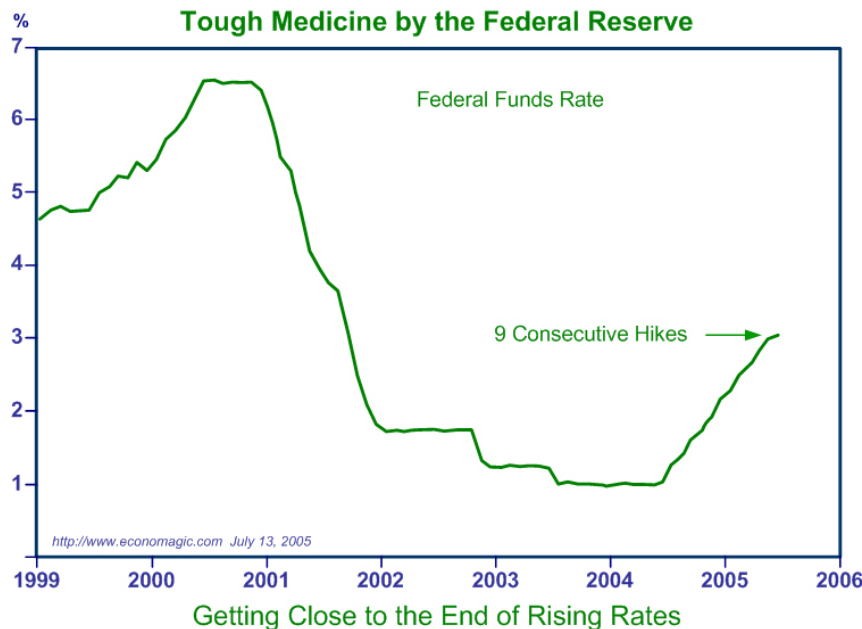


August 1, 2005

Soft Landing in 1985, 1995, ...2005?

Last quarter saw the markets break out of the doldrums as Pring Turner portfolios behaved nicely, once again hitting new highs (adjusting for any client withdrawals). On the other hand, the S&P 500 index delivered a slight gain for the quarter, but still showed a small loss year-to-date. Your solid portfolio performance is especially impressive considering oil prices rebounded, the Federal Reserve continued raising interest rates and the leading economic indicators continue to point to a business slowdown. Will these factors continue to act as an economic head-wind and make life difficult for investors? For the time being, we think so.

The Federal Reserve and its chairman Alan Greenspan must execute monetary policy that continually walks a tightrope between economic growth and inflation. Everyone

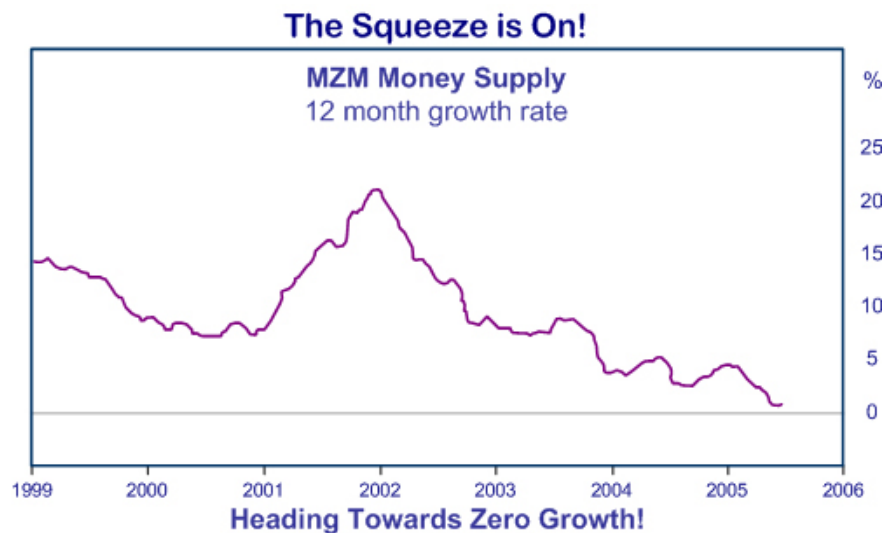


wants a strong economy, but we do not want to return to the days of double-digit inflation and the runaway prices we suffered in the 1970's. Clearly, the Fed is concerned about inflationary pressures building in the system and is acting to pre-empt inflation and nip it in the bud.

Their decision to raise interest rates at nine consecutive meetings starting in June 2004 is having a dampening effect on inflation despite the rise in oil prices.

As well, the Fed is putting a real squeeze on money supply (the fuel that keeps the economy and markets moving). MZM money supply represents money available within the economy for spending and consumption. Currently, the Fed has throttled back money supply growth to almost zero — a condition that will also act to slow business activity. A glance at the charts reflects just how stingy the Fed has been and how serious they are about stopping inflation in its tracks — their actions speak loud and clear.

The effects of the tight monetary policy will work its way through the financial system, but with a lag. We expect the economy to experience the negative effects of higher interest rates and slow money supply growth within the next few quarters. The good news is that according to recent comments by Federal Reserve Governor Richard Fisher, the Fed is in the eighth inning of its tightening cycle and entering the ninth and final inning. We are preparing for the end of the Fed's rate-hike cycle and look forward to the more favorable environment for bonds and stocks that always follow.



While it is still too early to tell, we are hopeful that the Federal Reserve will once again be successful in engineering another mid-cycle economic soft-landing as they did in 1995 and 1985. During those periods, brief economic pauses led to relatively mild stock market pullbacks. ***Eventually, as the Fed ended the tightening cycle, significant and very profitable market advances soon followed. We are excited about the opportunities that lie ahead when the Fed takes their foot off the economic brakes.***

We continually evaluate the market environment and will gradually make changes in portfolio tactics as the business cycle evolves. As the Fed finishes raising interest rates for this cycle, we will add certain bonds and preferred stocks to portfolios for income and possible capital gain potential. We will continue to screen for new investments that meet our strict disciplines of quality, income, value, and show potential for reasonable returns with low risk. In short, we will continue to do what we have always done — work diligently to protect your hard earned capital and grow it steadily and prudently. Thank you for your continued support. As always, please feel free to contact us should you have any questions.