Park Piedmont Advisors LLC

Registered Investment Advisor

VICTOR LEVINSON NICK LEVINSON

# OCTOBER 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. Among other matters, the ADV Part II describes PPA's advisory services, fees, and the business and educational backgrounds of its advisors. Starting with our September Comments mailed in early October, and continuing with our October and November Comments, we are providing you the SEC-required notice 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. This same notice will appear on each client's quarterly billing and investment results report, mailed in October, November, and December 2004.

## WEBSITE: ADV, MONTHLY COMMENTS, SUBJECT INDEX; MAILING ISSUES

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 subjects, is available on the website.

Several clients have had difficulties receiving these Comments via email because of spam blockers. Please make sure you can receive our email messages.

## 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 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. Our expected completion date for this project for all clients will carry into next year. Since these costs are for positions still owned, however, this timing will create no difficulties in terms of providing needed cost basis for your 2004 tax reporting.

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## COMMENTS: INDEX RESULTS, period ending OCTOBER 31, 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% | 3.7% | 1.7% |
| S&P 500 Index (2) | 19.6% | (10.1)% | (13.0)% | (23.4)% | 26.4% | 1.6% | 1.4% |
| Vanguard S&P 500 Growth Index Fund (1) | 28.8% | (22.2)% | (13.0)% | (23.7)% | 25.9% | (0.5)% | 1.5% |
| Vanguard S&P 500 Value Index Fund (1) | 12.6% | 6.1% | (12.0)% | (20.9)% | 32.2% | 6.5% | 1.5% |
| Dow Jones Industrial Average Index (2) | 25.2% | (6.2)% | (7.1)% | (16.8)% | 25.3% | (4.1)% | (0.5)% |
| NASDAQ Composite Index (2) | 85.6% | (39.3)% | (21.0)% | (31.5)% | 50.0% | (1.4)% | 3.9% |
| Vanguard Mid Cap US Index Fund (1) | 25.0% | 2.6% | (4.8)% | (16.3)% | 34.1% | 7.9% | 3.1% |
| Vanguard Small Cap US Index Fund (1) | 19.6% | (4.2)% | 1.0% | (21.6)% | 45.6% | 7.6% | 2.4% |
| Vanguard International (EAFE) Index Fund (1) | 25.3% | (15.2)% | (22.6)% | (17.5)% | 40.3% | 7.9% | 3.4% |
| **BONDS:** | | | | | | | |
| Vanguard Total Bond Market Index (1) | (0.8)% | 11.3% | 8.3% | 8.2% | 4.0% | 4.1% | 0.9% |
| Vanguard Interm. Tax-Exempt Bond Index (1) | (2.9)% | 9.2% | 5.0% | 7.9% | 4.4% | 3.2% | 0.7% |
| Vanguard High Yield Taxable Bond Fund (1) | NA | NA | NA | 1.7% | 17.2% | 7.0% | 1.7% |

| | 1999 | | | | 2000 | | | | 2001 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **%** | **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 |

| | 2002 | | | | 2003 | | | | 2004 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **%** | **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 | (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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## OCTOBER 2004 COMMENTS

During the month of October 2004, **STOCK** index prices for Large Cap stocks were mostly higher, with the exception of the Dow Jones Industrials, while Small and Midcap indexes continued to perform even better. For the month, the Value and Growth parts of the large cap stock market had equal gains, but YTD Value continued to outperform Growth by a significant amount (+6.5% compared to –0.5%). Also continuing a recent trend, the NASDAQ Composite index significantly outperformed both the S&P 500 and the Dow Industrials. During October, the S&P 500 gained 1.4%, the Dow Industrials declined (0.5)%, and the NASDAQ Composite gained 3.9%. YTD, the S&P 500 is now up 1.6%, the Dow down (4.1)%, and the NASDAQ still down slightly, at (1.4)%. The Total Stock Market Index, which includes Midcap and Smallcap stocks, was up 1.7 % for the month, and 3.7 % YTD, reflecting the more positive YTD results for Midcap and Smallcap (+7.9% and +7.6%, respectively). In spite of many negatives and uncertainties, prices for most parts of the stock market managed to move higher during September and October, traditionally the two most treacherous months for stocks.

**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. Indeed, as reported in the WSJ article titled "Bonds Tortoise Outruns Stocks Hare in 7 Years"(10/1/04, pg. C3), **"for the seven years ending August 31, 2004, US taxable bonds as measured by the Lehman Aggregate Bond Index had an annualized total gain of 7.1%, compared to 4.5% for the S&P 500."**

By the end of October, the benchmark 10-year US Treasury yield was 4.03%, down from September's 4.13%, and down dramatically from this year's mid-May high of 4.85%. These declines in 10-year Treasury yields have come at the same time 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. Monthly and YTD total returns (including interest) were as follows: high quality intermediate-term taxable bonds, +0.9% for the month and +4.1% YTD; and high quality intermediate-term municipal bonds, +0.7% for the month and +3.2% YTD. High Yield ("Junk") taxable bonds continue to outperform high credit quality bonds, up 1.7% for the month and 7.0% YTD.

Stock and bond investment results for October, 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 45% from the October 2002 low, even with the slight positive 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 9.6% to 10.3% for the 9.83 year period from the end of 1994 through October 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)% |
| October 31, 2004 | 1,130 | (26)% | 10,027 | (15)% | 1,975 | (61)% |

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% |
| October 2004 | 1,130 | 10,027 | 1,975 |
| Gain | 671 | 6,193 | 1,223 |
| Avg. Ann %Gain, '95-9/04; 9.83 yrs | 9.6% | 10.3% | 10.3% |

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. 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. This subject is discussed in detail starting on page 7 of this month's Comments). 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 U.S. economy. (GDP figures are inflation-adjusted, annualized growth rates). The initial estimate for Q3 GDP was 3.7%, "an improvement over the second quarter's 3.3%, but below consensus expectations" (Vanguard Economic Week in Review (VEWR), 10/25-29/04). This Q3 figure was also below the Q1 figure of 4.5%, which in turn was well below the 20-year high of 8.2% for Q3 2003. In reporting the final Q2 figure, VEWR commented: "A look at the components of the GDP figure tells two stories: weak consumer spending versus surging business expenditures" (9/27-10/1/04). However, in reporting the initial Q3 figures, VEWR stated that "consumer spending rose 4.6%, versus 1.6% in Q2" (10/25-29/04).

(2) Employment for September increased by 96,000 jobs, "considerably fewer than had been expected" (VEWR, 10/4-10/8/04). The October figures will be reported on Friday, November 5th.

(3) Interest Rates continued to trend moderately lower. The benchmark 10-year US Treasury interest rate, which is set by buyers and sellers in the bond market, closed October at 4.03%, which was 0.10% lower than in September. This rate has been, quite surprisingly, declining during the same time period that: (a) oil prices have been soaring, and (b) the Federal Reserve has been raising the short-term rates it controls by a total of 3/4 of 1%. (See further discussion starting on page 7).

(4) Inflation, as measured by the Consumer Price Index (CPI) "core" rate, which excludes the volatile food and energy sectors, rose 0.3% in September. For the last twelve months, this core rate was 2.0%, "the highest level since late 2002", and "higher than expected." With food and energy included, the CPI increased 0.2% in September, "in line with expectations" (VEWR, 10/18-22/04). Further, the Producer Price Index (PPI) core rate increased 0.3% in September, "above expectations;" with food and energy included, the increase was 0.1%. For the last twelve months, core PPI was 1.9% (VEWR, 10/11-15/04). Our Comment: 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 four months have shown only very small changes in the inflation rate. (See page 7 for more discussion of these interrelated facts).

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(5) Sector Economic Activity Continued Mixed

(a) Durable goods orders (industrial and consumer) gained 0.2%, "not enough to offset August's 0.6% decrease." Year over year, however, there has been an increase of approximately 12% (VEWR, 10/25-29/04).

(b) Industrial production gained 0.1%, the same as in August (VEWR, 10/11-15/04). August figures also reported capacity utilization unchanged, continuing below its 30-year average by approximately 4% (VEWR, 9/13-17/04).

(c) Retail Sales, excluding autos, rose a modest 0.6% in September, and a much higher 1.5% including auto sales. Overall sales were 7.7% higher year over year, and "while not adjusted for inflation, these figures are closely watched because consumer spending accounts for two-thirds of national economic activity" (VEWR, 10/11-15/04).

(d) Housing sales for existing homes gained 3.1%, the "third highest rate ever." Prices were 8.6% higher than a year earlier. Sales of new homes were 3.5% higher than in August, with prices 3.1% higher (VEWR, 10/25-29/04).

(e) Personal Income for September will be reported November 1st. For August, personal income was up 0.4%, 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, fell in October for the third consecutive month. "Most of the decline centered on consumers' subdued outlooks for future business conditions, job-market growth, and improvement in personal income" (VEWR, 10/25-29/04). "Subdued expectations, as opposed to eroding present-day conditions, were the major cause for the decline" (WSJ, 10/27/04).

(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). Profits for Q3 are still being reported as October came to an end.

Overall, the economic news for October was somewhat improved over the previous few months, but still lacked a firm direction. "The US economy continued to steam ahead in September and early October, but several districts reported slower growth amid rising energy costs, according to a survey of regional economic activity" (WSJ 10/28/04). As will be discussed in depth starting on page 7, these economic figures, even if known in advance, often do not provide reliable clues for the movement of market prices. As always, the unpredictable, unknowable future determines the course of future stock and bond prices.

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## II. UNPREDICTABLE MARKET PRICE REACTIONS TO KNOWN EVENTS

The US presidential election is finally at hand, and is scheduled to have an outcome before you receive these Comments. Many of our clients, and many in the media, are convinced that this election is likely to have a significant impact on the prices of stocks and bonds. Our view is quite the contrary, and brings us to the even broader point that quite often, even when a seemingly relevant piece of information is ACTUALLY KNOWN (not just predicted), the conventional wisdom impact on market prices often DOES NOT OCCUR. We offer the following examples from recent and not-too-distant history to support our point of view.

Starting with the topic of PRESIDENTIAL ELECTIONS, who would have anticipated that following the 1992 election of a relatively unknown, untested Democrat, and his re-election in 1996, the US stock markets would realize their largest gains in history? These gains culminated in the five year period 1995-1999, with annual gains for the S&P 500 (including dividends) of 37%, 23%, 33%, 28% and 21%. Whatever the factors that created this great bull market rally, it was hardly predictable even after knowing the results of those elections of 1992 and 1996.

Moving to current economic events, the potentially more precise and predictable relationship between OIL PRICES, INTEREST RATES and INFLATION provides another excellent example of our position. At the end of 2003, oil prices (measured by the per barrel price of light, sweet crude oil, Nynex-traded near-month futures) were in the low $30s; during the last week in October they reached $55. The WSJ (10/27/04, pg. A11) reported that "oil prices have risen nearly 70% this year. Economists warn that surging oil prices threaten the world's economic growth. But when adjusted for inflation, the cost of oil and two of its key products – gasoline and heating oil – still are below historic levels…Oil was briefly higher, most recently, in October 1990, before the first Gulf War." Its highest inflation adjusted prices were reached during 1980, at almost $90 per barrel (see the WSJ chart in same article).

Given the fact of high oil prices, shouldn't we expect rising inflation rates, and with them higher longer-term interest rates (measured by the yield of the 10-year benchmark US Treasury bond)? Absolutely. In fact, the prices of Treasury bonds have risen since the beginning of the year, driving yields lower. Even inflation, as reported by the government, is up only a modest 2% over the last twelve months. Of course, after the fact, the pundits can give you reasons why interest rates did not soar, but just think if you could have correctly predicted at the beginning of this year that oil prices would rise 70%, only to then discover that interest rates would decline rather than rise. As for the after-the-fact rationale, an October 18th WSJ article (pg. C1) states that "Investors seem more concerned about rising oil prices hurting consumer spending than they do about oil-induced inflation." The reasoning continues that slower consumer spending reduces economic growth, inflationary pressures, and the need to bid up interest rates. The same article states that "the yield on the 10-year Treasury is far lower than many economists expected it to be at this time, a sign that investors are more concerned about sluggish economic growth than inflation." While this may be easy to say after the fact, our point is simply that you could have accurately predicted the event of higher oil prices, and still have been totally wrong about the impact of that event on the market prices and yield of the 10-year Treasury, even given the historically high positive correlation between higher oil prices and higher interest rates.

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If the aftermath of presidential elections can give us unexpected market results, and if the aftermath of higher oil prices can give us lower, not higher, 10-year interest rates, surely we should be able to predict the market's reaction to a catastrophe such as September 11th. But here again, the conventional wisdom would prove totally wrong. Using the S&P 500 index as the measure for stock prices, that index was down 14% at the end of August 2001, and declined an additional 7% by the end of September, even after a rally in the last week of September added 8% to the value of the index. The S&P 500 decline from its closing level of 1090 on September 10th to the September 21st low of 965 was 11.5%. But by year end 2001, the index was back to 1,148, up 8% for the fourth quarter of 2001, and actually 5% HIGHER than on September 10th. This means that even if you could have accurately predicted in advance the event of 9/11, the stock market was priced HIGHER three months later than it was the day before the event. How many among us would have come up with that result, if we had known of the event?

Our regular readers are now very familiar with our position that future market prices are driven by events that are unknowable in advance. But here we have examples of a more powerful point: **Even if you could accurately predict certain key events, you could still be wrong in the conclusions you reach with regard to the market pricing that follows these events.** That being the case, we conclude that it is not helpful for investors planning their future to make assumptions about the market's reaction to particular events. Rather, as we consistently advise our clients, investors should focus on their needs, their goals, and their circumstances, and develop an asset allocation between Stocks --with their higher potential for growth but far more volatility-- and Bonds --with their more stable results based primarily on earning interest income-- that best fits those needs, goals, and circumstances.

## III. A YEAR OF MODEST STOCK VOLATILITY

To further elaborate on the idea of stock price volatility, let's put the year 2004 in the context of the long-term results of stock prices. Volatility refers to the RANGE of UP and DOWN PRICE MOVEMENTS around an AVERAGE INVESTMENT RETURN, over time. Volatility is such an important concept in investing that it is often used as a way to explain risk. The more volatile the price movements of an investment, the more risk, particularly since many people react to large downward moves in prices by selling the asset class. This instinct to sell as prices decline typically brings unfavorable results, particularly if the declining asset class shows a tendency to recover after price declines and provide long-term positive results in line with its long-term averages. (Note the word tendency, not certainty). Professor Burton Malkiel, in his classic investment book, "A Random Walk Down Wall Street", defines risk as follows: "Risk is a most slippery and elusive concept….Risk is the chance that expected security returns will not materialize, and in particular that the securities you hold will fall in price….Financial risk has generally been defined as the variance or standard deviation of returns….A security whose returns are not likely to depart much, if at all, from its average (or expected) return is said to carry little or no risk. A security whose returns from year to year are likely to be quite volatile (and for which sharp losses are typical in some years) is said to be risky" (1996 edition, pg. 229).

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Broadly defined, the standard deviation is a measure of the variation around an average figure. The variation can therefore be on the positive or negative side of the average. As presented in the Ibbotson Associates 2004 Yearbook (pgs. 33 and 106), the average return for large company stocks from 1926-2003 is plus 12.4%. The Ibbotson material (pg. 110) also presents annualized standard deviation figures, recorded monthly, covering ten-year time frames, starting with 1926. The annualized volatility for the following 10-year periods (with the exception of the four years from 1926-29) was as follows:

> 1926-29, 23.9%; 1930s, 41.6%; 1940s, 17.5%; 1950s, 14.1%; 1960s, 13.1%; 1970s, 17.1%; 1980s, 19.4%; 1990s, 15.8%, and the ten years 1994-2003, 17.7%.

This means that during a period of relatively high volatility such as the 1980s, stock returns varied from 19.4% above the long-term average of 12.4%, or +31.8%, to 19.4% below the long-term average, or -7.0%. During a period of relatively low volatility such as the 1960s, stock returns varied from 13.1% above the long-term average of 12.4%, or +25.5%, to 13.1% below the long-term average, or -0.7%. (The figures for 1926 through the 1930s have the same mathematical meaning, but we have not used them as illustrations because of the extreme volatility during the period, including the crash of 1929, the depression of 1930-1932, and the outstanding recoveries of 1933 and 1935.)

Through the twelve months ending Friday, October 29, 2004, the S&P 500 has gained 7.7%, and traded in a 10 to 12% range of 1,034 on the low side and 1,158 on the high side. While investors tend to react to daily and weekly price changes, this most recent twelve-month gain of 7.7%, or 4.7% below the long-term average of 12.4%, is very much on the low side of the volatility measures of even the least variable decade in the last 60 years.

To round out this brief discussion of volatility, the Ibbotson figures also present the same data for other asset categories. Using Intermediate Term Government bonds as a proxy for the bond market (pg.33), the annualized volatility figures around the long-term average annual return of positive 5.5% for the same periods were:

> 1926-29, 1.7%; 1930s, 3.3%; 1940s, 1.2%; 1950s, 2.9%; 1960s, 3.3%; 1970s, 5.2%; 1980s, 8.8%; 1990s, 4.6%; 1994-2003, 4.9%.

Clearly, bonds have much less volatility than stocks.

These figures demonstrate the classic tradeoff in investing: To get more gain, you need to take on more risk. For this fundamental reason, the asset allocation decision is crucial to determining potential investment returns as impacted by risk. For those with sufficient capital to achieve their objectives with modest returns, lower risk investments should dominate. For those who need the higher returns to achieve their goals, the higher risk investment becomes necessary. Achieving your objectives with the appropriate level of risk is the focus of all our investment advice.

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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)% |
| **Oct 2004** | 1,130 | (23.1)% | 10,027 | (12.8)% | 1,975 | (51.5)% |

**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.% |
| **Oct 2004** | 1,130 | | 10,027 | | 1,975 | |
| **9.83 Year Gain; Annualized %** | 671 | 9.6% | 6,193 | 10.3% | 1,223 | 10.3% |

Nick Levinson

**Victor Levinson** **Nicholas Levinson**