

October 29, 1999

Impatient Times – Or Who Wants to be a Tortoise?

Over the past month we've talked with many of our clients about Y2K's effect on the markets. The predominant reaction has been that Y2K is a short-term phenomenon which should not drive long-term investment decisions. We agree wholeheartedly, as you know.

Actually, the process of communicating on this issue has confirmed that our clients possess the high level of patience and core philosophical perspective so vital to investing (as opposed to speculating).

We don't think this is typical of the financial environment, however. Simply put, we live in *impatient times*. Faxes, emails, the Web – they are all great tools unleashing improvements in productivity. We're both entranced and enslaved by them; and if we aren't using technology, we're falling behind. While it is cliché now to observe that "everything moves much faster," it seems that the implicit expectation is that faster is always better. This appears to apply to financial markets also. Some examples include higher turnover rates for mutual funds, impatience with managers who don't do well every quarter, and investors' general willingness to take more risk in order to get the possibility of a higher return more immediately.

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Is this impatience bad for the investor? If we are to believe the available data, the answer is “yes.” Patience for an investor is a virtue with a mathematical dimension.

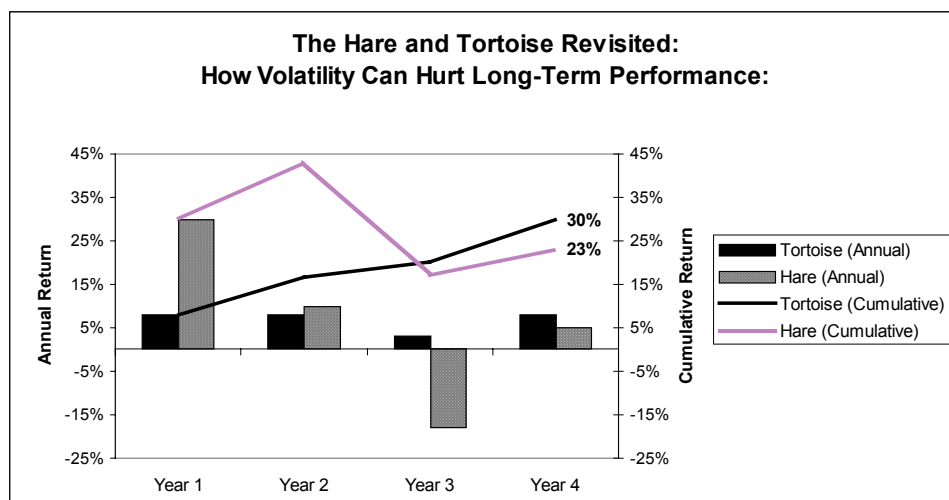
Let’s take the proverb about the tortoise and the hare. We all know the plodding tortoise won while the impatient flutter-about hare lost. The hare was so fast he was downright cocky. He could even take a nap here and there.

How would the tortoise and the hare do as investors? The hare would chase last year’s high returns, consider himself a risk-taker, and would swear he understood the trade-off between risk and return. His reasoning would be something like this: “The bull market will continue, so if lose my investment, I can always make it up.”

The tortoise wouldn’t like risk. He’d say: “It’s been so o o o hard getting here, I don’t like going backwards at all, and who knows, it may be tougher ahead.”

So here is what happens over a four-year period: The hare’s portfolio does great at first and then it takes a nap with a mild one-year nightmare. His returns over the four years are: 30%, 10%, -18%, and 5%. The tortoise’s beginning returns are less inspired, but he keeps plodding along and doesn’t have a severe setback. His returns over the four years are: 8%, 8%, 3%, and 8%.

The result: their average annual returns are both 6.75%. But the CUMULATIVE return wins the race – and you guessed it -- THE TORTOISE WINS!



The morals of this tale include:

- *The race is long.*
- *Avoid the big loss.*
- *Faster is not always better.*
- *Don't be afraid to go slowly while everyone you know is speeding.*

The Stealth Bear

The market never seems to disappoint those who like excitement. We've seen greater volatility in bigger stocks (see enclosed article), and it seems that the financial media is focusing on what we term the "stealth bear market" which began in late 1997. It continues to be characterized by a few wildly popular stocks doing well while other perfectly good companies are neglected.

As usual, all signs are not consistent. This spring it appeared that performance across many asset classes was improving and broadening, or so we hoped. But as the summer progressed (as in the previous summer) only a relatively small number of large technology companies led the market. We have seen the general market decline 5% – 10% during the last three months. While the return of most diversified portfolios is not negative, the performance in most sectors is modest at best.

There have been some bright spots so far this year: Emerging markets are still up 30% to 40%, but their luster may fade with signs of a pullback by investors that is increasing in anticipation of Y2K issues. The bond market continues to suffer from inflation scares and Fed intervention. Some areas of the stock market are oversold, and we think real estate and value stocks represent bargains at this point.

Planning for the Costs of Education – Part 2

In our last newsletter we discussed the increasing costs of post-secondary education and the challenge of calculating savings levels to fund education. Various tax-advantaged programs and methods are available for funding college education. These include state guaranteed pre-paid education tuition plans, college savings plans (known as 529 Plans), uniform gift to minors act accounts, education trusts and Hope Scholarship income tax credits.

Each of these methods has its strengths and weaknesses financially and practically. For example, 529 Plans allow five years of gifting (from an estate planning prospective) to be contributed in one year, deferral of income tax until the beneficiary spends the money on college-related expenses, and income is taxed at the beneficiary's income tax rate. Potential penalties and limited investment selection are some of the drawbacks of this otherwise attractive program.

If you wish to discuss optimal levels of investment funding or how you can take advantage of these programs, we are available to help you review your particular circumstances and develop a plan to provide for your children's or grandchildren's education.

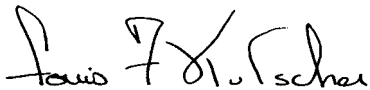
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Call us, anytime, about these or any other exciting investment concepts, because we love this stuff even during challenging times in the markets!

Sincerely,

A handwritten signature in cursive script that reads "Frederic T. Kutscher".

Frederic T. Kutscher

A handwritten signature in cursive script that reads "Louis F. Kutscher".

Louis F. Kutscher

A handwritten signature in cursive script that reads "Scott Rhodes".

Scott Rhodes