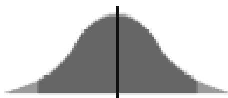

Park Piedmont Advisors LLC

Registered Investment Advisor

VICTOR LEVINSON **NICK LEVINSON**

JULY 2005 COMMENTS

IMPORTANT NOTICES:

HEDGE FUND INVESTMENTS: As a Registered Investment Advisor (RIA), Park Piedmont Advisors (PPA) uses the services of a Broker/Dealer (BD), LaSalle St. Securities, LLC (LSS). Amongst other services, LSS executes orders on behalf of PPA clients, and from time to time offers investment products. LSS has recently made available the "Absolute Strategies Funds" (ASF), which uses a "hedge fund-like investment model available to non-accredited investors," and has a "low correlation to the market place with low volatility" (quoted from a June 22, 2000 letter from LSS's Chief Investment Officer; copy available upon request). After reviewing this fund and its features, we may suggest its use for certain of our client's portfolios. Starting on page 7, this month's Comments will discuss Hedge Funds in general, and ASF (and alternatives to ASF), in particular, so that there is an increased understanding of this type of investment and how it might fit into the broad-based, highly diversified, primarily index fund portfolios that we manage for our clients.

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 JULY, 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%	3.8%	4.1%
Standard & Poors 500 Index (2)	19.6%	(10.1%)	(13.0%)	(23.4%)	26.4%	9.0%	1.8%	3.5%
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(22.2%)	(13.0%)	(23.7%)	25.9%	7.2%	3.1%	4.6%
Vanguard S&P 500 Value Index Fund (1)	12.6%	6.1%	(12.0%)	(20.9%)	32.2%	15.3%	4.3%	3.0%
Dow Jones Industrial Average Index (2)	25.2%	(6.2%)	(7.1%)	(16.8%)	25.3%	3.2%	(1.3%)	3.4%
NASDAQ Composite Index (2)	85.6%	(39.3%)	(21.0%)	(31.5%)	50.0%	8.6%	0.4%	5.9%
Vanguard Midcap US Index Fund (1)	25.0%	2.6%	(4.8%)	(16.3%)	34.1%	20.4%	9.5%	5.5%
Vanguard Smallcap US Index Fund (1)	19.6%	(4.2%)	1.0%	(21.6%)	45.6%	19.9%	7.2 %	6.3%
Vanguard International Index Fund (EAFE) (1)	25.3%	(15.2%)	(22.6%)	(17.5%)	40.3%	20.8%	2.9%	3.7%
Vanguard Real Estate Invest. Trust Fund (1)	(0.4%)	26.4%	12.4%	3.8%	35.7%	30.8%	13.6%	7.4%
BONDS								
Vanguard Total Bond Market Index (1)	(0.8%)	11.3%	8.3%	8.2%	4.0%	4.2%	1.5%	(1.0)%
Vanguard Interm. Tax-Exempt Index Fund (1)	(2.9%)	9.2%	5.0%	7.9%	4.4%	3.2%	1.2%	(0.7)%
Vanguard Short-term Bond Index (1)	2.1%	8.9%	8.9%	6.1%	3.4%	1.7%	0.4%	(0.5)%
Vanguard Short Tax-Exempt Index Fund (1)	2.6%	4.9%	4.8%	3.5%	1.6%	1.1%	0.8%	0.1%
Vanguard High-Yield	NA	NA	NA	1.7%	17.2%	8.5%	1.7%	0.9%

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)	0.9%										
NASDAQ	(8.1)	2.6%										
BONDS	(0.5)	3.0%										
Interm. Tax.												

JULY 2005 COMMENTS

STOCK index prices posted significant gains in July. The S&P 500 gained 4.1%, the Dow Industrials gained 3.4%, and the NASDAQ Composite gained 5.9%. The Midcap, Smallcap, and REIT indexes also posted gains of between 5.5% and 7.4%. All stock indexes are now up for the year except the Dow Industrials. The Midcap, Smallcap and REIT indexes are substantially outperforming the Largecap indexes. (See page 2 for the monthly and YTD figures).

BOND returns (price change plus interest) declined, following three consecutive months of gains. The benchmark 10-year US Treasury yield closed the month at 4.28%, significantly higher than the June close of 3.92%, and even above the April close of 4.20%. March's close of 4.49% remains higher, even though the Fed has continued its program of raising short term interest rates at each of its meetings (nine quarter-point increases from June 2004 through July 2005). Despite July's declines, all YTD figures for bonds remain narrowly in positive territory. Bond result figures for the month and YTD are reported on page 2.

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The stock market rally that began decisively in March 2003 has raised the S&P 500 by 59% 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 large cap stock indexes are still posting only slight YTD gains, and the Dow Industrials are still negative. (Note also that after a 50% price decline, it takes a 100% gain to return to the previous level. Since the S&P 500 reached its high of 1,527 in Q1 2000, and then declined by almost half to 777 during Q4 2002, the current level of 1,234 is 59% higher than the low but still another 293 points, or 38%, from the 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 9.8% to 10.6% for the ten-year and seven-month period from the end of 1994 through July 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)%
July 31, 2005	1,234	(19)%	10,641	(9)%	2,185	(57)%

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%
July 2005	1,234	10,641	2,185
Gain	775	6,807	1,433
Avg.Ann.%Gain:'95-07/05; 10.58 yrs	9.8%	10.1%	10.6%

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). A recent New York Times (NYT) article (7/31/05 Financial section, "Economic View," pg. 4) discussing GDP lists the following elements: (a) personal consumption spending for goods and services; (b) government spending and investment; (c) residential and nonresidential investment, and changes in inventories; and (d) net exports. The initial estimate for Q2 2005 GDP was a 3.4% increase, which was slower than the final 3.8% growth in Q1 2005. However, the decline was attributed "primarily to a reduction in business inventories, which, while detracting from Q2 growth, portends an increase in production, as businesses strive to meet future demand" (Vanguard Economic Week in Review [VEWR], 7/25-29/05).

(2) Employment for June grew by 146,000, an improvement over May but still "somewhat below the 180,000 that analysts had expected" (VEWR, 7/4-8/05).

(3) Interest Rates were up in July, after three consecutive monthly declines. The benchmark 10-year US Treasury interest rate, which is set by buyers and sellers in the bond market, closed at 4.28%. This was still below the rates of earlier this year, even as the Federal Reserve continues to increase the short-term rates it controls. At the end of June, the Fed made the ninth such increase since June 2004, bringing the short term rate to 3.25%, up from 1% a year earlier. According to the Wall Street Journal (7/1/05, pg. A2), the increase "signaled confidence in the economy and concern about inflation."

(4) Inflation, as measured by the Consumer Price Index (CPI) "core" rate, which excludes the volatile food and energy sectors, increased a modest 0.1% in June, and was up 2.0% over the preceding twelve months. With food and energy included, the CPI was unchanged in June, and is up 2.5% for the year (NYT, 7/15/05, pg. C3). The Producer Price Index (PPI) core rate declined (0.1)% in June, and was unchanged with food and energy included.. The annual PPI rate increases are 2.2% for the core rate, and 3.6% overall (NYT, 7/16/05, pg. C4). (Note: the CPI measures prices of goods and services; the PPI, only goods). These low inflation rates have not kept the Federal Reserve from continuing to raise short term interest rates. "These latest reports suggest the "elevated" inflation pressures (cited by the Fed) might not be as severe as some fear" (WSJ, 7/15/05, pg. A2).

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(5) Sector Economic Activity was Strong in July

(a) Durable goods orders (industrial and consumer) increased 1.4% in June (VEWR, 7/25-29/05).

(b) Industrial production rose 0.9% in June, "the largest monthly increase in nearly a year and a half" (WSJ, 7/28/05, front page).

(c) Retail Sales "were sharply above forecasts. Sales climbed 1.7%." Discounted auto prices led to a significant increase in auto sales (VEWR, 7/11-15/05). (Retail sales are not adjusted for inflation, and include disparate categories such as gasoline sales, auto sales, and non-store retailers such as the Internet).

(d) Housing sales for existing homes increased 2.7% in June, to "new highs" (WSJ, 7/26/05, pg. A2). New home sales were also higher, up 4.0% from May and 14.0% higher year over year (VEWR, 7/25-29/05).

(e) Personal Income. An NYT article (7/14/05, pg. C1) headlines the fact that wages have "stagnated" but other income, like investments, has climbed. "Year on year growth of real disposable income was up 3.7% in Q1 2005, down from 4.7% in Q4 2004, but still plenty strong enough to support substantial output growth, expected to advance at 3.5% this year, after inflation."

(6) Consumer Confidence, as measured by the Conference Board's Index, declined in July from a three-year high reached in June. The decline was "no cause for concern, as the overall state of the economy remains healthy and consumers' outlook suggests no storm clouds on the short-term horizon" (NYT, 7/27/05, pg. C10).

(7) Corporate Profits for Q2 2005 "have been surprisingly strong. Corporate profits for the S&P 500 companies that have reported Q2 earnings are up almost 11% vs. the year-ago period. This marks a sharp improvement over expectations from just a month ago" (WSJ, 7/28/05, pg. D2).

Overall, the economic news reported in July for the month of June pointed to solid growth in the economy. During this period, all parts of the stock market advanced, while bond prices declined for both short and longer maturities. However, seven months into 2005, neither large cap stocks nor bonds have provided significant positive investment returns. As for the future, prices will, as always, be determined by unpredictable, unknowable future events.

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II. HEDGE FUNDS

The increased popularity of hedge funds leads us to devote another of our Monthly Comments to this subject. Further, LSS's offering of the "Absolute Strategies Fund" (ASF), and other recently available hedge fund-type investments requiring only modest amounts of money, has led us to focus again on this investment area. While we have written on hedge funds before (see August 2004 Comments) and have not viewed them favorably, we now think some modest exposure to this type of investment may be appropriate for certain of our clients. The following discussion will present information on hedge funds in general, including their advantages and disadvantages; and then discuss ASF, and alternatives to ASF, currently available to investors with modest amounts to allocate to these funds.

A cover story on Hedge Funds that appeared in the June 5th, 2005 Sunday New York Times (NYT) Magazine section, written by Joseph Nocera, attests to the current popularity of this investment. "They are, right now, at the absolute forefront of the collective financial psyche. Every day, it seems, a half-dozen more young Wall Street hotshots abandon the millions they're making at the big firms like Goldman Sachs or Morgan Stanley and start hedge funds. There are now 8,000 of them, about 40% of which have opened in the last four years, and money is absolutely pouring into them – they're at $ 1 trillion and counting – as institutions search for ways to generate positive returns in this difficult market. Just as business school graduates once gravitated to venture capital or private equity or dot-coms, now they all want to work for hedge funds" (pg. 46).

A concise definition of hedge funds would be helpful, but is difficult to produce. Rather we will list some of the significant elements of hedge funds which should, taken together, provide a helpful definition:

(1) Investment style often, but not always (see (4) (A) – (G) below), "tries to hedge their bets (thus the name), by going both long and short – that is, betting that one asset will rise while a related one falls. Thus they are designed to be less volatile than ordinary stocks, which is why they are so fashionable" (NYT Magazine section, 6/5/05, pg. 20).

(2)"Lightly regulated pools of managed capital" (NYT, 7/13/05, pg. C3, "Marketplace").

(A) Hedge funds are lightly regulated because investors who invest in these funds have traditionally needed to have a significant minimum amount of net worth, which in turn allowed the fund to avoid registering with the SEC. "The theory is that wealthy investors should be able to look out for themselves and don't need as much government protection as the rest of us" (Nocera article, pg. 48).

(B) Investors in hedge funds turn over full discretion of the capital they invest in the fund to the manager(s) of the fund. It is the manager's expertise and ability to produce returns judged attractive by investors that determine the success/failure of the fund.

(3) High Fees. Typical fees today are 2% of assets and 20% of the gains above a certain threshold. This fee structure "is what makes the business so potentially lucrative," but it also makes it "the most Darwinian of investment vehicles, because most hedge funds simply can't afford to lose money for even a single year; if they do, investors and employees head for the exits, and the fund is shut down" (Nocera article, pg. 48).

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(4) Within the hedge fund universe there are many strategies employed by the many fund managers. Financial Planning Magazine (FPM), in its July 2005 article, "How Super are Hedge Funds?," by Donald Korn, describes some of the major strategies (pg. 61):

(A)Aggressive Growth – buys stocks expected to record major growth. (Our query: Where is the hedge to this style?)
(B)Distressed securities – buys stock, or debt, of companies facing bankruptcy at a deep discount (same query)
(C)Emerging Markets – buys securities of companies in emerging markets, which tend to have greater volatility than comparable securities in developed countries (same query)
(D)Macro – seeks to profit from changes in global economies, typically brought about by shifts in government policies, which in turn affect interest rates, currencies and securities.
(E)Market Neutral – Arbitrage: takes offsetting positions, often in different securities of same issuer (e.g., own convertible bonds, short stock, of same company). This is a hedge.
(F)Market Neutral- Securities Hedging: long and short equal stock positions, often in the same market sector. Neutral to the overall stock market. (Our comment: This is an attempt to hedge, but can be wrong on both sides of the transaction.)
(G)Special Situations – involves event-driven investing (e.g., in a merger, buying stock of one of the companies involved and shorting the stock of the other, hoping to profit from the difference between current and eventual prices if the transaction is completed).

One point should be clear from this list: There are so many strategies that it is unlikely for investors to know how their money is invested at any time. The basis of the investment is the absolute faith in the manager(s). This "black box" type of investing constitutes one of our fundamental objections to hedge funds, since we prefer to know that our allocation to stocks and bonds, primarily using indexed investments, will at least give us the results (for better or worse) of the markets we choose to invest in.

Having set out the basic characteristics of hedge funds, we can now turn to a discussion of their advantages and disadvantages. One major advantage cited by advocates of hedge funds is that they have historically provided better returns than stocks or bonds, or have provided similar returns with less volatility (volatility is often used synonymously with risk). Another advantage cited is that they provide a type of diversification so that investors are not "completely reliant on a rising stock market for their returns….They weren't set up to make huge gains, but rather had a different goal. They were trying to manage risk and produce a return that was commensurate with the risks they were taking. Also, by adding hedge funds that were uncorrelated to the market – even ones that were moderately risky – they were lowering the risk characteristics of their overall investments" (Nocera article, pg. 52).

The negative case against hedge funds was made in a recent WSJ article, titled "Caveat Emptor," written by Burton Malkiel (a major advocate of index funds, and author of one of the basic investing texts, A Random Walk Down Wall Street) and Atanu Saha (7/26/05, pg. A24). "There is no doubt that hedge funds are a very good deal for the people who run them: managers typically collect fees of 2% of fund assets plus 20% of profits…but are they such a good deal for investors?"

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The article continues "The putative arguments for investing in hedge funds are: (a) with higher rates of return and lower risk, they appear to be more attractive than the general stock market; and (b) the lack of correlation between returns from hedge funds and stocks in general makes them good diversifiers." But the article then makes the following points:

1) These funds are "far riskier and provide lower returns than is commonly supposed…because the return indexes are tainted by biases," including:

A) Hedge funds generally stop reporting results during the last several months of their lives, periods during which returns are most often negative.
B) Hedge funds provide return information only if they desire to do so.
C) Significant "survivorship" bias. "Unsuccessful hedge funds do not tend to survive because it is difficult for them to obtain new assets. Hence unsuccessful funds tend to close, leaving only the more successful funds in the database.

The authors conclusion to the bias section of the article is that if the returns for all hedge funds (alive and defunct) were included, and backfilled returns were excluded (backfilled results show what would have happened with a particular strategy if the fund had been in existence during a particular time), then "the average hedge-fund return over the past decade turns out to be more than 3% lower than those available from many data-base providers. While the returns were greater during the 2000-2002 bear market, they were lower than the stock market over the entire past decade."

2) "There is very little persistence in the performance of hedge fund managers….The probability of repeating a winning performance next year is about the same as a coin coming up heads twice in a row."

3) While hedge funds tend to be less volatile, and "have been good diversifiers, as their results are often uncorrelated with the stock and bond markets," there is "considerable variability of returns from fund to fund and there is the risk of choosing a fund that performs particularly poorly."

4) "Finally, the substantial flow of funds into the hedge fund industry may reduce returns significantly in the future….The very success of the hedge-fund industry in attracting funds is likely to make hedge-fund investing an even less profitable strategy in the future."

The Nocera article concludes with the following points about the future of hedge funds:

1) "As hedge funds proliferate, the quality of fund managers is bound to go down, and that will hurt their performance…. Let's face it: even though there are 8,000 hedge funds, are there really 8,000 great hedge-fund managers? Of course not" (pg. 100).

2) The strategy of exploiting small market inefficiencies "works well when there are only a handful of people employing them. But once there are hundreds of fund managers all trying to exploit the same inefficiencies, those anomalies tend to go away"(pg. 100).

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3) "There is something powerful in the ideas of managing risk and generating returns that are uncorrelated to the market" (last page of the article).

4) And finally, "hedge funds could wind up achieving the same kind of permanence as mutual funds, based on the power of the ideas behind them and the attractiveness of using them to diversify,…but they may not, due to the real possibility of lower returns in the near term, as well as the high fees."

The FPM article by Korn also makes a number of pertinent points:

1) "Many hedge funds have done less real hedging and become more speculative, ramping up their use of leverage. Considering the level of expense and the difficulty of doing research, hedge funds are not for most individuals" (pg. 56).

2) Hedge Funds have low transparency, which means they are "not required to reveal their holdings, performance information, asset allocation, leverage or liquidity. Hedge fund managers claim, perhaps rightly, that this secrecy is necessary to guard proprietary investing strategies. But that makes it hard for advisers to find out what's being done with their client's money….Nor can advisers realistically compare risk levels from one hedge fund to another. Hedge funds hold numerous complex derivatives and are designed with the flexibility to change strategies rapidly, from long to short, from domestic to international, from distressed securities to overvalued issues. When advisers can't assess the potential impact of a hedge fund's strategy or holdings, it can be hard to manage overall asset allocation" (pg. 58). This point is precisely what we were referring to on page 8, when we described hedge funds as "black box" investments that rely completely on the manager's skills.

3) High fees and high minimum investments for the top performing funds (pg. 59). And remember Malkiel's point that hedge fund performance tends not to persist, so investors can end up paying the highest fees for the best past records, only to see returns falter in the future. One advisor is quoted as saying that "the popularity of hedge funds stems from the belief that "if I can't get it, then it must be worth having" (pg. 59).

4) Performance: Ibbotson Associates did a study of hedge fund performance from 1995 through Q1 2004. After adjusting for survivorship bias and backfilled results (the same points made in the Malkiel article), hedge fund performance "was virtually the same as the S&P 500, before fees," and trailed the index by 3% after taking the high fees into account (pg. 60).

5) As Nocera also points out, the success of hedge funds "might make superior performance more difficult to achieve in the future. The more money chasing the same set of strategies, the more difficult it becomes to make money using those strategies" (pg. 60).

6) "A slice of hedge funds can add significant diversification to a client's portfolio. And since hedge funds aren't correlated to stocks or bonds, they can smooth out long term returns" (pg. 61).

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Using the advantages mentioned in the last section as a departure point, we will now turn to a discussion of some current hedge fund alternatives for modest amounts of money.

The LSS offering, "Absolute Strategies Fund" (ASF), has 14 sub-advisors employing a variety of hedge fund-type strategies: Six of these are long/short equities, some in combination with other strategies; four are equity with a focus on either value or small cap; two are international equity; and two are fixed income and high yield. The stated objective is "to achieve long-term capital appreciation with an emphasis on absolute (positive) returns and low correlation to traditional financial market indices such as the S&P 500 index." The Fund "allocates assets among strategies of the Sub-Advisors that it believes offer the potential for attractive investment returns individually and are expected to blend within the Fund's portfolio so that it will have low correlation and low volatility relative to the broader stock and bond markets." Further, "Absolute return strategies are actively managed investments that aim to produce absolute (positive) returns regardless of general market conditions by exploiting disparities or inefficiencies in markets, geographical areas, and companies; taking advantage of anticipated price movements, up and/or down; and/or benefiting from cyclical relationships or special situations" (Prospectus dated May 6, 2005, and amended June 20, 2005, pg. 2). But as the Prospectus also points out, "as with all mutual funds, there is no assurance that the Fund will achieve its investment objective, and an investment in the Fund is not by itself a complete or balanced investment program" (pg. 4).

Two other important threshold points are: (1) the minimum purchase can be as low as $10,000 (although we would not advise the purchase of such a small position); and (2) the annual fee is 1.88% of the amount invested, with no profit sharing. PPA's _ of 1% advisory fee is in addition to the fund's fee, so this set of fees is considerably higher than the indexed investments we typically use. The index funds cost approximately 2/10 of 1% annually, in addition to PPA's annual advisory fee.

There are other alternative ways to participate in hedge funds with modest amounts of money, some of which are listed in the FPM (pg. 58), and are as follows (as of this writing, we are still in the process of researching these alternatives to find the one(s) we feel would be most suitable to recommend for our client's portfolios):

1) CSFB/Tremont Investable Hedge Fund Index: Invests in six largest funds in ten strategies;
2) Rydex SPhinX Fund: Tracks the S&P Hedge fund index;
3) Leuthold Core Investments Fund: Long/short stocks and bonds, including high yield; and
4) Schwab Hedged Equity Fund: Long/short mostly largecap US stocks.

Our conclusion: Despite all the problems and issues related to hedge fund investing, we believe that the new, significantly lower investment minimums, combined with many hedge funds' low correlation to the basic stock and bond markets in which we invest most of our client's assets, provides potential additional diversification that is of value. We dislike the high fees, of course, but an initial allocation of 3% to 5% of a broadly diversified portfolio helps to minimize the impact of the fees. We are still evaluating which of the existing hedge fund alternatives provides the most favorable combination of factors, and will be discussing this subject further with you in the near future.

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	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)

	S&P 500	%	DOW JONES	%	NASDAQ	%
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)%
July 31, 2005	1,234	(16.0)%	10,641	(7.5)%	2,185	(46.3)%

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

	S&P 500	%	DOW JONES	%	NASDAQ	%
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%
July 31, 2005	1,234		10,641		2,185	
10.58 Yr Gain; Annualized %	775	9.8%	6,807	10.1%	1,433	10.6%

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