

January 2004

HAPPY OLD YEAR! (2003)

No, that is not a typographical error; it is simply a way to luxuriate a little longer in last year's up stock market. After suffering through three back-to-back years of losses, the S&P 500 index finally experienced a positive return in 2003, and that is certainly worth celebrating. Unfortunately, the impressive one-year performance has only served to recoup what was lost in the previous year. *Indeed, the S&P 500 still needs to rally about 40% higher and the NASDAQ index an incredible 150% higher just to reach their old highs set in the year 2000.* That is pretty grim news for many folks who are hoping to one day "get even" after suffering punishing losses in one of the longest and deepest bear markets since 1939. **This is not the case for conservative investors like Pring Turner clients, because after adjusting for any withdrawals, our investor portfolios continue to set all time highs. We are pleased to report these gratifying results to our many loyal, long-term clients.**

While the positive stock market returns are welcome news to all investors, it is important to note the bull market so far has been vastly uneven, having particularly rewarded the more speculative stocks. As the chart shows, the first phase up is displaying an unusually large discrepancy in returns between conservative, dividend paying stocks and aggressive, non-dividend paying ones.

PRICE PERFORMANCE 2003	
Highest Dividend Yielding Stocks +14.7%	Non-Dividend Stocks +49.3%
<small>Source: Merrill Lynch Quantitative Strategy S&P 500 Quintiles</small>	

LOOK FOR A REVERSAL IN 2004

For sure, many of the technology stocks that suffered declines of 75% or more during the bear market have provided impressive rebounds to date. But it seems to us that some investors once again are recklessly jumping back on board the runaway train that may have flattened them just three years ago. A new, somewhat worrisome speculative fever is spreading that perhaps is in an imprudent effort by some to quickly make back past losses. Long-term observers of previous speculative manias and crashes know that the former stock market darlings can spend *decades* trading significantly below their "bubble" market highs. *Some people never seem to fully learn the invaluable lesson of the hare and the tortoise.*

2004 INVESTMENT OUTLOOK

We see a very important shift occurring in 2004 that will likely reverse the most recent pattern and place the advantage squarely with quality companies known for consistency in earnings and dividend payments. While we continue to expect the

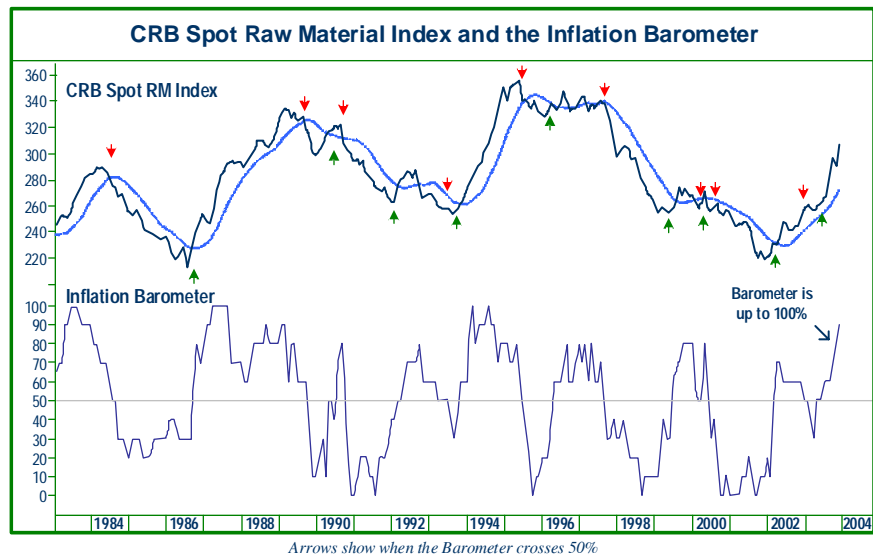
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bull market to extend its gains, portfolio tactics will be adjusted to take advantage of the normal cyclical changes currently taking place. For instance, profit growth has already peaked for this cycle. Although corporate profits will continue to grow, they will do so at a much slower pace than 2003. A decelerating profit cycle means companies with stable earnings, higher dividends and quality balance sheets will likely outperform the more speculative lower-quality issues. Our conservative investor portfolios own core holdings in quality companies and should benefit in this environment.

As 2004 began, another very important shift has taken place as our proprietary Inflation Barometer has just moved to a rare reading of 100%, indicating that all of the components within the barometer are forecasting higher commodity prices ahead.

To add fuel to the potential inflation fire, Chairman Alan Greenspan has publicly stated the Federal Reserve intends to keep an “easy money” policy in place well into the economic expansion. With early alarms sounding, we think the Fed may be making a mistake and risks letting the inflation genie out of the bottle. This will



Higher Inflation and Interest Rates Ahead!

certainly serve to complicate the investment decision-making process in 2004, as any rekindling of inflation will have dramatic impact on stocks, bonds, and the U.S. dollar. *Our bottom line conclusion for the stock market, which has not experienced a 5% or more correction in price since the bull phase began last March, is that it will likely experience at least a 10% setback sooner rather than later in the year.*

For the bond market, rising inflation and interest rates means lower fixed-rate bond prices ahead.

The Effect of Higher Interest Rates on U.S. Treasury Note Values	
Example: \$10,000 – 10 year U.S. T-Note with 4% yield	
<u><i>Approximate Value at Various Future Interest Rates</i></u>	
Today — 4.0%	\$10,000
4.5%	\$9,600
5.0%	\$9,225
5.5%	\$8,860

Right now, the risk of capital losses in fixed rate notes and bonds does not seem worth the relatively low yield they currently offer. *The table illustrates the effect of higher interest rates on U.S. Treasury note values. For example, a mere 1.5% increase in the 10-year U.S. Treasury note yield*

(from 4% to 5.5%) will result in an approximate 12% loss of the principle value, thereby wiping out about three years of income return. For the time being, we favor adjustable or floating rate securities as a safer alternative.

All in all, 2004 is shaping up as a very favorable environment for quality, income-producing stocks that are the foundation of your portfolio. Any near-term market weakness will present opportunities to add to portfolio positions in those areas we think will respond best to this phase of the business cycle. As always, please feel free to contact us with any questions regarding your account. Thank you for your continued support.

P.S. HAPPY NEW YEAR! (2004)