Weinstat & Weinstat
INVESTMENT ADVISORS & CPA'S

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Greetings,

Happy New Year. . Enclosed is your investment report for 2004. After being = frustrated and disappointed for the last nine months, I am pleased that we finished the year with a solid absolute return. This was my tenth year as an investment professional and this was the first year that the market had a normal return. Your return was above normal since it was significantly higher than the broad market. Only 20% of money managers beat the market in one particular year.

With all the uncertainties that plagued the market during the first ten months of the year, it was refreshing to see the folks on Wall St. focus on what is important during the last two months of the year. It certainly helped that the price of oil dropped nearly 25% during that time. As I wrote previously, the price of oil rose rapidly because the short term speculators pushed it up to make a quick buck. It didn't go up because of supply and demand as a result of a strong economy. That is why it is important to know the reasons why things do what they do. As soon as the price of oil began dropping, the speculators who were betting that the price of oil would continue to rise covered their bets, took their quick profits and moved on. Those who bet the price would go up late in the game lost big.

Interest rates were also an uncertainty that plagued the market. A year ago at this time, many prognosticators predicted that this past year with short term interest rates rising the bond market would crash and burn. A year ago the 10 year Treasury note was at 4.21% and the prognosticators expected it to be at least at 5% by year end, if not higher. Today, the 10% Treasury note yields 4.22%. The bond market did not exactly crash and burn. Short term rates did go up 1% so the prime rate is now at 5 ¼%. The average 30 year mortgage is still well below 6%. The average 15 year mortgage is just over 5% at 5 ¼%. Money market rates are just over 1%. If you want a safe return in the bank to avoid any risk of loss, you can get a return of 3 ½-4%. That is if you want to tie up your money for five years. Short term interest rates are expected to go up between 1%-2% during the next six months. That means that a year from now, you will be able to get 2% or so in a money market account and perhaps 5% on a five year CD. I do not believe that interest rates will pose a serious threat to the equity market in the near future. If mortgage rates rise another 1%, they will still be below 7% which most sane people consider low.

The economy continues to improve. It is especially strong for corporate America. Earnings continue to be strong, although the rate of earnings growth will slow significantly in 2005 because there will be difficult comparisons to the great earnings of 2004. The rate of growth in 2005 will still be above historical norms. Corporate balance sheets have never been stronger because of all the excess cash they have been generating the past two years. The labor market has improved but it could be better, especially if you are over 55.

As always, please call me if you have any questions.