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January 2004

One of the longest losing streaks in stock market history has come to an end. Good riddance! An improving economic outlook and accelerating corporate profits brought stocks out of their extended slump, as 2003 marks the first positive year for stock prices since 1999. It is a welcome relief to investors and a reminder that progress charts its own course. The good moments, as well as the setbacks, tend to develop in surprising ways. My recommendation for the New Year remains steady, with a focus on a diversified participation in stocks and a conservative posture with fixed income holdings.

After we take a moment to celebrate 2003's rebound in stock prices, there remains the challenge of what to do in the coming year. Bond yields are low, real estate is expensive, gold prices have jumped, the dollar has tumbled, and stock prices have already experienced a nice rally off their lows. Factor in the Fed, an election year, terror alerts, mad cow...that headache coming on is not a hangover. It is the humbling realization that we have a limited ability to predict world events.

Forecasting is a funny business. Remember the "Y2K bug?" Five years ago, back in January 1999, Time magazine carried a Time/CNN poll that detailed people's trepidation over the arrival of the year 2000. Fifty-nine percent of the survey respondents expressed concern. They planned to take cash out of bank accounts, stockpile supplies and arm themselves with a shot gun. The changeover to 2000 brought virtually none of the chaos or technical problems that worried people in 1999. Just as people were breathing a sigh of relief in early 2000, that's when the real problems began. The next three years brought treachery that literally changed the world, while wreaking havoc on investors' confidence and pocketbooks. People were focused on risks that never materialized, while devastated by events they did not see coming. That is the nature of risk, and it makes the investment task a challenging one.

My optimism for future gains in the stock market is based upon our ability to continually reinvent the economy. Many of the products we enjoy and even the companies that employ us did not exist a decade ago. Capital and creativity have propelled our economy throughout history, and those resources are in abundance today.

As we enter 2004, companies are on the mend. The return to profitability means that companies can now invest in growth initiatives. That translates into job creation and capital outlays for new projects. Risk-taking is a prerequisite for advancing the revenue base and profits that make a company worth more over time. I continue to favor a diversified mix of strong companies in attractive industries. Clients' stock holdings, as a group, generally represent a similar price/earnings multiple to such benchmarks as the S&P 500 Index, while providing higher yield, higher revenue growth and higher earnings growth than the benchmark. All of the core companies are expected to earn an operating profit in the coming year.

I am more cautious regarding the bond market. Interest rates have generally trended lower since the 1980's, with a few prominent spikes in rates along the way. The spikes always seem to catch investors by surprise, and rising rates can inflict terrible damage to the value of bond holdings. In addition, today's low interest rates are based upon the view that inflation is at historic low levels. That seems a dubious assumption. I am suspicious of the reported inflation rates when so many of the prominent costs of living seem to be rising. Food, energy, housing, education and healthcare are just a few of the areas that come to mind. For these reasons, I recommend a conservative posture with fixed income holdings. A focus on high credit quality instruments in the short to intermediate maturity range can secure modest yields without taking too much risk in the event that interest rates move up in the coming year.

Recent economic reports are encouraging and point to accelerating activity. That bodes well for employment, corporate profits and stock prices. Bonds are likely to have a more difficult time, and the current low interest rate environment means that investors will be counting on stocks to achieve their total portfolio return objectives. The gains of 2003 are a welcome step in the right direction, even though portfolio values have a way to go before they surpass the peak levels that may still reside in people's memories. Progress does not follow a straight line, and the remarkable events of the past five years affirm my view that capital markets favor the patient investor.

Best wishes to you and your family for the New Year!