BRIAN D. LOWDER, INC.

QUARTERLY NEWSLETTER

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FINANCIAL MARKET OVERVIEW

The final sixty days of 2004 transformed what appeared to be a disappointing year for stock investors into an acceptable year of moderate investment performance. The first quarter began with quite a charge, followed by a flat second quarter. The third quarter completely erased all of the gains for the year and it appeared as though the 2004 year was heading for a disappointing finish. Stocks rallied strongly during the final two months of 2004 with the broad U.S. stock market up over 9% and the Dow Jones Industrial Average gaining 7%. International stocks, small-company stocks, energy companies and real estate posted even higher returns. In spite of rising short-term interest rates, bond investments ended the year with modest gains. Below are sample returns of various asset classes during the fourth quarter and for the entire 2004 calendar year:

4th Quarter	**Calendar Year 2004**	**(includes dividends reinvested)**
+ 7.6%	**+ 5.3%**	**Dow Jones Industrial Average**
+ 9.2%	**+ 10.8%**	**Standard & Poor's 500 Index**
+ 14.7%	**+ 8.6%**	**NASDAQ**
+ 9.7%	**+ 7.2%**	**Large-company stock-Growth**
+ 8.9%	**+ 11.9%**	**Large-company stock-Value**
+13.2%	**+ 12.8%**	**Mid-Size Stocks – Growth**
+12.2%	**+ 19.1%**	**Mid-Size Stocks – Value**
+14.2%	**+ 10.6%**	**Small-company stock- Growth**
+12.7%	**+ 20.8%**	**Small-company stock- Value**
+14.2	**+ 18.0%**	**International (excludes U.S.)**
+16.8%	**+ 24.2%**	**Emerging Markets**
- 0.7%	**- 8.3%**	**Gold funds**
+ 0.3%	**+ 1.6%**	**Short-term U.S. Treasury** ***(includes appreciation)***
+ 1.0%	**+ 3.8%**	**Intermediate U.S. Treasury** ***(includes appreciation)***

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Consensus Forecast

While the financial markets posted moderate gains in 2004, the economic environment can best be described as plodding along in a slow and steady expansionary fashion. Most economists and investment managers expect a repeat of moderate to below-average investment returns in 2005. Corporate earnings are expected to grow at a slightly lower but acceptable rate of 13% to 15%. Gross domestic product or the collective growth in our economy should plod along at a slightly lower but acceptable 3% to 4% rate. Inflation and interest rates are expected to be up slightly, the U.S. dollar is likely to weaken further, and most analysts expect sluggish job growth and growing budget and trade deficits. In summary, there are many indicators to monitor closely and any significant change in the items mentioned above could change the consensus outlook. However, the likelihood or probability of a significant change is relatively small and thus the consensus forecast appears identical to the results of 2004.

Our Expectations

Overall, we expect the financial markets to continue advancing at a moderate rate. Specific investment opportunities are more attractive than others and the asset classes that performed relatively well in previous years are not likely to repeat in the years ahead. Last year, we expected interest rates to climb and the speculative rise in real estate prices to reverse course. Although the exact timing of anticipated changes is impossible

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to predict, short-term interest rates have risen over 1.25% and another 1% to 1.5% increase is expected in 2005. While mid-term and long-term interest rates were quite volatile and ended the year very near to the levels at the beginning of the year, we expect the 10-year Treasury rate and long-term mortgage rates to increase by at least 1% over the next twelve to eighteen months.

If interest rates increase at a moderate pace, the overall stock market should continue to advance at a measured or single-digit rate. However, the leadership within industry groups is likely to change. For example, financial companies (banks, lending institutions etc.) have experienced a wonderful lending environment for several years. Profit margins are well-above normal after several years of borrowing at 1% to 2% and lending at 3% to 5% or more. As interest rates rise, the volume of lending activity slows and the first signs of credit quality problems eventually surface. Whether it takes months or a year to surface, the cause and effect is in motion. Financial and lending institutions will easily survive, however, we don't see their stock prices keeping up with the overall market. Early signs of change are already visible. Last week, lending institutions reported a 26% decline in home mortgage applications during the 4th quarter 2004 and auto companies are selling fewer cars.

As interest rates rise, mid and long-term bonds should be avoided. Although the terrorist attacks and the three-year stock market decline from 2000-2002 delayed the inevitable increase in interest rates, the move is underway.

We have discussed our outlook for real estate values for nearly 12 months now. There should be little doubt that real estate activity, lending activity and prices have softened. Home prices hit a plateau in the fourth quarter 2004 after several years of skyrocketing growth. Home sales (transactions) in San Diego fell 6.6% in November and December's activity will likely be similar. In addition, the median price of a home in San Diego hit a peak in August 2004, the median price is down 2% from that level, and we expect the downward trend to pick up momentum in 2005. After a seven-year boom, it is hard to imagine a repeat performance with the economy growing slowly, sluggish new job growth and rising interest rates. Long-term homeowners should not be concerned by a decline in home prices however, speculators and recent buyers with variable rate financing won't find a quick or profitable resale opportunity anytime soon.

The weak U.S. dollar, volatile oil prices, and a sluggish economy are the biggest wild cards. The weak dollar (like budget deficits) is cause for concern if the trend stays in motion for several years. The weak dollar does have the benefit of making U.S. products less expensive overseas and international stocks are more attractive due to currencies gains. In addition, as U.S. interest rates rise, the U.S. dollar will begin to strengthen. Over the long-term, the United States must reverse the course of deficit spending to keep the dollar firm. We have increased our international stock exposure over the past 14 months and will likely continue to do so.

Large U.S. companies with high, stable returns and low debt also seem attractive in a sluggish economy and a slow job-growth environment. Dividends will become a more important source of investment return in a stable and somewhat sluggish environment. After several years of income tax cuts and mortgage refinancings providing extra cash to consumers, disposable income growth will flatten. All of these factors favor large and stable companies. Small and mid-size companies have been a better choice over the previous three years, however we believe that trend is likely to reverse itself. This is not a good time to be reaching for extra return by taking higher risk. Overall, the baby-boomers are still in their peak spending years and will continue to drive our economy forward until retirement approaches over the next 5 to 10 years.

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RETIREMENT & TAX PLANNING IN 2005

The New Year brings greater opportunity to save more and make larger contributions to qualified retirement plans. The maximum contribution limits below are effective January 1, 2005:

Name of Plan	Contribution	Age 50 & Older Contribution
401(k), 403(b), 457	$14,000	$18,000
Defined Contribution (Profit Sharing etc.)	$42,000	same
Simple IRA	$10,000	$12,000
Regular/Roth IRA's	$ 4,000	$ 4,500

In addition, Social Security benefit checks will increase by 2.7% in 2005.

The estate and gift tax exemptions will remain the same for 2005. In addition to the $11,000 *annual* gift tax exclusion, individuals can exempt up to $1.5 million from estate tax either through gifts during their lifetime, assets passing upon death or a combination of both. However, lifetime gifts are limited to $1 million.

Income tax brackets have widened in 2005 to allow for inflation. Below are the income tax brackets and rates for 2005:

Married: If taxable income is ….	***Tax Rate***
Not more than $ 14,600	10% of taxable income
Over $ 14,600 to $ 59,400	15%
Over $ 59,400 to $119,950	25%
Over $119,950 to $182,800	28%
Over $182,800 to $326,450	33%
Over $326,450	35%

Single: If taxable income is ….	***Tax Rate***
Not more than $ 7,300	10% of taxable income
Over $ 7,300 to $ 29,700	15%
Over $ 29,700 to $ 71,950	25%
Over $ 71,950 to $150,150	28%
Over $150,150 to $326,450	33%
Over $326,450	35%

Other miscellaneous items that apply to most taxpayers are: small firms can expense (write-off) more equipment – up to $105,000 in 2005; first-year deprecation for autos and light trucks/vans has been significantly reduced from over $10,000 to $2,960 and $3,260 respectively; personal exemptions for you and your dependents have increased to $3,200 each and; business mileage deduction has increased to 40 ½ cents per mile.

Strict rules are now in effect for donating vehicles, boats, and planes. Prior to 2005, individuals were claiming middle and high "blue book" values for their donated vehicles regardless of the actual values received by charities upon sale. The new rules state that no deduction is allowed for donated vehicles exceeding a $500 value without a "contemporaneous written acknowledgement" (value estimate) and if the charity sells the auto, boat, plane etc. without renovating or using it, the donor's tax deduction is limited to the actual selling price.

FAREWELL TO 2004

Last year was both successful and enjoyable. We appreciate the trust and confidence you have in us to assist you in making better financial decisions and preserving your wealth. We will continue to work hard to preserve that trust and confidence and appreciate the opportunity to serve as your advisor.

We encourage our clients to make an annual appointment with us to review their goals and circumstances. An appointment is especially important if there has been, or soon will be a change in your financial situation, investment objectives or family circumstances. This is also a good time to discuss whether an update is appropriate for trusts, wills, or health directives. If you have not been by to see us in the last six months, we look forward to showing you our new office at the corner of Del Mar Heights and High

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Bluff Drive. If you would like to schedule an appointment, please call Pam at 858-794-6800.

Holiday joy and happiness arrived early for Michael and Bernadette Kinnear. Their first child, Brooke Y. Kinnear arrived 12 days early on December 12 at 12 noon! Mom, Dad and Brooke are healthy, happy, tired and experiencing the joy and wonder of a new family together.

We wish all of you a happy, healthy and prosperous new year.

Contact Us

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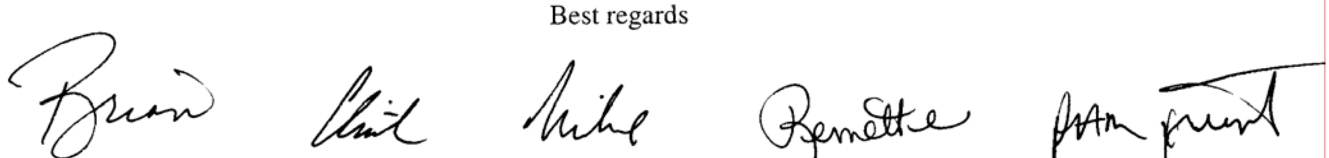
Brian D. Lowder, Inc., a California Corporation, is a fee-only wealth advisory firm specializing in comprehensive financial planning and investment management. Brian D. Lowder, Inc. is registered with the Securities and Exchange Commission and licensed by the State of California Department of Corporations as an Investment Advisor.

Best regards



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