



Fourth Quarter 2005 Letter To Investors

In 2005, a composite of individual accounts managed by Hurley Capital rose 5.6% net of fees, as compared to the S&P 500, which rose 4.9%. Fourth quarter composite results were negative across our accounts (minus 2.9%) while the market rose, with the S&P up 2.1%. We delivered market-beating returns in 2005, but fell short of delivering our 8-10% target return. During the quarter, the winners were StreetTracks Gold Trust, Computer Horizons and Wal*Mart, while losers were Portal Software, Enbridge Energy Management LLP and General Motors Preferred 'A'.

"there are disturbing trends (in the U.S. economy): huge imbalances, disequilibria, risks -- call them what you will. Altogether the circumstances seem to me as dangerous and intractable as any I can remember, and I can remember quite a lot."

- Paul Volcker, former chairman of the Federal Reserve in the Washington Post

"...we would call ourselves moderately optimistic about the market...Corporate profits are decent. Valuation...is 'undemanding'... we think stocks are cheap relative to bonds...the people who are pessimistic about the economy have been pessimistic, really, for 35 years."

- Leon Cooperman, Omega Advisors, in interview published in Dec. 15, 2005 welling@weeden

Avoid Risk, Allow For Growth

With divergent opinions such as these from industry legends, handicapping the overall direction of the market is a futile exercise. To defend our investors from market uncertainty, we look for investments that exhibit low risk, but have opportunity to grow. We target investments that exhibit one or more of the following characteristics:

- 1) **High asset values relative to market value.** While most companies miss their earnings estimates from time-to-time, those with high asset values relative to market value tend not to fall as far as others. Think: "falling with a net". SK Telecom and Deere & Co. are good examples of this characteristic.
- 2) **High dividend/interest yield backed up by operations that produce cash sufficient to support dividends going forward.** Companies like Enbridge Energy Partners and Teppco Partners are examples here – Each has a well-financed tax-advantaged yield of about 8% with growth opportunity in the coming years.
- 3) **Free Cash Flow yield, prior to growth capital expenditures of over 10%.** Put in layman's terms, companies that generate cash representing 10% of their market value, prior to spending on growth initiatives. If they have lots of high-return growth initiatives, we'd prefer the company invest in them as opposed to returning the money to investors through buybacks or dividends. Wal-Mart, Chesapeake, News Corporation, and Chevron are examples here.

Instead of the usual comment on the rationale behind a recent investment, we've added a year-end portfolio review with brief comments on each of our holdings at the end of this letter.

In closing, 2005 was a successful year in terms of relative performance, but shy of our performance goals. We believe that client accounts are well positioned for solid returns at below market risk levels. We reiterate

our goal to provide clients with positive returns at below market risk regardless of market conditions and target annual returns of 8-10%. We pledge to continue investing your capital in a conservative fashion by pursuing value-oriented investments with growth opportunity.

Performance Of All Open Hurley Capital Investments

<u>Initial Investment</u>					<u>Price at 31-</u>	<u>Return to</u>	
<u>Date</u>	<u>Action</u>	<u>Name</u>	<u>Ticker</u>	<u>Price</u>	<u>Dec-05</u>	<u>Date</u>	<u>Comments</u>
12-Aug-04	Buy	Pfizer	PFE	31.82	24.93	-21.7%	Sold on 12/20/2005 (incl. \$0.93/sh dividends)
20-Aug-04	Buy	Blackrock Muni Trust	BMN	10.66	10.49	-1.6%	Includes \$0.60/share tax-free dividends
03-Sep-04	Buy	Petrofund Energy Trust	PTF	11.74	19.49	66.0%	Includes \$1.85/sh dividends
06-Oct-04	Buy	Enbridge Energy Mgt LLC	EEQ	44.95	48.65	8.2%	Includes \$3.30/sh stock dividends
28-Oct-04	Buy	Vanguard Health Care VIPERs	VHT	46.56	54.15	16.3%	Includes \$0.13/sh dividends
08-Dec-04	Buy	Compania de Telecom de Chile	CTC	10.50	10.45	-0.5%	Sold on 10/28/2005 (incl. \$0.75/sh dividends)
21-Dec-04	Buy	Streettracks Gold Trust	GLD	44.09	51.58	17.0%	
25-Jan-05	Buy	Chevron Texaco	CVX	52.51	58.52	11.4%	Includes \$1.75/sh dividends
04-Feb-05	Buy	Portal Software	PRSF	2.62	2.44	-6.9%	Sold on 11/29/2005
10-Mar-05	Buy	AT&T Corp.	T	24.03	27.05	12.6%	Includes \$2.56/sh dividends
08-Apr-05	Short	Jack In The Box	JBX	(37.80)	(30.90)	22.3%	Closed on October 24, 2005
18-Apr-05	Buy	Coca-Cola	KO	40.87	41.15	0.7%	Includes \$0.84/sh dividends
27-May-05	Buy	General Motors Pf'd "A"	GXM	23.65	21.42	-9.4%	Includes \$0.56/sh dividends
17-Jun-05	Buy	i2 Technologies 5.25% Cvt Bond		93.00	100.58	8.2%	Includes accrued interest, 90% called on Dec. 28, 2005
23-Jun-05	Buy	Teppco Partners LP	TPP	41.06	36.18	-11.9%	Includes \$1.34/sh dividends
21-Jul-05	Buy	Neteller Plc Ord	NTLRF	13.45	12.64	-6.0%	
22-Jul-05	Buy	SK Telecom Ltd ADR	SKM	20.65	20.29	-1.7%	
17-Aug-05	Buy	Magellan Midstream Partners LP	MMP	31.70	32.76	3.3%	Includes \$0.53/sh dividends
03-Oct-05	Buy	Wal-Mart	WMT	44.03	46.80	6.3%	
22-Nov-05	Short	Marriott Intl Inc Cl A	MAR	64.40	66.97	-3.8%	
28-Nov-05	Buy	Computer Horizons Inc.	CHRZ	4.03	4.35	8.0%	
12-Dec-05	Buy	Costco	COST	48.60	49.47	1.8%	
15-Dec-05	Buy	Deere & Co.	DE	70.09	68.11	-2.8%	
27-Dec-05	Buy	Nuveen Select Tax Free	NXR	13.19	13.31	0.9%	

Year-End 2005 Commentary on Client Holdings

Blackrock Muni Target Term Trust (Ticker: BMN): This is a short-term closed-end municipal bond fund in some accounts for cash management purposes. This fund liquidates in December 2006 at \$10/share.

Computer Horizons (CHRZ): Shareholders of this IT staffing and consulting firm dumped the board and management in October 2005 and replaced them with a hedge fund manager who has stated his intention to sell the company. We believe the sale process is already underway and could garner \$5-7/share for shareholders by mid-2006.

Costco/Wal*Mart (CSCO/WMT): Both of these companies have high single-digit free-cash-flow return prior to growth investing in a growth industry, even in hard economic times. Wal*Mart has (1) begun to repair its tarnished image over labor relations, (2) expanded its domestic offerings to include some higher margin products, with some early success, and, (3) still has lots of opportunity abroad to syndicate its business model.

Chevron (CVX): Free Cash Flow yield of 6.5% on \$50/barrel average oil price (some 20% below today's price) and a 20+% return on capital employed provides a decent asset cushion under this investment. If oil prices stay here or go up, Chevron will show free cash flow returns of over 10%, earnings will exceed

expectations and the stock will go up. If oil prices go down \$10/barrel, this stock will go down even though Chevron will still meet earnings expectations. There is ample asset value here.

Deere & Co. (DE): One of the most economic sensitive names we own, trading at about 10x free cash flow. Seeing lots of international demand.

Enbridge Energy Management (EEQ) / Enbridge Energy Partners (EEP) / Magellan Midstream Partners (MMP) / Teppco Partners LP (TPP): These stocks are limited partnerships that own oil/gas pipelines. They are a nice substitute for fixed income investments for many portfolios, with the relative advantages of increased tax efficiency, rates of payment typically over 2 percentage points higher than the 10-year treasury bond, and potential dividend growth. Of the three listed above, MMP has the highest potential for near-term dividend increases while EEP/EEQ are likely stuck for at least a year. All of the above suffered in the December quarter from oversupply of IPO's in the pipeline partnership sector, and have bounced back early in 2006. While the dividend returns are 6.5-8.0%, the risk here is a rise in long-term rates.

StreetTracks Gold Trust (GLD): This exchange-traded fund tracks the price of gold. We last bought this for client accounts in April 2004 at \$42.30. We like gold as a hedge against a declining dollar and/or a crashing stock market; neither happened in 2005 and gold was still up 17.8%. We think that our chronic trade deficit may have inspired other countries holding dollar reserves to diversify into other assets such as gold. The price has gone straight up lately and speculators are quite long gold, so while we would like to put GLD in other accounts, we'd like to wait for a pullback.

General Motors Preferred "A" (GXM): Will GM be bankrupt by mid-March 2007? If not, investors stand to make over 20% annualized from the end of 2005 as investors may sell GXM back to GM at \$25/share then. With over \$19 billion in cash on the balance sheet, \$16 billion more set aside to pay for retiree health care benefits, plus another \$10-plus billion coming in from a proposed sale of a controlling stake in GMAC, we think GM is very likely to make it another 15 months. Should current three-way talks between the United Auto Workers union, GM, and bankrupt GM-supplier Delphi sour, a strike by Delphi workers could cost GM several billion dollars monthly and bankruptcy talk could intensify. We believe the "mutually assured destruction" theory that kept the US and USSR from launching nuclear weapons at each other will prevent a Delphi strike, but will continue to monitor the situation closely. GM's underwhelming operating results and sales trends are practically irrelevant to this investment.

i2 Technologies 5.25% Convertible Bond due December 2006: Has turned out better than expected in our *Q2 2005 Letter To Investors* where we expected a 10% annualized return by December 2006. Instead, investors received over 11% in just over six months as 90% of the bond was redeemed on December 28, 2005. Investors still hold the remainder of their position collecting interest at 5.6% on their investment until management pays off the rest of the bond by December, at the latest.

Coca-Cola (KO): High asset value, high earnings power, low business momentum. Any turnaround in the beverage business, any pullback in commodity prices (aluminum for cans and oil for plastic bottles) or an economic downturn makes Coca-Cola an outperformer. Pays a 2.7% dividend while we wait.

Mariott Corp. (MAR): Some accounts are short Mariott Corp. We think that a combination of lower revenues from time-share sales (over 20% of estimated 2005 earnings), a somewhat financially constrained consumer in 2006, and a premium market valuation should bring underperformance to this well-run hotelier.

Neteller Plc Ord (NTRF): Two investors expressed interest in investing in this 'PayPal for Poker' company. It is a high-growth company that is highly speculative. Not recommended for Hurley Capital investors, but we are required to disclose all investments that our clients initiate while on our watch.

Nuveen Select Tax-Free Income (NXR): Exchange-traded mutual fund that pays 4.85% tax-free to investors, which is equivalent to an 8% return on a taxable bond for those in the top tax-bracket. If long-term interest rates stay flat (or go down), investors will collect this return (or more), but if interest rates rise, this investment will decline.

Petrofund Energy Trust (PTF): A leveraged bet on oil prices that had paid early investors well. We've sold half of our original position and are riding the rest. This investment carries a 10% yield. So long as the world economy is strong, oil prices should remain over \$50.

SK Telecom (SKM): SKM, the #1 wireless telecom operator in Korea, is safe and inexpensive with a dividend expected to be over 4%. They are also exposed to growth initiatives such as a domestic music download site, an online gaming site, wireless transaction processing and new wireless telecom services in Vietnam. See our *Q3 2005 Letter To Investors* for further discussion on investment rationale.

AT&T Corp. (T): This investment in what was left of Ma Bell has turned in a nifty return so far and trades at 10x free cash flow. While everyone is cognizant of the structural difficulties in their markets, ubiquity has its advantages, too.

Vanguard Health Care VIPERs (VHT): Demographics deem this industry the place to be for the next 20 years in our country. We're no healthcare experts here, so we used the cheapest way to place a bet on the whole industry, paying just 0.26% in annual fees. So far, so good.

In closing, Hurley Capital will continue to pursue value-oriented and conservative investments for our clients while targeting a full year return of 8-10%.

Please call/email with any questions or comments. Thanks for your interest and patronage.

Chuck Goldblum

January 2005

Important Disclosure

The Hurley Capital Managed Accounts Composite represents all actual client accounts invested in this strategy. The Hurley Capital Managed Accounts Composite allocates client portfolios in equity and fixed income investments, weighted according to Hurley Capital's proprietary investment strategy.

Actual client accounts utilizing the Hurley Capital Managed Accounts Composite may have varying allocations between equities and fixed income investments based on individual investment preferences. The results of the Hurley Capital Managed Accounts Composite are net-of-fees, brokerage commissions, and other expenses. Hurley Capital's investment advisory fees are described in the disclosure statement of Part II of the Form ADV which is available upon request.

The results of the Hurley Capital Managed Accounts Composite include the reinvestment of dividends. Comparison of the Hurley Capital Managed Accounts Composite to the S&P 500 and NASDAQ Composite is for illustrative purposes only and the volatility of the indices used for comparison may be materially different from the volatility of the Hurley Capital Managed Accounts Composite due to varying degrees of diversification and/or other factors.

Past performance of the Hurley Capital Managed Accounts Composite may not be indicative of future results and the performance of a specific individual client account may vary substantially from the composite results above in part because client accounts may be allocated among several portfolios. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable.