

Steady Progress, Solid Returns

First, a brief review of the year just past. The first ten months showed little change as measured by the major indices. However, after the elections the market staged a nice rally, bringing the averages to near three-year highs. It is interesting to note that at year-end the Standard & Poor's 500 index was still about 21% below its all-time high, set in March 2000. In addition, the more speculative NASDAQ Composite index was still a whopping 57% below its all-time high, also set in March 2000. Said another way, if the NASDAQ index were to double this year, it will still be 14% below the all-time high.

Many different factors came into play during 2004. Most important, the economy expanded at an annual rate of just under 4%. Energy prices were volatile with the price of oil peaking at around \$56 a barrel, and then declining sharply by about 25%. The bond market confounded many who predicted sharply higher rates. The Fed raised the discount rate five times since June, yet over that time the ten-year treasury declined from about 4.75% to 4.25%. The most significant factor for the equity markets was continued strength in corporate profits. Over time this has been the major factor in driving stock prices.

We believe that the investment themes that worked in 2004 will continue to work in 2005. It appears that one outcome of the recent presidential election is that there will be no changes in the taxation of either dividends or capital gains. We will maintain our focus on companies that pay out dividends and have a history of raising them regularly. Our emphasis on high quality stocks that offer value through growth and income has resulted in solid results over the years, and it is our intention to continue to position portfolios to potentially profit from this theme. Also, it is important to note that portfolio diversification is a must in the current volatile market environment, and portfolios will be positioned across a broad range of industry groups.

While many predict 2005 could be a challenging year for the major averages, we feel that there are many opportunities for profit in stocks that meet our strict investment criteria. As always, we appreciate your referrals. If you have friends, family or colleagues that may be interested in our services, we would appreciate the opportunity to talk with them about how we can assist them in meeting their financial goals.

In closing here is one final stock market tidbit; according to the Stock Trader's Almanac the fifth year of a decade has been a winner for twelve consecutive decades. Let's hope!

Happy and Prosperous New Year to all.

2004 Final Scoreboard

Dow Jones:	+3.15%
S&P 500:	+8.99%
Nasdaq:	+8.59%

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