Third Quarter 2005

Thompson, Siegel & Walmsley, Inc.

INVESTMENT COUNSEL

Here are three pieces of unconventional wisdom: Investors employing a disciplined and diligent strategy can, and do, beat broad stock market averages over both short and long-term periods. Furthermore, market benchmarks can be topped without accepting excessive risk. And finally, many investors who adopt a strategy designed to merely imitate the results of a broad market benchmark - a highly popular approach in recent years - may be making a mistake. Thompson, Siegel & Walmsley, Inc. believes that market conditions in 2005 and, over the next few years, will serve to illustrate these points. We also believe that our clients' portfolios stand a good chance of exceeding the market averages because of our consistent approach and talented investment team.

We have chosen an advantageous moment to assert our case for outperforming market benchmarks. As the table illustrates, the broad indexes commonly used to track stock and bond market performance are up since the beginning of the year, but with the notable exception of midcap stocks, index results come up short on the excitement meter. There are good reasons to believe that broad stock and bond market indexes may continue to register unspectacular results.

Market Performance Benchmarks
Nine Months Ended September 30, 2005

Broad Stock Market	
Russell 3000® Index	4.0%
Large Cap Stocks	
Russell 1000®	4.1%
Russell 1000® Value	5.7%
Standard & Poors 500	2.8%
Midcap Stocks	
Russell Midcap® Index	10.1%
Russell Midcap® Value Index	11.2%
Small Cap Stocks	
Russell 2000®	3.4%
Russell 2000® Value Index	4.0%
Bonds	
Lehman Aggregate Index	1.8%
3-Month Treasury Bill	2.1%

Headwinds

The fact that stock and bond market indexes are in positive territory at all since the beginning of the year testifies to a remarkable degree of strength and resiliency in both the US economy and the financial markets. Consider the forces aligned against both stocks and bonds this year:

- The Federal Reserve, intent on preempting any significant resurgence of its old foe inflation, continues to apply steady upward pressure to short-term interest rates. While this tougher monetary policy may be in the long-term economic interest of the nation, rising rates have historically been a barrier to higher stock and bond prices.

- A seemingly unrelenting rise in the price of oil and natural gas has begun to erode consumer confidence, sap discretionary income, boost the inflation rate and eat into profit margins for some businesses. The rate of corporate profit growth, a key driver of stock prices, has begun to slow down.

- Hurricanes Katrina and Rita, among the worst natural disasters in US history in terms of monetary damages, crippled vital transportation and industrial infrastructure, caused a massive increase in regional unemployment, placed a significant new strain on the stretched Federal budget and revealed a general lack of preparedness for large-scale emergencies. Estimates of the storms' impact on overall economic growth range from 1-2 percentage points, a stunning figure given the size of the US economy.

These issues may continue to hamper broad stock market index results for some time to come because they hold back earnings growth and feed a tendency toward higher interest rates. Thompson, Siegel & Walmsley, Inc. believes that stock prices will expand at about the rate of corporate profit growth, something like 5 – 7 percent per year, over the next few years. Dividends will add to returns, but the stock market currently offers a yield of less than 2%. Add it all up and our outlook calls for stock market indexes to return 7 – 9 percent per year over the next few years. This is a decent result similar to what we have experienced so far this year, but it falls well short of historical averages. Bond returns are also likely to be positive, but broadly speaking, below long-run averages. In short, investors positioned to merely track market averages could earn relatively paltry returns for the next few years while enduring frequent bouts of unsettling volatility. This is precisely the environment in which a disciplined strategy driven by rigorous research can outrun benchmark results.

Better Living Through Chemistry

Over the years we have described our value investment philosophy many times. We believe that stocks priced less expensively than their peers and at a discount to intrinsic value generally will outperform the broad market. A substantial body of historical research backs up this belief. We have learned, however, that cheapness alone is not enough to ensure an above-average return. Not all cheap stocks go up, and some only get cheaper. To consistently beat market averages - especially in a sluggish environment such as we now face - another critical element is necessary. We refer to this factor as a catalyst.

In chemistry, a catalyst is a substance that accelerates the rate of a reaction without being transformed or consumed by the reaction. In the less precise terminology of investments, a catalyst is an event, a series of events or some other change in circumstances that will cause the market to rethink its assessment of the intrinsic value of a company. The catalysts we look for, which can take many forms, are focused on change. Specifically, we are looking for factors that will cause sales, profit margins or cash flows to be greater than widely expected, producing a positive change in valuation. The existence of a catalyst is critical to our investment decision. We will not buy a stock just because it has a low valuation. We require the combination of low valuation and the presence of an identifiable catalyst that will lead to a higher price. *(Please note: We have included some specific examples of investment catalysts in this piece in order to illustrate their use in our investment process. These examples are not intended as investment recommendations, nor are they intended to be representative of any single client's portfolio.*)*

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A catalyst may be a company-specific condition such as the arrival of a new management team committed to restructuring a lagging business or the development of a product that will open a new market. For example, Advanced Micro Devices (AMD), a semiconductor firm that for many years played second fiddle to Intel in the microprocessor industry, has developed a new chip for large computers that is taking market share. AMD also has announced plans to sell its unprofitable flash memory business. In another example, CVS, the nation's largest drug store chain, is rapidly improving the sales and profitability of the large Eckerd chain it bought last year, leading to earnings growth that has been exceeding the expectations of most analysts.

A catalyst may also take the form of an industry-wide development that can boost the valuation of an entire group of stocks. Increased spending on homeland security, for example, has proven to be a catalyst for numerous large and small defense and security contractors like Flir Systems, a maker of night vision and thermal imaging systems. Likewise, rising energy prices and the increased use of sophisticated emissions control equipment by major utilities have increased the demand for the high-sulfur Appalachian coal produced by CONSOL Energy, and have led the market to reassess the value of CONSOL's coal-bed methane reserves. CVS, in addition to its company-specific catalyst, may also be a major beneficiary of an increase in the number of new generic drugs over the next year and of the new Medicaid Part D prescription drug benefit. We particularly like companies that have multiple catalysts to drive higher valuation.

Catalysts must be timely, creating change within our investment horizon of 18 to 36 months. A new CEO at Hewlett-Packard is making changes at the big computer maker that we think will impact profits over the next year, yielding a higher valuation, for example. In addition, a catalyst must be sustainable in its effects, distinguishing it from a one-time event or a fad that might result in only a fleeting improvement in a stock's price. For example, the growing acceptance of electronic stability control systems should be an important long-term sales driver for Continental, AG, the German tire and auto parts maker, even if overall auto sales growth slows.

Catalysts play a critical role not only in our stock selection process, but also in the vital job of maintenance of stocks held in our clients' portfolios. We continually review the catalysts for each stock to ensure that they are still valid. If a stock catalyst fails to play out, or no longer exists, the stock is a candidate for sale, even if valuation statistics still argue that it is cheap. By focusing on the development of well-defined fundamental factors, we hope to earn healthy returns on each investment regardless of what is going on in the broad marketplace. However, we also recognize that not all of our catalysts will materialize or be rewarded with higher valuation within an acceptable time period. In eliminating these stocks and moving on to new ideas that combine attractive valuation and catalysts for positive change, we are constantly working to build wealth for our clients.

Outlook

The gloomy developments we outlined above have weighed on stock and bond prices this year, keeping index returns at low levels. However, a handful of very broad catalysts could serve to lift the financial markets out of the doldrums in the fourth quarter of 2005 and into 2006. First, after eleven quarter-point increases in short-term interest rates, we believe that the Federal Reserve will finish its monetary policy tightening cycle sometime late this year or early next year, coinciding with Alan Greenspan's retirement. While markets have historically stumbled or fallen while the Fed is raising rates, the period following upward rate moves is often favorable for stocks. With long-term rates still at historically low levels, we think the interest rate environment could soon be viewed as a positive catalyst for stocks.

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Also, after a storm-related lull this fall, economic growth is likely to pick up again as reconstruction efforts gain speed and damaged facilities come back on line across the Gulf Coast region. This should reverse the recent hiccup in unemployment and dampen the inflationary surge brought on by the storms' impact on energy supplies. As we move into 2006, we believe consumer and business confidence will be rebounding from the recent dip.

Finally, although it is probably a long shot, we believe there are factors that could support a modest improvement in overall stock valuation. Many US corporations, having enjoyed a period of strong profit growth and generally conservative capital spending, have ample cash reserves which they are using to expand dividends, repurchase shares and finance acquisitions. With low interest rates and the broad stock market trading at a relatively modest 16 times probable 2005 earnings, an improvement in sentiment spurred by these factors could boost price-to-earnings multiples, providing a kick to returns.

These "macro-catalysts" are not crucial to our investment strategy. Even if they fail to materialize and we remain in the fitful, sluggish market environment that has characterized the last nine months, Thompson, Siegel and Walmsley, Inc. believes opportunities for attractive returns are available. We are working hard to find the right chemistry.

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