January 17, 2005

Dear Client,

Enclosed are 2004 returns for your account(s). Where applicable three and five- year returns are included as well.

The most dominate theme over the last year and indeed the last few years has been the extraordinary low level of interest rates. Although the recent trend has been up, interest rates reached levels in 2004 last seen in the early 1960's. This low level of rates has had not only an obvious simulative effect on the economy but has also played an important role in inflating the value of financial assets. While much recent attention has been devoted to real estate prices and a possible real estate "bubble"- particularly on either coast- low rates also encourage investors to abandon money funds and other short-term fixed income vehicles to seek out higher returns elsewhere. Much of this money has found its way into the stock market and bond market. In the bond market, this almost desperate desire for return has pushed up prices and reduced yields in the high yield or "junk" market to levels where the "spread" over treasuries is lower than at any other time in history. Investors take note: the junk bond market is an accident waiting to happen. Turning to the stock market, back-to-back positive returns in 2003 and 2004 (+23.5% in 2003 & +8.99% in 2004) have pushed up prices to a level where the market as a whole looks to be "fully" valued. On this subject, a little digression seems in order.

Although stock market returns as measured by the S&P 500 over the past five years have been virtually non-existent, our portfolios have generated very satisfactory returns. To a large measure these excess return have been available due to a very large pricing anomaly that presented itself in the late 1990's and early in 2000. During that period, "value" managers who weren't seduced by the "siren song" of the internet/high tech or so called "new economy" stocks, found plenty of attractive values within the universe of "old economy" stocks. Over the past five years, through a combination of a rout of high tech and very good appreciation in "old economy", that pricing anomaly has all but disappeared. Thus, although the S&P and other market averages have seeming gone nowhere, we and other "value" managers fared very well. Which brings us back to the present investment environment.

One might very get the impression after reading the first and second paragraphs of this letter that we are market analysts. We are not. We are business analysts; reasonably good at evaluating the appropriate price to pay for certain securities while paying scant attention to the day to day machinations of the stock, bond, or currency markets. From time to time, either through an excess of euphoria or pessimism, prices of some securities are driven to a level whereby a disciplined, knowledgeable investor can take advantage of these opportunities, and with a high degree of probability, achieve a successful outcome. Sometimes there are more opportunities than at other times. At the moment- at least for us- there is a paucity of opportunities. That will change. But for the moment, we would rather have a larger than usual cash position than be fully invested. We are very cognizant of the first two rules of investing: 1) Don't lose money. 2) Never forget the first rule.

Please feel free to call with any questions or comments. As always, thank you for your trust and patience.

Very truly yours,

Eckart A. Weeck