

**TODAY'S MARKET**

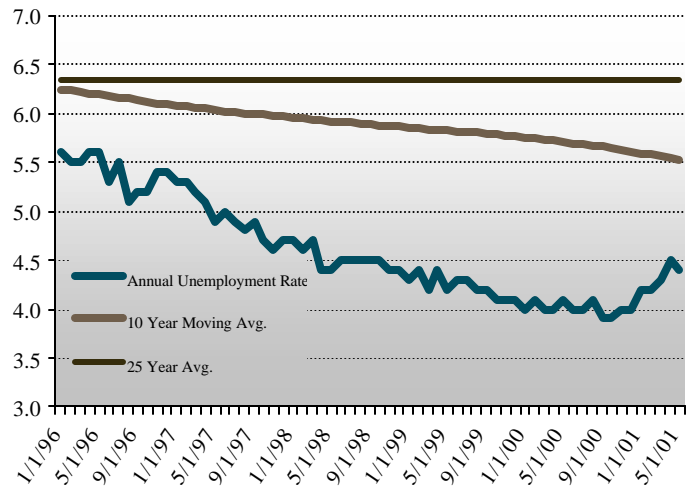
In this last quarter, we finally saw a recovery in stock prices. For this, we owe a special round of applause to Chairman Greenspan and his monetary policy for battling the evil specter of recession. For the first half of the year, the S&P 500 is down 6.7%, the Dow down 2.6% and the NASDAQ down 12.6%. However, from the lows of the year, the S&P 500 is up 11.3%, the Dow is up 10.7% and the NASDAQ is up 32.0%. We believe that this is a signal that investor optimism has returned somewhat — whether this optimism is here to stay is another question.

As we move through this slowdown, we have seen company after company warn that its earnings will fall short of expectations. It is clear that the brakes on capital spending have had negative implications for both productivity and investors. Since capital spending and productivity growth are somewhat tied together, further declines in the near term could, in our opinion, continue to pressure earnings. This could create more declines in stock prices. However, the good news is that much of the negativism is already priced into stocks, and at some point the economy will turn around. The big question is “When?”

We have several opposing forces at work in the economy. There is still too much capacity in the economy as a result of over-investment in labor, equipment and facilities. Because of this, many companies are left with high fixed

costs and are facing a decline in demand. This combination has already had a severe negative effect on earnings. In response to the earnings decline, as the chart below shows, management teams have laid off thousands of employees to improve profitability. At the same time, the lower payrolls contribute to even lower demand, so it becomes a cycle that is hard to break.

Unemployment Rate Climbing but is Still Below Average



Source: www.freelunch.com

On the other hand, as the chart on the next page shows, the Federal Reserve is aggressively trying to stimulate the economy by lowering key rates while the Bush administration is lowering taxes. The effect should be to make borrowing cheaper for companies and to

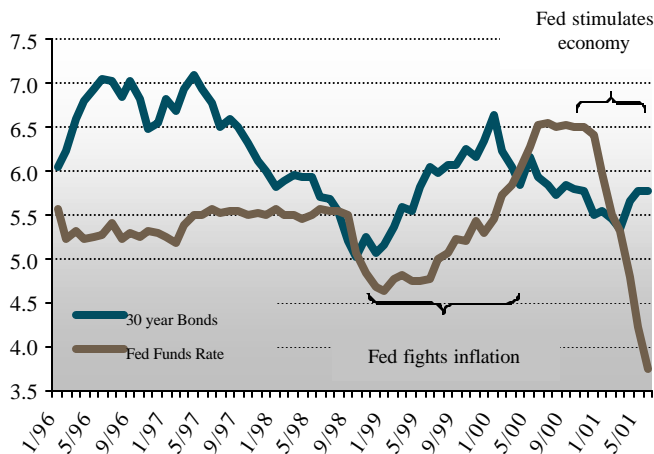
increase demand. This will make projects and investments more profitable for businesses and spur capital spending. It may take some time for these cuts to work their magic in the economy, but we want to be invested when they do. Like trying to start a car with a flooded engine, it is better to wait and do nothing until the engine is ready to start. As investors, we believe the best course is to remain patient and you will be rewarded!

perform well going forward. However, good opportunities are fewer in number, therefore prudent investment selection is much more important than it was when the entire market was rising. We believe that investors are now paying closer attention to valuations and management performance, rather than what is the latest and greatest technology.

Obermeyer Asset Management Company continues to grow. Last month we hired Elizabeth McPhaul, a recent Cornell graduate, to help with our operations and client communications. In addition, we will develop the second phase of our web site, where we hope to provide some tools and reports to assist our clients in tax filing and performance evaluation.

We invite you to stop by our office or to call and make an appointment. We can show you how we would develop and implement a cohesive investment strategy for you that will make you better off, allow you to make better decisions, and possibly save you money. We perform these evaluations on a *no obligation* basis and keep all information completely confidential. Please contact us at (970) 925-8747, or (800) 337-0933 to set up an appointment for your portfolio review.

Federal Reserve Aggressively Lowering Short Term Interest Rates



Source: [www.freelunch.com](http://www.freelunch.com)

We perceive opportunities in this challenging environment and believe that certain stocks will