

# A Better Mousetrap?

December 13, 2004

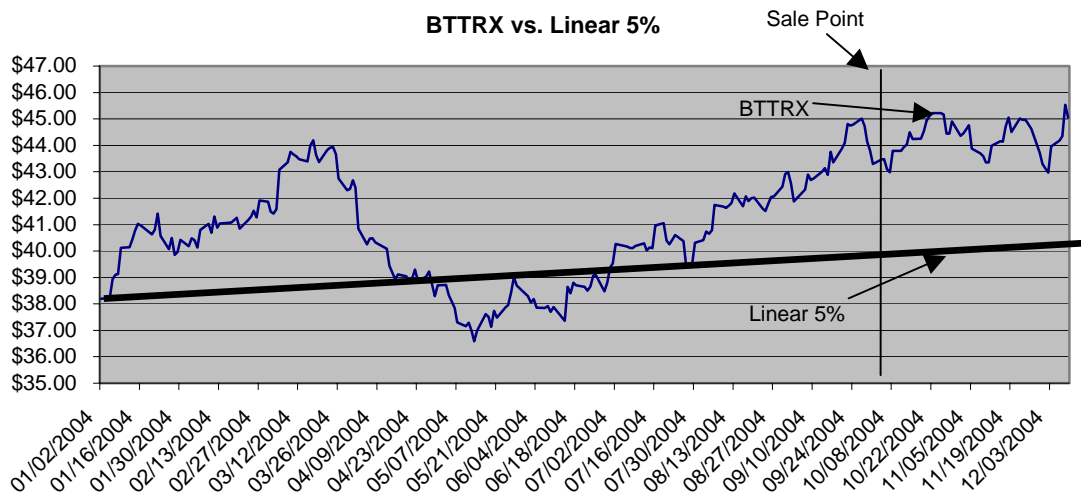
At the close of the heady days of the bubble years of the late 1990's, we began to condition our clients and friends that low single digit total returns were probable as we went forward. Note the below Ibbotson table of such returns which somewhat seems to confirm that outlook.

Total Returns	
1/1/2000 – 12/31/2003	
Large Company Common Stocks	-5.3%
Long Term Corporate Bonds	+10.8%
U.S. Treasury Bills	+3.1%

Although the returns are not finalized for this year, single rate returns seem probable for 2004.

Our point back in 2000 was that there are consequences to investment and market bubbles. Trees do not grow to the sky. Things financial and economic are notorious for reverting to the mean. What goes up must come down etc., etc. This was our reason for pounding the table to buy long government bonds, which were yielding in excess of 6% at that time. Our view of the future looks no different today. The Fed through its over-expansive monetary policy has helped create another bubble (housing), which will, we believe, have even more consequences than the stock market bubble of yesterday. Although we are presently in money market funds awaiting reentry into the long government markets, we continue to find this area attractive based upon our investment strategy and application.

Again, as you know, our stated goal is to hopefully double the coupon annually over a period of time – please note the chart below. This is year to date 2004.



We sold our long position the later part of September, banking a total return of over 12% after all fees, but before taxes. Please note the volatility of this zero-coupon government security. If it were structured like the old Series E savings bonds of WWII vintage, there would be no market, therefore no volatility and the investor would obtain all his money at maturity at the linear rate of 5% each year under this illustration. No credit risk, no sleepless nights due to volatility and a 5% return. You could do this today, if only you wouldn't feel compelled to read the papers each day and see what the "smart people" are doing. On the other side of the coin is what we do. We love volatility as that allows us the opportunity to obtain much better returns, the downside being a sleepless night from time to time. We think we might have a better mousetrap.