VICTOR LEVINSON **NICK LEVINSON**

DECEMBER, 2003 COMMENTS

IMPORTANT NEW NEWS:

These are our first Monthly Comments written after the formation of our new Registered Investment Advisory Firm, PARK PIEDMONT ADVISORS LLC ("PPA"). The letter introducing PPA that we have already sent to all our clients is attached for the information of all other recipients of these Monthly Comments.

In this space we would like to acknowledge our appreciation of Chuck Balis and Dave Lewittes, the principals of the firm Balis, Lewittes & Coleman, Inc. ("BLC"). Since early 1999, BLC has been our Registered Investment Advisory firm and Broker-Dealer, and established the relationship with Bear Stearns as clearing firm for our clients. We wish Chuck and Dave all the best in their new endeavors.

As mentioned in the introductory letter, we have chosen a new Broker-Dealer, LaSalle St Securities LLC ("LSS"), which in turn uses a subsidiary of Fidelity as its clearing firm. We have every expectation that these new relationships will prove as beneficial and effective for our clients as were the previous relationships with BLC and Bear Stearns.

We appreciate all the positive response to our Monthly Comments, and expect to continue to provide them at the same high level as before. We thank you all for your support and confidence, and look forward to continuing our relationships into the indefinite future. Best wishes to all for the New Year.

Page 1: What's in This Edition

Pages 2-4: Index Results for December, and Year-to-Date 2003;
Also Years 1999 – 2002, and Various Other Longer Time Periods

Pages 5-8: Investment Concepts:

- **Pages 5-6:** Update of Key Economic Indicators
- **Pages 7-8:** Factors Likely to Influence Future Market Prices

Page 9: Investment Returns From 2000 to Present, and 1995 to Present

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 December 31, 2003

STOCKS	YEAR 1999	YEAR 2000	YEAR 2001	YEAR 2002	YTD 2003	CURRENT MONTH
Total Stock Market				(23.4)%	28.4%	2.7%
S&P 500	19.6%	(10.1)%	(13.0)%	(23.4)%	26.4%	6.1%
S&P 500 Growth	28.8%	(22.2)%	(13.0)%	(23.7)%	25.9%	3.6%
S&P 500 Value	12.6%	6.1%	(12.0)%	(20.9)%	32.2%	8.5%
Dow Jones Industrials	25.2%	(6.2)%	(7.1)%	(16.8)%	25.3%	8.0%
NASDAQ Comp.	85.6%	(39.3)%	(21.0)%	(31.5)%	50.0%	3.2%
MidCap US	25.0%	2.6%	(4.8)%	(16.3)%	34.1%	3.4%
Small Cap US	19.6%	(4.2)%	1.0%	(21.6)%	45.6%	3.4%
Intl, EAFE	25.3%	(15.2)%	(22.6)%	(17.5)%	40.3%	10.1%
BONDS, Intermediate Term (High Yield Taxable; Vanguard; Not an Index Fund):						
Taxable	(0.8)%	11.3%	8.3%	8.2%	4.0%	1.0%
Tax-Exempt	(2.9)%	9.2%	5.0%	7.9%	4.4%	0.6%
High Yield Taxable				1.7%	17.2%	2.5%

	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			
	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%
NASDAQ COMP	(5.5)	(19.5)	(13.5)	7.0	2.5%	19.2%	12.1%	16.2%
BONDS Interm. Taxable	0.0	2.8	3.6	1.8	0.9%	2.7%	0.2%	0.2%

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DECEMBER 2003 COMMENTS

During the month of December and the full year 2003, **STOCK PRICES** posted significant gains. For the month, the S&P 500 was up 6.1%, and 26.4% for the full year; the Dow Industrials gained 8.0%, and 25.3% for the full year; and the NASDAQ Composite gained 3.2%, and 50.0% for the full year.

These highly favorable stock market results occurred against a backdrop of decidedly mixed influences (see pages 7 and 8 for a more extensive discussion of the many factors likely to influence future stock and bond price results). On the one hand, there was continuing positive economic news regarding the U.S. economy, corporate profits, interest rates and inflation (see pages 5 and 6 for details). On the other hand, there were a number of factors typically viewed as negatives for stock prices that also continued, including weakness in the U.S. dollar, high oil and gold prices, soaring projected U.S. budget deficits, problems with mutual funds, and the geopolitical issues of terrorism and Iraq. The fact that stocks showed extensive gains for December, and the full year 2003, highlights our view, expressed frequently in prior Monthly Comments, that attributing causes to stock price movements is a complex matter, and that many seemingly relevant news events have already been factored into stock prices by the combined activity of all market participants.

BOND RETURNS (price change plus interest) were positive for December. Some of the same factors mentioned in the above paragraph as influences on stock prices are typically attributed to moving bond prices as well. Here again, causation is a complex matter, and for December the end result was favorable. High quality intermediate-term taxable and tax-exempt bonds had returns of +1.0% and +0.6% respectively. Year-to-date, returns for taxable and tax-exempt bonds were +4.0% and + 4.4%, respectively.

While the full year 2003 percentage increases for Stocks were considerable, it should be remembered that after a decline of a certain percentage, the percentage increase required to regain the amount of the decline is a much higher number, as indicated below:

	High (3/00)	Low (10/02)	%Decline	%Gain Needed
S&P 500	1,527	777	(49%)	97%
NASDAQ Comp.	5,048	1,114	(78%)	353%

History suggests these indexes are likely at some point in time to reach and surpass their prior highs. The more relevant question is in what time frame such a recovery takes place. For instance, if the S&P 500 increases from its current 1,112 back to 1,527 over the next five years, the annualized investment return would be 6.5%, well within reasonable long-term return expectations for the stock market. But if it takes 10 years, the annualized return would be only 3.2%, a return more closely associated with bond returns. The NASDAQ recovery would be far more dramatic; to regain prior highs in five years from the current 2,003, the annualized return would be 20.3%; over ten years, 9.7%.

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Stock and bond investment results for the December period, the full year 2003, and the four full years 1999–2002 are set out on page 2. Note how this year's stock gains, the first strong year for stocks since 1999, have been accompanied by a reversal of the bond market's 2000-2002 outperformance.

The stock market rally of 2003, which began in March, has now raised the S&P 500 43% from the 2002 lows. While this is an impressive figure, and has certainly made investors believe that the stock market is not likely to go down in perpetuity (a view that was widely held during the depths of the bear market), the question of whether this recovery turns into a new, sustained bull market continues to be dependent on future events, as of now unknown.

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 (see also the figures on page 9). Note that the three indexes have positive average annual returns ranging from 10.3% to 11.8% for the 9-year period from the end of 1994 through the end of 2003, very much in line with long term stock returns going back to 1926.

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		DOW		NASDAQ	
1st Qtr 2000 High	1,527		11,723		5,048	
Year End 2000	1,320	(13)%	10,785	(8)%	2,470	(51)%
April 2001 Low	1,103	(28)%	9,390	(20)%	1,684	(67)%
Sept 2001 Low	965	(37)%	8,235	(30)%	1,425	(72)%
Year End 2001	1,148	(25)%	10,020	(17)%	1,950	(61)%
Oct 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)%

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

	S&P 500	DOW	NASDAQ
End 1994	459	3,834	752
End 1999	1,470	11,500	4,070
Gain	1,011	7,666	3,318
Avg. Annual Gain, '95-'99; 5 years	26.2%	24.6%	40.2%
End 2003	1,112	10,454	2,003
Gain	653	6,620	1,251
Avg. Annl. % Gain, '95-'03; 9 years	10.3%	11.8%	11.5%

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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). 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. The most recent quarterly figures, for the period ending September 30th, showed an 8.2% inflation-adjusted annualized growth rate, the strongest quarterly showing since Q1 1984. Consumer spending and business investment were up strongly. (Sources: Wall Street Journal ("WSJ"), 11/26/03, pg. A1; Vanguard Economic Week in Review ("VEWR"), 11/24-28/03, pg. 1).

(2) Employment levels for November showed a third consecutive month of gains, although the reported number of 57,000 new jobs fell below expectations. The economy has added 328,000 new jobs since July (VEWR, 12/1-5/03, pg.1). Previously disappointing employment levels have been the weak spot in the current economic recovery, and "some analysts noted that monthly payroll growth must exceed 150,000 in order to significantly reduce the nation's unemployment rate" (VEWR, 11/3-7/03, pg. 1).

(3) Interest Rates declined during December. The benchmark 10-Year US Treasury now yields 4.25%, about midway in a range of recent yields as low as 3.93% at the end of September, and as high as 4.45% at the end of August. While these rates are low by historical standards, they are approximately one full percentage point (or 100 basis points) higher than the low point reached in early June 2003. At its most recent meeting on December 9th, the Federal Reserve left the short term interest rates it controls unchanged at a 45-year low of 1%, and made the following comments about the economy and interest rates: "output is expanding briskly, and the labor market appears to be improving modestly," and "policy accommodation can be maintained for a considerable period" (VEWR, 12/8-12/03, pg. 1).

(4) Inflation remains low. The "core" inflation rate, as measured by the Consumer Price Index (CPI) and excluding volatile food and energy prices, declined 0.1% in November (VEWR, 12/15-19/03, pg. 1), which means no increase from the most recent twelve-month increase of 1.3% (VEWR, 11/17-21/03, pg. 1). The most recent twelve-month gain in the "core" Producer Price Index is just 0.5%, which includes a 0.1% decline for November (VEWR, 12/8-12, pg. 2).

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(5) Sector Economic Activity was Mostly Higher

(a) Durable goods orders declined in November (VEWR, 12/22-26, pg. 1).
(b) Industrial production and manufacturing activity were higher than expectations in November, registering their biggest month over month increase since 1999. Capacity utilization remained "well below its historical average" (VEWR, 12/15-19, page 1), however, "suggesting that the economy has room to grow before significant inflationary pressures ignite" (VEWR, 11/10-14, pg. 1).
(c) Retail Sales were up strongly in November (VEWR, 12/8-12/03), continuing their upward trend for all of 2003 (VEWR, 11/10-14, pg. 1).
(d) Housing sales for new homes declined in November for the third straight month, but were selling at historically high rates and at higher prices (VEWR 12/22-26, pg. 1). Sales of existing homes also declined, but remain "strong by any reasonable standard" (WSJ, 12/31/03, pg. 2)
(e) Personal Income rose 0.5% in November, while personal spending, which accounts for two-thirds of U.S. economic activity, grew 0.4% (VEWR, 12/22-26, pg. 1).

(6) Consumer Confidence, as measured by the Conference Board's Index of Consumer Confidence, declined slightly in December from a November level that was as high as it had been since September 2002. While the "present situation index," a measure of consumers' assessment of current economic conditions, declined sharply, the "index of consumer expectations for the state of economic activity over the next six months increased." In explaining this dichotomy of sentiment, an economist for the Conference Board was quoted as follows: "current conditions reflect continuing anxiety about labor-market conditions," but "improvements in consumer' expectations signals healthy economic growth in 2004" (WSJ, 12/31/03, pg. 2).

(7) Corporate Profits for the third quarter were up 30% from the comparable year-earlier quarter, as measured by the Commerce Department's broadest measure of corporate profitability. There was no new reported news on corporate profits during December. "For many companies, the combination of faster economic growth (which spurs revenue gains) and rapid productivity improvement (which helps contain costs) translates to stronger profits" (WSJ, 11/26, pg. 1). The same WSJ article, on page 2, adds that "other measures of corporate profitability have turned decisively higher during the past six months."

Even with all the good news, there is the ever-present question of whether this news has already been incorporated into current stock and bond price levels. Factors likely to affect future prices will be discussed in greater detail in the following section on pages 7-8.

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II. Factors Likely to Influence Future Market Prices

Corporate Profits:
Even if overall economic activity continues to improve, the level of stock prices should ultimately depend on the level of corporate earnings supporting those prices. In a New York Times Financial Section article from 1/4/04, pg. 4, the current Price/Earnings ("P/E") ratio of the stocks in the S&P 500 index is presented as 23 (a detailed discussion of P/E ratios appeared in last month's Comments, pages 9-10). Since the median P/E of the S&P 500 since 1950 is 17.8%, there is an argument to be made that stock prices are overvalued relative to their underlying earnings.

The same article continues that while this all-important P/E ratio is high, it has been much higher relative to the median, and that if earnings continue to grow at a significant rate this gap between the P/E ratio going forward and the median could well narrow. Further, the article points out that in low interest rate environments such as the present, P/E ratios are justifiably higher. Whether interest rates remain low is another key factor to future price movements, and is discussed below.

An additional aspect of the Corporate Profits issue is the quality of reported profits. In a WSJ article dated 12/29/03, pg. C13, there is a discussion of how the accounting treatment of pension income and options expensing are significantly overstating reported earnings. (The same manager quoted in the WSJ article is also the source of a NY Times article on the same page as cited above).

Interest Rates and Inflation:
If economic growth continues to improve, there is concern that the Federal Reserve at some point will move to raise interest rates with the purpose of keeping inflation under control. This issue is played out every day in the markets, and has much to do with the daily fluctuations in bond prices. Rising interest rates, or the expectation of rising interest rates, typically have the effect of sending bond prices lower. The impact of rising interest rates and inflation on stock prices is much more complex, since a certain amount of inflation and improved economic activity can be positives for stock prices. Further, there are many other factors that affect the movement of stock prices.

Higher budget deficits, and the declining value of the dollar, would typically send interest rates higher. Budget deficits are financed, in the absence of higher taxes, with borrowings, and greater demand for borrowings would be expected to move interest rates higher. A declining dollar creates losses in dollar denominated investments, and international investors typically demand higher interest rates to compensate for these declines. But as we have discussed in other Comments, the declining value of the dollar also tends to improve the competitive position of goods exported from the U.S., which gives a boost to economic activity. Improved economic activity tends, over time, to create conditions leading to higher interest rates.

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Demographic Trends:

The same articles cited above in the third paragraph of the Corporate Profits section raises the issue of demographics, which can be summarized as follows: "waves of babyboomers will have to start cashing out to pay for goods and services in retirement in five years or so. That means more people than ever before will be selling stock and bonds to buy goods and services from a proportionately smaller work force….putting a lot of downward pressure on the prices of financial assets….(which) could also trigger inflation." As with most broad-based positions that seek to provide reasons for future market price movements, a few of the questions raised are (a) just how much impact will these trends have, if in fact the prediction proves accurate at all?; (b) what future developments may occur to blunt the impact of these trends?; and (c) even if the trends come to pass as predicted, are these expectations already factored into current prices? This latter question is relevant to all the factors discussed, at all times.

Employment Trends:

Since two-thirds of economic activity is related to consumer spending, the level of employment is obviously a key factor to continued economic growth. The more people working, the more spending should occur. But there is a contrary force at work in this equation. That force is increased productivity, which means the economy is getting much more output from a reduced number of workers. While productivity gains provide good news for economic growth and corporate profitability, they also hold down the levels of employment. In an excellent article on this subject, former Secretary of Labor Robert Reich writes in the WSJ (12/26/03 editorial page): "We should stop pining after the days when millions of Americans stood along assembly lines and continuously bolted, fit, soldered or clamped what went by. Those days are over….Want to blame something? Blame new knowledge that crated the electronic gadgets and software that can now do almost any routine task." This tension between higher productivity and lower levels of overall employment is likely to continue.

International Conflicts, Terrorism, Presidential Election:

All relevant, all unpredictable. Even the conventional wisdom that the Federal Reserve is likely to keep interest rates low in an election year has been brought into question by figures indicating the Fed raised short term rates in six of the last eleven presidential election years (WSJ editorial by economist Mickey Levy, 12/29/03).

The Outlook:

For all regular readers of our Monthly Comments, you know that we do not make predictions about the future. We do believe the factors discussed herein are likely to prove relevant in determining future stock and bond prices. What we don't know, and believe no one else knows, is what events will actually take place. And even if we knew, there is still the question of how all these factors interact with each other. As John Allen Paulos writes in "A Mathematician Plays the Stock Market:" "Predicting the market with any precision…is as hard a problem in social prediction as there is," (pg. 171)… and "trying to predict the precise long term behavior of such systems (that is, the markets) is often futile" (pg. 172). Finally, "this non-predictability is the result not of randomness but of complexity too great to fathom" (pg. 174).

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	S&P 500		**Dow**		**NASDAQ**	
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 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	8	(24.3)%	2	(9.1)%	0	(50.8)%

II. Figures From Period Starting 1995 (% Figures Are Gains From 1/01/95)						
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	8		10,454		2,003	
9 Year Gain; Annualized %	653	10.3%	6,620	11.8%	1,251	11.5.%

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