

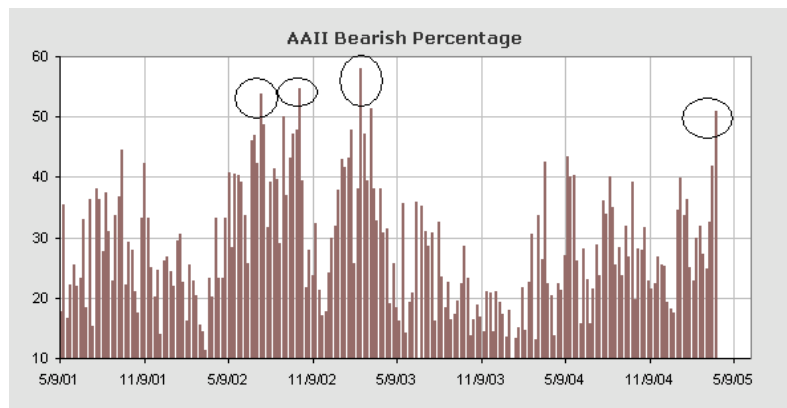
April, 2005

Dear Clients and Friends,

There are only two forces that unite men – fear and interest.
– Napoleon Bonaparte

There was much to fear in the financial markets last quarter. Among other headline-grabbing events, one of the largest home mortgage financiers came under increased regulatory scrutiny, one of the largest insurance firms was accused of improper accounting, the largest domestic auto maker saw its credit rating slashed almost to “junk,” long-term interest rates finally started to rise, and, of course, the price of oil set a record high. Market performance reflected ongoing investor anxiety, with both stocks and bonds ending the quarter in the red.

Are investors too pessimistic now? History suggests that may be the case. The following chart, produced by technical analyst Helene Meisler for her column at RealMoney.com, shows that the percentage of bears in the American Association of Individual Investors (AAII) has exceeded 50% only a handful of times in the past four years, and stood at 51% in the latest poll. Each time this has happened in the past – July 2002, October 2002, and February 2003, the stock market rallied decisively in the subsequent weeks, making this an intriguing contrary indicator. History may not repeat, but as Mark Twain once noted, it often rhymes.



Source: RealMoney.com, April 4th 2005

We also find it interesting that businesses are generating and retaining high levels of cash, underscoring what appear to be reasonable equity prices and higher quality earnings. Many companies are increasing their dividends or buying back stock – both of which are corporate activities that we wholeheartedly support. And we are especially encouraged by the rising number of high-profile privatizations: firms who believe their shares are undervalued are taking themselves private, or financial buyers (investment banks, buyout firms, et al.) are gobbling them up. Though fear abounds, we are heartened that other “interests” have begun to emerge.

Sincerely yours,

Mitch Schlesinger
Managing Director