

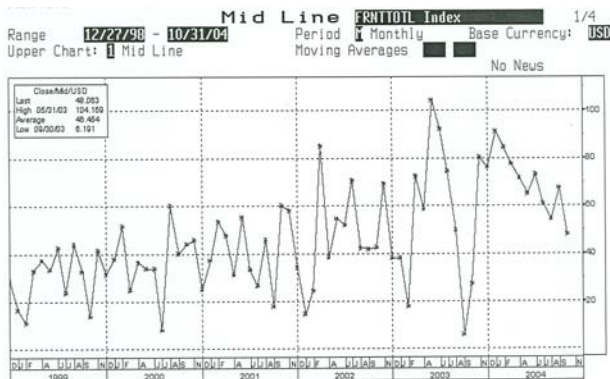


YEAR-END 2004

Here ye, here ye, 2004 is history. None of the financial rules over the past twenty-five years mattered in 2004. In particular, facts were counterintuitive to reality. You've read the lists in the financial press ad nauseam; record budget deficits, five interest rate increases by the Federal Reserve, a U.S. savings rate that barely exists, a pummeled dollar, and America's penchant to shop 'til we drop. As this concoction was stirred, blended with vigor, one would have expected higher interest rates (the professionals did) but this was not your father's bond market.

Intermediate and long term interest rates ended the year where they began. We did have a couple of scares when rates blipped up twice only to fall right back. No investor cared about the eternal list of negative confluences. High budget and trade deficits didn't matter and foreigners, including foreign central banks, didn't care about the decline of their dollar based assets. Perplexing? Counterintuitive? Mind-boggling?

This chart was the headline worrywart of 2004. It represents net foreign purchases of U.S. securities. There continues to be concern that the pace of foreign money into U.S. assets, particularly Treasury bonds is not sustainable.



Alan Greenspan, in a November 19th speech, said foreign investors may tire of funding our trade gap and channel money into other currencies. So far they aren't listening. Observe this dollar index graph from 1990

to the present. It's not a pretty sight if you are a foreigner holding U.S. bonds. The financial gurus warn about a precipitous decline in the dollar in 2005...I wonder what they call this? The crisis hasn't been with us it's been with the Europeans. With everyone calling for a continuous decline in the dollar we are probably in for a big rally.

We all know there are a multitude of financial cross currents to worry about. Whether it's our currency, the deficits, foreign flow of funds, over valued equities, tight bond spreads; the markets have a life of their own and will survive. After all, the market is only a reflection of our own expectations and greed.



As your manager, we will continue to seek out value, sidestep the over-valued and try not to guess or out-smart the direction of interest rates.

There is a lot of talk that bonds are not a good bet for 2005. Funny, but we heard the same refrain last year. The bond market doomsayers were wrong last year and if inflation remains a non-event, we will happily collect our coupons and be on our way.

With that said, we wish you a wonderful New Year. We appreciate your business and as always, don't hesitate to call us.

All the best in 2005,

Marilyn