

Whereas the quarter that ended 2004 went out with a bang, the quarter ending March 31, 2005 was much more subdued.

The S&P 500 lost 2.15% during the quarter. Growth stocks outperformed value stocks as the S&P/Barra Value lost 2.43% and the S&P/Barra Growth lost only 1.86%. The S&P 400 MidCap Index lost just 0.40% suggesting that smaller companies are still favored in the markets. Its no surprise that Energy was the dominant sector during the quarter, posting a return of 17.07%. Materials, Consumer Staples and Utilities also managed gains of 1.27% ,0.15%, and 4.44% respectively. The poorest performing sectors included Telecommunications Services, Technology and Financials which lost 8.61%, 7.47% and 6.96% respectively.

Economic reports released in the first quarter suggest that the domestic economy continues to advance. The final GDP growth rate for the fourth quarter remained at 3.8% while we saw modest increases in employment numbers and a small decrease in the unemployment rate. In addition, the Federal Reserve continued its measured pace of increasing short term interest rates at 0.25% per meeting through the two meetings this quarter.

In our last letter, we briefly touched upon the falling dollar. A lower dollar makes US goods more attractive overseas, increasing demand and, hopefully, US profits. Since the end of the year, the weakness in the dollar has reversed course and, as of the end of March, the US dollar was higher against the euro and numerous other currencies. As the status of the US trade deficit has not materially improved, we could see another significant reversal in the future.

Late in 2004, one of our research providers suggested that the equities markets would change the style that they favor from value to growth. In addition to the fact noted above that the S&P/ Barra Growth Index outperformed the value index, sales and earnings surprises for growth companies were more prevalent than value companies, as were analyst revisions for forward estimates of sales and earnings. We believe that this shift is well underway and that value oriented sectors like manufacturing and basic materials are no longer as attractive. Instead, the capital build-out recently experienced will support growth for the consumer and favor stocks in the Consumer Discretionary sector as well as selective Health Care stocks like HMO's and medical device companies.

Generally, our investment methodology has a strong growth component in addition to our valuation segment, and so we feel that these changes in the economy and financial markets should play to our strengths. We are aggressively screening for stocks which possess the traits we always favor: strong cash flows; business momentum and competitive advantages.

We thank you for allowing us to help achieve your financial goals. Your trust is important to us. If you have any questions about Hutchens, your accounts with us, or your financial situation, please don't hesitate to contact us.