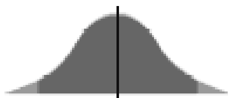

Park Piedmont Advisors LLC

Registered Investment Advisor

VICTOR LEVINSON **NICK LEVINSON**

MARCH 2005 COMMENTS

IMPORTANT NOTICES:

TAX COST BASIS INFORMATION for 2004 SALES:
Form 1099s for 2004 have been mailed to you by your account custodian. During 2004, your account most likely had two custodians: Bear Stearns (BS), through our previous Broker/Dealer Balis Lewittes Coleman (BLC), and National Financial Services (NFS), through our current Broker/Dealer LaSalle Street Securities (LSS). These Form 1099s cover dividends and interest you received, as well as the proceeds from any sales. The forms do not contain the cost basis associated with sales, however. Therefore, when you receive these 1099s, if there are proceeds from sales listed, please fax (212-391-2312) or mail (110 West 40th St., NY, NY 10018) a copy of the 1099s to Lynette Carmelli at our NY administrative office, and we will supply all the necessary cost basis information to you and/or the person who prepares your tax return. This process should only be needed for the transition year 2004. We expect to be fully integrated into the LSS/NFS tax reporting system by the end of 2005.

SEC DISCLOSURE DOCUMENTS: ADV PART II
As a Registered Investment Advisor with the SEC, Park Piedmont Advisors LLC (PPA) has provided each client with a copy of its required SEC Disclosure Document, ADV Part II. Among other matters, the ADV Part II describes PPA's advisory services, fees, and the business and educational backgrounds of its advisors. This is our continuing Notice, required by the SEC, that you can request a copy of PPA's ADV Part II, which we will send to you by return mail. To receive a copy, please contact Lynette Carmelli at 212-391-2323, or lynettec@parkpiedmont.com. You can also access our ADV at any time from our website, at www.parkpiedmont.com.

CONTENTS

Page 1: Important Notices: What's in This Edition?
Pages 2-4: Index Results for March, 2005 and Year-to-Date 2005;
Also Years 1999 – 2004, and Various Other Longer Time Periods
Pages 5-11: Investment Concepts:
Pages 5-6: I. Update of Key Economic Indicators
Pages 7-11: II. Alternative Investments for Additional Diversification
Page 12: Investment Returns from 2000 to Present, and 1995 to Present

Any recommendation contained in these Comments may not be suitable for all investors. Moreover, although the information contained herein has been obtained from sources believed to be reliable, its accuracy and completeness cannot be guaranteed.

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COMMENTS: INDEX RESULTS, period ending MARCH 31, 2005

STOCKS	YEAR 1999	YEAR 2000	YEAR 2001	YEAR 2002	YEAR 2003	YEAR 2004	YTD 2005	CURR. MONTH
Vanguard Total Stock Market Index Fund (1)	23.8%	(10.6%)	(11.0%)	(21.0%)	28.4%	12.5%	(2.4%)	(1.7%)
Standard & Poors 500 Index (2)	19.6%	(10.1%)	(13.0%)	(23.4%)	26.4%	9.0%	(2.6%)	(1.9%)
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(22.2%)	(13.0%)	(23.7%)	25.9%	7.2%	(3.6%)	(1.7%)
Vanguard S&P 500 Value Index Fund (1)	12.6%	6.1%	(12.0%)	(20.9%)	32.2%	15.3%	(0.4%)	(1.6%)
Dow Jones Industrial Average Index (2)	25.2%	(6.2%)	(7.1%)	(16.8%)	25.3%	3.2%	(2.6%)	(2.4%)
NASDAQ Composite Index (2)	85.6%	(39.3%)	(21.0%)	(31.5%)	50.0%	8.6%	(8.1%)	(2.4%)
Vanguard Midcap US Index Fund (1)	25.0%	2.6%	(4.8%)	(16.3%)	34.1%	20.4%	(0.4%)	(1.1%)
Vanguard Smallcap US Index Fund (1)	19.6%	(4.2%)	1.0%	(21.6%)	45.6%	19.9%	(3.8%)	(2.2%)
Vanguard International Index Fund (EAFE) (1)	25.3%	(15.2%)	(22.6%)	(17.5%)	40.3%	20.8%	(0.1%)	(3.0%)
Vanguard Real Estate Invest. Trust Fund (1)	(0.4%)	26.4%	12.4%	3.8%	35.7%	30.8%	(7.3%)	(1.6%)
BONDS								
Vanguard Total Bond Market Index (1)	(0.8%)	11.3%	8.3%	8.2%	4.0%	4.2%	(0.5%)	(0.5%)
Vanguard Interm. Tax-Exempt Index Fund (1)	(2.9%)	9.2%	5.0%	7.9%	4.4%	3.2%	(0.7%)	(0.8%)
Vanguard Short-term Bond Index (1)	2.1%	8.9%	8.9%	6.1%	3.4%	1.7%	(0.2%)	(0.7%)
Vanguard Short Tax-Exempt Index Fund (1)	2.6%	4.9%	4.8%	3.5%	1.6%	1.1%	(0.0%)	(0.0%)
Vanguard High-Yield	NA	NA	NA	1.7%	17.2%	8.5%	(1.7%)	(2.7%)

1) Results for Vanguard funds include dividends and fund expenses but do not reflect PPA's advisory fee.
2) Results for S&P 500, Dow Jones, and NASDAQ indexes do not reflect dividends or PPA's advisory fee.

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%	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
		1999				**2000**				**2001**		
S&P 500	4.1	7.6	(7.7)	15.6	2.0	(3.0)	(1.3)	(7.8)	(12.1)	4.8	(13.8)	8.1
NASDAQ	14.6	10.0	0.0	61.0	12.4	(14.8)	(7.2)	(29.6)	(25.5)	12.9	(26.7)	18.3
BONDS	0.0	(0.5)	0.4	(0.7)	2.4	1.5	3.1	4.3	3.2	0.8	4.3	0.0
Interm. Tax.												
		2002				**2003**				**2004**		
S&P 500	0.0	(13.8)	(14.1)	4.5	(1.8)	12.8	2.2	13.2	1.3	1.3	(2.4)	8.8
NASDAQ	(5.5)	(19.5)	(13.5)	7.0	2.5	19.2	12.1	16.2	(0.5)	2.7	(7.5)	13.9
BONDS	0.0	2.8	3.6	1.8	0.9	2.7	0.2	0.2	2.7	(2.6)	3.1	1.0
Interm. Tax.												
		2005				**2006**				**2007**		
S&P 500	(2.6)											
NASDAQ	(8.1)											
BONDS	(0.5)											
Interm. Tax.												

MARCH 2005 COMMENTS

STOCK index prices for March were all substantially lower, causing negative results for all the indexes year-to-date (YTD). For the month, the S&P 500 declined (1.9%), and the Dow Industrial Average and the NASDAQ Composite both declined (2.4%). YTD, the S&P 500 and the Dow are down (2.6%), with the NASDAQ down (8.1%). Midcap and Smallcap indexes also declined for the month, by (1.1%) and (2.2%) respectively, and the Total Stock Market Index, which includes Midcap and Smallcap stocks, declined (1.7%). Within the Largecap S&P 500, Value and Growth also declined, by (1.7%) and (1.6%), respectively. The International index, which hedges currency impacts, declined (3.0%). YTD figures for all these categories are included in the chart on page 2. The REIT Index is down (7.3%) YTD, after gaining over 30% in 2004.

BOND returns (price change plus interest) showed significant declines for the second consecutive month, as the bond market responded to the Federal Reserve's seventh quarter-point rate increase since June 2004. The benchmark 10-year US Treasury yield closed at 4.49%, higher than the 4.37% yield at the end of February and the 4.14% yield at the end of January. The highest yield for the past twelve months was reached in mid-May 2004, at 4.85%. March returns (including interest) were as follows: High-quality intermediate-term taxable bonds declined (0.5%), while high-quality intermediate-term municipal bonds declined (0.8%). Short-term taxable bonds also declined, by (0.2%), while Short-term Munis were flat. YTD results are negative (0.5%) for intermediate taxables, (0.7%) for intermediate munis, (0.7%) for short term taxables, and 0.0% for short term munis. For the first three months, the price declines in all categories except short term munis exceeded the interest earned, resulting in negative overall returns. High Yield ("Junk") taxable bonds, which outperformed high-quality bonds in 2004, declined (2.7%) for the month, and are down (1.0%) YTD.

Stock and bond investment results for March, for YTD 2005, and for 1999 to 2004, are set out on page 2. The stock market rally that began decisively in March 2003 has now raised the S&P 500 by 52% from the October 2002 low. While these gains have made investors believe again that stocks do not go down in perpetuity (a widely-held view during the depths of the 2000-02 bear market), the question of whether this recovery will continue is, as always, dependent on unknown future events. (Note also that after a price decline of 50%, it takes a gain of 100% to return to the previous price level. For example, the S&P 500 reached its high of 1,527 in Q1 2000, and then declined to 777 during Q4 2002, a drop of almost 50%. From 777 to the S&P 500's current level of 1,180, there has been a gain of approx 52%, but the index is still another 347 points, or an additional 45%, from its prior high).

In order to keep the current recovery in perspective, we continue to show the chart below, which sets out the extent of the declines measured from the highs of Q1 2000. The chart also puts these declines in the context of results since the end of 1994 (also see the figures on page 12). Note that the three indexes have positive average annual returns ranging from 9.6% to 10.3% for the ten-year and three-month period from the end of 1994 through March 2005, very much in line with long-term stock returns going back to 1926. Further, as these returns converge more and more, the idea of "regression to the mean" seems quite applicable.

The long-term investor therefore has a very different view of the stock market's returns than those measuring returns from the highest levels.

	S&P 500 (1)		**DOW (1)**		**NASDAQ (1)**	
1st Qtr 2000 High	1,527		11,723		5,048	
Year End 2000	1,320	(13)%	10,785	(8)%	2,470	(51)%
April 10, 2001 Low	1,103	(28)%	9,390	(20)%	1,684	(67)%
September 21, 2001 Low	965	(37)%	8,235	(30)%	1,425	(72)%
Year End 2001	1,148	(25)%	10,020	(17)%	1,950	(61)%
October 9, 2002 Low	777	(49)%	7,286	(38)%	1,114	(78)%
Year End 2002	880	(42)%	8,342	(29)%	1,336	(73)%
Year End 2003	1,112	(27)%	10,454	(11)%	2,003	(60)%
Year End 2004	1,212	(21)%	10,783	(8)%	2,175	(57)%
March 31, 2005	1,180	(23)%	10,504	(10)%	2,000	(60)%

Context: Prior Five-Year Gains in Bull Market of 1995 - 1999:

	S&P 500 (1)	**DOW (1)**	**NASDAQ (1)**
End 1994	459	3,834	752
End 1999	1,470	11,500	4,070
Gain	1,011	7,666	3,318
Avg.Ann.%Gain:'95-'99; 5 years	26.2%	24.6%	40.2%
March 2005	1,180	10,504	2,000
Gain	721	6,670	1,248
Avg.Ann.%Gain:'95-03/05; 10.25 yrs	9.6%	10.3%	10.0%

1) Results for S&P 500, Dow Jones, and NASDAQ indexes do not reflect dividends or PPA's advisory fee

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I. UPDATE OF KEY ECONOMIC INDICATORS

The strength of the overall US and world economies is one of a number of factors likely to influence the future direction of both stock and bond prices. We, along with many market observers and academics who write about the markets, believe stock and bond prices already reflect consensus expectations of economic growth. Further, we believe that even if you could accurately predict any number of actual economic figures, the market's reaction to those figures is essentially unpredictable. In any event, an understanding of the direction of current economic trends may at times be useful as a context to help understand market conditions. This section of the Comments provides an update of key economic indicators.

(1) Gross Domestic Product (GDP) is the broadest measure of goods and services produced in the US economy (GDP figures are inflation-adjusted, annualized growth rates). Full-year 2004 GDP grew 4.4%, "the highest annual growth rate since 1999." The Q4 growth rate was revised upward to 3.8% annualized, without changing the full year rate (Vanguard Economic Week in Review [VEWR], 2/21-25/05). Q1 2005 GDP figures will be reported later in April.

(2) Employment for March grew by 110,000, "weaker than most analysts had expected….about half the number that analysts had predicted,….and much slower than in February, when the economy added 243,000 jobs" (NY Times, 4/2/05, pg. B1). The same NY Times article notes that the economy has added 3.1 million jobs since March 2003, after having lost 2.7 million jobs during and after the 2001 recession.

(3) Interest Rates rose substantially in March. The benchmark 10-year U.S. Treasury interest rate, which is set by buyers and sellers in the bond market, closed at 4.49%, above the 4.37% rate in February and the 4.36% rate in November 2004. During March, the Federal Reserve raised the short term rates it controls for the seventh time since June, 2004, to 2.75%. The Federal Reserve gave mixed signals as to the pace of future increases. A "shift in tone (by the Fed) raises the prospect that the Fed could accelerate the pace of rate increases, though not just yet" (WSJ, 3/23/05, pg. A2).

(4) Inflation, as measured by the Consumer Price Index (CPI) "core" rate, which excludes the volatile food and energy sectors, rose 0.3% in February, and at an annual rate of 2.4%, "the highest rate since May 2002 and near the cyclical peak of 2.8% reached in early 2001" (VEWR, 3/21-25/05).With food and energy included, the CPI was up 0.4% for the month. Rising oil prices were the main reason for the increase. The Producer Price Index (PPI) core rate was up 0.6% in February, and 0.4% with food and energy included (VEWR, 3/21-25/05). The CPI measures price changes of both goods and services, whereas PPI measures only the price changes of goods.

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(5) Sector Economic Activity was mostly Higher in March

(a) Durable goods orders (industrial and consumer) grew 0.3% in February, following a revised decline of 1.1% in January (WSJ, 3/25/05, pg. A2). For all of 2004, the gain in durable goods orders was 10.9%, the largest gain since 1994 (WSJ, 1/28/05, pg. A2).

(b) Industrial production rose 0.3% in February, and is 3.5% higher than a year ago. Capacity utilization rose to 79.4%, almost reaching the historical average of 81.0% (VEWR, 3/14-18/05). For all of 2004, industrial production was up 4.4%, the first annual gain since 2000 (VEWR, 2/14-18/05).

(c) Retail Sales gained 0.6% in February, and January's figures were revised from a decline of 0.3% to a gain of 0.3% (VEWR, 3/14-18/05). Whether retail sales can remain strong in the face of rising oil prices, higher interest rates, and the end of tax cuts is currently debated among economists (WSJ, 3/16/05, pg. B3). Retail sales are not adjusted for inflation, and include such disparate categories as gasoline sales, auto sales, and non-store retailers such as the Internet (WSJ, 1/14/05, pgs. A2 and B1; also VEWR, 2/14-18/05).

(d) Housing sales for existing homes fell in February by 0.4%, but were 5.5% higher compared to a year earlier. Median sales prices were 11.0% higher than a year earlier (VEWR, 3/21-25/05). However, sales of new homes soared in February by 9.4%, the largest monthly gain in four years (VEWR 3/21-25/05). Full year 2004 saw new home sales gain 8.9% (VEWR, 1/31-2/4/05).

(e) Personal Income was up 0.6% in January, after factoring out the one-time Microsoft dividend paid in December. The income increase for all of 2004 was 5.4%. Consumer Spending in January was unchanged from December, while Personal Savings was at 1.0% in January (VEWR, 2/28-3/4/05). Personal Savings figures exclude capital gains from stocks and homes, and have a number of other measurement flaws, greatly understating actual savings (David Malpass editorial, WSJ, 3/28/05, pg. A16).

(6) Consumer Confidence, as measured by the Conference Board's Index, fell slightly in March, but was revised upward for February. "Despite rising prices at the pump and rising unemployment claims, overall consumers remain upbeat both in terms of their assessment of current conditions and their outlooks" (WSJ, 3/30/05, pg A2).

(7) Corporate Profits (pretax) grew 13.5% in Q4 2004 compared to Q3; adjusted for Q3 hurricane-related distortions, the growth would have been 5.9%, which annualizes to over 20%. "Many economists say profit growth probably peaked in the quarter and likely will slow in months ahead as margins are squeezed by higher costs for raw materials and energy and the pace of economic growth eases somewhat" (WSJ 3/31/05, pg A3). For the years 2003 and 2004, profit gains were substantial, averaging in excess of 20%.

Overall, the economic news reported in March was strong. This strength did not help either stock or bond prices, both of which fell for the month and the quarter. When economic strength generates higher interest rates and the fear of greater inflation, prices of financial assets often decline. But all this is known in the markets. What is not known, as always, is how the unpredictable, unknowable future will impact future market prices.

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II. ALTERNATIVE INVESTMENTS FOR ADDITIONAL DIVERSIFICATION

Last month's Comments raised the somewhat rhetorical question of whether there were any reasonable investment alternatives in the current economic and market environment. The Comments cited a number of negative media articles on a wide range of investment alternatives. In this month's Comments, we take the position that there are a variety of interesting investment alternatives, which provide diversification from a basic portfolio of US stock and high-quality bond investments. Indeed, many PPA clients already own some of these alternative investments, while others are being added as appropriate.

We group these alternative investments into the broad categories of asset classes, which vary based on their main source of returns (e.g., price appreciation for stocks, interest income for bonds) and their risk profile (e.g., higher risk and historically higher returns for stocks, lower risk and historically lower returns for bonds):

1) Stock Characteristics: Real Estate Investment Trusts (REITs); International stocks, both developed and emerging market; Commodities; and Gold.
2) Bond Characteristics: Inflation Protected bonds; International bonds; Preferred stocks; "Hard" Currency.
3) Stock and Bond Characteristics: High Yield Bond Funds

In the remainder of this month's Comments, we discuss these various investments and the reasons for our consideration of them in client portfolios. Please note that when we include any of these investments in client portfolios, we do so in almost all cases via mutual funds --either indexed or, where indexes are unavailable, actively-managed-- and exchange traded funds (ETFs). These funds provide an additional layer of diversification in comparison with purchasing an individual stock, bond, commodity, or currency.

In developing asset allocations on behalf of our clients, we start with basic US investments, often referred to as "core" portions of a portfolio, in both the stock and bond markets. The most comprehensive core stock investment is the Total Stock Market (TSM) index, which includes the large companies in the S&P 500; mid-size ("Midcap") companies, and small ("Smallcap") companies in a single investment, in the percentages represented in the overall stock market as measured by market value. A common breakdown of the TSM index is by company size, into Largecap (i.e., the S&P 500), Midcap, and SmallCap indexes. A further breakdown within any size category is by "Growth" and "Value" investing styles. Yet another breakdown is by major industry groups, such as technology, finance, healthcare, and energy, all of which are well-represented in the broader, size-based indexes. Core bond investments include government and high credit quality corporate bonds of varying maturities. Government bonds are issued by the federal government (known as "Treasuries") and various state and local governments (known as "Munis").

PPA can and does construct well-diversified portfolios allocated exclusively among these core positions. In the interests of gaining even greater diversification, we spend considerable time looking for, and then evaluating, additional investment alternatives that we believe have the potential to benefit our clients. Although the specific allocations depend on the particular circumstances of each client, we consider portfolios comprised of up to 25% of alternative investments as reasonable for many clients.

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It is important to note that our suggestions to use alternative investments aim to provide greater diversification to a portfolio. They do not represent an attempt at market-timing, i.e. a "bet" that any of the recommended investments is likely to outperform other investments, be they core or alternative, in any given time frame. Diversification is intended as a risk-reduction technique, not one designed to maximize gain. This concept is based on different investments having low "correlations" to each other; in any given time frame, if one investment is likely to go up in price based on certain factors, then another investment is likely to decline in price based on the same factors. A classic example of low correlation investments is energy and airline stocks. Historically, when oil prices rise, the prices of energy-related stocks typically increase, while airlines, which are major users of fuel oil, see their stock prices decline under similar circumstances.

Broader-based examples of investments that have historically low correlations to each other are bonds and stable consumer-based stocks. During periods of rising interest rates, for example, bond prices typically decline, whereas consumer-based companies supplying low–priced necessities tend to have little or no reaction to rising interest rates.

Another topical example involves the strong positive correlation between inflation, rising interest rates, and increasing commodity prices, including energy and gold. Indeed, it can be said that rising commodity prices is one reason why inflation rates rise. In looking for low correlation investments to reduce risk in a broadly diversified portfolio, bond positions, which tend to decline when interest rates are rising, could be offset in part by adding commodity-based investments. Here again, the idea is not to conclude that, in a given time frame, bond prices will decline and commodity prices will rise. Instead, with a commodity-based investment added to bond holdings, the portfolio now has two low correlation investments. Even if one declines in price in a given time frame, the other is likely to rise and provide some downside cushion to the portfolio. At some point, when interest rates begin to decline, particularly if the inflation threat is deemed not a problem, then the commodity based investment would likely decline as bond prices gained.

Note, however, that the broader the investment category, the harder it is to isolate one factor such as interest rates or inflation as determining its price movements. The concept of developing a portfolio with investments that have low historical correlations does have significant support from academics in the investment field (sources available upon request).

1) Alternative Stock Investments

REITs invest in various kinds of real estate. They do not constitute a major sector in the broad based indexes, and therefore need to be purchased separately to have any meaningful allocation within a portfolio. REITs allow investors to participate in the ups and downs of real estate investing, both as owners and as mortgage-holders. Real estate has historically been considered a hedge against inflation because prices often rise along with inflation. On the other hand, when inflation does become a problem, interest rates typically rise, which in turn sends real estate prices lower. In any case, REITs are most appropriate in tax deferred accounts because they generate high current income flows that would be taxed each year in a taxable account.

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International stock investing also provides diversification to a US stock portfolio, although the degree of correlation is highly debatable. In the early 1980s, the Japanese stock market was soaring while the US market was gaining more modestly. Then in the 1990s, the Japanese stock market declined dramatically while the US stock market soared. These results led many commentators to conclude that the US and Japanese markets had low correlation, and that owning both would provide diversification and reduce risk. However, in an ever more globalized economy, many now believe that the stock prices of companies based in developed countries such as the US and Japan are likely to move more in tandem. To gain additional diversification with international investments, we also consider stocks of companies based in emerging markets, since these investments have a tendency to move in accordance with local conditions that are often very different than those in the US.

International stock funds may or may not hedge against the impact of currency fluctuations, so owning them does not necessarily provide an investment that increases in value when the dollar declines, and vice versa. Even for funds that do not hedge the currency impacts, stock prices are impacted by so many other factors that we do not recommend international stock funds as the best way to invest in currency movements. (See the discussion of the Hard Currency fund below as our recommendation for investing in currency changes.)

"Commodities are assets that have tangible properties, such as oil, metals and agricultural products" (source: Pimco Funds Prospectus, Strategic Market Funds, page 11). The Pimco Commodity Real Return Strategy Fund invests in "commodity-linked derivative instruments backed by a portfolio of inflation-indexed securities and other fixed income instruments. The Fund invests in commodity-linked derivative instruments that provide exposure to the investment returns of the commodities markets, without investing directly in physical commodities" (same source). In an excellent book that we will be quoting from extensively in the future, entitled "Bull" by Maggie Mahar the author writes: "In 2002, Pimco launched a fund that tracked an index of commodity futures contracts and was backed by Treasuries that protect against inflation (TIPS). This meant that an investor would benefit from any gains in commodity prices while also earning a T-bill rate on his underlying collateral. The fund was designed to provide a hedge against inflation, particularly unexpected inflation. Equally important, the index fund allowed an individual to invest in energy, grains, metals, livestock, food and fiber without trying to trade commodities futures himself" (pg. 374).

As for gold, "Bull" notes that "Historically, when investors have lost faith that paper assets will hold their value (whether stock certificates or paper currencies), gold has provided shelter (pg. 376). "Still, even those who were most bullish about the long term (for gold), did not pretend to forecast the short term" (pg. 377). As with the other alternatives, an investment in gold should be a source of diversification and a hedge against inflation, not a market call that it is likely to outperform other investments in any given time frame. Recently, two new exchange traded funds have been introduced that give investors direct exposure to the price of gold, as opposed to other funds that invest indirectly via gold mining companies. We prefer the direct investment, since the prices for the mining stocks can be impacted by many factors other than the price of gold.

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2) Alternative Bond Investments

A few years ago, we began investing in Treasury Inflation Protected bonds and bond funds (TIPS)., the author describes these investments as follows: "There is however, a final alternative investment that provides an unparalleled hedge against inflation for long-term investors, US Treasury bonds that come with insurance against rising prices…. When they mature, an investor can be certain of getting his principal back, plus a guaranteed fixed yield. The difference is that TIPS also offer a buffer against inflation: each year that the yield falls short of inflation (as measured by the consumer price index), the government pays a bonus to bridge the gap. In other words, the investor knows that his savings will always outpace inflation" (pg. 383). As good as this sounds, the downside is that the interest yield can be quite low, currently a little less than 2% for 10-year TIPS. If inflation is not at least 2.5%, the overall annual return would be below 4.5%, which is the approximate current yield on the 10-year Treasury bond without inflation protection.

International bond funds also provide diversification from US bonds, in terms of the interest that can be earned and currency fluctuations. As yet, we have made few investments in this category because the uncertainties inherent in international bonds make them riskier than the other parts of the bond market that we focus on for most clients.

Preferred stock is a separate class of stock typically characterized by a fixed interest rate as the primary investment return, which is why we group this investment under bonds rather than stocks. Preferred stock interest rates usually exceed those offered by high-quality intermediate-term bonds because they have longer maturities, but are below those provided by high yield, or "junk", bonds because they are issued by high credit-quality companies (see discussion on junk bonds below). We have recently identified preferred stocks that offer a variable interest rate, thereby providing some inflation protection. This is the one type of alternative investment that we purchase for clients outside of a fund, since we have not yet found a true preferred stock fund. The preferred stocks we consider, however, are typically regarded as large, stable companies with a high likelihood of meeting their obligations (although there are, of course, no guarantees). Finally, given their relatively high income payouts, we generally recommend that preferred stocks be held in tax-deferred accounts. However, some preferred stocks pay dividends that are now taxed at the lower 15% rate, and may therefore be appropriate in certain taxable accounts as well.

Hard currency funds provide a way to profit directly from a declining US dollar. The Franklin Templeton Hard Currency Fund, for example, seeks "to protect against depreciation of the US dollar relative to other currencies" (source: Prospectus, pg. 2). The fund invests in "hard" currencies, defined as those "in which investors have confidence and are typically currencies of economically and politically stable industrialized nations" (pg. 2). The fund "focuses on countries and markets that historically have experienced low inflation rates and, in the manager's opinion, follow economic policies favorable to continued low inflation rates and currency appreciation versus the US dollar over the long term" (pg. 2). The fund invests primarily in money markets denominated in hard currencies and currency futures contracts, in combination with a US dollar-denominated money market in order to "obtain an investment result that is substantially the same as a direct investment in a foreign currency-denominated instrument" (pg. 3).

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3) Alternative Investments with Stock and Bond Characteristics

We consider high yield, or "junk", bonds as a hybrid, combining elements of both stocks and bonds. Like more traditional bonds, they promise payment of interest over time and repayment of principal at a certain future date. Junk bonds are issued, however, by companies that do not have good credit ratings. This means there is a real risk that the issuer will default on the bonds, in which case the investor would not receive either the interest payments or the promised return of principal. This additional risk makes junk bonds similar to stock investments. To compensate investors for this higher risk, the bond issuer must pay considerably higher interest rates.

Unlike high credit quality bonds that rise or fall based on the movement of interest rates, junk bonds often respond differently. For instance, in a declining interest rate environment occasioned by a slow growth economy, a time in which regular bond prices typically increase, junk bond prices can decline because of the increased default risk in a slow growth economic climate. Conversely, in a rising interest rate environment occasioned by a fast growth economy, junk bond prices may increase as other bond prices decline, because the strong growth economy reduces the default risk. For these reasons, junk bonds provide diversification from more traditional, high credit quality bonds. It is also worth noting that some bonds start out as high credit bonds, and turn to junk if the company's financial condition deteriorates. Examples abound…from the dot.com era, Worldcom, Enron, and Lucent. Today, a financially weakened General Motors is a candidate to have its bonds downgraded to junk status. We have used junk bond funds in client portfolios for years, primarily in retirement accounts since the primary portion of the investment return comes from the high interest paid by the issuers of these bonds.

Finally, our list does not include HEDGE FUNDS, about which we have written unfavorably in the past (most recently in August 2004). These funds are an entire subject unto themselves because there are so many investing styles associated with them. Our concerns about hedge funds are that their success is almost exclusively a function of the active management decisions of the hedge fund manager, and that these decisions are typically made based on the manager's assessment of whatever investment will perform well or poorly during a given time period. Each of the alternatives we consider for our client portfolios, by contrast, has a specific, identifiable purpose and focus, with results related to the investment categories selected. In the event we identify a low-cost index of hedge funds, we would consider adding such an investment to our list.

In conclusion to this section on alternative investments, we view these various alternatives as worthy of consideration in broadly diversified portfolios, primarily as hedges against the price movement of traditional US stock and bond investments. While they are not required to create a properly structured portfolio, they are often useful in providing an additional layer of risk reduction that comes from investments with low correlations to other portfolio positions.

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1) Results for S&P 500, Dow Jones, and NASDAQ indexes do not reflect dividends or PPA's advisory fee.

I. Figures From Period Starting 2000 (% Figures Are Cumulative Declines From 1/01/00)

	S&P 500 (1)		DOW JONES (1)		NASDAQ (1)	
Start of 2000	1,470		11,500		4,070	
End of 2000	1,320	(10.1)%	10,785	(6.2)%	2,470	(39.3)%
Sept. 21, 2001 Low	965	(34.3)%	8,235	(28.4)%	1,425	(65.0)%
End of 2001	1,148	(21.9)%	10,020	(12.9)%	1,950	(52.0)%
Oct. 9, 2002 Low	777	(47.1)%	7,286	(36.6)%	1,114	(72.6)%
End of 2002	880	(40.1)%	8,342	(27.5)%	1,336	(67.2)%
End of 2003	1,112	(24.3)%	10,454	(9.1)%	2,003	(50.8)%
End of 2004	1,212	(17.5)%	10,783	(6.2)%	2,175	(46.5)%
March 31, 2005	1,180	(19.7)%	10,504	(8.7)%	2,000	(50.8)%

II. Figures From Period Starting 1995 (% Figures Are Gains From 1/01/95)

	S&P 500 (1)		DOW JONES (1)		NASDAQ (1)	
Start of 1995	459		3,834		752	
End of 1999	1,470		11,500		4,070	
5 Year Gain; Annualized %	1,011	26.1%	7,666	24.6%	3,318	40.2%
End of 2001	1,148		10,020		1,950	
7 Year Gain; Annualized %	689	14.0%	6,186	14.7%	1,198	14.6%
End of 2002	880		8,342		1,336	
8 Year Gain; Annualized %	421	8.5%	4,508	10.2%	584	7.5%
End of 2003	1,112		10,454		2,003	
9 Year Gain; Annualized %	653	10.3%	6,620	11.8%	1,251	11.5.%
End of 2004	1,212		10,783		2,175	
10 Year Gain; Annualized %	753	10.2%	6,949	10.9%	1,423	11.2%
March 31, 2005	1,180		10,504		2,000	
10.25 Yr Gain; Annualized %	721	9.6%	6,670	10.3%	1,248	10.0%

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