Most in the finance industry would agree that the third quarter of 2004 was interesting on a number of fronts: the economy; investments; the markets; and politics. The Federal Reserve Open Market Committee raised the target Fed Funds rate to 1.75% and suggests that the economy is slowly emerging from the recession that began early in the decade. Data from the Bureau of Economic Analysis presented during the quarter showed that the economy, as measured by the GDP, is still growing but at a slower pace. Revised second quarter numbers show growth of 3.3% compared to first quarter growth of 4.5%. Most Americans measure the health of the national economy by job growth and the unemployment rate and at first glance, these statistics seem to point in the same direction. Numbers from the Department of Labor Bureau of Labor Statistics preliminarily show that there was modest growth in total non-farm jobs during July and August and that the unemployment rate fell from 5.6% to 5.4% during the quarter. Things seem to be looking up but in the midst of a presidential election, you can find an economist that can support most any position on the economy.

The markets in general broke their upward trend and closed down for the quarter. The S&P 500 was down 1.87% after a number of positive months. Looking at the S&P indexes we see that small capitalization stocks outperformed their large cap peers which in turn outperformed mid cap stocks. The S&P Small Cap 600 Index returned -1.37% and the S&P Mid Cap 400 Index returned -2.10%. Value stocks represented by the S&P 500/Barra Value Index rose 1.04% while growth stock represented by the S&P 500/Barra Growth Index fell 4.78%. Energy was the big winner in terms of industry returns, showing gains of 10.42% for the quarter and Utilities was the next best industry, returning 5.72%. Information Technology took another hit, losing 10.01%. One can't discuss the quarter and the energy sector's spectacular performance without noting the incredible increase in the price of oil. Repeatedly the benchmark for oil prices in the U.S., the futures contracts for Light Sweet Crude Oil, rose to all time highs. At the end of the quarter the price of oil was 17% higher than at the beginning.

Similar to the markets, our portfolios benefited from exposure to the Energy, Utilities and Basic Materials sectors. On the other hand, our technology exposure detracted from performance. So far, the markets have not rewarded our technology thesis and we have decided to take a more neutral position on technology as with all other sectors. To this end we are seeking to consciously weight our portfolio sector exposure similarly to the portfolio benchmark indexes and to continue choosing the best companies in each sector according to our investment model. In addition we have further classified the universe of stocks we work with into 25 sub-sectors to insure that our portfolios have exposure in every corner of the market. In an effort to ensure that portfolios are appropriately weighted you may notice some increased trading in your accounts.

We appreciate your continued trust in us. If you have any questions or concerns about your accounts or the assets you have under management with us, please don't hesitate to call.