

Dear Clients and Friends:

Thank you for your trust and cooperation over the past years.

It has been a tough road, with Sept 11, 2001, a recession the stock market's fits and starts and a world in crisis and then at war. Through it all, we seem to have found our way, one step at a time.

Hopefully the road ahead will rise up to meet us as the old saying goes and our nations assertive stance both in stimulating our economy and in fighting terrorism will bear some fruit.

We have received several "thank you's" and other compliments from you that would seem to suggest that many of you have noticed that our conservative stance over the past few years has prevented lots of losses that might have seriously eaten into your capital. While no one has gotten a lot richer recently in the markets our clients have done a super job of not getting a lot poorer. This is good and a goal we strive for and lose a lot of sleep over.

It has occurred to me that the experience that you have had and your underlying trust in our processes and experience that you might want to mention this to any friend of yours that might be in need of our services. I suspect that the lessons that many have learned in 2000 thru 2002 will be forgotten quickly when the next bubble is about to burst.

If you do know of anyone, please feel free to give them our name or let us know to contact them. If they are your friends then you might want them to benefit from what you have learned about us. Thank you.

Onto our next challenges.

In the next few months and stretching past the election the markets and the world will be playing with, toying with and absorbing the thought of and probably the reality of higher short term interest rates. This is due to of course the expanding economy both here and abroad and its demand to rent money. This of course poses a quandary.

We own a sizable amount (as a firm) of mortgage backed securities (FNMA's GNMA's and the Freddy Macs.) These securities are very safe- and are paid back when the underlying mortgages are paid off. Be on the lookout what for a new little book we have coming out on the subject.

These bonds are the highest yielding and safest thing we know of to keep your money intact and make it earn the highest rate of interest. However in the bargain they are going to flop around a lot in price on your statements. The return of the money is still

guaranteed, the interest rate won't change but I imagine the "market value" will. We are not planning on selling these bonds because:

- 1) The principal is safe- just it 's daily price is changing
- 2) The loss of interest if we shortened the maturity would be dramatic- we would probably go from 5.5% to 1%- that is a 4.5% loss of interest each year. If we imagine that interest rates will go up for a 4 year period then we would have given away 17% of interest on your money for sure to save you getting a statement that shows a lower value for those years.
- 3) We don't think that the longer term rates will climb that much- they might edge up a point or so, but not a big change there as it would hurt the real estate market too much.
- 4) The very economy that makes interest rates go up, should make our bonds come due as the mortgage that underlie the bonds will get paid off as real estate prices rise, incomes go up economic activity expands, etc. While this will not all happen at the same time, or a time when we wish it would it should eventually happen.
- 5) Should there be another "event" like September 11, these types of securities can rise quickly in value.

So, given their place in earning income, safe from bad events, and the likelihood that the very thing that might make them change in value on your statements is the same thing that will, given time, make them pay back at par I want to hold them. In fact when the principal comes back I want to maintain the positions although I hope at higher yields.

I think the stock market is going to do just fine- but not like the late 1990's. I hope that the lessons learned will remain fresh and good management will prove it value as it has so many times before.

Thanks for your time and trust, if you know of someone who needs a trustworthy advisor please think of us, and expect those bonds prices (but not your income) to fluctuate.

Sincerely,