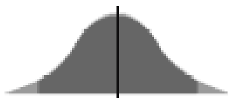

Park Piedmont Advisors LLC

Registered Investment Advisor

VICTOR LEVINSON **NICK LEVINSON**

APRIL 2005 COMMENTS

IMPORTANT NOTICES:

MORTGAGE AFFILIATION:

To broaden the financial services we offer our clients, we have established an affiliation with Verticallend, headquartered in Melville, New York, so that we can directly assist our clients in obtaining home mortgages, whether as purchases, refinancings, or other mortgage-related transactions. In much the same way as we have offered advice and assistance in the purchase of a variety of insurance products over the years, we can now offer advice and assistance in obtaining mortgages through Verticallend. These services are in addition to our basic business of offering asset allocation and investment advice focusing on the stock and bond markets and indexed investments. Please feel free to contact us if you want to discuss these additional services further.

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.

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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 APRIL 30, 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%	(4.7%)	(2.3%)
Standard & Poors 500 Index (2)	19.6%	(10.1%)	(13.0%)	(23.4%)	26.4%	9.0%	(4.5%)	(1.9%)
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(22.2%)	(13.0%)	(23.7%)	25.9%	7.2%	(5.9%)	(2.3%)
Vanguard S&P 500 Value Index Fund (1)	12.6%	6.1%	(12.0%)	(20.9%)	32.2%	15.3%	(1.8%)	(1.4%)
Dow Jones Industrial Average Index (2)	25.2%	(6.2%)	(7.1%)	(16.8%)	25.3%	3.2%	(5.5%)	(2.9%)
NASDAQ Composite Index (2)	85.6%	(39.3%)	(21.0%)	(31.5%)	50.0%	8.6%	(11.7%)	(3.6%)
Vanguard Midcap US Index Fund (1)	25.0%	2.6%	(4.8%)	(16.3%)	34.1%	20.4%	(4.0%)	(3.6%)
Vanguard Smallcap US Index Fund (1)	19.6%	(4.2%)	1.0%	(21.6%)	45.6%	19.9%	(8.2%)	(4.4%)
Vanguard International Index Fund (EAFE) (1)	25.3%	(15.2%)	(22.6%)	(17.5%)	40.3%	20.8%	(2.1%)	(2.0%)
Vanguard Real Estate Invest. Trust Fund (1)	(0.4%)	26.4%	12.4%	3.8%	35.7%	30.8%	(2.0%)	5.3%
BONDS								
Vanguard Total Bond Market Index (1)	(0.8%)	11.3%	8.3%	8.2%	4.0%	4.2%	0.9%	1.4%
Vanguard Interm. Tax-Exempt Index Fund (1)	(2.9%)	9.2%	5.0%	7.9%	4.4%	3.2%	0.7%	1.4%
Vanguard Short-term Bond Index (1)	2.1%	8.9%	8.9%	6.1%	3.4%	1.7%	0.3%	0.7%
Vanguard Short Tax-Exempt Index Fund (1)	2.6%	4.9%	4.8%	3.5%	1.6%	1.1%	0.3%	0.3%
Vanguard High-Yield	NA	NA	NA	1.7%	17.2%	8.5%	(2.2%)	(0.5%)

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.												

APRIL 2005 COMMENTS

STOCK index prices declined substantially, for the second consecutive month, extending the year-to-date (YTD) declines. As reported in the financial press, a slowdown in a number of key economic measures, along with a modest increase in inflation, provided the catalyst for these declines. See page 2 for the monthly and YTD figures, and see pages 5 and 6 for additional details on the economic data and the financial press reporting.

BOND returns (price change plus interest), on the other hand, reversed two consecutive monthly declines and showed significant gains. The same economic slowdown that adversely affected stocks brought about a decline in interest rates, which in turn raised bond prices for all but the shortest maturities. These bond price gains came even as the Federal Reserve has showed no signs of changing its current policy of raising the short-term rates it controls by one-quarter of one percent at each of its meetings. Indeed, the improvement in bond prices in April was a major shift in the direction of market-established interest rates, as evidenced by the benchmark 10-year US Treasury yield, which closed the month at 4.20%, a significant decline from March's 4.49% and back almost to January's 4.14% level. The highest yield for the past twelve months was reached in mid-May 2004, at 4.85%. April returns were sufficiently positive to put all YTD figures in positive territory, with the exception of High Yield bonds. The same slowdown factors also benefited one stock category, the REIT index. Bond result figures for the month and YTD are reported on page 2.

Even with the declines in 2005, the stock market rally that began decisively in March 2003 has raised the S&P 500 by 49% 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. Indeed, the March-April declines have introduced a decidedly cautionary note to stock prices. (Note also that after a price decline of 50%, it takes a gain of 100% to return to the previous price level. Since 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%, the current level of 1,157 represents a gain of approx 49%, but is still another 370 points, or an additional 48%, 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 10). Note that the three indexes have positive average annual returns ranging from 9.4% to 9.9% for the ten-year and four-month period from the end of 1994 through April 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)%
April 30, 2005	1,157	(24)%	10,192	(13)%	1,922	(62)%

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%
April 2005	1,157	10,192	1,922
Gain	698	6,358	1,170
Avg.Ann.%Gain:'95-04/05; 10.33 yrs	9.4%	9.9%	9.5%

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). The initial estimate for Q1 2005 GDP was 3.1%, down from 3.8% in Q4 2004. This rate was "disappointing,…the worst performance in two years" (Wall Street Journal (WSJ), 4/29/05, pg. A2). A NY Times (NYT) article reported that "the economy braked sharply in the first three months,…as rising energy prices spurred a burst of increased inflation and dragged down spending by businesses and consumers (4/29/05, pg. C1).

(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" (NYT, 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. April 2005 figures are due to be reported in early May.

(3) Interest Rates declined substantially in April. The benchmark 10-year U.S. Treasury interest rate, which is set by buyers and sellers in the bond market, closed at 4.20%, well below the March level of 4.49%. This decline occurred even as the Federal Reserve is likely to increase the short-term rate it controls by another _ point in early May, bringing that rate to 3%, up from 1% a year earlier. One of the major puzzles in the bond market is why longer rates have stayed in a range between 4 and 4.5% in the same time frame when short rates have gone from 1 to 3%.

(4) Inflation, as measured by the Consumer Price Index (CPI) "core" rate, which excludes the volatile food and energy sectors, rose 0.5% in March, and at an annual rate of 2.3%, "more than double the rate of increase for all of 2003" (Vanguard Economic Week in Review (VEWR), 4/18-22/05).With food and energy included, the CPI was up 0.6% for the month. Rising oil prices were the main reason for the increase. The Producer Price Index (PPI) core rate was up only 0.1% in March, but a much higher 0.7% with food and energy included (VEWR, 4/18-22/05). The CPI measures price changes of both goods and services, whereas PPI measures only the price changes of goods. In its front page article on inflation dated 4/29/05, the WSJ stated that "Despite signs that economic growth is slowing, the Federal Reserve sees signs of an upward creep in inflation as a bigger threat – and is likely to keep raising interest rates in the months ahead to curb it."

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(5) Sector Economic Activity was mostly weaker in April

(a) Durable goods orders (industrial and consumer) declined 2.8% in March, following a revised decline of 0.2% in February. The decline was "the biggest drop in more than two years and the third consecutive monthly decline" (WSJ, 4/28/05, pg. A2).

(b) Industrial production rose 0.3% in March. Capacity utilization rose to 79.4%, almost reaching the historical average of 81.0% (VEWR, 4/11-15/05).

(c) Retail Sales gained 0.3% in March, well below analyst's expectations of a 0.8% increase. Excluding gas and auto sales, the remaining retail sales figure was actually down 0.1%. (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.) (VEWR, 4/11-15/05).

(d) Housing sales for existing homes gained 1.0% in March, and were 4.9% higher compared to a year earlier. Sales of new homes soared 12.2% in March, and 12.7% over the prior year (VEWR, 4/25-29/05).

(e) Personal Income was up 0.3% in March, while Consumer Spending was up 0.6%. Personal Savings increased 0.4%% in March (VEWR, 4/25-29/05). Personal Savings figures exclude capital gains from stocks and homes, and, according some analysts, 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 sharply in March, "attributable to consumers' gloomier outlook on business conditions and the job market" (VEWR, 4/25-29/05).

(7) Corporate Profits (pretax) for Q1 2005 are still not finalized, but "the Wall Street consensus is for profits for the companies in the S&P 500 index to increase 8.4% over Q1 2004" (NYT, 4/18/05, pg. A17). The same article cites quarterly forecasts for the remainder of 2005 that would have full year profits up more than 10%. Profits increased 20% over the prior year during 2004.

Overall, the economic news reported in April showed a number of areas of weakness, including, retail sales, employment, GDP, and durable goods orders. When combined with somewhat higher inflation, these factors contributed to a decline in stock prices, but higher bond prices. Since both stock and bond prices also declined in March, when economic reports were stronger and interest rates were considerably higher, we are once again faced with the unalterable fact that future prices will be driven by unpredictable, unknowable future events.

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II. INCREASED VOLATILITY, MARKET TIMING, AND INVESTMENTS DESIGNED TO GO UP WHEN STOCK AND BOND PRICES DECLINE

Last month's Comments discussed a wide variety of Alternative Investments. This month's Comments will focus on a narrow sub-set of alternative investments that are designed to increase in value when stock and bond prices decline, and then discuss the connection of these kinds of investments with the issues of increased market volatility and market timing. We think it is important to understand that such investments do exist, even though we typically do not advocate their use.

The basic strategy involved in profiting when stock and bond prices decline is to sell these asset classes "short." ("Long" positions, by contrast, involve buying a security in anticipation of price increases.) Short selling involves the sale of securities the investor does not own. The investor receives credit for the proceeds of the sale, but at some future date must close out the sale by delivering the securities sold but not owned. To deliver the securities, the investor must buy them. If the securities can be bought at a lower price than the price at which they were sold, the "short" seller profits; if, on the other hand, the price the investor pays for the securities is higher than the sale price, the "short" seller suffers a loss. One conceptual problem with short selling is that if the price of the security rises high enough, losses can be unlimited. When securities are purchased first and then sold, on the other hand, the worst loss is the initial investment, as the price cannot go below zero. There is no such limitation of losses with short selling.

There are now two basic ways to participate in this type of activity, other than actually selling particular securities, or indexes, short. One is to purchase a mutual fund, whose managers do the short selling. The other is to invest in a hedge fund, whose managers pick and choose the particular securities or market sectors to own and/or sell short.

One mutual fund company that specializes in offering funds that increase in value with declines in stock and bond prices is Rydex. Their menu of funds includes ones whose results correlate inversely with the daily performance of the S&P 500 index, the Nasdaq 100 index, and the long-term US Treasury Bond (these funds are named Ursa, Arktos, and Juno, respectively). Another company offering these types of funds is Profunds, whose offerings short large cap stocks, small cap stocks, and stocks traded over-the-counter (Nasdaq). Profunds even offers funds that magnify the results by using leverage, i.e. borrowing money on margin to control even larger positions.

In contrast to the relatively small number of mutual funds designed to profit when market prices decline, the hedge fund world is filled with participants. Hedge fund managers try to make profitable investments regardless of whether broad-based market prices for stocks and bonds are going up or down. Some hedge funds are authorized to invest in almost any long or short holdings, including US and international stocks and bonds, as well as commodities and currencies. Giving this kind of latitude to an investment manager is obviously the ultimate form of discretion, and the results may bear no resemblance to the returns from the broad-based stock and bond markets.

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From our standpoint, a major issue with these kinds of hedge funds is that there is no way to know in advance what the manager is doing at any given time. This makes it extremely difficult to incorporate this type of investment into a well-defined asset allocation. The only way to characterize it would be as a high risk, equity-type investment, even though the fund itself may be investing in quite a different manner.

Other hedge funds do focus on specific types of investments and strategies, somewhat limiting the unlimited possibilities described in the preceding paragraph. In this situation, investors must believe that a fund with a favorable prior record is going to continue to deliver favorable returns in the future, which is often not the case.

We have other concerns about hedge fund investing as well. A Wall Street Journal article on hedge funds (4/27/05, pg. D1) begins: "There is no greater evidence of the phenomenal growth of hedge funds than this: there are now nearly as many of them as there are mutual funds. These investments – lightly regulated private funds that often take high stakes, highly leveraged positions in securities – were originally created for high net worth and institutional investors. But now, aiming to capitalize on the huge popular fascination with them, many hedge funds are increasingly targeting less sophisticated investors as well."

The article continues: "The risk is that this could be precisely the wrong time for smaller investors to get into hedge funds. Efforts to broaden their ranks come as some economists are questioning whether the stellar overall returns of hedge funds can be sustained. These returns, which were in the 20% plus range a decade ago, have moved closer in line to more staid stocks and bonds….In addition, some of the newest funds add layers of extra fees, the total being as much as 3% of assets, sales fees, and as much as 30% of profits, that can drastically cut into performance." One reason for the weaker returns is that "the massive inflow of money has caused more funds to compete for the same or similar investment opportunities." Further, the article states that "there is no regulatory body with the authority to verify that hedge fund returns are accurate." (Note: We made the same points in our August 2004 Comments, which were critical of hedge funds.)

The Journal article also discusses hedge fund indexes as possible ways to invest in hedge funds. It names half a dozen such indexes, and Rydex (mentioned above) has a closed-end hedge fund index. At this writing, we still favor implementing our clients' asset allocations with the more precisely targeted indexed investments we use. We will, however, continue to research new hedge fund offerings as they become available.

Returning to the larger themes of this section, we are not advocates of either the short-selling mutual funds or the hedge funds because we believe they rely on market timing and are likely to add to the overall volatility of an investment portfolio. The market timing feature arises from a basic historical fact of the markets: Over lengthy periods of time, market returns have been positive. Managers looking to profit from declines therefore need to make decisions when to establish a long or short position <u>and</u> when to close that position. This contrasts with the strategy for long-term investors, who could, based on the history of market prices, establish certain basic positions consistent with an overall asset allocation appropriate to their circumstances, and then hold those investments indefinitely. No further decision making as to what to buy and sell would need to be made, unless and until changes in the asset allocation called for changes in the portfolio.

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Furthermore, since knowledgeable professional fund managers engaged in these market timing trading activities are basically buying and selling to each other, and all believe their talents and information provide them some sort of edge against the other knowledgeable professional managers, it should be apparent that the market timing skills required to succeed consistently over time would be quite difficult to establish and perpetuate.

Note also that the market timing needed to be successful when trying to profit from falling prices differs when investing in the mutual funds that short the broad market indexes (e.g., Rydex and Profunds) as compared to investing in hedge funds. Mutual fund investors (and/or their advisors) must decide for themselves when to own the funds that short the market, and when to sell them. Hedge fund investors, by contrast, turn over to the manager all the decisions regarding when to be long or short, in or out, of different market positions.

The quest for positive returns through market timing trading activities also contributes to increased volatility in the markets. Volatility refers to the range of price changes associated with particular investments, and gives a general indication of the risk involved in different types of investments. A short-term bond might have an annual price range from high to low of 5%, while a broad-based stock index could have an annual range of 25% and an individual stock could have a price range considerably greater than the index. (The index diminishes volatility because it consists of a large number of stocks that go up and down by different amounts in a given time frame). A NY Times article (5/2/05, pg. 7, Sunday Financial section) details the increased volatility in the stock market during April. For example, the S&P 500 index had five days with moves of more than 1% from April 13 to April 27, but only six such days for all of 2005 up to April 13. And 60 stocks within the S&P 500 index had moves (mostly down) of 3% or more on at least 11 trading days, whereas the largest one day changes for the index itself ranged from positive 2% to negative 1.7%.

Increased volatility has negative implications not only in the broad markets, but also, we believe, for individual portfolios. For example, assume a two-year, 10% investment return on $100, achieved in one of three ways: (1) a first year gain of 20% and a second year decline of 10%, resulting in $108; (2) a first year decline of 10% and a second year gain of 20%, also resulting in $108; and (3) gains of 5% in both years, resulting in $110.25. The more volatile approaches provide a lower return than the less volatile, steadier return.

As investment advisors, our objective is to identify those investments that give our clients the best opportunities to achieve the better result associated with lower volatility. We therefore tend to avoid the investments discussed in these Comments that we believe rely on market timing and add to overall volatility.

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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)%
April 30, 2005	1,157	(21.3)%	10,192	(11.4)%	1,922	(52.8)%

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%
April 30, 2005	1,157		10,192		1,922	
10.33 Yr Gain; Annualized %	698	9.4%	6,358	9.9%	1,170	9.5%

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