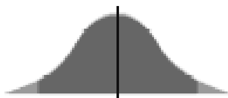

Park Piedmont Advisors LLC

Registered Investment Advisor

VICTOR LEVINSON **NICK LEVINSON**

SEPTEMBER 2004 COMMENTS

IMPORTANT NOTICES:

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, which, among other matters, describes PPA's advisory services, fees, and the business and educational backgrounds of its advisors. For the next three months, starting with these September Comments mailed in early October, we are hereby providing you the SEC required notice that you can request a copy of ADV Part II, which will be sent to you by return mail. To receive a copy, please contact Lynette Carmelli at 212-391-2323; or lynettec@parkpiedmont.com. This same notice will appear on each client's quarterly billing and investment results report, mailed October, November and December, 2004.

OUR WEBSITE: ADV, MONTHLY COMMENTS, and SUBJECT INDEX

The PPA Website, www.parkpiedmont.com, is now operational. As part of our website, you can access Part II of our ADV at any time. Further, each Monthly Comments dating back to March 2002, as well an index of the subjects covered by these Monthly Comments, is available on the website.

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 regarding your specific 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.

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COMMENTS: INDEX RESULTS, period ending SEPTEMBER 30, 2004

STOCKS	YEAR 1999	YEAR 2000	YEAR 2001	YEAR 2002	YEAR 2003	YTD 2004	CURRENT MONTH
Vanguard Total Stock Market Index Fund (1)	23.8%	(10.6)%	(11.0)%	(21.0)%	28.4%	2.0%	1.7%
S&P 500 Index (2)	19.6%	(10.1)%	(13.0)%	(23.4)%	26.4%	0.2%	0.9%
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(22.2)%	(13.0)%	(23.7)%	25.9%	(2.0)%	1.3%
Vanguard S&P 500 Value Index Fund (1)	12.6%	6.1%	(12.0)%	(20.9)%	32.2%	5.0%	1.2%
Dow Jones Industrial Average Index (2)	25.2%	(6.2)%	(7.1)%	(16.8)%	25.3%	(3.6)%	(0.9)%
NASDAQ Composite Index (2)	85.6%	(39.3)%	(21.0)%	(31.5)%	50.0%	(5.3)%	3.0%
Vanguard Mid Cap US Index Fund (1)	25.0%	2.6%	(4.8)%	(16.3)%	34.1%	4.8%	3.8%
Vanguard Small Cap US Index Fund (1)	19.6%	(4.2)%	1.0%	(21.6)%	45.6%	5.2%	4.2%
Vanguard International (EAFE) Index Fund (1)	25.3%	(15.2)%	(22.6)%	(17.5)%	40.3%	4.5%	3.0%
BONDS:							
Vanguard Total Bond Market Index (1)	(0.8)%	11.3%	8.3%	8.2%	4.0%	3.2%	0.1%
Vanguard Interm. Tax-Exempt Bond Index (1)	(2.9)%	9.2%	5.0%	7.9%	4.4%	2.5%	0.4%
Vanguard High Yield Taxable Bond Fund (1)	NA	NA	NA	1.7%	17.2%	5.3%	1.3%

%	1999 1Q	1999 2Q	1999 3Q	1999 4Q	2000 1Q	2000 2Q	2000 3Q	2000 4Q	2001 1Q	2001 2Q	2001 3Q	2001 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

%	2002 1Q	2002 2Q	2002 3Q	2002 4Q	2003 1Q	2003 2Q	2003 3Q	2003 4Q	2004 1Q	2004 2Q	2004 3Q	2004 4Q
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)	
NASDAQ COMP	(5.5)	(19.5)	(13.5)	7.0	2.5	19.2	12.1	16.2	(0.5)	2.7	(7.5)	
BONDS Interm. Taxable	0.0	2.8	3.6	1.8	0.9	2.7	0.2	0.2	2.7	(2.6)	3.1	

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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SEPTEMBER 2004 COMMENTS

During the month of September 2004, **STOCK** index prices for Large Cap stocks continued to move in quite narrow ranges with mixed results, while Small and Midcap indexes did much better. The Value part of the stock market continued to outperform the Growth part of the stock market (compare the results of the Value index with the Growth Index). However, for the first time in months, the NASDAQ index outperformed both the S&P 500 and the Dow Industrials. For the month, the S&P 500 gained 0.9%, the Dow Industrials declined (0.9)%, and the NASDAQ Composite gained 3.0%. Year-to-date (YTD), the S&P 500 is now up 0.2%, the Dow down (3.6)%, and the NASDAQ still down the most, at (5.3)%. The Total Stock Market Index, which includes midcap and smallcap stocks, was up 1.7 % for the month, and 2.0 % YTD, reflecting the more positive YTD results for midcap and smallcap. Despite even higher oil prices, now approaching $50 per barrel; continuing signs of a slowing economy; deteriorating conditions in Iraq; ongoing fear of terrorism; and the uncertainties surrounding the presidential election, the stock market once again moved very little. While inflation appeared under control, the preponderance of news still seemed negative, so that another monthly result of modest changes seems positive.

BOND RETURNS (price change plus interest) continued positive. YTD bond returns remain higher than those of Large Cap stocks, even after the highly publicized interest rate increases of April-May. By the end of September, the benchmark 10-year US Treasury yield was 4.13%, virtually unchanged from August's 4.12%, down from July's close of 4.47%, and down dramatically from the recent highs of 4.85% reached during mid-May. These declines in 10-year Treasury yields came at the same time that the Federal Reserve has been raising short term rates; the third 1/4 point increase was made in September. With the media and the pundits predicting yields above 5% on the 10-year bond, those rates have in fact done nothing but decline since mid-May, and are lower than at the start of 2004.

As for the monthly and YTD total returns (including interest), high quality intermediate-term taxable bonds gained 0.1% for the month, and are up 3.2% YTD. High quality intermediate-term municipal bonds gained 0.4% for the month, and are up 2.5% YTD. High Yield ("Junk") bonds also rose, up 1.3% for the month and 5.3% YTD.

Stock and bond investment results for September, 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 breakeven results 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 2000-2002 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).

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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 9.5% to 10.4% for the 9.75 year period from the end of 1994 through September 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.

	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)%
September 30, 2004	1,115	(27)%	10,080	(14)%	1,897	(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%
September 2004	1,115	10,080	1,897
Gain	656	6,246	1,145
Avg. Ann %Gain, '95-9/04; 9.75 yrs	9.5%	10.4%	9.9%

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. (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 final GDP figure for Q2 2004 was set at 3.3%, below the Q1 figure of 4.5%, which in turn was well below the 20-year high of 8.2% for Q3 2003. The final 3.3% rate "represents a slowdown from growth rates in excess of 4% in the four previous quarters," but this figure also "took some edge off rising worries about the economy's momentum" (Wall Street Journal (WSJ), 9/30/04, pg 2). According to a further comment from the Vanguard Economic Week in Review (VEWR, 9/27-10/1/04), "A look at the components of the GDP figure tells two stories: weak consumer spending versus surging business expenditures."

(2) Employment for August increased by 144,000 jobs. "The pace of job creation picked up modestly in August….The nation added twice as many as in July but barely enough to keep pace with increases in the adult population." (NYTimes, pg. B1, 9/4/04). Friday October 8th is the day the September figures will be announced.

(3) Interest Rates declined to below 4% for the benchmark 10-year US Treasury bond late in September before finishing the month at 4.13%, virtually unchanged from August. This 10-year rate, which is set by buyers and sellers in the bond market, has been declining during the same time period that the Federal Reserve has been raising the short term rates it controls by a total of 3/4 of 1%. The most recent 1/4 point increase was put into effect September 21st. The Fed "repeated that it would continue to raise rates at a "measured" pace" (VEWR, 9/20-24/04).

(4) Inflation, as measured by the Consumer Price Index (CPI) "core" rate, which excludes the volatile food and energy sectors, rose only 0.1% in August, the third consecutive month of 0.1% increases. For the last twelve months, this core rate was 1.7%, 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 increased the same 0.1% in August, but was up a much higher 2.7% for the last twelve months (VEWR, 9/13-17/04). Further, the Producer Price Index (PPI) core rate declined 0.1% in August; with food and energy included, the PPI declined the same 0.1%. For the last twelve months, the total PPI was 3.4% higher than a year ago (VEWR, 9/6-10/04). With all the talk of the fear of rapidly increasing inflation, the need to raise interest rates, and the high price of oil, the fact is that the most recent three months have shown only very small changes in the inflation rate.

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(5) Sector Economic Activity Continued Mixed

(a) Durable goods orders (industrial and consumer) declined 0.5%, as did new orders for non-defense capital goods (excluding aircraft); year over year, there has been an increase of approximately 12% (VEWR, 9/20-24/04).

(b) Industrial production gained 0.1% and capacity utilization was unchanged, continuing below its 30-year average by approximately 4% (VEWR, 9/13-17/04).

(c) Retail Sales, excluding autos, rose a modest 0.2% in August, the same increase as July, and approx 5% higher year over year (VEWR, 9/13-17/04).

(d) Housing sales for existing homes declined 2.7%; prices were 7.3% higher than a year earlier (VEWR, 9/20-24/04). Sales of new homes were 9% higher than in July, with June and July figures revised downward (VEWR, 9/27-10/1/04).

(e) Personal Income rose 0.4% in August, following July's gain of 0.2%, while personal spending was unchanged in August following a gain of 1.1% for July. Personal savings as a percentage of after-tax income was less than 1% for the third consecutive month (WSJ, pg. A2, 10/1/04).

(6) Consumer Confidence, as measured by the Conference Board's Index showed a modest decline in September, following a substantial August decline, which in turn followed four consecutive monthly gains. The "increasingly glum outlook on the job market" was cited as the main reason for the decline (VEWR, 9/27-10/1/04).

(7) Corporate Profits rose between 14% and 15% for Q2 2004, "well above the 7% historical average, but … a comedown from the previous four quarters of 20% profit growth." (WSJ, pg. C1, 10/4/04).

The economic news for September continued mixed in terms of projecting future economic growth. Reflecting the negative side, the WSJ, in its October 1st Stock Market Quarterly Review (pg. 1), wrote:…"The sheer breadth of the quarter's bad news was striking. Oil…hit a 21 year high of $49.90 on Sept 28. Hobbled by a soft economy and by rising oil prices, more companies warned of quarterly earnings disappointments than in any other month this year"…and the Federal Reserve "intends to continue gradually raising its target short-term interest rates for months to come. The election outcome remains uncertain, and so did the future of Iraq and the dangers of terrorism." The more optimistic view continues to come from the Federal Reserve, which stated that "after moderating earlier this year partly in response to the substantial rise in energy prices, output growth appears to have regained some traction, and labor market conditions have improved modestly" (VEWR, 9/20-24/04). Which view will prevail? The unpredictable, unknowable future will, as always, determine the course of future stock and bond prices.

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II. SOCIALLY RESPONSIBLE INVESTING (SRI)

SRI is a small but growing part of the investment world, and several of our clients have invested in and/or expressed an interest in it recently. We've therefore prepared an introduction to the topic, and encourage you to contact us for more information. One of the main sources for this presentation is the Social Investment Forum (SIF), which has an enormous amount of information available through its website (www.socialinvest.org).

In its broadest terms, SRI is an investment approach that attempts to take social concerns into account in making investment decisions. According to the 2003 Report on Socially Responsible Investing Trends (2003 Trends), prepared by SIF, there are currently three main SRI strategies: 1) Screening, which involves the exclusion or inclusion of certain companies based on the investment manager's preferences; 2) Shareholder Advocacy, which primarily involves proposing and/or voting on proxy resolutions designed to encourage companies to act in ways the advocates deem responsible; and 3) Community Investing, which involves investments in communities that lack standard financial services such as bank accounts and business loans. We focus primarily on the screening strategy, since it is predominant among the SRI mutual funds that you might be interested in investing in at some point. (Our note: Before starting as a Financial Advisor, Nick worked for several years in the Community Investing field, developing housing for low-income families in New York and San Francisco and lending funds for such development throughout Northern California.)

SRI screening takes several forms. Negative, or "avoidance", screening requires the mutual fund manager to avoid ownership in companies that sell certain products or engage in certain practices. The most prevalent negative screens include the tobacco, alcohol, gambling, and defense/weapons production industries. The 2003 Trends report also mentions new screens against pornography, animal testing, abortion, and "non-married lifestyles." Positive screening, on the other hand, involves the mutual fund manager actively pursuing ownership in companies that produce goods and services in certain ways. Common positive screens include the environment and equal employment opportunity/labor relations. SRI proponents contend that companies that treat their workers well, make safe products, and consider how their operations affect the environment will succeed over time, and the value of their stocks and bonds will rise more than those of companies that do not operate similarly. Others argue that SRI merely represents "political correctness" in a financial context, and that a focus on social goals diverts companies from their main task of earning profits for their shareholders.

For those interested in the idea and practice of SRI screening, as of the beginning of 2003 there were 200 such mutual funds with more than $150 billion under management. (The 2003 Trends report also notes that almost $2 trillion are managed in "screened portfolios" that invest primarily in individual stocks and bonds. These assets appear to be concentrated among various institutional, rather than individual, investors, including universities, religious organizations, and pension funds.) The size of the average SRI mutual fund is therefore just $750 million, with the largest in the range of $3-4 billion. (Compare to Vanguard's S&P 500 Index fund, which has more than $75 billion in assets.)

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Nevertheless, SRI funds are now available in all of the major asset class categories, including the stocks of large, medium, and small US companies, with further divisions among "growth" and "value" strategies; international stocks; bonds of various maturities and credit qualities, with both taxable and tax-exempt treatment; and cash-equivalent money market funds. There is even a large company SRI Index offering, although its annual expenses of approximately 1% are significantly higher than the 0.2% or lower cost for comparable non-SRI indexes. (See below for further discussion of relative expenses).

Furthermore, according to the 2003 Trends report, SRI mutual funds appear to be growing, both in terms of numbers of funds and assets under management. From December 31, 2000 to December 31, 2002, when the study was conducted, the number of SRI funds increased 11% and assets under management increased 10.5%. The asset increase is notable given that the broad stock market, as measured by the S&P 500 Index, declined by 13% in 2001 and almost 24% in 2002. Proponents of SRI also argue that its growth is likely to continue in the wake of the corporate and mutual fund scandals of the last two years, which SRI's focus on corporate accountability is thought to address.

In terms of investment performance, the current consensus appears to be that SRI mutual funds neither outperform nor underperform relative to comparable actively-managed mutual funds. The 2003 Trends report lists many academic studies that make this point, and another website (www.sristudies.org), run by a money manager with Wells Fargo, presents additional studies along these same lines. SRI funds also appear comparable to other actively-managed funds in terms of annual expenses, with an average of approximately 1.5% per year.

Our View: First, regarding terminology, we prefer socially motivated investing (SMI) over SRI. The word 'motivated' refers to the intent of the individual investor without the value judgment implicit in the word 'responsible.'

Second, we accept the general premise that SMI is competitive with actively-managed mutual funds, both in terms of performance and fees. The proponents' contention of outperformance certainly has not yet come to pass, but at the same time the detractors' claims for underperformance do not appear justified either. Annual expenses of between 1% and 2% prevail for similar types of SMI and non-SMI mutual funds.

Given that, we tend to think of SMI in the broadest terms as another attempt by money managers to outperform the markets. With our belief that outperformance over long time periods is extremely difficult, if not impossible, we do not recommend making SMI funds a major part of our clients' portfolios. We continue to maintain that the diversification, cost, and tax advantages (for taxable accounts) of indexed investments within an appropriate asset allocation work best for our clients. However, if you are interested in buying an SMI fund(s) for a small percentage of your overall stock or bond allocations, we are prepared to recommend several options.

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III. INDIVIDUAL STOCKS AND RISK, COMPARED WITH INDEXES

The plight of Merck, one of the great "Blue Chip" stock names, as reported in the print media on Friday, October 1st, highlights the dilemma and risk inherent in investing in individual stocks. In this latest example of how the unexpected can bring even a perceived high-quality individual stock name to its knees (at least for a short while), Merck's stock market value declined by 27%, or $27 billion, following the company's announcement that its most successful drug had to be withdrawn from sale worldwide because of the negative results of certain clinical trials. The decline in price brought Merck's stock to a level last reached on October 10, 1996. (As an aside, for value investors looking for high dividend yield, Merck's stock now sells at approximately 13 times next year's forecast earnings and has a dividend yield of 4.6%. This commentary is in no way a suggestion to buy the stock, however.)

Merck is not alone. Years ago, Exxon made headlines with a giant oil spill off the Alaskan coast. More recently, Lucent, once a major growth player in the telecommunication supply business, saw its stock price decline from the 70s to 1, not to mention the outright declines to zero of once high fliers Worldcom and Enron. While fraud may have taken down the last two names, it was specific corporate developments that adversely affected the other three names.

In this discussion, it is crucial to distinguish between declines that are part of general stock market declines over time (e.g., Microsoft and General Electric, the then two largest companies in the US stock market by market value, which both lost more than half their value in the general bear market of 2000-2002), and large, immediate declines caused by unexpected events specific to a particular company. The reason this distinction is so important is that the RISK that comes from investing in specific stocks CAN BE ELIMINATED by APPROPRIATE DIVERSIFICATION, whereas the risk that comes from general stock market declines cannot be so eliminated. Indeed the only way to avoid the risk of general stock market declines is not to be in the stock market, which raises the issues attendant to designing an appropriate asset allocation (or requires successful market timing).

But the individual stock risk absolutely can be eliminated with appropriate diversification. For example, while Merck was down 27%, the Dow Jones Industrial Average, of which Merck is one of the 30 components, was down all of 6/10 of 1%. Even better, the S&P 500, in which Merck's $100 billion market value made it the 28th largest holding as of August 31, 2004, was virtually unchanged for the day.

It is true that any broadly diversified mutual fund, whether actively managed by a fund manager picking stocks or passively managed as an index fund, can provide significant diversification. There is no assurance, however, that an active fund manager will not own a disproportionate amount of a stock that falls prey to the unexpected negative event. With an index, the investor can determine with some precision what percentage of each stock is owned; with an actively-managed mutual fund, the percentage is determined, for better or worse, by the management process of the fund. Better in the case of Merck would be that the active manager owned no Merck; worse would be that the manager owned more than the indexed percentage of Merck. Even a sector index investing only in healthcare or pharmaceutical stocks gives the investor the opportunity to know the percentage of each stock owned, rather than leaving it to a manager's discretion. Note also this discussion does not mention the variety of other advantages we regularly point out in discussing indexes.

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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)%
Sept 2004	1,115	(24.1)%	10,080	(12.3)%	1,897	(53.4)%

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.%
Sept 2004	1,115		10,080		1,897	
9.75 Year Gain; Annualized %	656	9.5%	6,246	10.4%	1,145	9.9%

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