

April 2, 2004

Dear Clients and Friends,

"I can't understand why men make all this fuss about Everest – it's only a mountain."

- Junko Tabei, first woman to climb Mount Everest

Stocks hit the proverbial “wall of worry” in the first quarter, turning in flat to slightly negative overall performance despite the up-and-down extremes of intra-quarter volatility. Perhaps Wall Street, known to live by its clichés, made Everest out of a few molehills. For instance, as the yield on US Treasuries fell yet again, a number of very vocal stock investors interpreted bonds’ behavior as a harbinger of imminent recession. When matched with what appeared to be a still-slumbering jobs market and a lack of reported inflation, the economic indicators were too much for some to bear, so bears they became. The unconscionable terrorist bombing in Madrid and growing uncertainty about this year’s presidential election added to the bears’ fervor, leading to the **first correction in a bull market since 1998**.

Fortunately, bulls did come out of the woodwork as the quarter drew to a close, just in time for data showing US payrolls grew by 308,000 in March – the **fastest pace of jobs creation in four years**. Moreover, the latest reports show the economy added more jobs in January and February than had been previously estimated.

So what was all the fuss about? Why all the volatility, the wild swings in stock indexes? Though the employment data is encouraging, worry remains. Surging commodity prices suggest that **inflation is already on the upswing**, despite the official statistics suggesting price stability. The election season is just getting underway, and will surely be one of great contention. With the dollar having stabilized, currency-related support for bond prices may diminish, leading to higher rates. These factors can have deleterious effects on asset prices, and rightfully give us cause for concern. As famous Everest hiker Reinhold Messner observed, *“Mountains are not fair or unfair, they are just dangerous.”*

But where danger lurks, so does opportunity. **Corporate earnings forecasts continue to rise**, giving us increasing confidence in our stock holdings. Many of our companies have been buying back their own shares and increasing dividend payouts. And **bond yields, while poised for a potential rise, remain low by historical measures**. Let these key underlying factors be our *crampons*, harness and rope as we reach for surer holds above.

Speaking of mountains: We have crested the rather large hill of corporate **proxies** received so far this year, and thought you might be interested in some of our votes. Where possible, we have voted for the separation of the roles of Chairman and CEO and expensing the cost of stock options. We have voted against proposals to compensate directors with options and proposals that increase compensation packages beyond a reasonable level. We have also voted in favor of proposals that are specific to certain companies, from a review of a pharmaceutical firm’s strategies in the face of global pandemics, to a request that a telecommunications company adopt a non-discrimination policy in its human resources department, among other shareholder-initiated proposals.

We try to consistently support initiatives we believe would be of benefit to shareholders without impairing a company’s ability to compete. Effective with the current quarter, we enacted a modest change in our proxy policy: We will continue with an intensive proxy review for our thirty most widely held positions. For smaller holdings, we will either vote with management, as we have in years past, or in the case of disagreement with a company’s affairs, simply sell our holdings. As always, a copy of our revised proxy policy is available upon request.

Sincerely yours,

Mitch Schlesinger
Chief Investment Officer