

June 29, 2004

Dear clients,

Greetings again!! Everyone has certainly heard the age old expression that the only two things certain in life are death and taxes. In this quarter's writing to you I add a third "certainty," the risk/reward tradeoff. With my not so heart-felt apology to some of the fast talking "financial consultants" and fearless market prognosticators who tout otherwise, this is perhaps the greatest truism in all of investments. In this quarter's writing, I want to take just a bit of your time to explain why this very important principle is so.

We live in an information age that is truly 24/7/365. There is not a shred of meaningful economic data or news that, once known, is not instantaneously factored into the price of our securities and financial markets. Please don't confuse the speed of this processing with its accuracy. Many times there are situations where markets react in a knee-jerk way to a bit of news only to completely reverse course intra-day or even intra-hour for that matter. But the fact that sometimes financial markets temporarily "misprice" securities should not be confused with the idea that this presents abundant opportunities to achieve market beating returns with minimal risk. Albeit, it might be possible for the very largest, and most sophisticated, globally networked, money management firms to make legal, risk-free, profits via arbitrage for literally a few seconds, but these are not the "big reward, little risk" opportunities to which I am referring. I am talking about the ubiquitous stock, bond, mutual fund, real estate, collectible coin, etc. "opportunities" that you read, see, or hear about from the mass media, friend of a friend's friend, commercially produced investment newsletter, popular financial magazine, or any of the myriad possibilities in between. These are the tantalizing opportunities, that if not ignored, may rapidly contribute and lead to the tragic parting of a fool from his money.

One of my primary objectives in helping you manage your money is to responsibly make sure you are maximizing return for the given level of risk you are assuming. I don't have any clever and ingenious ways of transferring all of your portfolio's risk to others while at the same time preserving your returns. Instead, I try to create efficient and appropriate investment portfolios. In bullet form, here are the four most important things I always keep in mind:

1. How much risk is right for you? A portfolio that may be perfectly appropriate for a twenty-five year old probably isn't right for a sixty-five year old. Also, most people think their risk tolerance level is higher than it actually is. This can lead to major problems when financial markets don't "cooperate."
2. Where do we find the equilibrium between maximizing income today and making sure your nest egg will still be there for you down the road? This is a delicate balancing act but with clear-minded thinking and reasonable expectations, peace of mind and restful nights can be had during retirement.
3. How can costs be controlled best so that more of your dollars stay in your own portfolios? Competition is the one word answer to this question. For any type of mutual fund, there are dozens and dozens of acceptable performers from which to choose. We select one of the lower cost options.
4. I try to keep portfolios as lean and simple as possible. Great diversification can be achieved with just a handful or two of properly selected funds. By keeping the number of funds you own manageable, I am better able to stay current with the issues of each, so that if circumstances warrant, adjustments can be made in a timely manner.

That's all for this quarter but rest assured I will expound on some of these ideas in future letters. Please enjoy the summer, stay safe, and be well all!!

*AJ*