



ASSET MANAGEMENT COMPANY

FOURTH QUARTER 2003

The fourth quarter capped off what has been an astonishing year for stocks. As is typical for big rallies, this one began in an environment of angst and pessimism, most notably over the prospect of war and the languishing economy. Investor psychology later shifted to cautious optimism as stocks rose and as the military campaign succeeded. For the year the S&P rose 29% and the Dow was up 25%.

The size of this rally caught us by surprise. Since the economy faces continuing challenges and stock valuations remain high, we have maintained a relatively defensive posture for most of the year. Despite this, our equity returns exceeded the market's return, mostly on account of our investments in issuers of commodities producers, foreign companies and small cap stocks.

Although we are pleased with this result, we are the first to admit that it exceeds the norm, therefore, 2003 should not be thought of as typical. One concern that we have is that the market has favored speculative issues, which typically doesn't signal a sustained future bull markets. Another potential flag is that commodity prices continued to surge concurrent with stocks, which could portend inflation.

The Fed continues to keep the spigot of credit wide open with a 1% Fed Funds rate. We had the added benefit of tax cuts to further fuel the economy. While the stimulus has led to a

resurgence in business activity domestically, the value of the dollar relative to other major currencies has dropped dramatically. The upside to this is that the dollar slide may in itself thwart the growth in the trade deficit (by making foreign goods more expensive to U.S. consumers and U.S. goods cheaper to foreign consumers). It does go a long way to explain the rally in gold prices though.

Another positive feature of the investment environment is the crackdown on fiduciary breaches at some prominent mutual funds, as well as on the New York Stock Exchange. The press alone on this issue should help make the investment environment more trustworthy through increased oversight. For the market to function effectively and facilitate investment, its fiduciaries must operate under a strict ethical framework, which includes full disclosure of any issues that are potentially harmful to investors. The accounting profession, in our opinion, also has some work to do, but it is making incremental improvements.

The outlook going forward is for normal returns in stocks. While the money flowing into stocks may continue, we choose to manage risk through analysis because predicting asset flows is too difficult. Our goal is to pay a fair price for new investments and to reinvest in more attractive issues when the upside potential diminishes.

With fixed income investments our strategy remains mostly unchanged. We would rather take credit risk than interest rate risk at present and we work hard to determine and negotiate a fair value for bond investments. While we can't forecast interest rate movements, we see some pressure mounting on longer term bonds, so we prefer to invest in short to medium duration instruments where we get most of the yield pickup without as much risk.

Obermeyer's goal is not to be all things to all people. We realize that there are many ways to make money and that we don't have all the answers. Yet, we strive to bring a measure of prudence to the investment process and thoroughness of analysis to assess risks and return potential. Our goal is to deliver exceptional returns and to ensure that our clients' investments are a good match for their personal objectives.

To that end, one of our most valuable resources for investment ideas are our clients themselves. They bring industry expertise and experience as well as a valuable network of contacts and information sources. They have helped us to identify emerging themes, as well as to assess the quality of management teams for portfolio companies.

If you, or anyone you know, feel you may benefit from a new investment manager, our web site, www.obermeyerasset.com, offers more information. Otherwise, feel free to call our office for a *no obligation* portfolio review.