April 2005

The stock markets have been a bit volatile of late and we want to speak to that for just a moment. In fact, market jitters have produced many more triple digit moves of late in the Dow Jones Industrial Average (the Dow). This index, maybe the most watched daily barometer, , had moves of greater than one percent (approx. 100 pts.) on just three days for the first two months of this year. Since then, there have been eight days the Dow has moved by one percent or more.

So, the day-to-day market gyrations can create anxiety, we take comfort in the sound fundamentals and excellent prospects of the companies that underlie the Dow and the many other indices used to measure the performance of stocks. Most important to this discussion is for you to recall your overall asset allocation, which you can find on page one of your accompanying Quarterly Portfolio Report.

With that in mind, let's take a look at how you performed during the most recent volatility in the markets as the evening news may have caught your attention. During that time, balanced accounts declined significantly less.

Ironically, as I write this note the US stock market has recovered about 1.25% since then. The recovery is undoubtedly the result of the very positive earnings reports coming from the overwhelming majority of companies, not withstanding the highly reported declines of the likes of GM, Ford, and Pfizer. In fact, as of April 28, 956 companies have reported first quarter earnings and the aggregate of those earnings is up 19% over the same period last year. More importantly, earnings are growing across nearly every industry. As we look forward, the US stock market trades at about 16 times earnings - right at the historical average. And the consensus expectation for annual earnings growth is 11% over the next five years. So as we see it, the market is fairly priced, not overpriced, and the economy is continuing to grow at a reasonable pace.

The topic du jour is Oil. While many analysts are calling for crude oil to hit $100 or more per barrel, we tend to side with a lonely voice of reason. Tim Evans of IFR Energy Services, a division of Thomson Financial, thinks that the current run-up in crude oil prices is much like the internet bubble of the late 90's. He believes the bubble will burst; bringing prices back down into the upper-$20s range.1

Remember basic fundamentals of economics here - supply and demand dictate the prices of oil over the long-run. Recently, we saw the highest level of crude oil inventory in the U.S. since June, 2002. Back then crude oil traded in the range of $26 to $30 per barrel. Today, we're at an all-time high price without a physical shortage of oil - something that cannot be sustained.

If demand is outpacing supply, how can inventories rise?

They can't.

Department of Energy crude inventories have been rising since last September and physical inventories are 5% higher than they were 18 months ago. Yes, world oil demand grew last year by 3.4%, greater than we have seen in quite some time, but far less than the 9% growth experienced in the 50's and 60's. During that era we didn't experience oil price shocks.

Today, we have 5.2% more crude oil inventory on average than over the last five years, we have 6% more gasoline inventory than we did at this time last year and OPEC is still increasing production - they increased quotas half a million barrels per day for April. And Saudi Arabia has allocated additional oil in its May sales program as well.

At the same time, second-quarter demand for crude oil tends to fall by about 2%. Remember, we are no longer facing

the demand for heating that the cold winter brought to those in the north.

In short, supply is ample and growing and demand is declining. This is not a recipe for higher market prices, but lower ones.

We don't see any reason for great worry, but felt that recent market movement was reason enough to share our thoughts with you. As always, we will be watching the store and please feel free to contact us with any questions.

As always, we circle back to the beginning of this communication to remind you that a balanced diversified approach combined with disciplined rebalancing provides stability during volatile markets, while participating in the returns of the global capital markets. This balanced approach has steadied the ride for balanced investors, most importantly in the short run, which makes it easier for you to focus on the long-term. (Short-term thinking creates long-term mistakes)

Sources: Standard & Poor's, Wilshire Associates Incorporated, Frank Russell Company, Morgan Stanley Capital International, China Daily, Dimensional Fund Advisors, Bloomberg and One Capital Management, LLC. Benchmarks used in this article: U.S. Large Company Stocks - Standard & Poor's S&P 500, U.S. Small Company Stocks - Russell 2000 Index, International Stocks - Morgan Stanley Capital International EAFE Index, Net of Dividends, Bonds - Lehman Brothers 1-10 Year Treasury Index, REITs - Wilshire All REIT Index, Tax-exempt Bonds - Standard & Poor's/Investortools Municipal Bond Indices Short Intermediate Index, China - Standard & Poor's/Citigroup China Index.