

MOOSE POND INVESTORS ANNUAL REPORT FOR 2006

Moose Pond Investors has completed its sixth full year. We have 18 partners made up of family and friends throughout the United States. You can find out more about Moose Pond Investors at our [web site](#).

Portfolio Performance

In 2006 we had a total return of 6.1%. The value of a unit increased from \$13.097 to \$13.894. While our return was positive, it lagged behind most of the major market indices. For the first time, we are slightly behind the S&P 500 for a five year period (5.9% vs. 6.2%).

The annual returns for Moose Pond Investors are calculated using internal rate of return (IRR). This method is more precise because it looks at actual cash flows. It better accounts for partner investments and market fluctuations throughout the year. Calculating annual return using the change in unit value from year to year is a close approximation

The total return for two market indices are shown for comparison, the S&P 500 (large stocks) and Russell 2000 (small stocks).

Annualized Returns for 2002-2006

Year	Stocks Only	Stocks, & Cash	S&P 500	Russell 2000	Value of one unit
2006	6.1%	6.1%	15.8%	18.4%	\$13.894
2005	0.3%	0.1%	3.0%	4.6%	\$13.097
2004	16.1%	13.8%	10.9%	17.0%	\$13.256
<i>3-year</i>	<i>6.4%</i>	<i>5.7%</i>	<i>10.4%</i>	<i>13.6%</i>	
2003	35.1%	23.1%	28.7%	47.3%	\$11.802
2002	(23.4%)	(19.1%)	(22.1%)	(20.5%)	\$9.707
<i>5-year</i>	<i>5.9%</i>	<i>5.6%</i>	<i>6.2%</i>	<i>11.4%</i>	

Moose Pond Investors Portfolio

At year end, our portfolio had a market value of \$42,923.96. One unit in Moose Pond Investors is worth \$13.894. We currently hold 25 stocks in our portfolio. Our cash position is \$710 or 1.7%. We have been using the Vanguard Total Stock Market Index (VTI) to hold funds waiting reinvestment.

Portfolio Holdings

Current Holdings	Shares	Market Value	Pct of Portfolio	Date Bought	Gain or (Loss)	Annualized IRR
Walgreen Co	24.408	\$1,120	2.6%	11/22/2006	\$120	NMF*
Factset Research Systems	30.102	\$1,700	4.0%	03/12/2004	\$893	31.30%
Occidental Petroleum	30.099	\$1,909	4.5%	11/15/2005	\$430	27.70%
Stryker Corp.	38.828	\$2,140	5.1%	01/23/2006	\$390	26.50%
Chevron	30.095	\$2,213	5.2%	01/13/2005	\$576	24.0%
Lowe's Companies Inc.	59.957	\$1,867	4.4%	12/01/2000	\$859	20.2%
Commerce Bancorp Inc.	56.058	\$1,977	4.7%	08/26/2003	\$611	18.3%
Synovus Financial Corp.	71.132	\$2,193	5.2%	11/15/2005	\$260	16.6%
Brown & Brown	42.190	\$1,190	2.8%	03/09/2004	\$381	15.7%
Vanguard Total Market	25.519	\$3,578	8.5%	01/15/2004	\$121	14.5%
Jack Henry & Associates	97.792	\$2,093	5.0%	08/11/2005	\$256	12.8%
Johnson & Johnson	17.433	\$1,151	2.7%	11/21/2003	\$228	10.5%
Patterson Co.	43.724	\$1,553	3.7%	03/07/2003	\$278	10.0%
Illinois Tool Works	31.604	\$1,460	3.5%	02/07/2006	\$93	9.5%
Amgen Co.	27.990	\$1,912	4.5%	08/05/2004	\$218	8.1%
Cardinal Health Inc.	18.461	\$1,189	2.8%	11/11/2003	\$203	7.1%
Capital One Financial	21.885	\$1,681	4.0%	02/14/2002	\$233	6.8%
Investors Financial Services	36.074	\$1,539	3.6%	07/07/2004	\$77	2.6%
Bed, Bath & Beyond	39.196	\$1,493	3.5%	05/11/2004	\$18	0.6%
Pfizer Inc.	75.663	\$1,960	4.6%	07/25/2002	(\$143)	(0.1%)
Wal-Mart Stores Inc.	38.686	\$1,787	4.2%	08/17/2005	(\$49)	(1.0%)
Intel Corp.	65.858	\$1,334	3.2%	02/01/2001	(\$306)	(5.6%)
Maxim Integrated Products	58.876	\$1,803	4.3%	02/02/2005	(\$306)	(9.7%)
UTStarcom	49.111	\$430	1.0%	07/07/2004	(\$720)	(33.0)
Getty Images Inc.	21.989	\$942	2.2%	11/22/2006	(\$58)	NMF*
Cash		\$710	1.7%			
<i>Total</i>		<i>\$42,924</i>			<i>\$4,663</i>	

* NMF = Not meaningful figure. Stock not held long enough to calculate annualized IRR.

Winners and Losers

For the year, 19 of our stocks advanced while 10 declined. We realized a loss of \$284. However, we had unrealized gains of \$2,156.

The following tables show our top 5 winners and losers.

Top Five Winners and Losers in 2006

Top 5 Gainers	Percent Change	Dollar Change
Factset Research	37.9%	\$460
ChevronTexaco	33.7%	\$499
Stryker Corp.	24.6%	\$390
Occidental Petrol	24.5%	\$345
Synovus Corp.	20.5%	\$288
<i>Total</i>		<i>\$1,982</i>

Bottom 5 Losers	Percent Change	Dollar Change
Affiliated Comp ¹	(15.2%)	(\$268)
Capital One Fin.	(14.3%)	(\$212)
Intel	(12.7%)	(\$208)
Maxim Integrated	(11.2%)	(\$209)
Amgen Inc.	(8.1%)	(\$135)
<i>Total</i>		<i>(\$1,032)</i>

¹ Sold ACS on 11/21/2006

Portfolio Turnover

Our sales for the year totaled \$3,995. We sold three stocks: Affiliated Computer (ACS), Fifth Third Bancorp (FITB), and Marsh & McLennan (MMC). Our total purchases for the year were \$11,773. We took new positions in Getty Images (GYI) and Illinois Tool Works (ITW). The rest of our new cash and available funds were reinvested in existing stocks.

Portfolio turnover is the rate of trading activity in a portfolio. It is equal to the lesser of purchases or sales, for a year, divided by average total assets during that year. Our average net asset value for 2006 was \$37,870. Thus our portfolio turnover is calculated as follows:

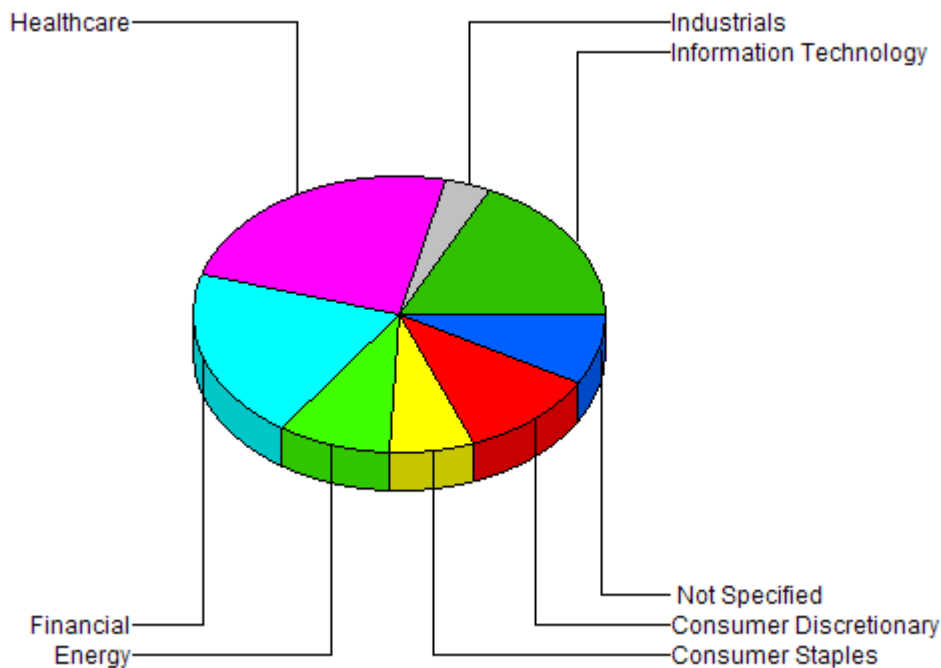
$$\text{Turnover} = (\text{Sales} / \text{avg. NAV}) = (\$3,995 / \$37,870) = 10.5\%$$

Stocks Sold in 2006

Sold in 2005	Date Sold	Net Gain or (Loss)	Annual-ized Rtn
Affiliated Computer	11/21/2006	(\$13)	(0.4%)
Fifth Third Bancorp	11/13/2006	(\$243)	(8.9%)
Marsh & McLennan	11/21/2006	\$146	10.1%
<i>Total</i>		<i>\$1,684</i>	

Portfolio Diversification.

The portfolio contains 28 stocks in seven sectors. This provides sufficient diversification to eliminate most of unsystematic risk in the portfolio. The portfolio has a relatively RiskGrade of 43. (See RiskGrades.com for more information about unsystematic risk.)



The sector diversification does not mirror any particular index. This diversification reflects our purchases of quality growth stocks when they were selling at an attractive valuation. The "not specified" sector is our holding in Vanguard Total Stock Market Index (which we use to hold money awaiting reinvestment).

Our Investing Philosophy

We invest in **quality** companies that **grow their earnings** based on a sound business model. We buy these stocks when they are priced to provide **superior long term returns**. While many investors and mutual funds invest in either “growth” or “value” stocks, we look for companies that have both attributes. Growth, quality, and value are interrelated.

A company should have a sound business model that has demonstrated consistent growth in revenue and earnings over the past 3 to 5 years. The company also should have the potential to sustain growth in revenue and earnings into the foreseeable future.

The **quality** of a company, which usually reflects strong management, manifests itself in several ways, including: (1) consistent historical growth in revenue and earnings, (2) steady or increasing pre-tax profit margins, (3) steady or increasing return on equity that is greater than the industry median and is generally greater than 15%, and (4) a strong balance sheet.

Value Line ratings of B++ or better for Financial Strength and 85 or better for Earnings Predictability correlate well with quality and good management. We also compare each company's prospects for future growth and net profit margins with other companies in the same industry. The Manifest Investing quality rating combines these four factors into a single 100 point rating.

Superior long term returns can be assessed in two ways – (1) by calculating intrinsic value for a company using discounted cash flow or (2) estimating the projected average return using a stock selection guide or similar calculation. Using the stock selection guide, we look for a projected average return (PAR) greater than 15%. We also look for quality stocks that sell below their intrinsic value. Morningstar uses a discounted cash flow analysis to determine the fair market (or intrinsic) value of a stock. Stocks rated 4 and 5 stars sell below their intrinsic value. It is generally easier – although not as precise – to compare stocks using their projected average return from the stock selection guide.

We prefer companies that, if purchased, offer the possibility of price earnings (PE) ratio expansion. We generally avoid companies with high PEs, particularly when the PEs have been contracting in recent years. High growth stocks with high PEs are particularly vulnerable to large downward price adjustments if the growth outlook for the company slows down.

Portfolio management is as important, perhaps more important, as selecting good stocks. Several general principles guide our portfolio management:

- We try to stay fully invested and to keep our cash position below 5%.
- We don't try to time the market.
- We maintain about 20 stocks in our portfolio +/- 5. We reinvest all of our dividends in the companies paying the dividends or in the portfolio.
- We will replace a holding if the company's fundamentals deteriorate or if the company becomes overvalued.
- We will replace an individual stock if the replacement company will improve the overall projected average return or the quality of the portfolio.
- We consider diversification when making purchases and try to stay invested in at least five different sectors but we do not have any strict rules about sector weighting or company size.

Summary

We wish all the partners of Moose Pond Investors and their families a prosperous and happy New Year.

Ty Hughes
January 15, 2007