

January 8, 2004

To our Clients and Friends,

With US equities up over 20% last year, corporate earnings on the rise, and the financial press once again fixated on internet IPOs, we were tempted to borrow Yogi Berra's well-known phrase about "*déjà vu* all over again" as the theme of this quarter's letter. However, there are important differences between today's market and that of the bubble-era 1990s, leading us to ponder a quite different Yogi-ism: "The future ain't what it used to be."

Significantly, the average US corporation finally has its act together. Balance sheets are the healthiest they have been in years, with cash as a percent of debt at the highest level in at least a decade, according to a recent Morgan Stanley report. And unlike the spend-crazy years that preceded the end of the last century, capital spending has been reduced to a level not seen since the recession of the early 1990s, when George Bush's father was in office.

We are also pleased to see dividends on the rise as well. Being of a somewhat greedy nature, (ours is a business rooted in capitalism, after all,) we prefer to share directly in corporate wealth, and appreciate more generous distributions from the corporate coffers. In contrast, the stock buybacks that were popular in the late '90s are less appealing to us, and of dubious benefit to shareholders.

All things considered, we find the US economy in healthier condition than it was five years ago. And if the present isn't quite as exuberant as it was, we are optimistic that the near future will not be as dire as it was, either.

But don't think we have donned rose-tinted glasses just yet. We do want to express several points of concern, regarding the rampant trading of speculative "pink sheet" stocks, rising margin debt levels, and the value being ascribed to some of the higher-flying stocks on the NASDAQ (and perhaps the overall level of the NASDAQ itself.) Additionally, we reiterate our longer-term worries about inflation and, ultimately, the deleterious effect of higher interest rates on stock and bond prices. Still, given today's alternative of below-average bond yields, we find stocks relatively attractive even if they are not "cheap." As stated last quarter, we believe that stocks are more-or-less fully valued, but should generate acceptable returns as we move into the new year.

Speaking of things not being what they used to be, we are happy to announce that our firm has grown! David Malmgren has joined Fulton Breakefield Broenniman as Vice President and Portfolio Manager, and will be handling both existing and new client relationships. David was previously with Rydex Funds, the Rockville, Maryland-based mutual fund company. David received his MBA from George Washington University in 1999, and has earned the Chartered Financial Analyst (CFA) credential as well. Please join us in welcoming him to the firm.

With sincere wishes for a prosperous new year,

Mitch Schlesinger
Chief Investment Officer