THE BENEFITS OF DIVERSIFICATION

1981 - 2004

Year	100% Stocks	100% Bonds	60%Stocks 40%Bonds	Stocks Bonds Cash (1/3 in each)	5 Asset Class Diversified Portfolio*
1981	- 4.9%	1.9%	- 2.0%	4.1%	8.7%
1982	21.4%	40.4%	29.0%	24.0%	20.6%
1983	22.5%	0.7%	13.4%	10.5%	15.4%
1984	6.3%	15.4%	10.1%	10.8%	12.4%
1985	32.2%	22.1%	28.6%	20.8%	25.4%
1986	18.5%	15.3%	17.2%	13.4%	23.3%
1987	5.2%	2.8%	4.2%	5.0%	8.6%
1988	16.8%	7.9%	13.1%	10.8%	13.2%
1989	31.5%	14.5%	24.8%	18.4%	16.5%
1990	- 3.2%	9.0%	1.7%	4.7%	12.6%
1991	30.6%	16.0%	24.7%	17.4%	18.7%
1992	7.7%	7.4%	7.5%	6.2%	5.3%
1993	10.0%	9.8%	10.0%	7.7%	12.6%
1994	1.3%	- 2.9%	- 0.4%	1.1%	2.0%
1995	37.4%	18.5%	29.9%	20.7%	19.2%
1996	23.1%	3.6%	15.2%	10.7%	15.8%
1997	33.4%	9.7%	23.9%	16.2%	16.6%
1998	28.6%	8.7%	20.6%	14.2%	9.6%
1999	21.0%	- 0.8%	12.5%	8.7%	9.0%
2000	- 9.1%	11.6%	- 0.8%	3.0%	4.3%
2001	-11.9%	8.4%	- 3.8%	0.2%	- 0.7%
2002	-23.4%	10.3%	- 9.9%	-10.7%	- 3.7
2003	28.7%	18.8%	4.1%	11.3%	21.0%
2004	10.9%	4.3%	8.3%	5.7%	13.8%

Compound Annual Return	12.69%	10.49%	11.31%	9.68%	12.40%

# of Years with Positive Returns	19	22	19	23	22
Standard Deviation - Risk Levels of various Portfolio Mixes	16.24%	9.01%	11.36%	7.76%	7.44%

Stocks: S&P 500 Index, Bonds: Lehman Agg. Bond Index, Cash: 180 day C.D.

*****Diversified Portfolio: 20% S&P 500, 20% Lehman Aggregate Bond Index, 20% Equity REITS, 20% MSCI World Index (International), 20% Cash. Assumes annual rebalancing.
Sources: Morningstar, Ibbotson, Thomson Fin'l, NAREIT & Overlap, Inc. (www.overlap.com)

DIVERSIFICATION, "AN IDEA WHOSE TIME HAS COME", AGAIN

The very hallmark of suitability is diversification. To uphold the fiduciary duty of implementing only suitable investments, the broker must avoid over-concentration at all costs in favor of a diversified portfolio. The more aggressive the objectives of the investor, the more necessary it is to diversify the investor's assets to mitigate the risk (see Legal Duties of Stockbrokers - Duty to Diversify).

With the tremendous gains in the S&P 500 during the mid-90's, one would have been hard pressed to encourage investors to venture away form the rampaging stock market. However, the technology crash in the NASDAQ and the recent two-year double digit downturn in the S&P 500 has caused investors once again to turn their attention to diversify their portfolios. Investors now want to reduce their risk and lower their concentration in technology at all costs.

The above chart shows the compounded annual returns between 1981 and 2004 in five various portfolio mixes. At first blush, one would feel justified for having ventured only into the S&P 500 for the last 24 years. But take a closer look at the five asset class diversified portfolio in column five. Compared to column one, there were 22 years of positive returns instead of only 19. In other words, with the extra balance, the investor was able to sleep more comfortably for three more years. During the four year period from 2000 through 2002, the investor in stocks only would have lost over 43% of invested capital. However, during that same four year period, in the diversified portfolio, the account would have basically broken even! This at a time when, according to Lipper, Inc, the average diversified stock mutual fund lost 34.3% between 2000 and 2002. In terms of market loss and measured against the market's all time highs, the Dow Jones Industrials were down (32%), the S&P 500 had fallen 49%, while the NASDAQ was down a staggering 74%. Between 2000 and 2003, the S&P 500 lost nearly 16% while the 5 diversified asset classes gained 21%! The results speak for themselves. In 2004, the 5 asset classes outperformed stocks alone because the low returns of bonds and cash were more than offset by international returns of 20.3% and returns in equity REITS of 31.6%.

Further, from the chart, you can see that the diversified portfolio over the entire 24 years under-performed the 100% stock portfolio by .29%. Notice the level of risk by comparison. The S&P 500 had a standard deviation of 16.24% over the period compared to only 7.44% for the diversified portfolio, less than half the level of risk. Standard deviation is a measure of volatility indicating the amount by which most of the returns varied around the average. The higher the standard deviation, the greater the volatility and thus the greater the risk. For example, a security with a standard deviation of 10% indicates that most (two-thirds) of the actual returns over a particular time period varied around the average return by plus or minus 10% - in other words, if the average return was 17%, most of the actual returns ranged from 7% to 27%. Or, you could apply the concept of standard deviation to the market in general. Over the last 3 years, the S&P 500 has had a standard deviation of approximately 20%. If your return expectation was a 10% average annual return for the future, you could expect that return to fluctuate between a high of 30% and a low of -10%. With the graying of America, investors are continually looking for returns and results that they can rely upon, on an ongoing basis. A diversified portfolio in five non-overlapping asset classes, with reduced volatility, helps provide the probable assurance of verifiable consistency.

Finally, in the late 90's, investors strayed far away from the S&P 500 and implemented large positions in the tech-heavy NASDAQ to their detriment incurring losses well in excess of 50% from 2000 through 2002 with this concentration. As has been previously indicated, the S&P 500, which is market-capitalization weighted, was down 23.4% in 2002 and 11.9% in 2001. However, according to James B, Cloonan, Ph.D., Chairman of the American Association of Individual Investors, in the April, 2002 AAII Journal, "a portfolio of the same 500 stocks, equally weighted, would have been up 1.63% for the year. The NASDAQ Composite Index, also market-capitalization weighted, was down 20.13% in 2001 alone, but those same 4,000 stocks bought in equal dollar amounts would have been up 63.86%! This seems incredible, but recall almost all the losses on the NASDAQ were in the high-cap. technology stocks. In contrast, micro-cap. stocks (companies whose market capitalization is below $250 million) had a banner year". Further, according to the AAII Journal/November 2002, "Over the last 10 years the Wilshire 5000 index has had an average annual return (through September 30, 2002) of 8.69%. However, the return of the Wilshire 5000 unweighted by market capitalization (in other words, the average stock in the Wilshire 5000), is 14.17% a year. And to throw in another shocker: The NASDAQ Composite index is down dramatically year to date, with a return of -39.26%, yet the average stock on the NASDAQ is up 30.54%, and the average stock has been up each year for the past three years". Actually, 37% of all U.S. stocks had a positive return in the year 2002. The average return of those stocks that did have a positive return was an astonishing 43.4%. The point about market indexes is this. Because of the dependence upon market capitalization weighting, the U.S. equity market as a whole is generally not performing as well, or as badly, as the major benchmarks indicate.

While the NASDAQ Composite Index was and is heavily weighted with large-cap technology stocks, the S&P 500 was far less concentrated. Consider the S&P 500 concentration (by market capitalization) in technology at the following periods:

9/99	12/99	3/00	12/00	12/01	6/02	12/02
23%	24%	32%	24%	21%	15%	20%

Note: The S&P 500, by number, currently has 26 telecom stocks, 19 software stocks and 15 computer related stocks, totaling 60 issues out of 500 for a total of 12% "technology"! Since its high in March, 2000, the percentage of technology, in terms of market capitalization value, has steadily declined. The technology concentration in the S&P 500 as reported in the Wall Street Journal on June 25, 2002 was only 15%, and 20% by 12-31-02.

By contrast, the technology concentration in the NASDAQ Composite Index between 12/99 and 3/00 averaged 63% in terms of market capitalization value. As of late 2002, the NASDAQ was still over 50% invested in technology.

The 12.89% average annual return in the S&P 500 for the entire 23 year period was only available for those investors who remained there during the technology boom. Many strayed to the NASDAQ through their own greed along with that of their advisors (seeking the higher performance of dot-com and tech. issues) and they experienced necessarily a much lower compounded annual return through 2002. They participated in this high risk technology concentration usually without any protection or exit strategy i.e. stop losses, protective puts or custom collars. Further, rather than their brokers selling or cushioning the decline in value of this 100% concentrated stock portfolio, many brokers bought more or "averaged down" during the market decline.

Tech-heavy mutual funds joined the internet explosion in high risk NASDAQ issues as well. In December 1998 there were a total of 48 technology equity funds (as defined by the Morningstar Principia Pro software). By the end of 2000 there were 118 tech. funds - an increase of 146%. The bulge in tech. portfolios took place between June 1996 and December 2000. In the short space of 19 months, 70 new equity funds with a heavy weighting in technology were launched. These totals only consider distinct, surviving portfolios as of April, 2003.

As we observe the markets rebounding nicely in 2003 (the market overall was up over 40% according to the VAY index), we must remind ourselves of the valuable lesson history has taught us! In the last 23 years the five asset class diversified portfolio has performed virtually equivalent to the growth stock portfolio, but with less than half the level of risk. It will take all or our resolve to remember that historical truism. No one can be sure that the market has bottomed out. Historically, there have been 5 bear markets since the depression. A bear market is defined as lasting more than 12 months in a period where stocks lost at least 20% of their value. The bear markets were 1929-1932; 1940-1942; 1968-1970; 1973-1974 and 1980-1982. More currently, the Wilshire 5000 total return index declined by 46% from its March, 2000 top to its October, 2002 low. Only diversification can sustain us through the unchartered waters of these uncertain times.

The point is this: Sector sizzle will come and go just like it always has. Conversely, investors planning for retirement want their retirement funds to grow consistently with the realistic probability of controlling risk levels. A diversified portfolio does that. Once again, it is "an idea whose time has come".

Historical Portfolio Returns: 1/79 – 12/02

Stock %	Bond %	Ave. Annual Return	Standard Deviation*
0%	100%	9.6%	6.4%
10%	90%	9.8%	6.4%

20%	80%	10.0%	6.7%
30%	70%	10.2%	7.3%
40%	60%	10.3%	8.1%
50%	50%	10.4%	9.1%
60%	40%	10.4%	10.3%
70%	30%	10.5%	11.5%
80%	20%	10.5%	12.8%
90%	10%	10.4%	14.2%
100%	0%	10.4%	15.6%

Stocks: Russell 3000

Bonds: Lehman Aggregate Bond Index

Abandoning bonds is as foolish now as it was in 1999! Investors should note that maintaining a 30% allocation in fixed income securities cuts portfolio volatility by one-third, but with negligible upside impairment. Instead of trying to guess, we look for sound investment opportunities with low correlations to U.S. stocks and combine them in proportions most appropriate to each client's needs, objectives and risk/return profile. For example, the correlations between emerging market stocks or real estate investment trusts and stocks is quite low. And there's effectively no correlation between the returns on cash and the returns on U.S. stocks. You can see that the dollar, too, moves without relation to the U.S. stock market, which adds to the diversified effect of investing abroad. With the recent decline in interest rates, and the chance for increases from historic lows, one needs to be a bit more creative, utilizing inflation indexed bonds, convertible securities, mortgage backed securities or laddered Treasury Notes, for example. Quality high yield non-rated bonds ("junk" but not "trash") should be considered when the issuer forgoes the cost of a bond rating in favor of increasing the yield to the investor. Quality corporate bonds could also be considered. However, one must always keep an eye on default potential. According to Moody's, for companies started in 1970 to 1997, the mean five-year cumulative rate of default was 0.1% for those with a top Aaa rating. The default rate climbed to 11.5% for speculative Ba-rated companies and to 30.8% for B- rated firms (See the following article on junk bonds). The most compelling reason for including bonds in a portfolio is again, diversification. Consider the 1970's, a decade when interest rates increased from 5% to 14%. According to a recent Ibbotson study, an investor with a 30% allocation to bonds during this period captured 98% of the total return of stocks with only 73% of the price volatility. If that statistic isn't convincing enough, consider the possibility of another market shock, be it a stock market crash a la 1987, or another terrorist attack on U.S. soil. In the past, bonds acted as a shock absorber during such tumultuous events, cushioning the bruising performance of equities. As interest rates begin to rise, regardless of economic conditions, bonds should be a part of every long-term investor's holdings. It is prudent, however, to adjust duration and credit spread exposure as conditions change.

Scorecard - Standard Deviation*

(1 = best - 9 = worst)

Standard Deviation	Volatility Risk Rating
up to 7.99	1
8.00 - 10.99	2
11.00 - 13.99	3
14.00 - 16.99	4
17.00 - 19.99	5

20.00 - 22.99	6
23.00 - 25.99	7
26.00 - 28.99	8
29.00 and up	9

THE BENEFITS OF DIVERSIFICATION (1970-1990)

Year	100% Stocks	100% Bonds	60% Stocks 40% Bonds	Stocks Bonds Cash (1/3 in each)	5 Asset Class Diversified Portfolio*
1970	4.0%	12.1%	7.5%	8.0%	4.7%
1971	14.3%	13.2%	14.1%	10.8%	13.7%
1972	19.0%	5.7%	13.5%	9.4%	15.1%
1973	-14.7%	-1.1%	-9.1%	-3.0%	-2.2%
1974	-26.4%	4.4%	-14.9%	-5.4%	-6.6%
1975	37.2%	9.2%	25.7%	17.0%	19.6%
1976	23.8%	16.8%	21.2%	15.2%	11.5%
1977	-7.2%	-0.7%	-4.6%	-0.9%	6.1%

1978	6.6%	-1.2%	3.7%	4.4%	13.0%
1979	18.4%	-1.2%	10.8%	9.1%	11.5%
1980	32.4%	-4.0%	17.5%	13.2%	17.9%
1981	-4.9%	1.9%	-2.0%	4.1%	6.4%
1982	21.4%	40.4%	29.0%	24.0%	14.4%
1983	22.5%	0.7%	13.4%	10.5%	15.4%
1984	6.3%	15.4%	10.1%	10.8%	10.4%
1985	32.2%	31.0%	31.9%	23.4%	25.4%
1986	18.5%	24.4%	21.1%	16.6%	23.3%
1987	5.2%	-2.7%	3.6%	3.9%	8.6%
1988	16.8%	9.7%	14.0%	11.0%	13.2%
1989	31.5%	18.1%	26.2%	19.2%	14.3%
1990	- 3.2%	6.2%	0.6%	3.6%	- 1.4%
Compound Annual Ret.	11.2%	8.7%	10.5%	9.6%	11.2%
Standard Dev. Risk Levels - Var. Portfol. Mixes	16.20%	11.80%	9.53%	8.00%	7.75%
# of Years	15	14	16	17	17

with Positive

Returns

Stocks: S&P 500 Index, Bonds: Lehman Agg. Bond Index, Cash: 180 day C.D.

*****Diversified Portfolio: 20% S&P 500, 20% Lehman Aggregate Bond Index, 20% Equity REITS, 20% MSCI World Index (International), 20% Cash. Assumes annual rebalancing.

Sources: Morningstar, Ibbotson, Thomson Fin'l, NAREIT & BB&K Index.

HISTORICAL MARKET INDEX ANNUAL RETURNS

	DJIA	S & P 500	NASDAQ
	ANNUAL RETURN (%)	ANNUAL RETURN (%)	ANNUAL RETURN (%)
2003	**27.4**	**28.7**	**33.3**
2002	**-14.5**	**-23.4**	**-31.3**
2001	**- 5.4**	**-11.9**	**-21.1**
2000	**- 4.7**	**- 9.1**	**-39.3**
1999	**27.0**	**21.0**	**85.6**
1998	**18.0**	**28.6**	**39.6**
1997	**24.8**	**33.4**	**21.6**

1996	**28.6**	**23.1**	**22.7**
1995	**36.5**	**37.4**	**39.9**
1994	**4.9**	**1.3**	**- 3.2**
1993	**16.7**	**10.0**	**14.7**
1992	**7.4**	**7.7**	**15.4**
1991	**23.9**	**30.6**	**56.8**
1990	**- .6**	**- 3.2**	**-17.8**
1989	**31.7**	**31.5**	**19.3**
1988	**15.9**	**16.8**	**15.4**
1987	**6.0**	**5.2**	**- 5.3**
1986	**26.9**	**18.5**	**7.3**
1985	**32.8**	**32.2**	**31.5**
1984	**1.1**	**6.3**	**-11.2**
1983	**25.6**	**22.5**	**19.9**
1982	**25.8**	**21.4**	**18.7**
1981	**- 3.4**	**- 4.9**	**- 3.2**
1980	**21.4**	**32.4**	**33.9**
1979	**10.5**	**18.4**	**28.1**
1978	**- 3.2**	**6.6**	**12.3**
1977	**-17.3**	**- 7.2**	**7.3**
1976	**21.8**	**23.8**	**26.1**
1975	**45.4**	**37.2**	**29.8**

1974	**-23.1**	**-26.4**	**-35.1***
1973	**-13.1**	**-14.7**	
1972	**14.6**	**19.0**	
1971	**9.8**	**14.3**	
1970	**8.8**	**4.0**	
1969	**-11.6**	**- 8.5**	
1968	**7.7**	**11.1**	
1967	**15.2**	**24.0**	
1966	**-18.9**	**-10.1**	
1965	**14.2**	**12.5**	
1964	**18.7**	**16.5**	
1963	**20.6**	**22.8**	
1962	**-10.8**	**- 8.7**	
1961	**18.7**	**26.9**	
1960	**- 9.3**	**0.5**	
1959	**16.4**	**12.0**	
1958	**34.0**	**43.4**	
1957	**-12.8**	**-10.8**	
1956	**2.3**	**6.6**	
1955	**20.8**	**31.6**	
1954	**44.0**	**52.6**	
1953	**- 3.8**	**- 1.0**	
1952	**8.4**	**18.4**	

1951	**14.4**	**24.0**
1950	**17.6**	**31.7**
1949	**12.9**	**18.8**
1948	**- 2.1**	**5.5**
1947	**2.2**	**5.7**
1946	**- 8.1**	**- 8.1**
1945	**26.7**	**36.4**
1944	**11.8**	**19.8**
1943	**14.1**	**25.9**
1942	**7.6**	**20.3**
1941	**-15.4**	**-11.6**
1940	**-12.7**	**- 9.8**
1939	**- 2.9**	**- 0.4**
1938	**28.1**	**31.1**
1937	**-32.8**	**-35.0**
1936	**24.8**	**33.9**
1935	**38.5**	**47.7**
1934	**4.1**	**- 1.4**
1933	**66.7**	**54.0**
1932	**-23.1**	**- 8.2**
1931	**-52.7**	**-43.3**
1930	**-33.8**	**-24.9**
1929	**-17.2**	**- 8.2**

1928	**49.5**	**43.6**	
Average Annual Return	**9.2%**	**12.1%**	**13.7%**
	(76 Years)	**(76 Years)**	**(30 Years)**

*** First year of NASDAQ Index.**

Sources: Bloomberg (Dow Jones & NASDAQ)

Ibbotson (S&P 500)