“Our Clients’ Past Successes are Not Necessarily Indicative of Future Successes.”

Stamper Capital & Investments, Inc.

“Focusing on Upside Potential with Downside Protection Since 1995.”

January 2005 Market Commentary

(In this discussion we will go over Stamper Capital's Upside Potential/Downside Protection Analysis on the Economy, Equities, Real Estate, Gold & Silver, High Yield Bonds, High Grade Bonds, and Municipal Bonds.)

First, what happened in 2004 -

Short term interest rates rose by about 129 basis points (3 Month T-Bill)
Ten year U.S. Treasury Rates were almost unchanged at down 3 basis points
The Dow Jones Industrial Average Rose by about 3%
The S&P 500 rose by about 9%
The NASDAQ rose by about 9%
The S&P Small Cap Index rose by about 21% to an all time high
Gold rose by about 2% but is down about 4% from its recent top
Silver rose by about 8% but is down about 17% from its double tops
Credit quality yield spreads tightened and lower quality bonds outperformed higher quality bonds.

The open-ended Mutual Fund we manage performed quite well in the Morningstar Short Term Municipal Bond Fund category:

Morningstar Rankings

Short-term Municipal Bond Funds
Period ending December 31, 2004

PERIOD	Stamper Capital Sub-advised Fund Rank	NUMBER OF COMPETITORS	CATEGORY AVG. TOTAL RETURN	SCI Managed Fund TAX-FREE TOTAL RETURNS	Fund PRE-TAX EQUIVALENT TOTAL RETURN	SCI Managed Fund Share Class
1-YEAR	3	107	1.16%	2.71%	4.17%	I
3-YEARS	21	79	2.88%	3.77%	5.80%	I
5-YEARS	6	68	3.85%	5.06%	7.78%	I
10-YEARS	5	42	4.24%	4.96%	7.63%	A

The pre-tax equivalents are based on the highest federal tax bracket of 35%.
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OK, those are the raw numbers but what really happened in 2004? In a sentence: **Prices of riskier assets outperformed marginally as they continued to rebound from their 2002 bottoms.**

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More specifically:

Interest rates of higher quality issuers most likely bottomed in mid-2003 and are still trending upward - both long term and short term rates.

Almost all stock indices bottomed in late 2002 and have been chopping there way upward for just over 2 years. Most importantly, only small caps (S&P Small Cap Index and Value Line Index) put in new record highs - All the other major indices like the DOW and S&P500 still have lower lows and lower highs and are still in downtrends from their 2000 tops. The NASDAQ, although it has rebounded about 95% from its low, is still about 57% below its top!!! The important aspect to us is that Tops are often "fanned" with different indices topping at different times as opposed to bottoms where most indices converge to a bottom at approximately the same time. Thus, we believe we are still in a huge topping process that began in 2000 and will continue until prices go down through fair value. In our other writings we have demonstrated that fair value on the DOW is around 4,500 to 5,500 based on normal multiples of earnings and dividends. Based on multiples of dividends and earnings at the 1974 market low, the DOW'S levels are remarkable at 1,500 to 3,500.

Fortunes of lower quality bonds have pretty much paralleled other risky asset classes like the stock market (and residential real estate, note: commercial real estate has gone nowhere). Essentially, they outperformed this year as the spread between their low quality yields and higher quality interest rates tightened, thus, giving them superior returns. Their fortunes will likely turn very negative in 2005 along with other risky (and grossly overvalued) asset classes.

Gold and silver had volatile years. While both are up for the year, they both have dropped from inter-year peaks by more than they rose for the full year! - thus, they are trending downward.

Where we are now (January 2005) - Importantly, the upside potential/downside protection characteristics that we analyzed in our 2004 January Market Commentary still hold - actually, worse than that, the upside potential/downside protection characteristics of risky asset classes are generally worse now than they were then. Thus, our January 2004 analysis still holds but even more so. In fact, the situation is in many ways worse now than at the 2000 equity market top. Equity valuation levels on everything but Tech and the NASDAQ are similar or are worse now than they were at the 2000 peak. Compound that overvaluation with debt levels that are higher than they were during 2000 for almost everyone in general - the U.S. Government, States, Cities, Municipalities, corporations, and individuals. In addition, we are now a couple of years closer to the pension fund and Social Security/Medicare problems that are, unfortunately, succumbing to the power of compound interest and forty years or so of over-promising. Not only that but we now have an incredible real estate bubble (we have documented residential real estate values are 2x to 3x too high based on rental income and stagnant salaries/personal income). This real estate bubble is dramatically larger than the stock market bubble in

terms of total valuation and the number of people directly affected by it. In addition to our previous annual January Market Commentaries, we have done a considerable amount of documentation and analysis of most of these factors throughout 2004 that can be found on our **Deflation Watch** page, our **Elements of Market Tops** page, and our **Major Trend Change Indications** page (all can be found here: http://www.risk-adjusted.com/Weblogs.html).

Importantly, based on the lack of income growth and essentially unchanged employment levels, whether there has actually been a recovery is still debatable. Either way, we still believe that deflation is a bigger risk than inflation. The primary reason is extremely high levels of debt combined with interest rates that will most likely continue to rise. We believe interest rates will likely rise as the borrowers including the Federal Government have to pay more to get foreigners to lend to them. Another way you can look at it is that rates will have to rise to protect the U.S. dollar. Thus, rising U.S. interest rates combined with huge debt levels will likely push us back into a recession. (Please note that because the European Common Market is restricting budget deficits, they are unable to inflate compared to historical levels. This fact and the huge debt levels may be swinging the world economies towards deflation as opposed to inflation)

A few times previously, we have discussed our contention that the entire "structure" will be a "Sideways Right-tilted W." We still believe our case that the first leg was down from the 2000 top; that we are just ending the "middle upward leg" (or the "eye of the perfect storm") that started from the late 2002 bottom; and that the next leg downward is from the middle peak where we are right now. Importantly, we believe the entire "W" structure will be tilted to the right with the second down leg we are due to enter being longer than the first leg down. That "tilt" actually makes sense in that the valuation levels now are worse than they were from the beginning of the "structure" - so, of course, values will drop even further (unfortunately if we are correct). Also, very important to us, especially in light of our Upside Potential/Downside Protection Analysis, is that this down leg could have happened at any time since around the middle of 2003 (when we initially thought it would begin). Because it has taken longer and because the valuation levels are even more out of whack, we believe the negative move in the prices of risky assets will most likely be tremendous.

Our 2005 Forecast - Based on Stamper Capital's Upside Potential/Downside Protection Analysis, in part, on the macro level as explained above, and, in part, on a micro basis at the actual investment level, we essentially see very little upside potential and very poor downside protection in the prices of riskier asset classes including: U.S. equities (which are at essentially their highest valuation levels when the record debt levels are considered), lower quality bonds (i.e. junk bonds, which are at even tighter spreads to high quality bonds than in January 2004), Gold & Silver (which have fallen from recent peaks and will likely fall further as deflation becomes evident), long duration (lots of interest rate risk) high quality bonds (which will fall in price as interest rates continue to rise from their 2003 45 year lows to get foreigners to continue to lend to the issuers), and definitely residential real estate (which we have demonstrated is, in general, 2x to 3x overvalued based on rents in most markets). We also believe short term interest rates will

continue to rise to defend the U.S. Dollar. We continue to believe high quality, short duration bonds are still about the best place to be invested.

Thus, to many, our forecast includes an unusual scenario of a tough recession and dramatically declining prices of risky assets including equities, real estate and commodities accompanied with rising interest rates. We have a few explanations for this: First, this entire process is the reverse of the credit explosion (more and more debt) that began at least since 1982. Second, the debt is being financed by a huge proportion of foreigners and the U.S. Dollar has lost 30% of its value; thus, our interest rates must rise (even during recession) to protect the U.S. Dollar and so at least a portion of the debt can be rolled over. Third, prices of precious metals will fall because we are in a deflationary recession and credit contraction (as opposed to inflation) in part caused by the excessive, record debt levels and in part caused by budget deficit restrictions of the European Common Market which preclude them from inflating. Accordingly, we believe the flight to quality will be to short term U.S. governments at least initially rather than to precious metals.

As previously, for us "safety" continues to be the watchword for this decade.

(Posted January 3, 2005)

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Stamper Capital & Investments, Inc. has been the sub-adviser to this Fund since October 1995 and B. Clark Stamper, our President, has been its Portfolio Manager since June 1990.

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