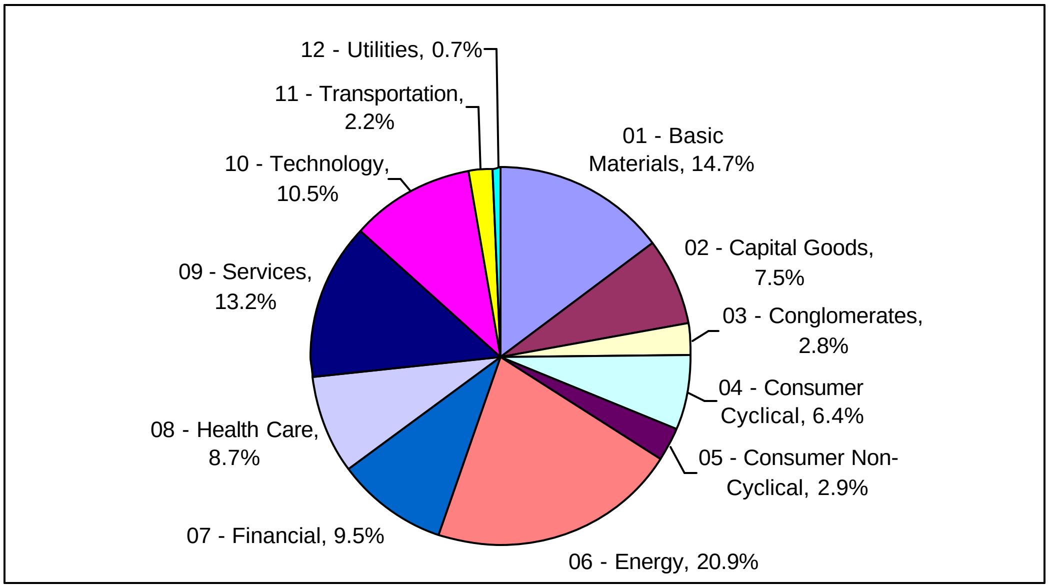
Sector Allocation

As I go through portfolios and sell stocks to make room for additional buying or to realize vulnerable gains, I have been reluctant to sell stocks related to energy, metals and mining. Consequently, current holdings are tilted in that direction.



Current Selections

I have enclosed a report on promising statistical research. Since I'm nervous about buying at a peak, as soon as we get a mild market correction most accounts with 30k or more in cash will see the results of the new screens. The smart money (big money) is currently hedging, and the market has corrected 5% or more in seventeen of the last twenty Januarys. At the moment 33% of managed assets is in cash.

I also intend to continue taking advantage of the exceptional returns coming from the emerging markets. I read recently where 80% of the new mutual fund money is going into international positions. Looking at returns, one can see why. The world economy is also becoming more independent of the US economy. Accounts where it is not practical to have thirty stocks will increasingly be filled with ETFs such as emerging markets (EEM), Latin America (ILF), Brazil, Australia, and Chinese-related positions in addition to sectors of the US market. I have made a few purchases on the Toronto Exchange in Scottrade accounts and worked through the complexities of my software tracking other currencies in dollar terms. (Ameritrade doesn't offer the capability.)

Practice Review

With the five-year anniversary, I have been reflecting on my practice which is Wenzel Analytics. I'm challenged by the work and it is a good fit for my interests and abilities. There is so much to learn. In some fields one cannot afford to be wrong; in this business one hopes to be right more often than wrong, which keeps one humble. I like knowing whose money I manage, and relating directly to you my client rather than through a third party such as a financial planner or bank trust department.

While I still generally review all positions weekly, research on the timing of selling decisions has demonstrated that my time is better spent discovering strong and consistent screens for stock selection than in making frequent market timing decisions and doing the time-consuming trading and related bookkeeping.

I am serving the same number of families as a year ago (30), but the average amount managed has gone from $160,000 to $224,000. For now I'm still open to new clients, but I do very little marketing or sales work. About twice a year I send out a "mass" marketing to less than a dozen prospects. My numbers are small, but the percentage of prospects eventually becoming clients is high. I'm learning who makes a likely and good client. Besides having some investable assets, the primary characteristic has to do with capability and comfort in delegating.

New Lower Fee Schedule

After five years with the same fee schedule, I have decided to lower fees by 20%. The original fee was set to be comparable to most mutual fund fees. I think I'm still in that range, but probably on the higher side. My goal has been for us to live on the income from Wenzel Analytics, and to grow our personal investments enough to have at least the option of retirement and to make charitable contributions. These goals are on track. As the amount of dollars under management has increased, the income is beginning to exceed our lifestyle, making possible the fee adjustment. So the fee schedule beginning in 2007 will be .4% of assets each quarter instead of .5%, in addition to a flat fee of $80 instead of $100.

Financial Projections

The Excel worksheet available on my website is proving very interesting and helpful in giving a perspective on the probabilities for long-term future assets. Knowing that the probabilities are say 95% of having a million dollars after thirty years creates a useful framework for knowing how to interpret and when to accept short-term volatility in returns.

A couple things are unique about this Monte Carlo planning worksheet. First of all, since I built it, I know all the assumptions, and most of them are listed on one of the worksheets. The formulas are all visible, and you or we can change any part we wish. This is not a black box. Secondly, most Monte Carlo programs are based on an assumption of a statistical normal distribution. However, markets historically have been more volatile than a normal distribution. The probabilities here are drawn from historical rates for equities, T-bills, bonds and inflation since 1928.

While the spreadsheet is all open and available to be downloaded and used, you may find it a bit daunting and overwhelming. Without becoming a financial planner, I encourage you to come in and we can fill it out together and begin exploring the probable consequences ten or thirty years down the road of different contributions, withdrawals and investment decisions.

Thanks for your trust and your business.

Sincerely,

Lee