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So What Do You Think of the Martha Steward Verdict?

I'm not sure if this is every day conversation or if I'm being asked because of my involvement in the financial markets. No matter, everyone's entitled to my opinion!

I'm a staunch believer in the profit motive and of encouraging originality, risk taking, hard work and efficiency by rewarding these virtues with money. But like just almost any other American from middle class origins, I take umbrage when the wealthy and successful take the rest of us for granted. That's what the Domestic Diva did. In what appears to be a panic of unbridled greed, she used her insider connections to beat the little guy into the market to dump her shares of *Imclone*. It's as if you had waited in line for half an hour for a ride at Disneyland, and Martha walked right past you and your family to the front of the line. Martha's free ride may cost her plenty, and to this I say Bravo! To me, the financial markets must be a sacred, level playing field. Honest effort is to be rewarded, and dishonesty severely punished. This is why I try to assess the character of management when considering whether to buy, hold or sell an investment position. In the past year I've steered clear of a number of possible investments because of feather nesting by management at shareholder expense. Sadly, investors in Martha Steward Omnimedia probably could not have known the chairwoman's spindly moral fiber when assessing her company. I find it revealing that Ms. Steward was once employed as a stock broker. I should be careful with what I say here, but in my experience this is not surprising.

Martha and her legal team will appeal, and it gives me pleasure to know that each night when she lays down on her Egyptian cotton sheets, she has nightmares about the bunk bed she'll have in the slammer!

One Year Ago

"After the Fall - No Rally may be enough to entice some investors back" **-Los Angeles Times Business section lead story - March 18 2003**

When the popular media tells you the stock market is dead, or that any investment is dead, it's usually time to begin moving money in that direction. As clients know, we continued investing in stocks even in the dark days leading up to the Iraq military action. Experience has taught me to buy good quality merchandise and hold on, especially when conventional wisdom is to turn tail and run. There were some attractive opportunities a year ago - I only wish I could have gotten around to a few more of them.

Today

Today may be a different story, however. NASDAQ's 57% rise in the past twelve months suggests speculators are back in the fray, and this is worrisome. When the market was in the early stages of it's collapse during the 2000-2003 Bear market, I used to write about a neighbor of mine who was a perfect contra-indicator with regard to the stock market. The more he bragged about his winnings the more nervous I became. My caution proved to be justified. Now that we've relocated, I monitor advice given me by another old friend (who does not read this newsletter). Having watched him "zig" when he should have "zagged" with his investments for nearly two decades, I find his thinking informative. Lately he has become more confident about his ability to select stocks.

As evidence that over valuation that has crept back into the market, especially technology, compare two cyclical companies: Occidental Petroleum(OXY) and Cisco Systems (CSCO). Yes, Cisco is a cyclical stock, as proven by it's sagging sales in 2001 and 2002, during the recent recession. Here are some key financial

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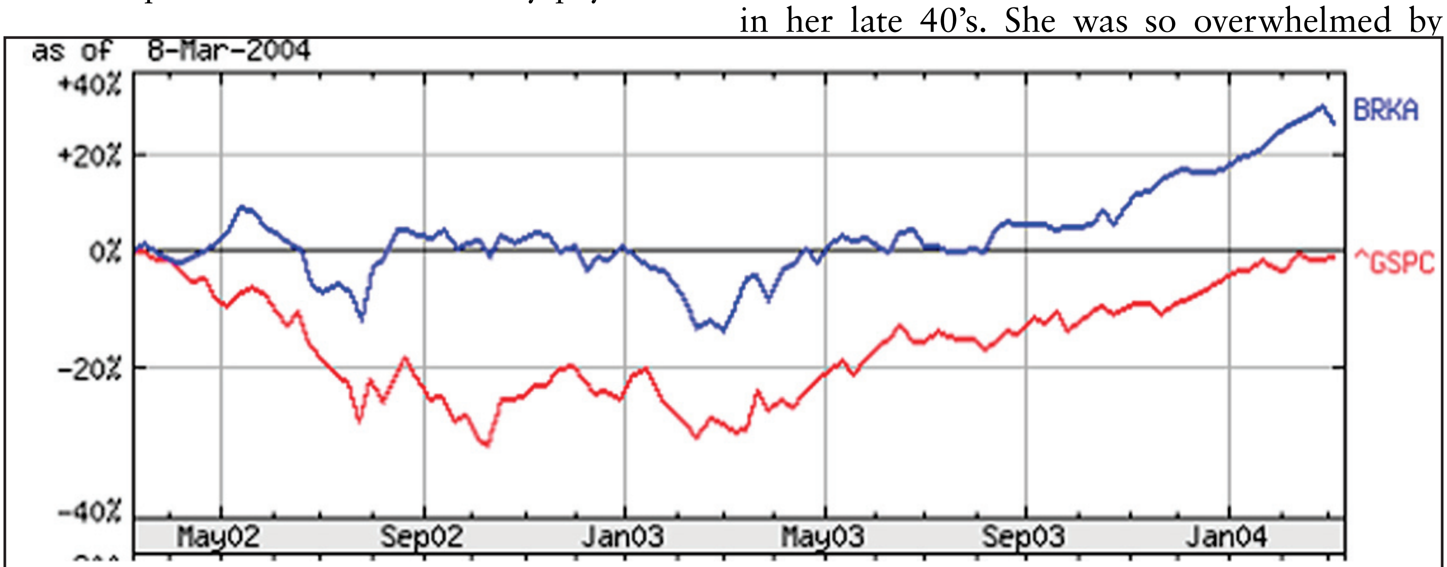
measures for the two companies over the past five years with ratios that suggest people are over paying for Cisco when compared to the less glamorous Occidental.

	Share Px 3/8/2004	5 yr Grwth Book Value (1)	FY 2003 Book Valu	Price to Book Value Ratio	5 yr grwth Oper Cash Flow (note 1)	Av Annual Change in Free Cash	Price to Cash Flow (2)
OXY	$ 46.41	18.7%	$ 20.49	2.3	17.3%	80%	6.3
CSCO	$ 22.36	12.9%	$ 4.01	5.6	18.9%	16%	30

Note For respective company fiscal year (FY)1998-2003.
Average Annual Free Cash Flow as defined by Morningstar (Operating cash flow less capital spending)
1 Average Annual compounded growth rate
Source: Quicken online, unless otherwise noted
2 Trailing 12 months operating income (cash flow) per share divided by closing price 3 8 04

Warren Buffet's Berkshire Hathaway Profits Soar

Berkshire Hathaway released it's full year earnings report March 6, and these were numbers to love: It's 2003 earnings nearly doubled to $3531.32 per share ($117.71 per share of Class B stock) and its book value increased by 21% for the year. Berkshire, both classes - A and B shares, are core holdings for client portfolios. As most clients know, I consider Chairman Warren Buffet and Vice Chairman Charles T. Munger as role models, at least in their approach to investment selection. As usual the Chairman complained in his annual letter to shareholders of the difficulty of deploying some $35,000,000,000 of liquid funds held by his insurance subsidiaries in the form of "float". Insurance companies, when well run, take in far more premium dollars than they pay out in claims. Periodically a disaster must be paid for from the burgeoning pool of funds, but even after the $3 Billion plus claims associated with the 9/11 disaster, Berkshire has been amassing cash at a startling rate. Some commentators are beginning to grumble that Berkshire should begin paying a dividend to shareholders. Readers know I believe this to be good policy when management cannot find attractive investment opportunities. But Buffet's company grows shareholder equity at about 20% per year. Since most investors can't do better than that by re-investing cash dividends, why would we want one paid out? Operating earnings have grown at 28% per year on average over the past five years, despite a weak economy and the 9/11 disaster, which cost Berkshire's property casualty and reinsurance divisions a bundle. I plan to attend Berkshire's annual meeting in Omaha May 1, sit at the feet of the Master and return with some new investment insights.



Graph illustrating the relative performance of Berkshire Hathaway "A" shares when compared to Standard & Poor's 500 stock index for the past two years: Less down, more up!

The Not Too Merry Widow

Recently, I taught a class for Saddleback College Community Education, Financial Independence for Women. It was gratifying to introduce the attendees to important personal financial planning concepts and provide a work book to help them become focused on their financial needs and goals. I offer a free one hour get acquainted session to attendees. I met with one of the women at my office a couple of days after the class, a recently widowed woman in her late 40's. She was so overwhelmed by the combination of grief and the need to make financial decisions, she confided, that her next appointment that afternoon was to her doctor for a stress test. Her husband had handled their taxes, and they'd had their estate documents drawn by an attorney, a relative, who she did not want to know her net worth. So she'd recently found a new tax accountant and a new estate attorney. The widow left my office after our initial meeting without retaining my services, since she was late for her stress test and her girl friend wanted her to interview another financial advisor (I was interview # 2).

Still, my curiosity had been aroused by some advice she'd been given by her newly found accountant. It struck me as incorrect. It's been years since I worked with a younger widow, so I needed to do some research. Sure enough, after two and a half hours of digging, I was able to find citations in the Internal Revenue Code that might give her considerable tax savings with regard to the management of he late husband's IRA account. I even went onto a tax specialist's internet message board for some independent confirmation of my conclusions. Alas, I did not share my discovery with the widow, as she apparently chose to take her business elsewhere. Hopefully someone straightened things out for her.

This case provides a good reason for married people to build a relationship and rapport with an independent financial planner while both are healthy. If one of them passes on, or becomes incompetent, there is a danger that the survivor will go out and choose unproven advisors who may undo years of careful wealth building. In the past twelve months a number of clients have lost their spouse, and it has been gratifying for me to provide continuity and peace of mind at a time of sorrow.

Social Security and Medicare on the Brink

With Alan Greenspan raising the spectre of whittling down Social Security benefits at a recent Congressional hearing, I thought it might be useful to include an editorial from the *Christian Science Monitor*, written May, 23, 2003: "A significant factor motivating benefit cuts is the politicizing of the Social Security surplus, rendering the surplus of great service to the president and Congress. This politicization was inaugurated by President Johnson in 1968, when he "unified" the federal budget to incorporate this surplus. This move changed the budget's position from a deficit to a surplus, enabling him to rebut Vietnam War critics who asserted that the country could not afford both guns and butter.

The unified budget immensely helped the Reagan administration as well when its 1980 tax cut created huge deficits. President Reagan's director of the Office and Management and Budget, David Stockman, sought to cut Social Security benefits in order to enlarge its surplus, in turn reducing the federal budget's deficit… But the cutbacks were hard to sell, and Mr. Reagan, to get the job done, appointed the 15-member Greenspan commission, made up of 10 conservatives and five liberals… They came up with the proposals that were then adopted by the Greenspan commission. Congress then passed the legislation needed to raise the surplus, including raising the retirement age from 65 to 67, the taxation of Social Security benefits, and a contribution increase. All was done under the rubric of saving Social Security, now also proclaimed by Mr. Bush.

- David Langer of David Langer Co., a consulting actuarial firm."

Over the years it has galled me to watch Democrats shoot down every creative Republican idea to face up to the financial disaster that awaits our "Entitlement" programs, without suggesting anything but higher taxes to solve the problem. But Republicans too have played this issue for political gain. Having served on the Social Security Commission that in 1983 voted to raise the retirement age and tax benefits, Senator Robert Dole, challenged for the Republican Presidential nomination in early 1996, attacked Steve Forbes' suggestion that Social Security be privatized : "Steve Forbes plans to end Social Security as we know it," intoned a pre-primary television advertisement.

Don't expect anything but more of the same during this year's election campaign. Kerry will swear to defend America's elderly from the crackpot ideas of Republicans and Republicans will likely downplay the crying necessity to clean up the Social Security/Medicare mess. The press will shed no light on the matter because scandal and scantily clad "stars" is what gets viewer ratings. It's as if two school bus drivers are fighting for control of the steering wheel on a rain soaked highway while our children are playing Dodge Ball in the back rows.

- Gary Miller