

Capital Markets Commentary

For the quarter ended March 31, 2005

Contents

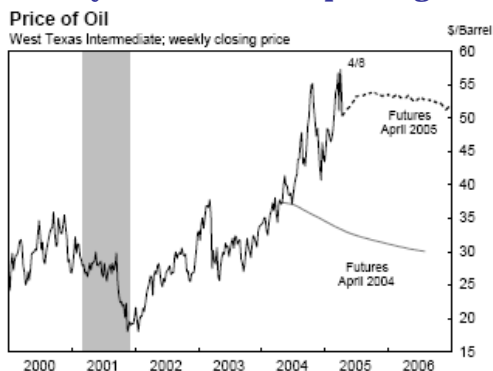
US Equity Market.....	1
US Economy.....	2
Non-US Markets	2
US Debt Market	3

The US Equity Market

An oil-spooked market

The stock market was none too happy about much of anything in this, the 1st quarter of the 2nd half of the 1st decade of the 21st Century. The month of April is shaping up poorly as well. If you followed the daily mechanizations, the market's mood was highly sensitized to fluctuations in the price of a barrel of petroleum. In fact, we can make short shrift of this quarter's stock market....if you owned energy, you did well; absent energy, you likely showed a loss.

An oily bubble, or new paradigm?

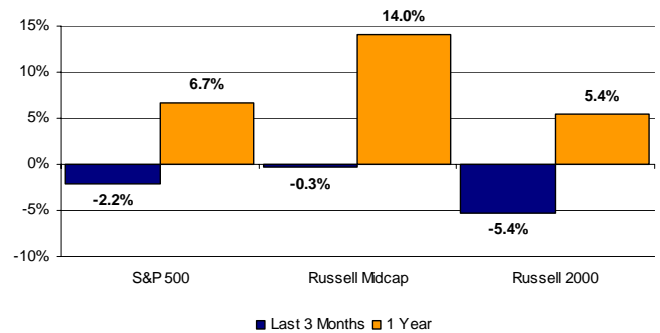


The price of oil has always been volatile, but there are now a number of market mavens wavering from their traditional “this-too-shall-pass” view, to a new perspective that maybe aggregate world demand for oil versus its refinable supply is at a permanently elevated

level, compared to anything we have known in the past.

People in the know, if we have got this straight, are sticking to a \$30 to \$35-a-barrel scenario as the proper price for oil. Never mind that worldwide oil is still priced in US Dollars and that the cross-currency value of the Buck has been/is being hammered for lots of very good reasons. Let's look at the *change* in the price of oil for Euro-based consumers. The Euro currency's “return” measured in US Dollars from 1/1/2001 to 3/31/2005 has been just under 50% (not annualized); so, European consumers can rightly take the viewpoint that today's \$55 oil (for US consumers) has risen to only \$37 in Euroland, over the past four years. We have been surprised at how little attention was paid to this non-dollar oil price change, when we enquired of various US equity portfolio managers about their late-2004 unloadings of energy sector holdings; most of them based their actions on their strong sentiment that oil had spiked to an over-priced and temporary demand-peak. These moves have been costly to their performance.

Index Returns by Market Cap



If there is a new oil price paradigm, it has strong possibilities to sustain itself (barring global recession), because most developed nations, especially the US, are today more oil-dependent than ever, despite the 1970s crisis that almost, but didn't succeed in reducing oil's role in the overall energy framework. The Bush Administration's 4-year-old push for a national

energy policy is primarily designed to increase drilling and ramp-up nuclear (that's nuk-u-lar) power generation. The Congress is mired in so many things that look like mud-wrestling from a distance, but up close, we can see they too are covered with oil...so much so that a continuation truck-status for SUVs under federal miles-per-gallon rules appears to be as untouchable as gun legislation. Those snippets, for starters, indicate that oil supply is the target of both policy-makers and the Members of Congress. So, nothing serious is likely to emerge from the Washington sausage factory that might change the direction of US energy consumption. Perhaps that's OK. Legislative attempts (other than straight-forward tax incentives) to manage consumption in a free society usually have three primary aspects: they (1) are wrong-headed in concept, (2) are unworkable in implementation, and (3) generate a number of government jobs in the process.

The US Economy

Supply-demand still rules

Although China's trade surplus is the mirror image of the US's trade shortfall, China's currency, like the price of oil, remains artificially pegged to the unstable US\$. Economic recession is difficult to find, anywhere on the globe, which readily translates into overwhelming demand for the world's existing finite oil production capabilities.

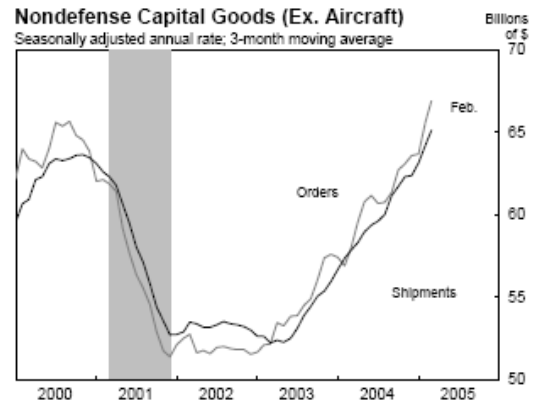
What now for trade?

The chart below looks just about like the one we showed you in our last issue. This one is the US trade deficit expressed as a percentage of the gross domestic product (GDP), which is a sensible format that does not require adjustment for inflation. The US trade deficit is real and, we believe, of pressing importance. Every dollar of trade deficit, in effect, represents a foreign loan, either in the form of an account payable, or an additional foreign holding of investments in the US.



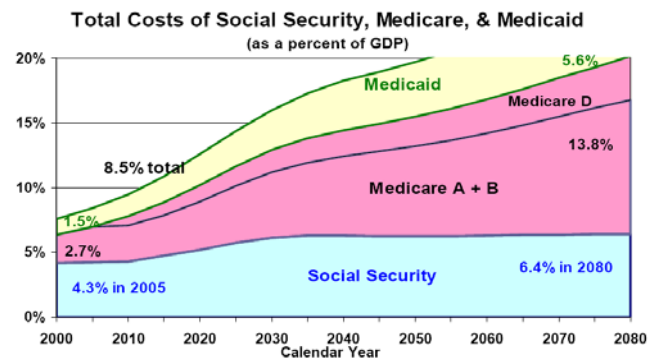
By the numbers

Meanwhile, the US economy is perc-ing along. You may recall that business capital spending was nearly non-existent for the first three years or so of this century which created classic aspects for a serious business recession, that turned out not to be a disaster, on account of a massive rescue from consumers who borrowed and spent freely, using temporarily cheap home equity money.



Elephant(s) are not headed back to the jungle

Please visit our web site www.fiduciaryvest.com to view our no-holds-barred analysis and recommendations for the Social Security funding situation and its political realities, both present and past. Below is a new forecast chart that incorporates the formidable problem our economy faces, not only from the future demands of our unfunded Social Security promises, but also from Medicare and Medicaid. The primary aspect to which we want to call your attention in this chart is the fact that it forecasts a shocking rise in aggregate cost measured as a percentage of GNP. Moreover, note that the steepest portion of the aggregate increase is the next 15-20 years.



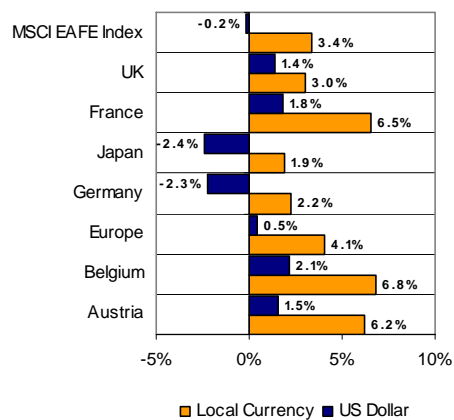
Sources: 2005 OASDHI Table VI.F4; SMI from Medicare report Tables III.C14 & 20; and Medicaid from CBO's 10/2000 and 6/14/2002 reports. Today, these programs are half of non-interest government expenses. Their total costs more than triple to 26% (Medicare quintuples, surpassing \$5 by 2024). If estimates are accurate, they will exceed 20% of the economy, thus absorbing all federal taxes, unless taxes increase or government programs shrink.

Non-US Markets

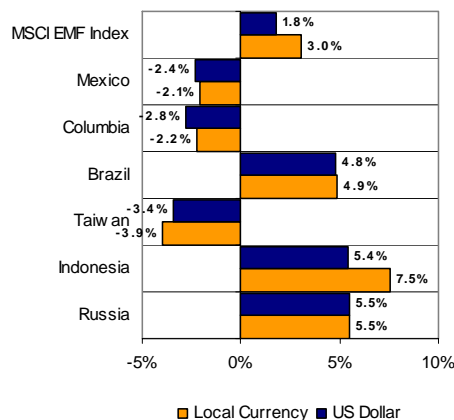
Equities so-so

US Dollar investors in non-US markets continued to fare better than their domestic cousins in the first quarter of 2005, although broadly diversified portfolio returns were not worth a very lengthy letter home, especially after deducting the cost of postage. For a change this quarter, US Dollar investors were not hermetically sealed in an automatic penalty box, as the Greenback actually showed some signs of life.

Developed Markets Returns 1Q 2005



Emerging Markets Returns 1Q 2005



Consumers busy borrowing over there (and down there) too

The figures on household debt in some other countries besides the US are actually worse. Australian households have been on nothing short of a borrowing binge. Turning to the larger economies, UK household debt (as a percent of disposable income) has risen by almost 40% over the past five years, perhaps from the same syndrome as in the US. Mortgage rates were around 15 to 16% as recently as the

early 1990s; today, the average UK mortgage is about 6.5%.

Critical unemployment picture in Euroland

The most recently available unemployment numbers from Europe are, well, horrible. Overall (seasonally adjusted), it's a hair under 9%; Germany is now 12.0% and France reached a five-year high of 10.1%.

50-year government bonds are here

Taking advantage of the lull in interest rates, France recently issued a 50-year obligation to yield a mere 4.21%. Demand for the €6 billion issue (nearly \$8 billion) was three-times oversubscribed. Britain will soon issue a 50-year bond too.

(Please see our article about the curiously opposite actions of the US Treasury during the past four years at www.fiduciaryvest.com.)

US Debt Market

Watch the home mortgage sector

Not very many years ago, the US Treasury was, by far, the Big Kahuna in the world of borrowed money. The US Government paper sector was typically around half of the US bond market. One of the reasons for that market share was the fact that, depending upon how far back in history you look, the home mortgage sector was either small, or insignificant, or non-existent. Today, home mortgages rule the borrowed money roost. So what?, you may be asking...because that's always a good thing to ask. Here is the daisy-chain we think makes it matter:

1. Investment managers for most institutional investors' bond accounts, more often than not, are constructing a benchmark-related portfolio. And, because of that fact, portfolio allocations to the mortgage sector have been steadily creeping upward.
2. The original packages of GNMA (government-backed) home mortgages have become far less important than a collection of non-government-backed underwriters of mortgages, such as Fannie Mae and Freddie Mac, and, more particularly, Wall Street *packageurs* who construct more "refined" offerings, generically known as structured products. The big attraction of the Wall

Street structured products for bond management pros is that they are sliced into neat *tranches* which permit the portfolio manager to know, fairly precisely, the timing and amounts of cash flow payouts and, hence, the duration of the product...something that is highly unpredictable with, say, a conventional GNMA pool. (Duration is the all-important, calculated figure that measures a bond's price sensitivity to changes in market interest rates.) But, we are using the term "precisely" rather loosely, because, the underlying debts that make up a structured bond product still have the risk of default.

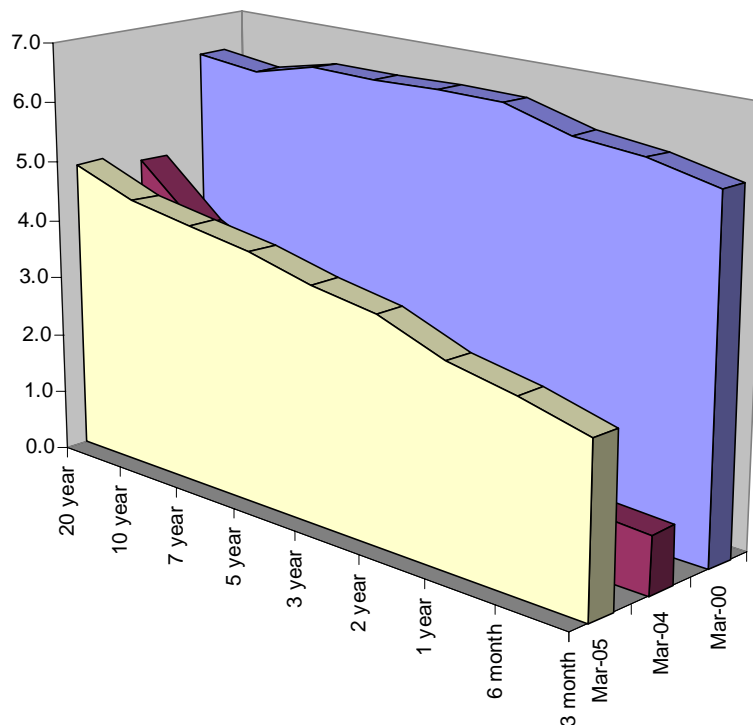
Moreover, the marketplace of today is chock full of home equity paper. Professional investors love home equity loans and their cousins, because of one primary feature: the variable interest rate. Portfolio managers are quite fond of the notion that a significant exposure to mortgages today is fine, so long as that exposure is *tranch*ed, collateralized

and, most importantly, able to capture rising interest rates when that happens (as we all expect, in the not-too-distant future).

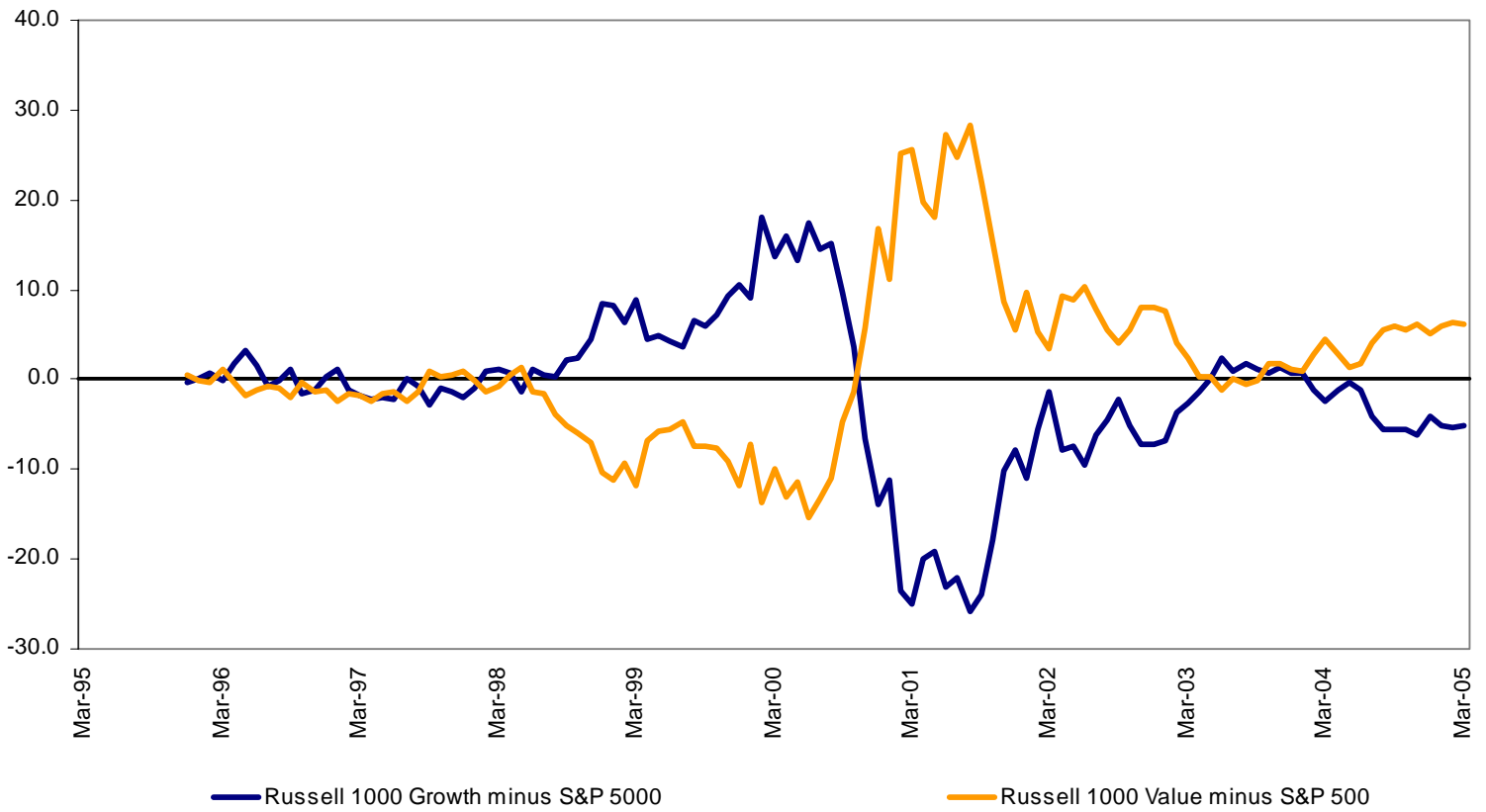
3. The problem, we think, with those adjustable rate mortgages which both borrowers and lenders cannot seem to overdose is that so many American homeowners have binged on them. In so doing, they have placed themselves in a dangerous household financial risk-pickle that will predictably squeeze many of them into forfeiture of one sort or another. If, as we suspect, the number of borrowers in this tight situation is huge, then institutional holders of their packaged mortgage debt will be none too pleased with the result, when mortgage interest rates do rise significantly.

Our more extensive discussion paper on this subject, comparing the adjustable mortgage situation with the US Treasury's borrowing pattern and need can be found at our web site: www.fiduciaryvest.com

U.S. Government Bond Yields At Selected Quarter End Dates



Growth vs. Value Style Stocks' Performance
(rolling twelve months compound total returns) - Using the S&P 500 Index as a Baseline



Historical Capital Markets Returns**as of March 31, 2005**

	Quarter	YTD	1 Year	3 Year	5 Year
Broad market measures/market sectors:					
S&P 500 Composite Index	-2.2%	-2.2%	6.7%	2.8%	-3.2%
Wilshire 5000 Index	-2.4%	-2.4%	7.1%	4.3%	-2.6%
NASDAQ Composite Index	-8.1%	-8.1%	0.3%	2.7%	-15.3%
Mid-sized & small stocks:					
S&P Midcap 400 Index	-0.7%	-0.7%	9.2%	6.8%	5.7%
Russell 2000 Index	-5.3%	-5.3%	5.4%	8.1%	4.0%
Investment style indices:					
Russell 1000 Growth Index	-4.1%	-4.1%	1.2%	-0.7%	-11.3%
Russell 1000 Value Index	0.1%	0.1%	13.2%	7.2%	5.2%
Russell 2000 Growth Index	-6.8%	-6.8%	0.9%	4.0%	-6.6%
Russell 2000 Value Index	-4.0%	-4.0%	9.8%	11.5%	15.4%
Specialty equity:					
Wilshire REIT Index	-7.2%	-7.2%	10.3%	17.2%	20.0%
Broad fixed income:					
Lehman Aggregate Bond Index	-0.5%	-0.5%	1.2%	6.0%	7.1%
Lehman Govt/Credit Bond Index	-0.7%	-0.7%	0.4%	6.5%	7.3%
Lehman Intermed Govt/Credit Index	-0.9%	-0.9%	-0.3%	5.5%	6.7%
Fixede income sectors:					
Lehman Credit Bond Index	-1.1%	-1.1%	0.8%	7.5%	8.1%
International equities (in US Dollars):					
MSCI EAFE Index	-0.2%	-0.2%	15.1%	11.6%	-1.2%
MSCI Europe Index	-0.4%	-0.4%	20.4%	9.5%	-2.4%
MSCI Pacific Index	-1.7%	-1.7%	3.8%	12.9%	-4.0%
MSCI World Index	0.1%	0.1%	15.6%	12.0%	-0.9%

Returns for periods longer than 12 months are annualized.

FiduciaryVest, LLC**CONSULTING PHILOSOPHY**

We will carefully guard and maintain our personal and business integrity, recognizing that we can have no more valuable asset.

We will deliver quality information, advice and consultation needed by institutional clients, in order to reach informed, appropriate decisions regarding investment assets for which they are responsible.

We will design comprehensive investment programs and implement strategies that are both client-specific and appropriate to their circumstances.

We will neither directly, nor indirectly accept compensation arrangements with parties other than our clients.

We will maintain a significant, continuous commitment to investment research, development of useful tools and the evolution of strategies that are targeted to identified client contexts.

We will recruit talented individuals who share our passion for consultation with conscientious clients, and who have attained, or will seek to attain distinguishing expertise in their field.

We will continuously seek to enhance the investment education level of all clients, regardless of their sophistication.

Statements made and facts presented herein are believed to be from, or based upon reliable information sources; however, FiduciaryVest, LLC does not offer any assurance about the accuracy of data in this publication, or the validity of the conclusions and opinions derived therefrom.

This publication is not intended for, and should not be used as a source for actionable investment decisions.

FiduciaryVest, LLC is an independent, fee-only, registered investment adviser, pursuant to the Investment Advisers Act of 1940. It provides advice to institutional clients, based upon each client's specific investing circumstances and objectives.

Copyright ©2005 FiduciaryVest, LLC; All rights reserved.

FiduciaryVest, LLC**SERVICE APPROACH****Create or revise written investment policy**

- *Record client's governance context,*
- *Develop client's investment objectives,*
- *Identify client's investing time horizons,*
- *Define client's unacceptable outcomes,*
- *Determine client tolerance for exposure to unacceptable outcomes (risk),*
- *Arrive at appropriate asset allocation targets (unless participants control those decisions),*
- *Set suitable constraints and minimum expectation standards for portfolio managers, and*
- *Define general conditions for termination of portfolio managers.*

Devise appropriate implementation strategies

- *Identify and match investment styles with client's policy intent,*
- *Recommend suitable allocations to each style, and*
- *Perform searches for appropriate portfolio management.*

Deliver ongoing strategic advice

- *Perform quarterly investment performance evaluations and analysis, compared to objectives, policy, appropriate benchmarks and sound investment and business principles,*
- *Make recommendations for adjustments and enhancements to policy and portfolio management, and*
- *Perform relevant special studies.*

FiduciaryVest, LLC*Investment Strategies for Fiduciaries*

Author: Gregg Buckalew, CFA, CPA
770-804-6402
gregg.buckalew@fiduciaryvest.comT

Senior Consultants: Philly Jones, CFA, CPA
770-804-6408
philly.jones@fiduciaryvest.com

Harold Small, MBA
770-804-6404
harold.small@fiduciaryvest.com