BRIAN D. LOWDER, INC.

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What a year it was. Who would have guessed that most investors, financial advisors, economists, and the media would be so wrong about 2003? What percentage of Americans believed that the war in Iraq would not result in another devastating terrorist attack? Who would have predicted that stocks would rise to such heights while some mutual funds companies reached new lows in exercising their fiduciary duties?

Who would have known that both the stock market and the price of gold would jump over 20% over the past eight months while the value of the U.S. dollar dropped over 20%? Who would have predicted that corporate earnings would jump over 50% from last year's level (admittedly the corporate earnings rebound began from a very low base)? It seems the world is more complex and unpredictable as each year passes.

As the 2003 year comes to an end, we suggest this New Year's Resolution: Stop looking at television and reading newspapers to determine how you should invest and how you should feel on any given day.

Financial Market Overview

The magnitude and speed of the stock market recovery was a welcome surprise for everyone. After enduring three years of losses, the stock market soared more than 25% over the last eight months of the year while many financial experts were busy exploring alternative investments and hedge funds.

In retrospect, several factors contributed to the upbeat year and point toward continued growth. One, investor confidence has rebounded. The uncertainty over the outcome of war with Iraq has diminished. Two, the Federal Reserve Board has kept *short-term* interest rates low and will continue to do so as long as inflation remains subdued. Three, the U.S. Government is doing its part by providing a fiscal stimulus by lowering taxes and increasing (deficit) spending. Four, consumer spending was higher than expected in light of a three-year stock market decline and global conflict. Finally, corporate earnings have jumped dramatically and chief executives finally see growth, predict more growth and can't afford to wait and see to gauge the strength of the recovery while competitors get there first.

The bounce off the bottom is always dramatic and usually catches investors off guard. This year was no exception. Below are sample returns for various indexes through the Christmas holidays 2003:

Year-To-Date	**4th Qtr**.	
25%	13%	Dow Jones Industrial Average
26%	12%	S&P 500 Index
30%	11%	Wilshire 5000 (broad market)
27%	10%	Large Cap Growth
28%	13%	Large Cap Value
35%	12%	Mid Cap Growth
39%	15%	Mid Cap Value
45%	13%	Small Cap Growth
47%	16%	Small Cap Value
50%	12%	NASDAQ
45%	15%	Russell 2000 (small-company stocks)
33%	12%	International Stocks

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Economic Growth, Trends and a New Theme Is Born

Although the future direction of the financial markets is difficult to predict, we must chart a course and be prepared to make changes as new information becomes available. Presently, the 2004 consensus forecast by Wall Street's best known soothsayers is nearly the same as their predictions for 2003 – a 5% to 8% return on common stocks, interest rates will remain low and they expect a gradual increase in interest rates later in the year.

In 2004, we think the two main indicators to watch are *corporate earnings growth* and *interest rates*. We must have economic growth to keep the financial markets and the economy moving in the right direction. There are three primary participants responsible for economic growth and all of them look neutral to favorable to us.

First, the Federal Reserve Board impacts economic growth through its monetary policy. The Federal Reserve Board has done its job of keeping short-term interest rates low and providing an ample money supply. Alan Greenspan realizes that further interest rate reductions will not have much of a simulative effect on the economy. Don't expect lower interest rates to be the engine of future growth – the best we can hope for is stability with gradual interest rate increases beginning midyear.

Second, fiscal policy or the tax and spending policies of our Congress and Administration is very accommodative. Income taxes on wages, dividends, and capital gains have been reduced and deductions have been increased. Government spending has also increased due in large part to the costs of fighting the war in Iraq. While government spending in excess of revenue is not a desirable long-term trend, a short period of budget deficits to jump-start the economy is desirable.

Third, consumers have continued to maintain their spending due in large part to low interest rates and an enormous jump in home equity values. Our best guess is to expect stable to slightly higher consumer spending. Together, all three major components of economic growth are heading in the right direction.

In summary, we expect our economy to grow at a reasonable pace in 2004 and the investment return on common stocks will likely be equal to or near the long-term average rate of 10% or about one-half of 2003 stock returns. We also expect interest rates to rise in tandem with the growth of our economy beginning about midyear. Therefore, we continue to recommend short-term bonds.

Real estate prices (homes, commercial, apartments, and REIT's) rallied nicely in 2003 posting gains in the mid-twenties. Recently, apartments and commercial rents have been falling – expect prices to follow soon. Our best guess is that any dividend income will be completely offset by the percentage price decline in real estate values. Home prices will eventually disappoint – it's a matter of when, not if, prices decline. With a declining U.S. dollar and current deficit spending, the price of gold could rise a bit more, but you have to be a trader to make money here. Lastly, we think international stocks should perform equal to or better than U.S. stocks. Therefore, we plan to increase our holdings in this area.

We want to communicate our ideas and expectations about the economy and certain asset classes to foster a better understanding and support for our recommendations. The financial markets seem to be more unpredictable as the years pass, but a deliberate and flexible approach to managing your financial affairs is necessary to reach and maintain your financial independence.

On Wall Street, a new investment theme has been born: Income–paying common stocks. Corporations and Wall Street have different reasons

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for their enthusiasm, but we like this category too. Financial analysts favor increased dividends because the new tax law has lowered the income tax rate on "qualified" dividend income to 15%. Corporations are raising their dividend payouts modestly and some companies have begun paying dividends for the first time (Microsoft, Qualcomm etc.). It's important to note that the dividend yield or rate is *not significant*, but the idea is. Corporations want earnings to grow over time, but now they want to send a positive signal by paying back some of those earnings through dividends.

The idea is to promote the appearance of profitability, clean financial statements and paying a little extra in the form of dividends. This new theme will likely drive prices up modestly for a short period of time, but the value of a business is still based on the level of earnings regardless of whether a portion is paid in the form of a modest dividend. We find large-company stocks with solid businesses and stable profits attractive. Usually, these types of companies pay dividends and this income is ancillary to our decision to own the stock. In summary, we will continue to favor equities (stocks) particularly large-company value stocks and international companies and we expect to make a gradual shift away from small-company stocks.

Mutual Fund Investigations

It seems we just can't finish a calendar year without some kind of scandal or investigation. This year's spotlight focused on certain mutual fund companies that were allowing preferential treatment to a few large customers while breaking their fiduciary duties to their long-term shareholders. The mutual fund companies in question were basically allowing two things to happen.

One, large customers were allowed to trade in and out (rapid trading) of some mutual funds over very short-term holding periods of a few days or less. While rapid trading is not illegal, these mutual fund companies claimed in their prospectuses to dissuade or prohibit active trading in their funds, but then couldn't resist accommodating a few who wanted to do exactly that, violating their own rules.

Rapid trading can be harmful to long-term shareholders because it increases the cost of managing the mutual fund. When large sums of money are deposited into a mutual fund, the portfolio manager must invest the money. Transaction costs (trading fees or commissions) are incurred. Shortly thereafter, the same costs are incurred again when the customer pulls the money out a few days later. In effect, the income tax and cost implications of rapid trading are paid for by the remaining long-term shareholders.

Second, some fund companies were allowing certain big customers to make trades after the market closed. As most of you know, mutual fund shares are bought and sold throughout the day, but the price is determined at the end of the day. Buyers and sellers receive the same ending price or net asset value. But, allowing preferred customers to make trades after the ending prices for all stocks and mutual funds are determined is like allowing someone to place a bet at the horsetrack after the race is over. You make the bet (purchase) after knowing the final outcome.

Thus far, the investigations have resulted in many requests to produce records. Some mutual fund companies have discovered improper activities resulting in some firings and resignations. Charges have been filed against a few fund companies and fines are likely to follow.

The important consideration is what action(s) should we take in the event our clients own a mutual fund held by one of the alleged violators? It depends. Thus far, we have found two instances. One involved a new account that held a mutual fund we did not purchase or

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recommend. The fund family has admitted violations and therefore this fund was sold. The other fund family is the Excelsior Funds, which are managed by U.S. Trust Company, which in turn is a subsidiary of Charles Schwab & Co. The one fund we use in this family of funds is Excelsior Value and Restructuring. This fund is one of our best performing mutual fund selections. However, if the investigation reveals repeated violations by knowledgeable persons of authority rather than errors by a few employees, we will move our client funds elsewhere.

We are watching and monitoring this situation closely. Until we find that our clients have actually been harmed by a specific mutual fund or that a custodian (i.e. Charles Schwab) has direct involvement in illegal or unethical activities, we will not take any action. Though our clients' assets are not in jeopardy, we are firm about maintaining our business with mutual fund companies that demonstrate a high regard for fiduciary duties. Likewise, it is important that our clients understand Charles Schwab's role in our investment management process. We use Charles Schwab and others as a custodian for our clients' funds and we implement our stock, bond and mutual fund transactions through their brokerage operations. Ordinarily, we do not recommend any of the Schwab branded mutual funds. This is an important distinction to make and is quite different from the current mutual fund scandal.

Staying On Course

In our fast-changing world, we simply cannot fulfill all of our needs and make significant progress toward success and fulfillment by ourselves. We need guidance from somebody who is outside our personal boundaries, and more importantly, we need outside encouragement. Our job is to be that somebody on the outside keeping track of your personal goals and reminding you of these goals on a regular basis. Financial planning and investment management is not only our way to help you make sound financial decisions and navigate through our complicated economic system, but it is also about reaching success in life.

We have just finished traveling through a difficult three-year period. The recovery is underway and we now have the chance to breathe a little easier and continue down the path toward attaining lifetime goals. We are looking forward to 2004 and hope next year will bring more security, joy and blessings in your lives.

Best regards

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