

The Beat Goes On!

As we enter the fourth quarter of the year, it has been a strange year. An example of this is the action of the Federal Reserve Board. Since June, the Fed has raised the discount rate three times. Yet both the 5 and 10 year treasury has dropped in yield. Since the first increase, the 10-year treasury yield has declined from 4.70% to 4.20%. The five-year is currently about 3.40%, down from 4% in June.

An old market seer, Edson Gould, had a theory that after three increases by the Fed, the market would get hammered. As this piece is being written, oil prices are at an all time high at over \$51.00 per barrel. Prices are up about 60% over the past year, and yet inflation remains tame. In the 1970's, a spike in oil resulted in a stock market collapse, interest rates catapulting to nearly 20% and the economy falling into a recession. This has clearly not been the case, thus far.

Corporate profits, while slowing from the 20 plus percent range, are quite acceptable, rising at double digit rates. The employment picture, while not robust, is improving. We believe the key has been sensible policies by the Federal Reserve and the effects of reduced taxes. Stocks are down slightly for the year as all averages have dropped except for the S&P 500, which is up by a fraction. Yet there are many sectors such as energy, financial, and selected industrials that have done well. This year's stock market has lacked the volatility that has been so prevalent in the past few years. At no point has the S&P 500 been up more than 4.4% or down more than 4.6%; this is a very narrow trading range.

It is clear to us that high quality companies with solid fundamentals, selling at reasonable price earnings rates, offer above average returns in most market environments. At Abbot we constantly search for those equities offering this potential.

The 3rd Quarter YTD Score Board:

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|---------------------|---------------|
| Dow: | -3.57% |
| S&P 500: | +0.24% |
| NASDAQ: | -5.32% |

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