



Park Piedmont Advisors LLC

Registered Investment Advisor

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NOVEMBER 2004 COMMENTS

IMPORTANT NOTICES:

SEC DISCLOSURE DOCUMENTS: ADV PART II; PPA PRIVACY POLICY

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. This same notice will appear on each client's quarterly billing and investment results report, mailed in October, November, and December 2004.

Further, with this edition of our Monthly Comments, we are mailing to you, as required once each year by the SEC, a copy of PPA's PRIVACY POLICY.

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; accordingly, all clients will be sent the Comments via U.S. mail, unless we know they are receiving them via email.

TAX COST BASIS INFORMATION on MONTHLY STATEMENTS

As we have reported regularly for many months, we are continuing to gather tax cost basis information for all taxable accounts, to be added to your LSS/NFS statements. This work will continue into 2005, but all cost information for 2004 sales will be available as needed.

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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 NOVEMBER 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%	8.6%	4.9%
S&P 500 Index (2)	19.6%	(10.1)%	(13.0)%	(23.4)%	26.4%	5.6%	4.0%
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(22.2)%	(13.0)%	(23.7)%	25.9%	3.3%	3.8%
Vanguard S&P 500 Value Index Fund (1)	12.6%	6.1%	(12.0)%	(20.9)%	32.2%	11.4%	4.9%
Dow Jones Industrial Average Index (2)	25.2%	(6.2)%	(7.1)%	(16.8)%	25.3%	(0.3)%	3.8%
NASDAQ Composite Index (2)	85.6%	(39.3)%	(21.0)%	(31.5)%	50.0%	4.7%	6.1%
Vanguard Mid Cap US Index Fund (1)	25.0%	2.6%	(4.8)%	(16.3)%	34.1%	15.5%	7.6%
Vanguard Small Cap US Index Fund (1)	19.6%	(4.2)%	1.0%	(21.6)%	45.6%	15.7%	8.1%
Vanguard International (EAFE) Index Fund (1)	25.3%	(15.2)%	(22.6)%	(17.5)%	40.3%	15.7%	7.8%

BONDS:

Vanguard Total Bond Market Index (1)	(0.8)%	11.3%	8.3%	8.2%	4.0%	3.3%	(0.8)%
Vanguard Interm. Tax-Exempt Bond Index (1)	(2.9)%	9.2%	5.0%	7.9%	4.4%	2.1%	(1.1)%
Vanguard High Yield Taxable Bond Fund (1)	NA	NA	NA	1.7%	17.2%	7.3%	0.3%

	<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	(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.

NOVEMBER 2004 COMMENTS

STOCK index prices for November were significantly higher, turning in the best monthly performance of the year 2004. Largecap stocks gained, while Smallcap and Midcap indexes continued to perform even better. For the month, the S&P 500 gained 4.0%, the Dow Industrials 3.8%, and the NASDAQ Composite 6.1%. YTD, the S&P 500 is now up 5.6%, the Dow is still down slightly at (0.3)%, and the NASDAQ is up 4.7%. By contrast, both the Midcap and Smallcap indexes are up over 15% YTD, and the Total Stock Market Index, which includes Midcap and Smallcap stocks, was up 4.9 % for the month and 8.6 % YTD. Within the Large Cap S&P 500, Value continued to outperform Growth, by 11.4% to 3.3% YTD. The International Index, which hedges currency impacts, was up 15.7% YTD, and the best performer of all was the REIT index, up 24.7% YTD. The usual conflicting factors that influence stock prices were at work during November: stronger economic growth and an uncontested U.S. election provided positive news, while concerns about the declining dollar and higher interest and inflation rates provided the negatives (see pages 7-10 for further discussion).

BOND returns (price change plus interest) finally declined, after months of gains. For the first time during 2004, most stock returns are now outperforming bonds. The importance of a balanced and diversified portfolio is highlighted by the fact that **“for the seven years ending August 31, 2004, U.S. 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.” (Cited in WSJ article dated 10/1/04, pg. C3, “Bonds Tortoise Outruns Stocks Hare in 7 Years.”)**

By the end of November, the benchmark 10-year US Treasury yield was 4.36%, a significant increase from October's 4.03%, but still well below this year's mid-May high of 4.85%. Factors leaning towards higher interest rates included: (a) the Federal Reserve's continued raising of short-term rates; the fourth 1/4 point increase was made in November; (b) the declining value of the dollar; and (c) ongoing high U.S. budget deficits. Monthly and YTD total returns (including interest) were: high quality intermediate-term taxable bonds, a decline of (0.8%) for the month and a gain of 3.3% YTD; and high quality intermediate-term municipal bonds, down (1.1)% for the month and a gain of 2.1% YTD. High Yield (“Junk”) taxable bonds continue to outperform high credit quality bonds, up 0.3% for the month and 7.3% YTD.

Stock and bond investment results for November, for 2004 YTD, and for the five years from 1999 to 2003 are set out on page 2. The stock market rally that began decisively in March, 2003 has now raised the S&P 500 by 51% from the October 2002 low, even with the modest gains 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. Example: the S&P 500 reached its high of 1,527 in Q1 2000, then declined to 777 during Q4 2002, a drop of approximately 50%. From 777 to the S&P 500's current level of 1,174, there has been a gain of approx 50%, but the index is still another 350 points, or an additional 50%, from its prior high.)

In order to keep the current recovery in perspective, we continue to show the chart below, which sets out the extent of the declines measured from the highs of Q1 2000. The chart also puts these declines in the context of results since the end of 1994 (also see the figures on page 10). Note that the three indexes have positive average annual returns ranging from 9.9% to 10.9% for the 9.92 year period from the end of 1994 through November 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)%
November 30, 2004	1,174	(23)%	10,428	(11)%	2,097	(58)%

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%
November 2004	1,174	10,428	2,097
Gain	715	6,594	1,345
Avg. Ann %Gain, '95-11/04; 9.9 yrs	9.9%	10.6%	10.9%

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 U.S. 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). 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 Q304 GDP was 3.7%, and was revised upward to 3.9%, as "consumers spent more than previously estimated and business equipment spending was stronger than expected" (Wall Street Journal [WSJ], 12/1/04, pg. A3).
- (2) Employment for October "added an unexpectedly high 337,000 jobs, the biggest jump since March and widely beyond expectations" (Vanguard Economic Week in Review [VEWR], 11/1-5/04). There were also significant upward revisions to the August and September figures, adding an additional 113,000 jobs for the two months.
- (3) Interest Rates increased substantially. The benchmark 10-year U.S. Treasury interest rate, which is set by buyers and sellers in the bond market, closed November at 4.36%, which was 8% higher than October's 4.03%. Higher inflation (see (4) below), the declining value of the U.S. dollar (see pages 7-10), and the continuation of the Federal Reserve's short-term rate increases (up a full 1% for 2004, for a Federal Funds rate of 2%) finally had some impact on the level of longer term interest rates. The Fed's short-term rate increases were attributed to: (a) "correcting the historically low rate that was set to counter multiple shocks to the economy in 2000-02, and (b) keeping one step ahead of inflation as the economy improves" (VEWR, 11/8-12/04).
- (4) Inflation, as measured by the Consumer Price Index (CPI) "core" rate, which excludes the volatile food and energy sectors, rose 0.2% in October, and for the last twelve months this core rate was 2.0%. However, with food and energy included, the CPI increased a much higher 0.6% in October. Further, the Producer Price Index (PPI) core rate increased 0.3% in October, but again was much higher with food and energy included, at 1.7%, "the biggest jump since January 1990" (VEWR, 11/15-19/04). For the last twelve months, core PPI was 1.8% (WSJ, 11/17/04, pg. A2). The WSJ commented that "taking both reports together, suggested the country's inflation rate, while still low, might have perked up after a lull between June and September" (WSJ, 11/18/04, pg. A2).

(5) Sector Economic Activity Continued Mixed

- (a) Durable goods orders (industrial and consumer) fell 0.4% in October, “below expectations, but the September figure was revised upward 0.7%” (VEWR, 11/22-26/04). Further, the year over year increase was 11.2%
 - (b) Industrial production gained 0.7% in October. Also, industries operated at 77.7% of capacity, the highest level since May, 2001 (VEWR, 11/15-19/04).
 - (c) Retail Sales, excluding autos, rose 0.9% in October, but only 0.2% with auto sales included. Overall sales were 7.6% higher year over year, and, excluding auto sales, 8.3% higher (not adjusted for inflation) (VEWR, 11/8-12/04).
 - (d) Housing sales for existing homes declined 0.1% in October, but were 5.6% higher than a year earlier. Prices were 8.8% higher than a year earlier. Sales of new homes were 0.2% higher for the month, and 7.4% higher than a year earlier. Prices were 14.3% higher than a year earlier (VEWR, 11/22-26/04).
 - (e) Personal Income for September rose 0.2%; the October figure will be reported December 1st. Personal spending increased by 0.6% in September, but personal savings as a percentage of after-tax income fell to 0.2%, the second lowest level on record (VEWR, 11/1-5/04).
- (6) Consumer Confidence, as measured by the Conference Board’s Index, “fell in November to its lowest level in eight months.... The decrease may signal that consumer purchases, which helped the GDP increase in Q3 at a faster-than-expected 3.9% annual pace, are now poised to slow” (NY Times, 12/1/04, pg. C3).
- (7) Corporate Profits for the S&P 500 companies during Q3 2004 are estimated to be up 16.8%, “a healthy gain, but the first time in five quarters that the quarterly increase has fallen below 20%” (NY Times Sunday Financial Market Week, 11/21/04, pg. 7). In another measure of profits, the Commerce Department reported that pretax profits of private and public companies fell 2.4% in Q3 compared to the previous quarter. When compared to the same quarter a year ago, profits were 8.4% higher. In its article on this subject, the WSJ stated that “the big question hanging over the market is just how much profits are likely to slow in the months ahead” (12/1/04, pg A3).

Overall, the economic news for November was fairly strong. And the presidential and congressional elections ended with an immediate outcome. But the dollar continued its decline, and interest rates and inflation trended higher (see pages 7-10). As for market prices, what we know is that the many factors that influence prices gave rise to a strong month for stocks and a weak month for bonds. What we don't know, as always, is how the unpredictable, unknowable future will impact stock and bond prices going forward.

II. The DECLINING DOLLAR: IMPACT on FINANCIAL MARKETS: PRICE of GOLD

One of the major financial news stories of November was the continuing decline in the value of the U.S. dollar, and the potential impacts of the continuation of this trend on financial markets in general, and particularly the price of gold. In order to understand this subject it is helpful to first review some background information.

The U.S. dollar is one of three/four major world currencies, the others being the Japanese yen, and the recently established euro, which is a combined currency for a number of European countries, excluding Great Britain, which still uses the pound. Currencies are actively traded on world markets, and are therefore subject to price fluctuations. The prices of currencies are expressed as rates of exchange; that is, how many dollars does it take to purchase how many yen, euros, or pounds. When you need more dollars than you needed previously to buy/exchange for another currency, then the value of the dollar is DECLINING against those other currencies; at times when you need fewer dollars to buy/exchange for other currencies, then at those times the value of the dollar is INCREASING. This basic idea makes sense, for if you used to be able to use \$1.00 U.S. to buy 1 euro, and it now takes \$1.30 to buy 1 euro, then the euro has clearly become more expensive relative to the U.S. dollar, and that one dollar is buying fewer euros (only approx 8/10 of a euro).

Another important background point is that a decline in the dollar relative to a foreign currency does not, in and of itself, change the dollar's purchasing power here in the U.S. The dollar that yesterday bought a certain amount of groceries, or gasoline, or housing, continues to buy a dollar's worth of those items today, even if the dollar is buying fewer euros or yen. However, to the extent that items we purchase are imported from foreign countries, if the dollar is buying less of the currency of those countries, then the prices of those items are likely to be higher, all other things being equal. Of course, all other things rarely are equal, and foreign companies that sell goods in the U.S. often need to keep their prices competitive, even if the currency exchange rates are moving to increase prices. To the extent the prices in the U.S. do rise, this would tend to contribute to inflationary pressures in the U.S. But to the extent prices do not rise because of competitive pressures, this leads to bargains for U.S. consumers, and lower profits for the companies selling their goods into the U.S.

As further background, it is worth noting how the dollar's current exchange rate has changed in recent years. The euro came into being January 1, 1999 at a value of \$1.1667. By July 2001 its value had declined to approximately \$0.80; it now trades at over \$1.30. So while "the dollar has fallen 37% against the euro since the dollar's peak," the decline since inception is "12.2%, significant, but not severe." As for the yen, "the dollar has declined approx. 18% against the yen since July 2001, half its decline versus the euro" (figures from Sunday NY Times Financial section, Market Week article, 11/28/04, pg. 8).

With all this as background, the important issue is what the future holds for these exchange rates, and what the significance of these changes are to the various national economies and the financial markets. There is a current consensus that the U.S. government actually favors a continuing gradual decline in the value of the dollar. This implies that a decline in the value of its currency is not necessarily bad for the country involved. One important benefit of a declining currency is that the goods that are made in that country and sold abroad become cheaper and easier to buy in the foreign country. This stimulates exports, which is seen as stimulating the economy of the exporting country. In its front page article from November 20, 2004, discussing Fed Chairman Greenspan's speech in Frankfurt, Germany regarding the ongoing dollar decline, the NY Times stated: "A falling dollar makes it more expensive for Americans to travel abroad and risks reviving inflation and sending interest rates higher in the U.S. But for American manufacturers, who have been shedding jobs for years, it provides a powerful shot of adrenaline by making their exports cost less abroad and adding to pressure on foreign industries to raise the price of imported goods in the U.S."

Greenspan's speech brought other issues into focus. He said that "ballooning foreign borrowing on the part of the U.S. poses a future risk to the dollar's value, and that foreign investors, who help finance the large American trade and budget deficits by buying U.S. Treasury securities and other dollar-denominated assets, would eventually resist lending more money to the U.S. causing the dollar to fall further" (same NY Times front page article). But the interrelationships in the currency world are even more complex. "Huge U.S. trade deficits have put vast amounts of dollar securities in foreign hands. Those dollars give market support for U.S. securities, particularly the Treasury bonds that are the favorites of Japanese and Chinese central banks. The U.S. buys their goods and they buy U.S. debt, a mutually beneficial arrangement as long as it can be preserved" (WSJ Opinion Page, Nov. 23, 2004, pg. A19, signed article by George Melloan). In the same day's editorial page (WSJ, pg. 18), commenting further on Greenspan's speech, the Journal notes that the Fed Chairman distinguished between the "long-term dilemmas confronting the dollar", and the fact that so far "we see only limited indications that the U.S. trade deficit is meeting financing resistance from foreign investors."

Mr. Melloan's WSJ article cited above discusses further interrelationships. "The euroland economy remains sluggish, but not because of the strong euro. Europe was just as sclerotic when the euro was worth only 80 cents as it is now with a \$1.30 euro. High taxes and excessive regulation are Europe's main problems, not the strong euro." And further: "Just as a weak euro did not foster a boom in Europe, neither has a weak dollar been an important reason for America's economic recovery. Indeed, it has been a handicap, as the dollar price of oil has soared for example, relative to the euro price of oil. A continued weak dollar will risk aborting the U.S. recovery. A flight from the dollar, if it gets worse than a modest level, would weaken its value relative to other currencies, commodities and manufactured goods. A higher rate of inflation would be the result. The stock and bond markets would suffer more damage as well."

This article provides an apt transition to the important question of the likely impacts on the financial markets of a continuing decline in the value of the dollar. Note first, however, that this question assumes a continuing decline in the value of the dollar, which may or may not occur, even with as high an authority as Fed Chairman Greenspan providing his views on the subject. Remember the same Alan Greenspan's famous pronouncement in 1996 that the stock market, with the Dow Industrials at 6600, was suffering from "irrational exuberance." By the end of 1999, three years later, the same Dow Industrials were trading at 11,500, and even at the bottom of the 2000-2002 bear market, the Dow did not fall below 7700. As always, we at PPA take no position on this prediction of the future value of the dollar, as we take no position on any prediction of the future. Further, at some point in time, all price trends, including currency exchange values, tend to reverse, following the principle of "reversion to the mean."

Given this caveat, Melloan suggests that declines in the dollar lead to higher inflation, which in turn leads to lower stock and bond prices. In an environment of increasing inflation, interest rates typically are rising as well. Interestingly, at some point, higher interest rates provide support for a currency, since the higher returns encourage investors to demand U.S. dollars, and the value of the currency begins to appreciate. Much depends, of course, on how much the dollar declines and inflation and interest rates rise, and at what pace. Consider the points made in a November 16th, 2004 article in the NY Times (pg. C1), titled "The Dollar is Down: Is it a Cause for Concern?" The article begins: "Bogged down by a costly war that shows no sign of ending, the U.S. faces a gaping budget deficit and ballooning foreign indebtedness. The dollar plunges against other major currencies, while turmoil in the Middle East sends oil prices soaring. The rest of the decade is plagued by rising inflation, increasing joblessness and sky-high interest rates." The period discussed was 1973, not 2005, but the question is whether this could all happen again. The article cites three possible scenarios: (1) "Global financial markets are awash in so much money that the U.S. can borrow much more than seemed possible twenty years ago. The dollar may decline in value, but the decline would be gradual and would help reduce the American trade imbalance by making exports cheaper and imports more expensive." Further, "America's huge foreign debt simply reflects the eagerness of others to invest in the U.S."; (2) "Governments like China and Japan will continue to finance American borrowing and keep the dollar strong because they are determined to sustain their exports and create jobs"; or (3) "A collapse in the dollar, which would send shock waves through the global economy and... lead to higher interest rates in America."

As for the market prices of stocks and bonds during the ten years from 1973 to 1982, when inflation was at its highest, stock prices declined by a cumulative 37% during 1973 and 1974, but two years later had recovered all their losses. Stocks also gained substantially during the period 1978-1980. Intermediate Bond returns had no down years during the period 1973-1980, as the high interest rates overcame the decline in bond prices that occurs as interest rates rise. It was only in 1982 when the high inflation/high interest rate cycle was broken, and bond returns soared.

As we have said many times in our Monthly Comments, modest rises in interest rates, while leading to short term price declines for bonds, can actually help bond investors by eventually generating higher interest rates for their bond holdings, especially in bond mutual funds. As for the stock market, if the declining dollar does indeed stimulate economic growth, this could be positive for stock prices. Too much growth, however, can lead to the problems of higher inflation and interest rates, which at some levels may in turn result in slower growth. These are the ongoing tensions that arise in free markets, and how all these factors play out in the near future remains to be seen.

Finally, we would like to introduce into this discussion the role that gold plays in times of declining currency values. A recent WSJ article (Nov. 26, 2004, pg C14) stated: "Gold is sparkling ever brighter, but its prospects as a long term investment depend on how weak the dollar becomes. Gold traditionally has been viewed as a hedge against weak currencies and, because it is denominated in dollars, a popular investment for people purchasing with euros, yen or whatever when the dollar is down." While the article does not make the explicit connection, the idea of gold as a hedge against a declining currency is related to the idea that gold is a hedge against inflation, and inflation is a common, although not automatic (see discussion in second to last paragraph on page 7), occurrence when a currency declines in value. The article does however point out that even with a declining currency, a rise in gold prices does not necessarily follow; other factors are at work, such as government sales of large quantities of gold. In its November 30th article (pg. C3) on gold prices, the WSJ stated: "Since the beginning of 2002, gold prices have climbed more than 50%....The primary driver has been the U.S. dollar's cross-currency spiral downward, especially...against the euro. Gold's contra-cyclical tendencies toward the U.S. currency make it an appealing alternative to the beleaguered dollar. Geopolitical uncertainty as well as concerns about the potential for a return of inflation also have steadily drawn buyers to gold. Still, concerns are growing that gold prices have recently ventured too far, too fast."

Not so coincidentally, there are now two Exchange Traded Funds (ETFs) whose prices are specifically tied to the price of gold itself (not simply the stocks of companies that mine or market gold). As part of a broadly diversified portfolio, some modest allocation to gold makes sense. We advocate its purchase in appropriate circumstances not because we have a position on the direction of the dollar's value, or the price of gold itself (which we do not), but because we view it as an additional asset class that provides diversification and has the potential of counterbalancing the price movements of other liquid assets.

We are also continuing to look for open-ended mutual funds that invest directly in currency fluctuations (not through foreign stock or bond funds, which are influenced by many factors other than currency movements). Here again, we would recommend these investments for added diversification, not as a prediction of the future price changes amongst currencies.

As a broader, general conclusion, none of the current media emphasis regarding the issue of the value of the dollar changes our basic views that currency fluctuations are but one of a number of factors influencing market prices. Furthermore, even if we knew the direction of the currencies, there are numerous other intervening factors that are likely to arise and affect market prices. Therefore the soundest action is to continue to focus on each client's particular circumstances, and manage portfolios by appropriately balancing risk and reward so as to best achieve each client's particular financial objectives.

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)%
Nov 2004	1,174	(20.1)%	10,428	(9.3)%	2,097	(48.5)%

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%
Nov 2004	<u>1,174</u>		<u>10,428</u>		<u>2,097</u>	
9.92 Year Gain; Annualized %	715	9.9%	6,594	10.6%	1,345	10.9%



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