

**A NEW YEAR AND NEW CHALLENGES**

2004 – It was a very good year; in fact it has been a very good two years. Enjoy the fact your wealth, adjusted for any withdrawals, hit a new benchmark high this past year. As we look back at our predictions at the beginning of last year, our stock market forecast called for a tough first half of the year followed by a strong finish. Indeed, the market did show a loss throughout the first nine months, and then rallied very strongly in the fourth quarter. We also predicted interest rates would move higher last year, and although they did move somewhat higher, they did not move up as far and as fast as we had anticipated. So what is our outlook for 2005 and where are the risks and opportunities for investors?

We expect that this year may turn out like 2004, only in reverse. The stock market finished 2004 on a very strong note and although it has corrected somewhat in the first few weeks of the year, we think the current rally may continue even higher in the first half of 2005. However, we are beginning to see storm clouds approaching. The most obvious signs of the incoming storm are the Federal Reserve’s steps to raise interest rates as they have done at every Federal Reserve Board meeting since the middle of 2004. There is no indication that the Fed is going to halt their current tightening stance until some tangible evidence that the economy is cooling, inflation pressures ease, and the dollar descent subsides. In addition, rising interest costs will eventually squeeze corporate profits and slow the consumer down.

Coping with a changing market environment is not new to us as we have extensively researched business cycles and measured their impact on

**S&P 500 Cycles Since 1998**

July 1998 (1190.58)	Oct 1998 (923.32)	-22.4%	3 months
Oct 1998 (923.32)	Mar 2000 (1553.11)	+68.2%	17 months
Mar 2000 (1553.11)	Mar 2001 (1081.24)	-30.4%	12 months
Mar 2001 (1081.24)	May 2001 (1315.93)	+21.7%	2 months
May 2001 (1315.93)	Sep 2001 (945.06)	-28.2%	4 months
Sep 2001 (945.06)	Jan 2002 (1176.97)	+24.5%	4 months
Jan 2002 (1176.97)	Oct 2002 (768.63)	-34.7%	9 months
Oct 2002 (768.63)	Dec 2004 (1211.92)	+57.7%	26 months

the financial markets. Our internationally published research is the result of years of study of various economic conditions and how they affect trends in stocks, bonds, inflation and interest rates. As you will notice in the chart, since July 1998 the S&P 500 has cycled from good to bad results several times. **Remarkably, the S&P 500 stands today at the 1190 price level, virtually unchanged since July 1998, nearly seven years later.** Most recently, we have enjoyed a good cycle lasting more than 27 months. Common sense would suggest that both in terms of time and price, the current bull

market is getting long in the tooth and investors should be alert for the inevitable reversal of fortune. We are diligently laying plans for clients in preparation for the next bear market that may arrive before 2005 ends.

As the year transitions from bull to bear market, it will certainly create difficulty for the average investor who does not have the tools and disciplines to recognize the risks and opportunities that will unfold. Pring Turner Capital Group clients can expect to see more activity in their accounts as we gradually reallocate balanced portfolios and shift some assets from stocks to bonds — especially as interest rates rise and bond yields become more attractive. Certain sectors, like high-dividend paying utilities and consumer staple companies with recession-proof businesses, will be emphasized to stabilize portfolios and generate good income. For some client portfolios, the addition of an inverse fund (which move up in value when market moves down) can act to protect overall account values in weak markets. Covered call writing, a strategy we have used with many of our clients in the past, is another effective tool for generating more income and enhancing returns within difficult market periods. **Many opportunities will become available to us as we move through this market cycle and into the next cycle. Anticipating these shifts is what has contributed to your achieving new high levels of wealth. While the S&P 500 is unchanged during the past seven years, it has been a very volatile ride; yet the average Pring Turner Capital Group client shows substantial profits without taking undue risk.**

We look forward to the challenges in 2005 and believe our disciplined methodology and prudent portfolio tactics will generate continued positive returns in your portfolio over the long run. Thank you for your continued confidence in Pring Turner Capital Group. As always, please feel free to contact us should you have any questions regarding your portfolio.

We wish you a Happy, Healthy, and Prosperous New Year!