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First Quarter 2004 Analysis

The equity markets continued their advance, begun in 2003, through the first part of January, leveled off during February, and began an abrupt correction in March. As of last Friday, the markets appear to have shaken off this correction and are continuing their upward advance. The stock market has consistently been a leading indicator of the overall economy. When the bear market crashed in 2000, corporate financial statements and economic indicators were still all pointing north. Then when the market finally reversed in March 2003, many pundits were scratching their heads because all the indicators were pointing south. Fast forward to 2004 and we see many analyst still asking where is the growth to support the markets rise over the past year. The market's strength received its economic confirmations last week when the U.S. employment report stunned the analysts with the fastest job growth in nearly four years. Additionally, the Institute of Supply Management reported that the non-manufacturing sector hit a record high in March. The index rose to 65.8% from 60.8% in February; blowing away the 61% March estimate. Although these reports were released at the end of last week, the market had already began its recovery the previous week. We are anticipating strong first quarter reports and continued strength in the equity markets.

Our Holdings & 1st Quarter Activity

Before the correction began in March, we were trending well ahead of the major indexes and averaging close to 10%. We began adding to our holdings in early march as volume subsided. The terrorist activities in March spooked many investors and volatility rose as the markets began to correct. Since the correction in our major holdings was very quick and severe, we decided to hold onto our positions rather than sit on the sidelines and miss the recovery. Subsequently our holdings are currently down 1.5% but trending back up. The underlying fundamentals of our holdings appear solid and indicate steady growth.

Our holdings in Nortel took a severe correction when news reports covering its 4th quarter restatement became widespread. We felt the market was overreacting to the news for several reasons. First, the restatements were expected and were old news in our opinion. Second, the restatements did not affect cash flow. It wasn't like an Enron or Worldcom with millions in bogus earnings. The restatements dealt with non-cash issues (i.e. accruals and prior period corrections) and are only expected to bring down earnings-per-share a few cents. Third, as previously stated, the stock price is a indicator of *future* earnings, not *past* earnings. The resurgence in the telecom industry, for which Nortel provides the backbone, along with strategic partnerships is not an aberration. And finally, the risk and probability of Nortel returning to it's

35 South Park Place, Suite 10 • Newark, Ohio 43055
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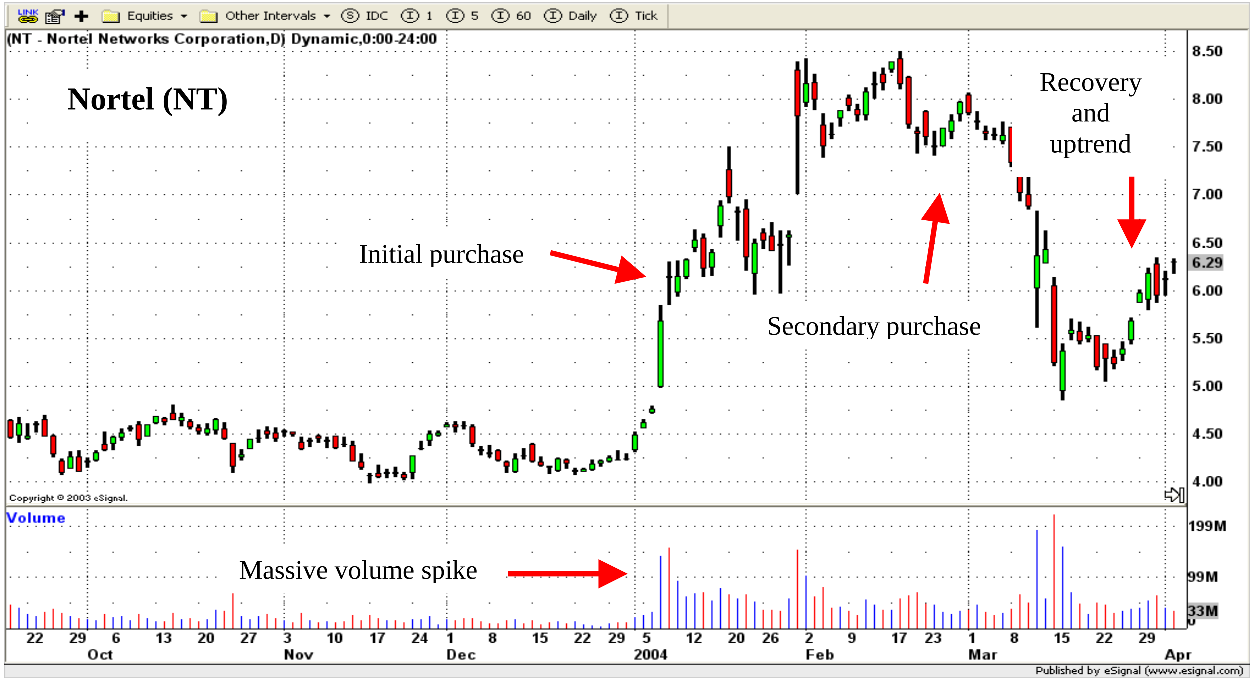
2002 low is far outweighed by its upside potential. The graph below shows the reemergence of Nortel and its activity. It was one of the most heavily traded stocks last quarter.



Ameritrade was another stock that corrected more severely than expected. We made a nice profit in 2003 and sold it when it appeared to have run its course. After it corrected, we repurchased it

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in early January. When it began to correct in March, we anticipated it to bounce off its 50 day moving average as it had done in the past. Instead it crashed through its support line and our 11% gain evaporated into an 8% loss. However, many high growth stocks have exhibited this type of behavior and we held our position even when the stock crossed our sell threshold several times. The stock has since moved back above our initial purchase price.

A new purchase last quarter was Seriological Corporation. We had been watching it carve a classic chart pattern and jumped in when it broke out of its base. It moved so fast that we were only able to buy 25% of our initial request at $19.75. During the next several days, we were able to accumulate more shares at $20.12. The stock corrected slightly during the March correction but has remained resilient. Now that the correction appears over, we are expecting continued growth.

We continue to hold Cornerstone Realty (TCR) and Thor Corporation (THOR). Although THOR appeared to be making great gains in early January, their fourth quarter report contained a few surprises and investors beat it back down. We remain fairly optimistic that Thor will be able to meet analyst expectations in the near future. Cornerstone continues to pay a respectable dividend but the increase of volatility has become a concern. We also are looking at bonds, now that their yields are beginning to improve. We have a portion of our holdings in cash for anticipated opportunities in the bond markets.

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Other Business

We appreciate all of your referrals to us. Many investors have been burned during the past several years and are reluctant to take their funds out of the bank and begin investing them again. As you know, there are profits to be made in the market and we hope that you will tell your associates about the performance you have experienced with Trustar in your own portfolios.

The quarterly advisor fees have been charged to your accounts this week. If you have any questions about this analysis, please do not hesitate to call me. We appreciate your patronage.

Sincerely,

Jonathan Davey, CPA MBA
Registered Investment Advisor

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