



ASSET MANAGEMENT COMPANY

FIRST QUARTER 2005

According to the Chinese calendar, 2005 is the year of the Rooster. So far this year the crowing of the Rooster has awoken investors to the dawning of higher energy prices, growing budget and trade deficits, and rising interest rates – many developments that began last year, but which had slipped into the shadows in the closing weeks of 2004. As of April 30, the S&P was down 4.1% and the Dow was down 5.5% for the year.

Oil prices have moved back to front page news and remain an important wildcard in the economies of developed countries. Interestingly, high energy prices are now being viewed as disinflationary by the investment community as opposed to 30 years ago when rising oil prices quickly translated into higher bond yields. This new view, to a large degree, is causing the “conundrum” that Chairman Greenspan refers to when discussing the stubbornly low level of interest rates in longer maturities despite seven rate increases since last June.

Some astute investors further attribute the low level of longer-term interest rates to a dearth of attractive investment opportunities, or at least to a desire by institutional investors to keep risk-taking at a minimum. While this may or may not be accurate, it *always* makes sense to be selective, yet at the same time there are *always* opportunities. **It is our job to find them.**

Presently, opportunities are plentiful as a result of the economic liberalization of China and India. This story has been gaining some momentum in the financial press lately and has been recognized by many investors. While this is a long-term trend (*not* the short-term phenomenon many are touting), it is also important to note that China and India still have many systemic problems — they are not experienced capitalists and their banking systems continue to be rickety. As such, we expect other investors to have a love/hate view of these countries.

It is for this reason that we will play it a different way. To be certain, *direct* investment in China and India can be profitable, but it is best left to specialists because of the risks of strange accounting, different customs, lesser liquidity, repatriation risk, etc. Instead, while we think globally, we will invest locally. That means investing in US or multinational companies that produce what China and India need: basic materials for growth and the finished goods to meet the increasing demand of its 2.4 billion population.

This does *not* mean that China and India are the only viable investment themes in the future. There are many others, but we want to tread carefully because a) we continue to see high prices relative to the inherent value in many investments; b) we know that the Fed will keep raising short-term rates until the economy slows measurably and inflation pressures subside; and c) US citizens



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continue to consume far more than they produce.

Given this backdrop, we strongly believe our value-oriented investment philosophy and our steadfast focus on risk management serves our clients well. Our goal is to invest with a margin of safety, identifying assets that we believe are sufficiently undervalued to generate real long-term returns with relatively low risk. We do not take uncalculated risks in order to maximize returns because we strongly believe that if you lose less in tough times, the laws of compounding will take care of your long-term appreciation.

To this end, we are focused on staying the course and adhering to our core strategy. Our philosophy for individual stocks is to concentrate cash flow, growth potential and rates of returns. Our philosophy for fixed income is to manage duration and credit quality to reduce risk and generate steady returns.

Obermeyer continues to grow. As we approach \$400 million under management, our clients remain our first priority. To help us continue to deliver good investment decisions and a high level of service, we brought in two new people that we are very excited to have on board. Sallie Kaplan recently joined us from JP Morgan Private Client to help us administer client accounts, and Ali Phillips joined us from Goldman Sachs and will serve on our Investment

Committee. Both Sallie and Ali have well over 10 years of experience in the financial industry and are great additions to the team. We have enclosed a brief summary of Obermeyer with this letter that includes more information about our investment approach and biographies of our professional team. Please also visit our website (www.obermeyerasset.com) for more details on our firm.

The prospects for our investments continue to be promising. We have more exposure to gold and natural resources than normal, but the upside potential for both is tremendous. If you are considering a change in advisory and/or investment strategy, or if you have questions about your current situation, please contact us to set up a *no obligation* review.