

Palisades Water Index

Ticker symbol
AMEX: ZWI

12 Months Index Value

source: American Stock Exchange



Summary

For the period September 1, 2006 to September 30, 2006 the Palisades Water Index fell 0.31%. This compares to an increase in the S&P 500 of 2.40% for the same period. The decline reflects a moderation of the outperformance in the prior period and the weakness in small cap stocks relative to the broader market as witnessed by a .24% decline in the Russell 2000 Index for approximately the same period.

Comments

As illustrated by the table of the 5 best and worst performers there was no identifiable pattern by sector; gains and losses were distributed across most sectors. Solid appreciation in the Conglomerates Sector coincides with the strength in the large cap stocks. The

Trailing Returns

	YTD	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years
ZWI	9.63%	-0.31%	1.14%	-7.28%	8.76%	42.18%	53.30%
S&P 500	6.55%	2.40%	4.19%	3.07%	8.01%	25.44%	22.08%
Nasdaq	2.35%	3.31%	3.82%	-3.60%	4.73%	20.88%	33.64%

September 2006 Best and Worst Component Performance

Top 5 Companies	Symbol	% Change	Bottom 5 Companies	Symbol	% Change
Pall Corp	PLL	+13.18%	Mueller Water Products	MWA	-14.06%
Sabesp	SBS	+10.82%	Pentair	PNR	-12.41%
Franklin Electric	FELE	+10.23%	Consolidated Water	CWCO	-12.06%
Veolia Environment	VE	+7.27%	Aqua America	WTR	-7.39%
Insituform Technologies	INSU	+5.80%	Layne Christensen	LAYN	-5.77%

Top Ten Components

as of September 30, 2006

Company Name	Symbol	% Weighting
Mueller Water Products	MWA	3.72%
Franklin Electric	FELE	3.57%
Layne Christensen Co.	LAYN	2.56%
Consolidated Water	CWCO	3.54%
Danaher Corp	DHR	3.50%
Watts Water Technologies	WTS	3.49%
Calgon Carbon	CCC	3.49%
Idexx Laboratories	IDXX	3.47%
Pentair	PNR	3.46%
Sabesp	SBS	3.45%

remaining Sectors were mixed. On a component basis, Sabesp, the Brazilian water utility, advanced 10.82% in September based on strong 1H 2006 financial performance and relatively favorable tariff adjustments going forward. Pall Corp and Franklin Electric also recorded double digit gains for the month.

Pall Corp announced earnings

that significantly beat expectations amid capital spending strength in its core markets. Franklin Electric experienced a technical rebound from previously oversold conditions. On the down side, Aqua America remains under distribution pressure. Pentair dropped 12.41% after reducing guidance based largely on the slowdown in housing (i.e., its pool and spa seg-

ment). There was no clear reason for the decline in Mueller Water (IPO May 2006).

Industry Highlights

Despite a mixed individual performance picture short term, the long term fundamentals of the water industry were reinforced by several key industry observations. GE Water & Process Technologies announced a significant investment in Singapore's Global Hydrohub water R&D initiative, a commitment that symbolizes the Company's growing interest in the water industry. Similarly, Dow Chemical expressed its interest in water by creating a separate, Dow Water Solutions, business unit which it expects to grow to \$1 billion annually over the next "few" years, according to the Company.

Contacts

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