

7.40	66.10	31.39	21.43
3.90	56.22	26.66	15.99
0.39	46.33	22.59	11.90
-1.09	36.12	18.58	9.86

Cedarwinds Quarterly

Performance Updates and Market Commentary for Long-Term Investors

Vol. 2 Q2-06 (ii)

Asset Class % Returns*

	4/30/06	Annualized Returns**		
	YTD	1 Year	3 Years	5 Years
Bonds				
Short-Term	1.32	2.30	1.60	2.88
Two-Year	1.05	1.90	1.51	3.16
Five-Year	1.13	0.77	2.06	4.93
Intermediate	0.20	1.72	2.53	4.73
Domestic Stocks				
Large Market	5.58	4.85	14.25	0.39
Large Value	9.20	10.24	20.56	9.14
Small Cap	14.13	6.08	23.73	11.53
Small Value	16.19	7.79	29.16	19.11
Micro Cap	13.92	5.69	26.22	16.45
Real Estate	11.04	13.15	26.54	19.02
International Stocks				
Int'l Large Value	18.01	15.27	30.57	11.53
Int'l Small	16.39	21.96	36.35	18.09
Int'l Small Value	17.36	23.23	40.37	22.62
Emg Mkts	17.26	29.86	39.29	17.81
Emg Mkts Value	23.61	30.81	47.61	25.51
Emg Mkts Small	21.99	25.75	40.96	21.94
Continental Small	28.17	18.40	36.18	18.19
Japanese Small	4.22	38.29	41.11	18.53
Asia Pacific Small	20.18	8.00	30.44	18.65
UK Small	16.58	12.63	29.76	12.60

Description of Index Funds

Short-Term Bonds	DFA 1-Year Fixed Fund
Two-Year Bonds	DFA 2-Year Global Fixed Fund
Five-Year Bonds	DFA 5-Year Government Fund
Intermediate Bonds	DFA 5-Year Global Fixed Fund
Large Market	DFA Large Company Fund
Large Value	DFA US Large Value Fund
Small Cap	DFA Small Cap Fund
Small Value	DFA US Small Value Fund
Micro Cap	DFA US Micro Cap Fund
Real Estate	DFA Real Estate Fund
Int'l Large Value	DFA International Value Fund
Int'l Small	DFA International Small Fund
Int'l Small Value	DFA International Small Value Fund
Emg Mkts	DFA Emerging Markets Fund
Emg Mkts Value	DFA Emerging Markets Value Fund
Emg Mkts Small	DFA Emerging Markets Small Fund
Continental Small	DFA Continental Small Company Fund
Japanese Small	DFA Japanese Small Company Fund
Asia Pacific Small	DFA Asia Pacific Small Company Fund
UK Small	DFA United Kingdom Small Company Fund

*Source: Dimensional Fund Advisors (www.dfaus.com)

The information contained herein is obtained from sources we believe are reliable, but we cannot guarantee its accuracy.

** Calculated based on calendar year results.

Past performance does not guarantee future returns.



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THE WORLD'S BEST HOCKEY TEAM

*"Some people skate to the puck.
 I skate to where the puck is going to be."*

The Great One (Wayne Gretzky)

Editor's Note: This was a very special season for hockey at the University of Wisconsin. The men's and women's hockey teams both won the national championships in Division 1, the first school to ever accomplish this feat. **Go Badgers!** In recognition of this achievement and to honor what many observers describe as the ultimate team sport, we wanted to share an interview recently conducted with one of the all-time greats of the game, **Cosmos Indexico**, coach of the renowned **Team Universalis**. (*Savvy readers will quickly discern the metaphorical similarity to the investment philosophy advocated by Cedarwinds Investment Management.*)



Coach Indexico, could you describe your general coaching philosophy?

Our team's coaching philosophy has changed dramatically over the years. We used to rely a lot on hunches and instincts with players and game strategy—a pretty arbitrary approach. Now the focus is on **process and execution**—a much more analytical and scientific approach to the game. Let me explain what I mean.

Years ago, hockey was a relatively simple game. There were just a few teams playing, the talent pool was limited, and everyone knew who the best players were. The equipment was very basic—leather skates with steel blades and hockey sticks made of wood. There were no helmets or face masks, not even for the goalies. All the coaches used the same basic strategy—find the best players and have a simple game plan. If you had a few stars and everyone stayed healthy, you usually ended up with a winning season.

In contrast, coaching hockey today is much more challenging and complicated. There are a number of reasons for this. First, the game is far more technical and demanding compared to the old days—the art of coaching has really evolved into a science. Head coaches must rely on a strong team of other professionals to help do the job. Our coaching team spends a lot of time analyzing and assessing individual player skill sets—strengths and weaknesses—to identify how to put the best possible combination of talent out on the ice for every shift. Each player is objectively evaluated for speed, size, strength, stamina, and overall consistency of performance. Computers have become a critical part of the process. In essence, a complete statistical profile is developed for each player. We then evaluate the best way to combine and integrate these individual talent profiles to create the most competitive team possible. Our coaching staff is constantly refining this process. Our goal is to be on the cutting edge of individual player assessment and overall team development.

Second, hockey has become a true international sport. There are many more leagues and player prospects to keep track of. The talent pool is very diverse. It is a challenge to keep up with where to find the good players and how to most effectively assess the potential of younger, emerging talent. We rely much more on detailed scouting reports and statistical analysis than in the past. Again, we couldn't keep tabs on of all this information without computers and tracking software.

Continued on back . . .

Third, there are many different styles of playing the game today compared to a few years ago. Some teams use a more physical style of play while others are more finesse oriented. Some teams rely on player size and strength while others rely on speed and agility. Some teams recruit a few “name” players with large egos and high salaries while others build their programs with relatively unknown players. Some teams may do well for a year or two, then you never hear from them again. We think our philosophy works best because it focuses on understanding the elements required to build long term franchise value—winning consistently—not just short term results.

To what do you attribute your team’s success?

We have conducted a lot of research and accumulated mountains of data on teams that have enjoyed success over short and longer time periods. Our conclusion is that franchises with the highest winning percentage over the long term use a style that effectively integrates three fundamental principles: *team balance*, *team discipline* and *team execution*. Success is all about *teamwork* and having a total dedication to winning. This is what we coach every day with our players.

Coach, could you be more specific?

Sure. Let’s look at *team balance*. We combine our forwards and defensemen in a way that optimizes their style of play together. You want good players to play to their strengths. For example, one of our lines is made up of players who have had lots of international playing experience. They tend to play a wide open, fast-paced game. They are smaller and quicker than our other forwards, digging deeper into the corners for the puck. They tend to get out of position sometimes but when they are on, the goals come in bunches. They are exciting to watch. Our other lines and defensemen play a more conservative style, scoring more predictably and protecting our goalie when we need to be less aggressive on offense. As coaches, our job is to balance the relative strengths of each player and each unit so that everyone understands their role on the team.

In terms of *team discipline*, we do not tolerate players who aren’t laser focused on our strategy. Our system is very demanding. We only play individuals who are in the best possible physical shape and who always work on improving their game. We preach the need to always go for that extra advantage, no matter how small it may be. Toughness, persistence, determination—getting to the puck first. Tenacious, swarming offense and defense—suffocating zone coverage. Bullet-proof goaltending—playing all the angles correctly. Over the course of a long season, it is the small differences that may get us that one critical goal, that one crucial save, that one important victory when we need it the most. If you don’t buy into our team approach and are not willing to make the sacrifices necessary to win, you don’t play for us, pure and simple.

Finally, although team balance and discipline are important, *team execution* is the critical ingredient to success for Team Universalis. It is where our “*hockey magic*” comes from. We compete as individual players, but we win or lose as a team. It is about our collective dedication and passion for the game and the complete trust we must have in each other. Individuals can have great games or outstanding seasons but in the end, we believe that sustainable success can only be achieved through total team effort and consistent execution.

You have a consistent record of success, but how do you deal with the occasional losses?

We feel it is important to learn from our defeats. We analyze our losses carefully in order to better understand the game and what adjustments may be necessary to improve our style of play. Despite the occasional loss, we never get blown out of any game. We always stay positive and motivated. We are confident we will be competitive in every contest, always having a chance to win. Frankly, the excitement of the sport is that at any moment it can be so unpredictable and uncertain. Sometimes there is not much scoring. At other times the action is fast and furious—up and down the ice with lots of shots and goals. The puck can take weird bounces. Teams and players get on hot or cold streaks where they don’t seem able to do anything wrong or right. Expectations and momentum can shift from game to game, even period to period. The emotional highs and lows can drive you crazy—players, coaches and fans alike. However, over the long haul we believe that short-term momentum eventually evens out. Experience demonstrates our disciplined system will result in long-term success for the team and our fans, despite the occasional losses.

Have you seen major changes in how the game is played?

Absolutely! Like all sports, hockey relies much more on science and technology in terms of finding a winning advantage. In its most simple form, the game is fundamentally about physics and probabilities combined with the judgment and skills of the players. The essence of the action is about what’s happening next, not what has already happened. It is a game of anticipation—calculating angles, speed, direction and player movement. That’s what made Wayne Gretzky so special—he was always thinking about where to be. He had a knack for understanding the risk of being out of position versus the reward of being at the right place to score or make a great pass. His gift was the ability to visualize the whole game, to be right more than he was wrong and to avoid wasted movement. As coaches, we try to understand this risk-reward relationship at all levels and develop this skill in all our players. We are spending much effort studying the subtle relationships and probabilities of the game in order to find that unique competitive edge.

Any final thoughts regarding the success of Team Universalis?

I want to share a secret with you. We call it the “*Zamboni Effect*.” As you know, the machine that resurfaces the ice before each period is called a Zamboni. At the beginning of each period, the ice surface is smooth and there is very little friction compared to later when it gets pretty chopped up and the puck slows down. We make a special point to our players to take advantage of this condition. Statistically, we score more goals when the ice is clean. We find that our style of play is better suited to a hard and fast surface.

Coach, any predictions about your chances in the playoffs?

Although we try not to make predictions, we are confident we have the talent to go deep in the playoffs and are committed to winning another world championship. This has been our tradition and our fans are relying on us to do well again. We don’t want to let them down!