



Park Piedmont Advisors LLC

Registered Investment Advisor

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JULY 2004 COMMENTS

IMPORTANT NOTES:

E-MAIL INFORMATION and TRANSMISSION

We will continue E-MAILING the Comments, instead of mailing them, to everyone for whom we have e-mail addresses. If you prefer receiving the Comments by regular mail, please advise Lynette at her e-mail address, lynettec@parkpiedmont.com. Alternatively, if we do not have your e-mail address, and you would like to receive the Comments by e-mail, please provide your e-mail address to Lynette. Further, we would like to have all e-mail addresses in our files, even if you prefer receiving the Comments by regular mail, so please provide Lynette your e-mail address if you think we do not already have it. Thank you.

TAX COST BASIS INFORMATION on MONTHLY STATEMENTS

Your LaSalle Street/National Financial Services' (LSS/NFS) statements for taxable accounts have a column for cost basis information (cost basis is not relevant for IRA and other retirement accounts). We have begun the process of providing you with spreadsheets containing cost basis information for your approval, after which the cost basis information will be added to your monthly statements. Each of you will get a letter specific to your information. We expect all clients to have this information by year-end 2004.

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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.

COMMENTS: INDEX RESULTS, period ending JULY 30, 2004

	<u>YEAR</u>	<u>YEAR</u>	<u>YEAR</u>	<u>YEAR</u>	<u>YEAR</u>	<u>YTD</u>	<u>CURRENT</u>
<u>STOCKS</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>MONTH</u>
Vanguard Total Stock Market Index Fund (1)	23.8%	(10.6)%	(11.0)%	(21.0)%	28.4%	(0.1)%	(4.0)%
S&P 500 Index (2)	19.6%	(10.1)%	(13.0)%	(23.4)%	26.4%	(0.9)%	(3.5)%
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(22.2)%	(13.0)%	(23.7)%	25.9%	(2.7)%	(5.7)%
Vanguard S&P 500 Value Index Fund (1)	12.6%	6.1%	(12.0)%	(20.9)%	32.2%	2.3%	(1.4)%
Dow Jones Industrial Average Index (2)	25.2%	(6.2)%	(7.1)%	(16.8)%	25.3%	(3.0)%	(2.8)%
NASDAQ Composite Index (2)	85.6%	(39.3)%	(21.0)%	(31.5)%	50.0%	(5.8)%	(8.0)%
Vanguard Mid Cap US Index Fund (1)	25.0%	2.6%	(4.8)%	(16.3)%	34.1%	0.9%	(4.9)%
Vanguard Small Cap US Index Fund (1)	19.6%	(4.2)%	1.0%	(21.6)%	45.6%	1.3%	(6.4)%
Vanguard International (EAFE) Index Fund (1)	25.3%	(15.2)%	(22.6)%	(17.5)%	40.3%	0.8%	(3.4)%

BONDS:

Vanguard Total Bond Market Index (1)	(0.8)%	11.3%	8.3%	8.2%	4.0%	1.1%	1.0%
Vanguard Interm. Tax-Exempt Bond Index (1)	(2.9)%	9.2%	5.0%	7.9%	4.4%	0.3%	1.0%
Vanguard High Yield Taxable Bond Fund (1)	NA	NA	NA	1.7%	17.2%	2.0%	1.1%

	<u>1999</u>				<u>2000</u>				<u>2001</u>			
%	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
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 COMP	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 Interm. Taxable	0.0	(0.5)	0.4	(0.7)	2.4	1.5	3.1	4.3	3.2	0.8	4.3	0.0

	<u>2002</u>				<u>2003</u>				<u>2004</u>			
%	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
S&P 500	0.0	(13.8)	(14.1)	4.5	(1.8)	12.8	2.2	13.2	1.3	1.3		
NASDAQ COMP	(5.5)	(19.5)	(13.5)	7.0	2.5	19.2	12.1	16.2	(0.5)	2.7		
BONDS Interm. Taxable	0.0	2.8	3.6	1.8	0.9	2.7	0.2	0.2	2.7	(2.6)		

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.

JULY 2004 COMMENTS

During the month of July 2004, **STOCK** index prices declined after two consecutive monthly gains. For the month, the S&P 500 declined (3.5)%, the Dow Industrials declined (2.8)%, and the NASDAQ Composite declined the most, at (8.0)%. Year-to-date (YTD), the S&P 500 is now down (0.9)%, the Dow down (3.0)%, and the NASDAQ down (5.8)%. The Total Stock Market Index, which includes midcap and smallcap stocks, was down (4.0)% for the month, but down only (0.1)% YTD. The media attributed the monthly declines to causes ranging from anticipated corporate earnings not meeting expectations to slower economic growth, terrorism fears, and the uncertainty of the coming presidential elections. Starting on page 7, we discuss our view of the factors and events that influence stock prices.

BOND RETURNS (price change plus interest) were positive in July, and YTD bond returns are now higher than stocks, even after the highly publicized April-May interest rate increase. High quality intermediate-term taxable bonds had returns of 1.0%, and intermediate-term municipal bonds (munis) also gained 1.0%. Taxable bonds are now up 1.1% YTD, while munis are up 0.3%. High Yield ("Junk") bonds also gained, up 1.1% for the month and 2.0% YTD.

At the end of July, the 10-year US Treasury yield was 4.47%, down from July's close of 4.60% and the recent highs of 4.85% reached during mid-May. It is most interesting to note that, for all the concerns about higher interest rates, this benchmark yield was 4.40% at the end of July 2003, so the full-year change in rates has been all of 0.07%.

When analyzing bond returns, it is extremely important to understand that the interest portion of the bond return is earned in small increments each month. By contrast, the price changes of bonds, up or down, can take place in short time frames, and can, at times, be quite substantial. Also remember that in the liquid markets, there are only two alternatives to bonds: Money markets and other cash equivalents that have stable prices but very low current interest rates; or stocks, which historically have had far more volatile prices along with their higher returns, and currently provide very little steady income flow.

As we have discussed many times, maturities and credit quality are the key variables for bond prices in times of significant changes in market interest rates. To illustrate, we have set out below the 2004 YTD total returns (interest earned plus/minus price changes) for a variety of the bond and other interest-sensitive investments that we select for our client's portfolios. All returns are now positive.

	<u>Short</u>	<u>Limited</u>	<u>Interm.</u>	<u>Long</u>	<u>Infl. Prot.</u>	<u>HiYld.</u>	<u>REITs</u>
Treasuries	0.2%	NA	0.7%	1.2%	2.8%	NA	NA
Corporates	0.7%	NA	1.0%	1.3%	NA	2.0%	5.6%
Mixed Govt/Corp	0.4%	NA	1.1%	1.3%	NA	NA	NA
Municipals	0.4%	0.1%	0.3%	0.2%	NA	1.1%	NA

1) Results for Vanguard funds include income and Vanguard fees, but not PPA fees.

Stock and bond investment results for July, for 2004 YTD, and for the five years from 1999 to 2003 are set out on page 2. The stock market rally that began in March 2003 has raised the S&P 500 by 42% from the October 2002 low, even with the lackluster returns for 2004 YTD. While these gains have made investors believe again that stocks do not go down in perpetuity (a view that was widely held during the depths of the 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).

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 11). Note that the three indexes have positive average annual returns ranging from 9.5% to 10.6% for the 9.6 year period from the end of 1994 through July 2004, 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.

	<u>S&P 500 (1)</u>		<u>DOW (1)</u>		<u>NASDAQ (1)</u>	
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)%
July 30, 2004	1,102	(28)%	10,140	(13)%	1,887	(63)%

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

	<u>S&P 500 (1)</u>	<u>DOW (1)</u>	<u>NASDAQ (1)</u>
End 1994	459	3,834	752
End 1999	<u>1,470</u>	<u>11,500</u>	<u>4,070</u>
Gain	1,011	7,666	3,318
Avg. Ann. % Gain, '95-'99; 5 years	26.2%	24.6%	40.2%
July 2004	1,102	10,140	1,887
Gain	643	6,306	1,135
Avg. Ann %Gain, '95-7/04; 9.6 yrs	9.5%	10.6%	10.0%

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

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. (Note: 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.) In any event, an understanding of the direction of current economic trends is 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 U.S. economy. (GDP figures are inflation-adjusted, annualized growth rates.) The initial estimate of GDP for Q2 2004 was reported at 3.0%, below the final revised Q1 figure of 4.5%, which in turn was well below the 20-year high of 8.2% for Q3 2003. "The pace of economic growth slowed abruptly in the second quarter as consumers forced to pay higher energy bills curbed their spending on just about everything else" (NYTimes, front page, July 31st). "Growth was lower than consensus expectations due to dramatic slowdowns in consumer spending, and in inventory investment. Consumer spending rose 1.0% in the quarter, the smallest rise in three years" (Vanguard Economic Week in Review, VEWR, July 26-30.)
- (2) Employment for June (reported 7/2/04) grew by 112,000 new jobs, a figure that was well BELOW the consensus estimates of 200,000 to 250,000. The July employment report is not due until Friday August 6th. The June report was a key indicator of the slowing pace of the US economy, re-enforced by the just-reported GDP figure.
- (3) Interest Rates declined in July, responding to both the weaker employment and GDP reports. The benchmark 10-Year US Treasury bond yield closed at 4.47%, down from the June close of 4.60%. Interest rates are now almost midway between the recent low of 3.9% at the end of March and the recent high of 4.85% recorded in mid-May.
- (4) Inflation, as measured by The Consumer Price Index ("CPI") "core" rate, which excludes the volatile food and energy sectors, rose 0.1% in June. For the last twelve months, this core rate is 1.9%, still quite low but higher than the historically low annual rate of 1.2% recorded a few months earlier. With food and energy included, the CPI increase was 0.3% in June and 3.3% for twelve months, much higher than the core rate. Further, the Producer Price Index (PPI) core rate rose 0.2%, with the rate for the last twelve months now at 1.8%. With food and energy included, the PPI decreased in June by (0.3)%, but the most recent twelve months was 4.0% higher (all figures are set out in VEWR, 7/14-18). The WSJ article reporting these inflation figures (7/19, pg. A2) commented that "after years of decline, consumer prices rose this year at a pace that surprised Fed policy makers and fanned fears that the Fed had not done enough to keep inflation under control....Still, it (the Fed) played down fears that inflation was running out of control, citing "transitory factors."

(5) Sector Economic Activity was Mixed

- (a) Durable goods orders increased 0.7% following two months of declines. The increase fell below analysts' expectations (VEWR, 7/26-30).
 - (b) Industrial production declined 0.3%, and capacity utilization also declined for only the second time in twelve months (VEWR, 7/12-16).
 - (c) Retail Sales also declined, "fueling fears about the sustainability of consumer spending as a driver of the economic recovery" (VEWR, 7/12-16).
 - (d) Housing sales for existing homes rose to record levels, while sales for new homes declined slightly from the previous month's record level. Prices continued to rise for both categories (VEWR, 7/26-30). Our June Comments discussed the rising home price issue in some detail.
 - (e) Personal Income and personal spending, both up for May and last reported on June 28, are scheduled to be reported during the first week in August.
- (6) Consumer Confidence, as measured by the Conference Board's Index of Consumer Confidence, rose again in July to another two-year high. The Director of the Board's Consumer Research Center stated that "unless the job market sours, consumer confidence should continue to post solid numbers." Further, the same article reported that "some economists saw the consumer confidence data as support for the prediction last week by Fed Chairman Greenspan that recent sluggishness in the economy was due to temporary factors and will be short-lived" (WSJ, 7/28, pg. A2).
- (7) Corporate Profits for the second quarter of 2004 have been strong. Through Friday, July 23, the NYTimes (Sunday Financial Section, 7/25, "Portfolios" article) reported that 260 companies in the S&P 500 had reported profits for Q2, and "based on these reports and on forecasts for the remainder, profits for all companies in the S&P 500 are expected to be up 24% compared to Q2 2003." The impact of earnings on stock price is a key part of our discussion of factors affecting stock prices, which starts on the next page.

The economic news for July was considerably mixed in terms of projecting future economic growth. While Fed Chairman Greenspan was "optimistic about the economy and the labor market" during his recent Congressional testimony (VEWR, 7/19-23), there is much disagreement among economists about the pace of future economic growth. "The recent sluggish economic indicators have inspired a note of caution in forecasts which until now have been unabashedly bullish" (NYTimes, 7/12, pg. C1). How these economic trends are likely to affect future stock and bond prices is, as always, dependent on the unfolding of future events. A more in depth discussion of factors affecting stock prices follows.

II. FACTORS THAT AFFECT STOCK PRICES

Our April and May Monthly Comments included extensive discussion of changes in bond prices, in the context of April's substantial increase in interest rates and the corresponding decline in bond prices. During July, the investment focus switched to stock prices, which experienced declines of some magnitude. We think it timely to review again the key factors that affect stock prices, and to separate these factors from the variety of events that have an influence on these factors. The distinction between factors and influencing events should help in understanding price movements that occur, but this analysis should in no way be taken as a way to predict future price movements. As you should all know, we do not believe any methodology can successfully predict future price movements for any market.

Factors that affect stock prices include: (1) corporate earnings, both current and anticipated future levels and rates of change; (2) the valuation the market places on these corporate earnings, which in turn is impacted by such factors as interest rates, current and anticipated economic growth, and investor sentiment and psychology. This valuation factor is referred to as the Price/Earnings (P/E) ratio, which relates the price of a stock to the earnings being produced by the stock. P/E ratios can in turn be calculated for more than one stock, as in a broad market index, which we discuss at length below; and (3) dividends paid.

The events that influence these factors are many and varied, and include political events (such as the current concerns over war and terrorism, the US elections, domestic tax policy and budget deficits), broad economic events (such as the rate of recovery for the US economy from its economic slowdown of the early 2000s, real and perceived inflation rates, interest rate policy and its impact on controlling inflation while encouraging sustainable economic growth), and pricing in other key markets (such as high oil prices, above-average increases in housing prices). Consider the points mentioned in a recent article discussing stock prices that appeared in the Monday, July 19th WSJ (pg. C1, "Stocks Act Cool, Which Isn't Bad"): "Big corporate profit gains, modest interest-rate increases, rising oil prices, slowing economic growth, turmoil in Iraq, vitriol in the US presidential campaign....a terrorist event, a setback in the Middle East or some economic blow such as a sudden acceleration in inflation."

It is significant to note that many of these influencing events generate reactions that tend to counter the initial event. For instance, while war and terrorism could be viewed as leading to fear that would impede economic growth, tax reduction can be implemented in an effort to add to economic growth. This same tax reduction can add to government budget deficits, which in turn puts upward pressure on interest rates, which can adversely affect economic growth. Similar countervailing tendencies arise when too much economic growth leads to inflation (higher prices), which then can require higher interest rates to slow down the economic growth. In different time frames, each of these events can lead to positive or negative stock price changes. Advance knowledge of the events, even if possible, would therefore provide no assurance of a favorable investment result based on such knowledge.

Let's return to the three factors that affect stock prices. First are the corporate earnings themselves. Rising earnings should, standing alone, lead to higher stock prices. But even this seemingly straightforward relationship does not necessarily hold true. Why? At times, even though earnings may be rising, they are not perceived to be rising fast enough, or at a sufficiently sustainable growth rate, to justify the levels at which stock prices trade. The media reporting on the current stock market makes this point (NYTimes, Sunday Financial Section, 7/25 25 article entitled "Companies' Profits are Surging. Why Isn't the Market"): "If earnings are so good [growth of more than 20% compared to Q2 2003], why has the stock market been stalled for so long? Part of the answer is that the market has already built expectations of strong earnings into current prices. And history shows that even when earnings are strong, they don't necessarily translate into higher prices. That is especially true when investors have other things to worry them, as they do now, including rising inflation, high oil prices, terrorism and the presidential election...Rising interest rates, in themselves, trouble the market, but the state of the economy is also worrisome. Economic data show that the economy and job creation slowed last month...Then there are the earnings numbers. A closer look shows why the market hasn't been all that impressed...since companies are no longer beating expectations the way they have since the beginning of 2003...What's worse, corporate expectations for future earnings are not as positive as they have been in the [recent] past."

Not mentioned in the Times article, but a point made in recent times, relates to the quality of the earnings being reported. In 2002, when the accounting scandals were in the headlines, this was a major issue. At least for now, it is not being put forth by the media as a reason for weaker stock prices in the face of strong reported earnings, but presumably this ingredient has not totally disappeared from the thinking of professional investors.

You should recognize by now that all these explanations come after the fact. If stock prices were rising as the earnings reports were issued, then an entirely different article would have appeared, citing a different historical time period when stock prices rose with rising earnings. That is the ongoing problem with all explanations of market price movements; there are reasons for whatever takes place, and what takes place is only known after the fact. Please keep this point in mind whenever you are tempted to believe that someone out there has some idea as to which direction stock prices are likely to move in any given time frame.

The second factor, the valuation the marketplace places on corporate earnings (the P/E ratio), is perhaps the most crucial factor in stock price levels. By way of illustration, if all the stocks of the companies contained in the S&P 500 index have combined earnings of \$60 per share, and the S&P 500 index was selling at 1200, the P/E ratio for the stocks in the index would be 20; those same \$60 earnings with the index selling at 900 would result in a P/E ratio of 15. While the math is simple, the reasons stock market participants (meaning all those in the market taken as a group, including the short term trader, the hedge fund manager who sells stocks short, the managers looking to outperform the market over one to five year time frames, and the truly long-term, buy and hold investors) would bid prices up to the 20 P/E level (or higher), or down to the historical average of 15 (or lower under certain adverse circumstances) presents the main puzzle for those seeking to explain stock price changes.

In discussing P/E ratios, it should be understood that the ratio itself is a reporting tool; it simply relates the price of a security (or an index of securities) to the underlying earnings associated with that security (or index of securities) at a particular point in time. It neither predicts the future nor even explains the past. It is simply a mathematical relationship between price levels and earnings levels. Indeed, when P/Es are discussed, you need to know whether they are based on past earnings (for example, the most recent twelve months) or a projection of future earnings (that is, earnings for the next twelve months). Once passing this introductory point, we are left with the key question: Why do prices sometimes rise above long term historical P/E ranges, and why do they sometimes fall below these ranges?

Explanations abound. One view, presented by the academic community, is that the price of a security at any time represents the discounted value of its earnings into the future. For that reason, interest rates, which reflect the value of money received in the future, play a crucial role in P/E levels. As interest rates decline, the value of a dollar received in the future requires less of a discount, and therefore a higher P/E for stocks is appropriate. A less academic explanation makes the point that when market participants are optimistic about the future, for whatever combination of reasons, prices are bid up, thereby increasing P/E levels. This notion was taken to an extreme in the late 1990s, when P/Es for the broad stock market reached as high as 40. In retrospect, it was easy to say the stock market had reached a "bubble" in valuations. But while stock prices continued to increase, it was very difficult to be a seller. Fed Chairman Alan Greenspan thought stocks suffered from "irrational exuberance" in December 1996, a notion that proved premature by more than three years. Further, even at the low point of the 2000-2002 bear market, stocks were 10% higher than the level that made Greenspan so nervous in 1996.

A July 12th article titled "Inflation Can Have Illusory Allure," (WSJ, pg C5), discusses the relationship between earnings and stock prices, the impact of inflation on earnings, and how these earnings are valued in stock prices. The research discussed in the article indicated that even though moderate inflation may increase earnings, stock prices often decline during inflationary periods, meaning the P/E ratio has declined. The article cites the current P/E (July 12th closing prices) for the S&P 500 as 18.1 (based on past 12 month's reported earnings), which puts the per share earnings of the S&P 500 at approximately \$62. Further, the July 30th NYTimes article discussing the prior day's trading stated that the S&P 500 at 1,100 was trading at 16.7 times estimated annual earnings, making that earnings figure approximately \$66.

The third factor affecting stock prices, and one that has taken on more importance recently, is the payment of dividends from corporate earnings back to the stockholders. In the late 1990s, when growth investing was king, dividends were of little consequence. Stock market participants were looking for gains in stock prices, and companies paying dividends were looked upon as low growth companies that could find no better use of corporate earnings than to return some to their investors. Microsoft, and most fast-growing technology companies, were prime examples of this thinking, paying no dividends at all. Fast forward to July 2004, and Microsoft has just declared the largest dividend in corporate history.

Some background discussion is in order here. Companies can pay dividends out of their earnings, but are not obligated to do so. This contrasts with interest on bonds, which are required payments; a failure to pay interest on bond debt can put a company into bankruptcy, whereas the nonpayment of a dividend has no such consequence. So while dividends and interest both represent the income component of an investment in stocks and bonds, respectively, no one can rely on the continued payment of dividends, whereas it would take the failure of the company for interest payments to stop. Prior to the 1950s, stocks actually paid higher dividends than bonds paid interest, on the theory that stocks were more speculative and should therefore pay a higher income. But since that time, stock dividends have fallen dramatically as a percentage of stock prices, and stock investors now rely primarily on price appreciation for their investment returns. The median yield currently on the S&P 500 stocks is a mere 1.7%, which compares unfavorably to quality intermediate-term corporate bond interest yields of approximately 4.5%.

In an article discussing Microsoft's dividend announcement (WSJ, July 22nd, pg. C2) the writer states that "investors are once again favoring stocks that pay dividends...a big turnaround from the late 1990s when investors turned up their noses at dividends and flocked to growth companies, expecting them to plow profits into the firms themselves in an effort to spur more growth.... But the stock market meltdown that started in 2000 burned growth-focused investors and changed those attitudes, and investors started to return to more traditional strategies, including seeking out stocks that actually return money to investors. The renewed focus on dividends was only reinforced last year when Congress cut the tax rate on dividends to a top rate of 15%."

The NY Times article discussing Microsoft's dividend announcement (July 22nd, Financial Section, pg. 5) states that even though dividends have begun to increase, "there are companies that think they can do better for their investors by using their cash to reinvest in their businesses, and if that is the case they will not pay dividends." The payment of dividends, in and of itself, is therefore not an indicator of whether a company's stock is likely to provide a better total return than a stock paying no dividends. Indeed, the lack of reinvestment opportunities, indicating a slower future growth rate, may be one reason why a company begins to pay dividends, or increases the dividends it pays.

As investment advisors, we believe stocks have a definite place in most investment portfolios. They represent the potential for more growth than bond and cash investments. This greater potential comes at a price, of course; higher risk, as measured by the range of up and down price movements, and the real possibility of lower prices in a given time frame in which stocks are owned. One of our most important functions is to provide advice on the most appropriate mix of stocks and bonds for each of our clients, based on their specific circumstances. This function does not involve predicting price movements, but rather understanding our client's goals and risk tolerances, and the historical behavior of the price changes of different asset classes (with the further caveat that this history may not repeat).

S&P 500 (1) DOW JONES (1) NASDAQ (1)

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)

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 <u>Low</u>	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 <u>Low</u>	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)%
July 2004	1,102	(25.0)%	10,140	(11.8)%	1,887	(53.6)%

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

Start of 1995	459		3,834		752	
End of 1999	<u>1,470</u>		<u>11,500</u>		<u>4,070</u>	
5 Year Gain; Annualized %	1,011	26.1%	7,666	24.6%	3,318	40.2%
End of 2001	<u>1,148</u>		<u>10,020</u>		<u>1,950</u>	
7 Year Gain; Annualized %	689	14.0%	6,186	14.7%	1,198	14.6%
End of 2002	<u>880</u>		<u>8,342</u>		<u>1,336</u>	
8 Year Gain; Annualized %	421	8.5%	4,508	10.2%	584	7.5%
End of 2003	<u>1,112</u>		<u>10,454</u>		<u>2,003</u>	
9 Year Gain; Annualized %	653	10.3%	6,620	11.8%	1,251	11.5%
July 2004	<u>1,102</u>		<u>10,140</u>		<u>1,887</u>	
9.6 Year Gain; Annualized %	643	9.5%	6,306	10.6%	1,135	10.0%



Victor Levinson



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