

Southern Capital Perspective

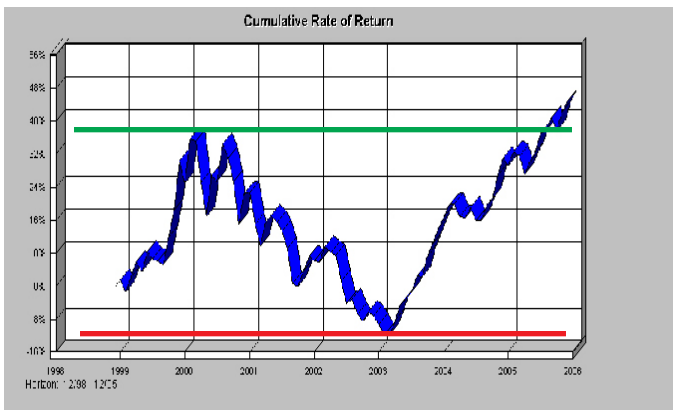
January 2006 The Summit, Ste 201A, 29000 Hwy 98, Daphne, AL 36526 Volume 14, Number 1

A NEW MILESTONE

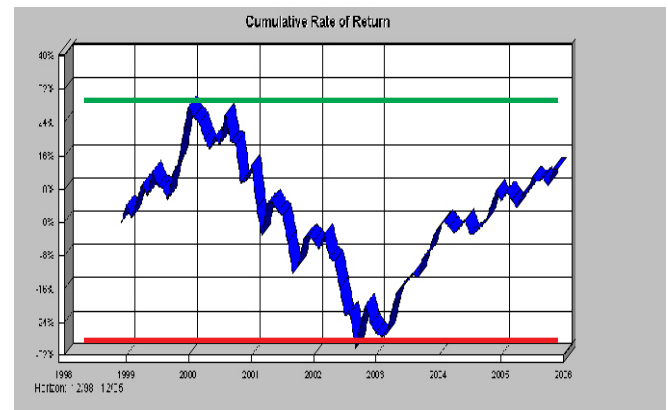
2005 was not a great year for the stock market in terms of the popular indices. The S&P 500 posted a 4.91% total return, the Dow Jones Industrial Average was up only .6%, and the NASDAQ only up 1.37%. However, we are pleased to be able to declare that the composite aggregate of all accounts managed by Southern Capital Services had a total return in excess of 10%, net of fees, which was more than enough to surpass the old peak in value that occurred in March of 2000 before the "bear" market. (Note: past performance is no guarantee of future returns.) In each graph, the previous peak is represented by the green line. Our returns were achieved with significantly less volatility than the market as seen below in the scales of the various graphs, especially the S&P 500 and the NASDAQ. The following graphs depict cumulative percentage returns over the past seven years based on monthly percentage results.

Continued on Page 2, Column 1

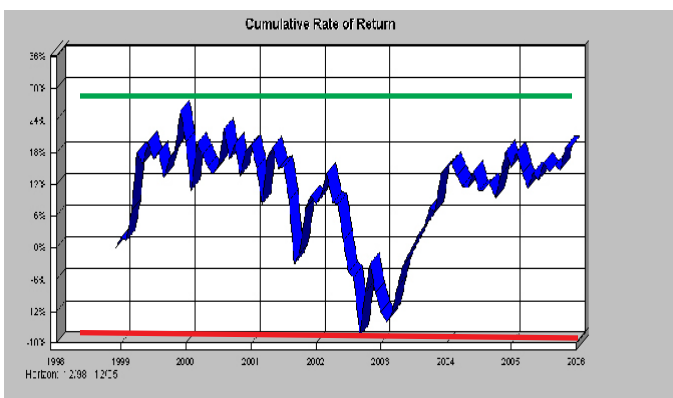
Southern Capital Total Composite 1999-2005



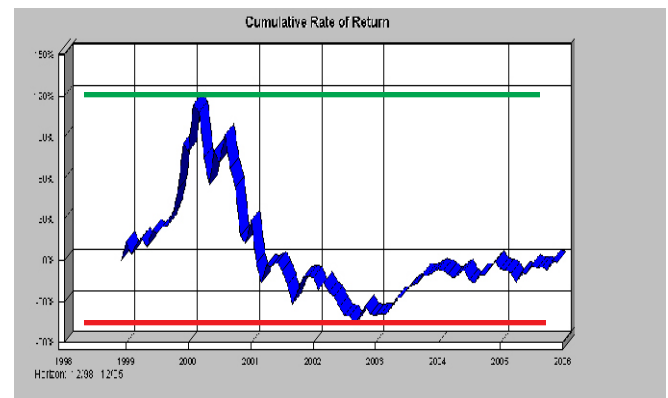
S&P 500 Composite 1999 - 2005



Dow Jones Industrial Index 1999-2005



Nasdaq Composite 1999-2005



Percentages Needed For The Various Indices To Reach The 2000 Peak

Index	Closing 12/31/05 Value	Date of Index Previous Closing High	Closing High Value	% Increase Required To Reach Previous Closing Value
S&P 500	1,248.29	03/24/2000	1,527.46	22.36%
Dow Jones Industrial	10,717.50	01/14/2000	11,722.98	9.38%
NASDAQ (Unadjusted)*	2,205.32	03/10/2000	5,048.62	128.93%

Disclaimer: SCS Composite consists of all accounts held at First Trust as custodian and is time weighted, dollar weighted and geometrically linked, net of fees containing mutual funds invested at no load. The data for the other indices is provided by Advisory World, Inc. This historical comparison begins with the volatile year 1999 through the bear market years, 2000 – 2002, and up through the most recent year-end 2005. 1999 was chosen as the beginning year because we feel it was the year that the stock selection of superior management re-emerged as the deciding factor in fund performance. These indices were selected because they are the most widely followed.

Although we are presently enjoying the new high values in our accounts, it is important to reflect back on the severity of the most recent market decline (one of the three worst since the 1920's). As seen in the table below the graphs, the three most widely followed indices need significant percentage gains to reacquire their previous peak closing values: the Dow Jones Industrial Average needs 9.38%, the S&P 500 22.36% and the Nasdaq a whopping 128.93%. Clearly they are nowhere near the point of eclipsing their old peaks. Many of the previous market participants (investors) are still sitting on the sidelines in money market funds and have missed the last three market recovery years of 2003-2005. I am sure each of us has friends, neighbors or relatives who were so beaten up by the bear market that they vowed never to return to the stock market and have just accepted their losses and have resigned themselves to money market returns.

We attribute the fact that our clients are no longer mired in bear market losses to the Southern Capital investment philosophy. The returns of the last 3 years were part of the reason for the new highs. However those returns would have fallen far short if our clients had borne the full brunt of the "bear," as did the popular indices. The Southern Capital composite never dipped as low. It is extremely important to remember that even though an index like the S&P 500 has a favorable long-term compounded annual rate of return, the high volatility is too much for most investors to stomach during sharp downturns. They wind up aborting their investment strategies near the bottom and are not there when the upturn arrives. Our theme of lessening volatility (minimizing the hit in down markets and staying with the market on the upside) has served us well and we are staying on this path for 2006 and beyond.

MARKET OUTLOOK

We are expecting 2006 to be a positive year for the world markets - albeit probably not a banner year since we have had three consecutive years of recovery. We feel this way because the economic fundamentals are generally favorable. However there are definitely substantial risks - mostly of a geo-political nature that could derail the positive scenario. A war with Iran, a major terrorist event in the United States, oil going to \$90-\$100 a barrel because of trouble in the oil producing countries, or another phenomenally awful hurricane season are the types of risks that could arise but cannot be predicted at this time.

The more likely events to occur are of a financial nature and are generally favorable. The FED under the new regime of Ben Bernanke is probably near the end of the interest rate hiking period. Unemployment rates are hovering around 5%, which means that most people have jobs and should enable the consumer part of the economy to hold up even as the housing market cools off. The GDP (Gross Domestic Product) numbers are expected to slow down a bit but still reflect an expanding economy. Business capital spending is expected to pick up in the latter part of year when Microsoft brings out its new operating system which will require the corresponding computer hardware upgrades be purchased. Also corporate profitability is continuing to grow, although the rate of increase is expected to slow.

2006 should be a more volatile year than last year. During

Remember Us At Tax Time
by Eric Nager

Once again tax-filing season is nearly upon us, and Southern Capital Services stands ready to assist. When you are ready after January 31, please call us and we will be happy to provide you or your tax preparer with a Schedule D reconciliation on your non-tax qualified account(s). This report shows the cost basis of your long and short-term capital gains and losses, and makes your tax preparer's job much easier. We also provide upon request a fee schedule for those clients who itemize their deductions.

We know that tax professionals like our reports since they save them time and you money. If your CPA or tax preparer is unfamiliar with what we offer, will you please tell him or her about us? We know and greatly appreciate that you have given us personal referrals, and we want to take this opportunity to thank those of you who referred prospective clients to us last year. We want to help more investors with our innovative approach. But will you also consider referring tax professionals to us? Especially at this time of year, they are in a unique position to see more people we can help, and we wish to assist as many investors as possible in these unpredictable market times.

How To View Your First Trust/Datalynx Account Online

We often get requests from clients for the capability to view their accounts on-line, so at least once per year we like to publish how to do so here. When you are ready, please call us with your request and give us your e-mail address. Usually within 24 hours, a password will be sent to you via e-mail from First Trust. With this password, go to the web site www.Accountlynx.com and log on using that password and your Social Security number. You will immediately be asked to come up with your own, unique password. Once you do that, you can view your account at any time. It is that simple, and we look forward to setting more of you up

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