Trusted Advisor

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"Thanks for thinking of me. We definitely can use a little rational thinking in these stressful times. I keep reminding myself that my Dad survived when his savings were wiped out in 1933. We are so lucky compared to other countries MM"

We received this note via e-mail after sending a reassuring note to our clients in a special e-mail in early March, when the market was going through it's third "melt down" since July 2002. In this e-mail we quoted a prominent market commentator who warned people out of the stock market in 1990 due to uncertainties in the Middle East, with specific reference to the regime of Saddam Hussein. At the time, stocks were trading in the mid 3000's (Dow Industrials). Those who followed the pundit's advice in 1990 missed a dramatic stock market rally during the ensuing decade. The point of this message was to remind clients that no matter how loudly Chicken Little (the media) shrieks about a falling sky, there is opportunity in every crisis. As long term thinkers, we are finding good investment opportunities right now.

Market and Economy have Much to Digest

March 2003 marked the 36th month of the current bear market –the longest such experience in 62 years! To put this into perspective, since most people don't have enough discretionary capital to invest in stocks until they are about age 35, for today's investor to have been burned by an equally grueling bear market, he would now have to be about 97 years of age! Perhaps it is no accident that the last Big Bear began just before we entered World War II. It seems the financial markets may be equating our anti terrorist war and the war on Saddam with the conflagration of the 1940's.

There are sobering economic reasons for the stock market's worries too: the United States has formidable structural challenges ahead. Our imports of oil, cars, clothing, televisions and DVD players outstrip *by $40B per month* what we sell to the world. Our governments, federal, state and local plunge headlong into debt as spending on national security competes directly with spending on welfare for poor, elderly, and nurses, medicines and hospital stays. The Bush administration has taken a tremendous gamble that success in Iraq will lead to the defeat of terrorism by frightening host countries into squelching terrorist cells within their borders, mostly in the Middle East. The Bush administration is gambling as well that a big cut in taxes, especially on investment capital, (which we support) will stimulate investment and ultimately lead to greater tax revenue and an opportunity to reduce the Federal deficit. George Bush, then can be seen as the natural successor to Ronald Reagan who proved that reducing taxes leads to greater revenue for the government (although few Democrats will acknowledge publicly). The question Wall Street asks is, when does Supply Side, tax reduction lose it's effectiveness? So far the non-believers dominate and sell into every market rally.

We have been gratified that the losses experienced in the first quarter of 2003 were minor for our discretionary clients and feel the that the stock market's continued timidity, even in the face of military success, confirms our approach of assembling diversified assets whose price movements do not closely correlate with one another.

We continue to purchase businesses that can benefit primarily from longer term demographic trends. For example we recently added a couple of financial services companies to the fold. These are both publicly traded pension fund managers. They should benefit as the clock keeps ticking for Baby Boomers who must save money in earnest for their approaching retirement years. Some 65 million Americans are worried that they will be unable to retire. With kids in college or getting married, the Boomers have lots of current bills to worry about, but as their parental obligations are completed, Boomers are focusing on the Big Question: "Can I afford to

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Retire"? It is logical to assume that pension managers like Blackrock, Inc. and Alliance Capital L.P. will continue to gain money for management. Like yours truly, they earn a revenue stream of quarterly fees and if they do well for their clients, their earnings will increase. Blackrock especially stands to benefit because they focus on bond portfolios. We believe that even when stocks regain respectability as an investment, bonds will be forever dear to a large portion of today's wealth builders. Once every generation the stock market teaches speculators the necessity of portfolio diversification. Many who have surrendered their retirement nest eggs to this blistering Bear will not soon forget the usefulness of bonds as part of the total investment picture.

Speaking of saving for retirement, Trusted Financial is presenting an evening forum to answer your questions about some of the more confusing aspects of retirement, taxation and estate planning. Please join us and invite your friends either May 7 or June 11. On both dates our meeting begins at 6:30 PM at Sea Country Senior Center, here in beautiful Laguna Niguel.

Medical Crisis Upon Us... and an Investment Opportunity Along with it

About a month ago, a client casually mentioned that they take periodic trips to Canada to buy needed medications at reasonable prices. I felt sorry to hear this, but only days later the newspapers carried a headline saying that the Food and Drug Administration was pressuring insurance companies that facilitated the purchase of drugs in Canada. The Wall Street Journal quoted William K. Hubbard, the FDA associate commissioner for policy and planning, in a Feb. 12 letter to insurance companies: 'All parties 'who cause a prohibited act' can 'be found civilly and criminally liable' under the federal Food, Drug and Cosmetic Act, 'Those who aid and abet a criminal violation of the act, or conspire to violate the act, can also be found criminally liable.' It added: 'Any party participating in' an import plan in which a health insurer or claims processor helps arrange a purchase in Canada "does so at its own legal risk.' To us, this is an outrage. Instead of getting out of the way of the private sector when it tries to help ordinary folks obtain medicine at reasonable prices, the government clearly has gone to work for drug companies, whose massive campaign contributions have also helped create the Congressional stalemate that leaves so many seniors without affordable health care in the first place!

As we meet with folks nearing retirement, we note that the cost of COBRA medical insurance, which often carries a retiree from retirement at say age 60 to Medicare eligibility at age 65, is soaring. One company is charging a typical couple over $300 per month for basic coverage, a sharp increase from last year. Likewise, Medicare Supplement insurance, which covers some expenses not handled by Medicare, such as drugs and the deductible portion of hospital stays, is also soaring in price, with a typical quote of around $300 per month in 2003. With medical services inflation running at over twice the general inflation rate, people planning to retire ten years from now may have medical insurance costs that gobble up a third of their entire pension income! I worry that the lost savings of the turn of the century Bear Market combined with soaring medical costs portend a crisis for those hoping to retire in ten years or so. A couple of things need to happen: the government needs to provide greater medical care levels to our citizens.*

While decrying the growing medical care crisis, we see an opportunity for our clients to do well while doing good. Last year, after an extensive review of the "Pharmacy Benefit Management " industry, we purchased *Caremark RX* for many client accounts. *Caremark* is the # 3 of the Big Four PBM's, and in our opinion, the best run. Pharmacy Benefit Management is the business of creating a buying "cooperative" whereby consumers join forces to negotiate better prices from drug companies. The drug companies hate PBM's as they have shaved $billions from their profits. Despite the good they do the PBM industry is regularly the subject of investigation by one or more state's Attorney Generals, and not a single criminal charge has been proven. We suspect the deep pockets of the insurance industry are at work here too, since most AG's must fund re- election campaigns every two years.

The PBM's profit by negotiating the price of let us say, fluoxtetine down from an average wholesale price $2.66 per dose to $1.06 per dose, an enormous savings for the patient (or more precisely for the patient's medical insurance plan). But the PBM, like *Caremark* may realize a $.75 profit per pill, such are the markups on prescription drugs. A reporter at the Wall Street Journal has been railing about PBM profits for over a year, but in truth , the price of drugs would be far greater without these private sector negotiators. While profitable businesses, indeed, PBM customers save a great deal of money. PBM shareholders, we believe will earn a handsome return. That's why we positioned in *Caremark* about ten months ago, and continue to buy it for new clients.. Our value based analysis suggests that the stock should be trading in the high $20's arguably higher. Currently the stock is priced at under $18 per share.