BRIAN D. LOWDER, INC.

QUARTERLY NEWSLETTER

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We're Moving Our Office Location to Del Mar Heights!

Since inception, our firm has been located here at The Plaza at La Jolla Village. We are excited to announce that we will be moving our office seven miles north to Del Mar Heights effective June 1, 2004. The address of our new location is 12780 High Bluff Drive, Suite 100, San Diego, CA. 92130. Our new phone number will be (858) 794-6800. Our new fax number will be (858) 794-6906.

The move is necessary because of our need for additional office space and traffic concerns. We are excited to find a home that is relatively close to our present location and to better serve clients in all areas of San Diego County. We will send a formal announcement soon.

Financial Market Overview

After a 28% surge for all of 2003, the overall stock market climbed about 2%, large-company stocks rose about 1.5% and the Dow Jones Industrial Average posted a 1% loss during the first quarter of 2004. Small-company stocks led the way with a 6% gain and gold and international stocks also performed well during the first three months of the year. Real estate continued to post the best performance during the first quarter of 2004. January and February were positive months for stocks, but most of the two-month gains were offset by a particularly bad two-week stretch in mid-March as terrorism in Spain frightened investors away from the stock market. Momentarily, the stock averages retreated back to mid-December levels. By March 31st, most investors ended the quarter with flat to modest investment performance.

The negative returns posted in March should not be surprising. Since February 2003, we've experienced only one modest monthly decline in September 2003. Corrections along the way are inevitable. The overall economic environment is still neutral to positive. Interest and inflation rates remain low and the demand for housing, consumer goods, and durable goods are likely to push the overall growth rate up to a reasonable 4% to 5% level for 2004.

The most significant surprise came just two days after the quarter ended. The rise in employment was nearly triple the consensus forecasts of economists and provided a collective sigh of relief that the recovery is not too weak. Since this announcement was made, the stock market averages have bounced up by five percentage points from the March 24th low mark. Below are sample returns for various indexes ending March 31, 2004:

Previous 12 Months	**1st Qtr.**	
25%	- 0.92%	Dow Jones Industrial Average
27.8%	+1.29%	S&P 500 Index
32.2%	+2.22%	Wilshire 5000 (broad market)
29.2%	- 1.15%	Large Cap Growth
38.4%	- 1.34%	Large Cap Value
43.4%	+3.89%	Mid Cap Growth
53.9%	+5.06%	Mid Cap Value
56.3%	+3.96%	Small Cap Growth
60.7%	+6.13%	Small Cap Value
53.9%	+3.75%	International Stocks
51.2%	+11.2%	Real Estate

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Our Perspective: Curb Your Enthusiasm

Stock returns in 2003 were much higher than anyone had predicted. Just as we argued that 2003 was a year to stay invested, we are now advising clients that the market is not quite as vigorous as it appears. The bounce off the bottom is complete. We do not expect a repeat performance of above-average stock returns in 2004. We believe the returns generated by the recent rally, while entirely welcome, represent a snapback from a correction that was caused by a series of bad news and exogenous events and not a comeback for multi-year future returns of the same magnitude. In other words, the previous six years have provided abnormal high positive returns followed by chilling declines that offer little guidance to the future economic climate.

Although forecasting the economic climate is an extremely difficult and challenging task, we must make our best assessment, chart a course and be prepared to implement changes as new information becomes available.

Strategies and investment selections that worked well during a long period of declining interest rates are not likely to perform best as the pendulum swings the opposite way. During this transition, we still have many uncertainties that will impact the financial markets along the way. Acts of terrorism are a long-term uncertainty that can adversely impact our economy, financial markets and investor confidence. Instability in Iraq can adversely impact investor enthusiasm and mask the real underlying changes that are taking place. Over the short-term, we must sift through an abundance of misinformation during this presidential election year. But the basic underlying factors that are driving our economy are an increase in economic growth, an increase in job growth and the beginning of a long-anticipated tightening by the Federal Reserve. The likelihood of an imminent increase in interest rates is very high.

Alan Greenspan, chairman of the Federal Reserve, has already confirmed that interest rates will rise – the only question is when. The federal funds rate is currently 1% and Mr. Greenspan suggested that he believes a 3% to 4% range is the appropriate target in the future. On April 2nd, interest rates jumped significantly in response to the enormous jump in employment figures. Instantly, the value of the U.S. dollar increased and the price of gold dropped. Although the majority of Americans have enjoyed our low-interest rate environment, repeated home refinancings at lower rates and the extra spending power resulting from rising home prices and cheap home equity lines credit, change is underway. Therefore, investment strategies should incorporate the high probability of a reasonable and gradual increase in interest rates, modest economic growth and a return to normal investment returns on various asset classes.

We expect common stocks to revert to their long-term averages of 7% - 12% annual returns. We do not expect the 20% to 35% returns of the late 1990's and 2003. Likewise, we do not expect the 12% to 24% annual declines experienced during 2000 through 2002. Bond prices are likely to fall modestly in response to rising interest rates, therefore we continue to recommend short maturities. Real estate prices are likely to hold steady at best, with some downward price adjustments. Income generated from investment real estate properties should stay relatively firm and the modest decline in commercial leasing rates is likely to stay within a narrow range. International stocks should continue to perform as well or better than historical averages.

The above scenario represents our best judgment about where the economy and the financial markets are headed. We do not believe that the recent historical performance of various asset classes offers much insight for expected returns in the future. If you were overextended in growth stocks in the late 1990's, avoid making the same mistake again. If you were underweighted in stocks in 2003, you missed the rebound. We must take a more thoughtful and tactical approach in the future.

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Investment strategies will be more important than specific investment selections. Many investors have capital loss carryforwards from stock sales during 2001-2003. If you are considering selling investment real estate or your personal residence, take advantage of the tax laws by offsetting your real estate gains against stock loss carryforwards. Take advantage of intermittent stock market declines to make changes such as adding predictable and stable stocks to your portfolio. Be patient and avoid following the crowds when stock prices reach record levels. Stay away from speculative stocks with great predictions of what can happen and stay overweighted in predictable and value-oriented companies. Consistency, patience and minimizing mistakes will be the keys to investment success in the coming years.

We have been gradually making changes and transitions to your investment portfolios. In mid-2002 through 2003, we increased our allocation of funds into international stocks, maintained and in many cases overweighted our allocation to small-company and mid-size company stocks. In mid-March 2004, we sold our aggressive positions in technology stocks and the NASDAQ 100. In addition, we have reduced our small-company stock holdings by over 50%. In most cases, these holdings had increased in value by 50% to over 100% and most of these gains will be completely offset by capital loss carryovers from previous years. Our bond maturities have been and will remain short. The proceeds from the above sales have been or will be reinvested in stable and value-oriented large- and mid-size company stocks.

San Diego Firestorm – A Personal Perspective by Clint Winey

On October 20, 1991 many people watched the Oakland fires on television and wondered "What would I do if my home was suddenly surrounded by fire? What would I take as I run out the door? How would I react if my house burned? Would my insurance be adequate to FULLY cover my potential losses?" For many San Diegans, these questions were quickly forgotten. After all, Oakland is a long way from San Diego and "it will never happen to me". Twelve years later on October 26, 2003, the same questions became all too real for many San Diego residents as the county erupted in flames. Although many communities were never evacuated or were able to return to their homes by the next day, the fires devastated other communities. One of those communities hardest hit was Scripps Ranch where over 300 homes burned.

On Monday after the fires, I returned to Handrich Drive in Scripps Ranch where I live. Although my home had survived the fire with only minor damage, 33 of my neighbor's homes on the street burned to the ground, with a number of other homes severely damaged. The shock of actually seeing your neighborhood nearly destroyed could not compare to images on the television. Five months later, what lessons can we learn from these devastating fires?

What would I take as I run out the door? Many residents never thought the fire would actually reach their street. By the time the police and fire department ordered residents to leave, some had only minutes to grab a few possessions. After packing my three children in the car, I gathered our wedding album, photos of the kids and insurance papers. Everything else was left behind. Later I realized I had not even packed any clothes or medications. Many experts recommend keeping your insurance papers, a few days worth of prescription medications, a pad of blank checks and any inventory you have of your possessions together where they can be quickly retrieved as you evacuate.

How would I react if my house burned? Residents of the neighborhood experienced an emotional roller coaster ride after the fire. The first reaction was sorrow for those who had lost their home and sympathy mixed with guilt for those whose home survived. As neighbors began to clean up, a feeling of community emerged. Neighbors cried and laughed together and promised to rebuild. Strangers drove the streets offering food, supplies and support to the neighborhood.

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Once the residents of burned out homes finished sifting through the rubble and began bulldozing their home, the neighborhood resembled a ghost town for the people whose homes survived. Residents who lost their homes began dealing with insurance companies. For some, greed took over. Some thought that they would just collect their full policy limit, build for less, and pocket the difference. A few thought they had hit the Lotto. Quickly, reality set in as residents began to understand the details of their insurance policy limits and the actual cost of rebuilding.

Would my insurance be adequate to FULLY cover my potential losses? One of the most shocking lessons from the fire was that for many victims, the answer to this question appears to be NO. Many neighbors have been quoted prices between $110 -$165 per square foot to rebuild their structure while many insurance policy limits provided as little as $100 per square foot or less. At a recent community meeting, 12 residents insured by one carrier reported they had filed claims alleging that they were underinsured and asking for a higher payout than their policy limit. Eleven of these claims were denied.

Even "Guaranteed Replacement" policies can be deceiving. In many cases, the "Guarantee" is a set dollar amount above the stated policy limit. If your loss exceeds this increased limit, you still may not be covered. Another reality is that insurance covers only the depreciated value or in some cases, the replacement value of an item. "Sentimental value" is not covered by insurance. Check your coverage and review the policy limits. Remember that replacement cost is **not the same** as fair market value. If you think your policy limits are too low, ask your insurance agent to increase your limits. You may need to support your position by attaining several estimates on the cost of rebuilding your home.

And what about contents? Can you sit down and list **everything** in you home? Even if you can, how do you prove it or provide accurate cost basis for each item when any receipts you had were burned? Experts recommend creating an inventory by room:

- List each item, the cost and date of purchase.
- Included model numbers, brand, a general description and manuals
- If possible, include pictures or videos of each room in your home
- Consider keeping these documents in a bank safe deposit box
- Be sure to update your inventory every six months or so

Insurance is often referred to as a necessary evil. Most people think, "it will never happen to me". I never thought living in the middle of Scripps Ranch would ever subject my family to a devastating firestorm – but it happened to me!

Year 2003 Income Tax Returns

Please send us copies of your 2003 Federal and State income tax returns as soon as they are available. Our investment advice and long-term financial planning recommendations are most effective when we have current income tax information in our files. Our advice to you is greatly improved when we have current income tax bracket information and capital loss carryforward figures in our files. In addition, we may find opportunities to improve investment performance, implement financial planning strategies and minimize income taxes. Your tax preparer will only send us this personal information upon your request. Please contact your accountant or send us copies at your earliest convenience.

Best regards

Brian Lowder | Clinton Winey | Michael Kinnear | Remette Martinson | Pam Priest