

October, 2004

Dear Clients and Friends,

The stock market's behavior in the third quarter was notable mainly for its similarity to that of the second quarter, in which prices gyrated, spun, tumbled head over heels and more-or-less finished where they started. **Volatility remained high**, but uncertainty regarding next month's presidential election, the war in Iraq and the soaring price of oil was offset by continued economic growth and **positive corporate earnings reports**. The tug-of-war between good news and bad news kept stocks from trending too far in any one direction.

Perhaps the quarter's biggest surprise was the bond market's reaction to the Federal Reserve's rate hike trifecta: In a classic display of nose-thumbing, bond investors took longer-term yields *lower* than they were at the beginning of the summer, even as the **Fed raised the level of short-term rates**. The bond market seems to be suggesting that the Fed might raise short rates too far, just as they did a decade ago, slamming the brakes on the economy's expansion.

While this is a possibility, we point out that corporations are paying down debt and their balance sheets are flush with cash.

As such, we believe it is more likely that capital spending and merger-related activity will begin to accelerate over the next six to twelve months. Add a dash of earnings growth to the mix, and the market should find its footing shortly after the election.

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*When a fellow says says it hain't the money but the principle o' the thing, it's th' money.*

- Kin Hubbard, *Hoss Sense and Nonsense*, 1926

We offer up three cheers for our primary custodian, **Charles Schwab & Co.**, for helping us make a little more money for our clients. Schwab has made arrangements for our clients to participate in a new money market "sweep" fund, available only through advisors. This fund, into which all excess cash from an account is "swept" on a daily basis, offers a higher yield than the previous fund. Given how low money market rates had dropped, we are pleased that Schwab has taken steps to reduce its costs and pass along the savings to our clients through the higher yield. And with the Fed raising short-term interest rates, the timing couldn't be much better. Clients may notice a series of trade confirmations relating to the fund switch, and hopefully this will answer any questions regarding the move.

Speaking of moves: Last quarter we mentioned our new WealthTrust·FBB offices in Easton, Maryland and McLean, Virginia. The lease on our "headquarters" location in Bethesda expires at the end of this year, and we have set up new digs for that office as well. Our **new address**, effective mid-December, will be:

4520 East-West Highway  
Suite 450  
Bethesda, Maryland 20814

The new location is around the corner from the current, though closer to Wisconsin Avenue and the Metro station. It has parking aplenty, and there is a Starbucks in the building for those who crave a mid-morning or afternoon jolt of java. We look forward to seeing you there.

Sincerely yours,

Mitch Schlesinger Managing Director