

Sounds Like A Broken Record

In our first quarter newsletter, “**It’s A Stock Picker’s Market**”, the point was made that the economy, as measured by job creation and corporate profits, was improving. Yet the stock market shrugged these positives aside and was essentially flat for the period. Here we are at the end of the second quarter and we continue in this malaise. To repeat, the economy continues to grow as exemplified by consumer spending, housing and a much better jobs outlook.

Yet the market continues its less than enthusiastic pace. We get confounded at times and try to conjure up reasons why. The major worries center around Federal Reserve policy that has shifted from lowering rates to one of measured increases. The concern is how many, how much, and the implications of higher rates. There is also growing concern that the rise in housing prices are creating a bubble that might burst, resulting in problems for homeowners, builders and financial institutions. Finally, energy worries increase as oil hovers around \$40 a barrel and gasoline at the pump is over \$2.00.

While these are valid concerns, it appears to us that stocks are becoming more and more attractive. As earnings rise and corporations raise dividends and buy back shares, the price to earnings ratio becomes more and more attractive. Consensus estimates are for corporate earnings to rise about 20% for the second half of 2004. In view of the volatile investment environment and the risk of the unknown, we remain vigilant and will respond to changes quickly.

To conclude, our objectives remain intact as we look for opportunities that offer above average total returns. We welcome your questions, comments and greatly appreciate any referrals you may send our way.

1st Half Scoreboard

Dow:	-0.18%
Nasdaq:	+2.22%
S&P 500:	+2.60%

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