

Making End\$ Meet

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Annual Newsletter

Dear Client,

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Every spring I invest a little time and money skimming the cream off the mutual fund market and sharing the results. Accordingly, enclosed please find the Making End\$ Meet ninth annual mutual fund review. Its purpose is to define excellence and take a reality check. It is not a recommendation although I do use it to choose my own investments. I share it with you as a courtesy, and to demonstrate that I am knowledgeable about investments even though I do not sell them. As your Lifetime Savings Plan makes assumptions about return on investment, it is sensible to regularly ground assumptions to actual market results.

This year's report is thirteen pages long (if printed with MS Excel) and contains forty-nine funds gleaned from a population of over 16,000, sorted from long- to short-term returns and grouped as follows:

- A - Returns were in the top 1% of all performance horizons, both long- and short-term.
- B - Returns were in the top 1% of the 1, 3, and 5-year horizons
- C - Returns were in the top 1% of the 1 and 3 year horizons.
- D - Honorable mention: funds which qualified to be on the report in prior years and are still performing very well with ten-year average annual returns greater than 15%.

The top 1% average annual return thresholds were:

One year	84.5%
Three years	22.1%
Five years	19.0%
Ten years	13.2%

In other words, of the 16,000 funds tracked, when sorted by one, three, five, or ten year returns, about 160 funds attained the above returns or higher. Of these 160, forty-nine attained two or more thresholds simultaneously. The one year threshold was extraordinarily high because of the current economic recovery.

Of the forty-nine funds in the report there are five A's, nine B's, six C's, and twenty-nine D's. I used to only disclose categories A through C, but over time I learned that price, or Net Asset Value (NAV), peaks with performance. Consequently funds are at their highest price (a poor time to buy, or "performance chasing") when they qualify to be on the report. It's better to simply note the peak performance, then follow up later to

ascertain whether the peak was an exception or a rule in the fund's overall track record. That is why I developed the fourth "Honorable Mention" category (which is now the largest), to follow up on previously excellent-performing funds. It is also why, again, this report is not a recommendation to buy.

Morningstar classifies its funds into economic sectors. The forty-nine funds in this year's report were spread across sixteen different sectors. Here's the breakdown in descending order.

Finance	8	Precious Metals	3
Small Growth	6	Technology	3
Small Blend	5	Natural Resources	2
Emerging Markets	3	Large Value	2
Large Blend	3	Health Care	2
Mid-Cap Value	3	European Stocks	1
Mid-Cap Growth	3	Medium Blend	1
Small Value	3	Real Estate	1

While compiling the data I found a few things noteworthy:

1. The economy seems to be rebounding with an almost audible “bang” indicated by phenomenal one-year returns (some in excess of 100%!) after several years of discouraging losses.
2. Indicators like class, star ratings, and risk change. For example, Morningstar appears to have devised a new class called “Bear Market” and assigned this class to funds that did well in the period 2000-2003 when most investments declined. The one, and final, indicator that does not change is Return on Investment (ROI).
3. Many companies have relocated or changed their address. One may speculate why, but the fact is, since the dot-bomb crash of 2000 and the World Trade Center attack of 2001, a lot of changing and adjusting has been going on - some of it very good. The American economy is nimble, diverse, and robust.

In this annual letter I've also become accustomed to sharing lessons and experiences I've had which you might find informative and helpful. Since the nation is at war and I am a soldier I've devoted the majority of my reading to military studies:

Soldier's Story by Omar Bradley

War & Peace by Leo Tolstoy

The Crisis of Islam: Holy War & Unholy Terror by Bernard Lewis

The Long Gray Line by Rick Atkinson

But I have also managed to read a few books on Economics too:

The Millionaire Mind by Thomas Stanley

Time Management from the Inside Out by Julie Morgenstern

What Should I Do With My Life? by Po Bronson

I found Stanley's book to be a must-read, and took copious notes.

Last Fall in response to clients' lament, "why don't they teach this stuff in school?" I developed a Practical Economics course for homeschooling students (syllabus available on the web site, see the "Homeschoolers" page). The class has been slow to take off simply because I've been doing a lot of traveling, visiting my son in Hawaii so have not had much time to promote it, but the curriculum is complete and I look forward to working more with the homeschooling community in the near future. Meanwhile several homeschooling parents have become individual clients and I have enjoyed making their acquaintance and serving them.

In the Winter I began, on several clients' requests, research into the business brokering profession - research which is now ongoing. The crux of the matter is that every business owner needs an exit strategy since nobody works, or lives, forever. Instead of just shutting down or liquidating, the ideal exit strategy is to assemble your business into a saleable package and sell it when you're done. Proceeds from such a sale can radically enhance one's retirement portfolio, and the broker's commissions can also be quite lucrative.

The irony is that although we are up to our ears in lawyers, realtors, insurance people, accountants, financial planners, bankers, and like professionals, Whatcom County lists only ONE – count them, ONE – business broker in its 2004-2005 yellow pages – and that broker, to my knowledge, focuses on cross-border transactions. So I am working on remedying this deficiency, by both bringing in experienced and competent brokerage talent from elsewhere, and by also looking into becoming a business broker myself. If this subject interests you please let me know.

Well, as Garrison Keillor is fond of saying, "That's the news from Lake Wobegon where the women are strong, the men are good looking, and the children are all above average." I hope you find the enclosed report helpful and encouraging and if you do, please do send some referrals my way, either using the referral tool on the web site's Contact page, or by just giving me a call.

Thank you for your attention to this letter and for our working relationship. It's my pleasure to serve you.

Kind regards,

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