
FREDERIC T. KUTSCHER ASSOCIATES, INC.

Comprehensive financial counsel for individuals, families and trusts

February 25, 2005

Enclosed is our *Market Summary* for 2004. As you know, we are great believers in diversification because it reduces portfolio volatility. Last year diversification also helped returns. For example, while the US stock market provided a respectable return of 11% (which, coincidentally, is about the 75 year annual average) some asset classes had spectacular returns:

- The real estate sector delivered a stunning 34% after piling up great returns in 2001-2003.
- US small company value stocks trounced the overall US stock market with gains of 22%.
- International stocks, with 21% returns, almost doubled US stock gains.
- Bond markets rewarded the courageous with high single-digit and low double-digit returns despite investor anxiety about inflation and traders fleeing the fixed-income markets early in the year.

Most US stocks spent much of 2004 in a narrow trading range that reflected investor uncertainty about many important economic and political factors, including the direction of inflation and interest rates, the strength of the US economic recovery, the sustainability of corporate profitability, the outcome of the elections and events in Iraq. But in November and December, as some of these uncertainties waned, the market added 7½% to the 3% return it had eked out over the previous ten months.

Another way to view 2004 is that, for most of the year, investors were adjusting, recovering and catching their breaths after an eight-year period of volatility: a market cycle where stock values doubled, then lost 40% of their inflated values and sustained three consecutive down years (for the first time since the 1930s) before climbing 29% in 2003.

Looking Ahead

We're not fortune-tellers, but we weigh significant economic and market developments on the horizon when making recommendations for tactical changes for your portfolio. Should we be making defensive adjustments to account for the "twin deficits" – the federal fiscal deficit and the current account "trade gap"? We are asked this question often by clients, and we give it a lot of thought. The short answer is we aren't alarmed yet and don't

*Hoge Building
Suite 800
705 Second Avenue
Seattle, Washington
98104-1711
Phone 206/382-4414
Fax 206/382-4412*

suggest a significant tactical asset allocation change because of the twin deficits. This answer deserves an explanation, however.

First, we acknowledge the deficits are potentially significant in the long term and involve complex and often dynamic factors. But it is the fluid nature of both deficits that allows us to take a "wait and see" approach.

Second, international investors continue to buy US stocks and bonds, indicating a collective assessment the twin deficits do not yet spell imminent disaster for our capital markets. One reason why international investors still find the US an attractive capital market may be the fact that the US has a higher GDP to national debt ratio than most other developed countries. In other words, the US has less debt compared to its level of productivity than most other mature economies.

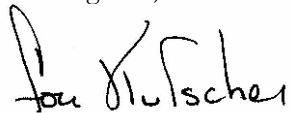
A third factor we think is important is that the current account deficit has an element of self-correction because with floating currency rates the markets will make US goods cheaper for foreign buyers (but this assumes countries like China and Japan will not keep the US dollar artificially high). We've already seen some of this "self-correcting" recently as the dollar has regained some value against the Euro.

Fourth, whether the US federal deficit will grow will depend on the determination of Congress to address the problem. That the subject has attracted so much attention helps create the political will necessary to reduce the deficit. This is reason for optimism. The Social Security debate will certainly influence events too.

In recent years, in order to achieve diversification, and because we've thought the international equity markets offered better value than the domestic US market, we've suggested a significant investment in international markets (often 20% or greater of the equity portion). Last year we also added a specific allocation to global bonds. Investors were finally rewarded for holding international stocks in 2003 and 2004. We think the value disparities still apply, but on the macro level we're still concerned about economic stagnation and malaise in some developed international markets, particularly in Germany and France.

Finally, we foresee no cataclysm in the bond markets, which last year defied predictions by producing decent returns even while interest rates rose moderately. The Greenspan Fed's resolute and measured preemptive action against inflation continues to mollify the bond markets and allow positive returns.

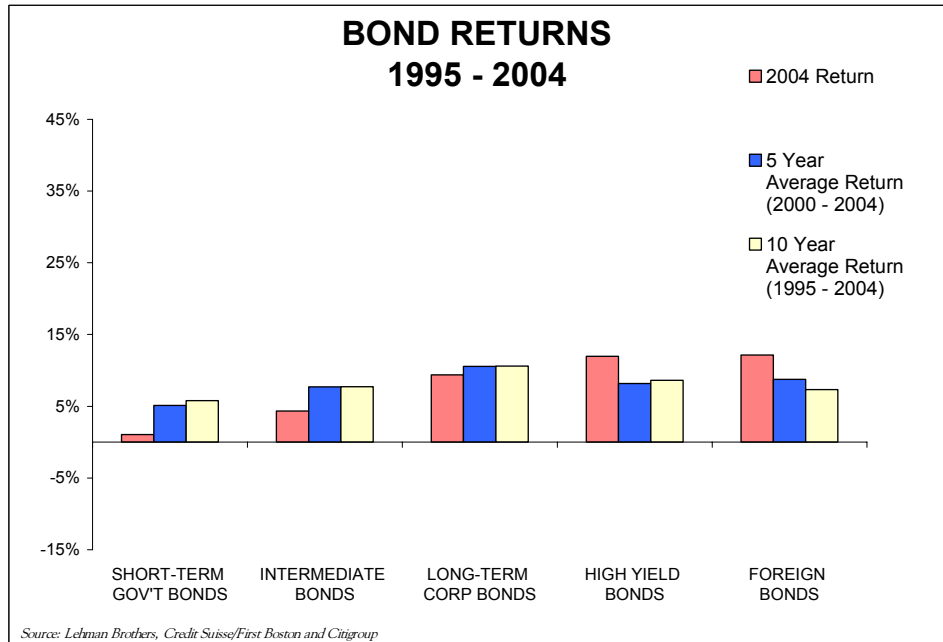
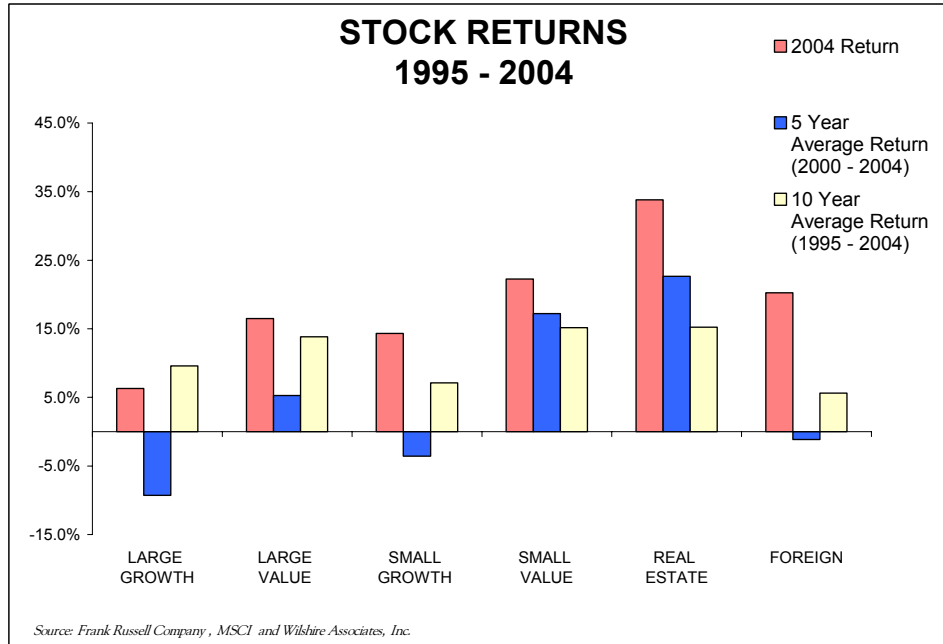
Best regards,

A handwritten signature in black ink that reads "Louis F. Kutscher". The signature is written in a cursive, somewhat stylized font.

LOUIS F. KUTSCHER

Capital Markets Summary

(For Periods Ending 2004)



TOTAL RETURNS
(annualized)

1 year **5 years** **10 years**
(2004) (2000-2004) (1995-2004)

COMMENTS

EQUITIES (Stocks & Real Estate)				
US LARGE-CAPITALIZED GROWTH COMPANIES	6.3%	-9.3%	9.6%	Large-cap growth stocks had a mediocre 2004. Despite this category's spectacular 30% return in 2003, its ten-year annualized return of 9.6% trailed the 11.6% historical average return by about 17%, showing the effect of the three consecutive down years of the early '00s that came after the spectacular run-up of the late '90s.
US LARGE-CAPITALIZED VALUE COMPANIES	16.5%	5.3%	13.8%	Large value stocks outperformed large growth stocks in 2004 and over the ten-year period, significantly exceeding historically average returns.
US SMALL-CAPITALIZED GROWTH COMPANIES	14.3%	-3.6%	7.1%	Like their large-cap growth cousins, small-cap growth stocks finished far below value stocks with similar market capitalizations. This followed their spectacular 48% return in 2003.
US SMALL-CAPITALIZED VALUE COMPANIES	22.3%	17.2%	15.2%	Small-cap value stocks did particularly well in a year when most investors thought small-cap stock valuations had become high by historical standards. But their valuations were still low compared with large-cap stocks. Small-cap and value stock popularity may be a signal of investors' increased concern with the relatively high price of growth and large stocks.
REAL ESTATE EQUITIES	33.8%	22.7%	15.3%	Surprising market professionals, the white-hot real estate market rose again in 2004. Positive fundamentals such as declining vacancy rates outweighed negative factors like rising interest rates.
FOREIGN STOCKS	20.3%	-1.1%	5.6%	Foreign currencies' rise against the US dollar enhanced the modest gains in the European stock market. US investors' recent interest in foreign stocks may have been partly based on currency plays rather than on the more attractive valuations of foreign stocks.

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COMMENTS

CASH EQUIVALENTS

CASH – MONEY FUNDS	0.8%	2.4%	3.7%	The Federal Reserve's five increases in short-term interest rates helped returns on cash, but as in 2003, money market interest rates lagged behind inflation rates, making "real returns" negative.
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BONDS

SHORT-TERM GOVERNMENT BONDS	1.1%	5.1%	5.8%	The Fed's actions of rising short-term interest rates, resulted in lower bond prices.* Price declines offset interest income to leave investors with total returns that were not much higher than cash.
INTERMEDIATE BONDS	4.3%	7.7%	7.7%	Surprising many, intermediate bonds finished the year in positive territory. Most thought rising short-term interest rates and concerns about inflation would translate into significantly higher yields and lower bond prices* but, unexpectedly, the market overcame early bearishness as inflation fears waned.
LONG-TERM CORPORATE BONDS	9.4%	10.6%	10.6%	Ignoring the Fed's five increases in short-term interest rates, the market in 2004 priced long-term bonds a little higher than in 2003, which caused yields to drop. Most believe this unusual outcome was due to American consumers' growing appetite for taking on debt, Asia's willingness to lend to America and the market's perception that the Fed was appropriately handling the threat of inflation by raising short-term interest rates.
HIGH-YIELD BONDS	12.0%	8.2%	8.6%	Although the 12% return on high-yield bonds was less than half of the category's 2003's whopping 28% return, the gain for the year was still quite respectable. The yield on this bond sector is closer to the treasury rate than any time since 1998 reflecting market confidence in government reforms and companies' improving balance sheets.
FOREIGN BONDS	12.1%	8.8%	7.3%	Foreign bonds performed well in the US primarily due to the US dollar's decline against foreign currency. Although not as dramatic as 2003's 16% currency pickup, 2004's foreign bond market would have had a 5% return without the 7% added by the drop in the value of the US dollar.

* Market interest rates and bond prices move inversely