



Fourth Quarter 2004 Analysis

The market continued its trend throughout the quarter and ended the year slightly up. On a global basis, oil peaked, China boomed, and Iraq slogged on. A lot of credit was given to the rise of the euro versus the dollar. All things being equal, I have never been a fan of a strong dollar. The US is the only country whose currency denominates world trade and to which all other currencies are valued. Thus, a weak dollar did not (nor would not) cause an economic turmoil similar to Mexico or Venezuela when their currencies lost value. Many feel that our trade imbalance indicates economic turbulence. Quite the contrary. Countries used to be valued on their consumption, not their exports. Every product consumed by American consumers yields one less item available for consumption by another country. Additionally, our primary trade is with countries whose currency is denominated in dollars, not euros. The Chinese have been pressured for several years to update their currency valuation but have resisted the move due to its detrimental impact on their expanding economy and loss of competitiveness to India and other emerging countries. The economies of Europe have been stagnating for several years now and thus could not be the cause for the euro's rise. I believe that the euro's rise is due to Europe's central bank's resistance to lowering rates which is good for fixed income investors, but seriously impedes business growth. I wouldn't be surprised if there was a concerted effort to increase the rates prior to the 2004 elections. Both George Soros and Warren Buffet indicated that they significantly increased their euro reserves. It may be interesting to note that many experts believe that Europe's generous welfare program, aging population, and declining birth rate portend the eventual demise of the European Union. In my opinion, the dollar has inherent support not available to the euro.

The US economy still has one of the best growth rates and provides the most stability for foreign investors. I would not be surprised to see the euro begin to recede. This would definitely help foreign missionaries struggling with the huge cost of living adjustment. They have lost the equivalent of 30% of their support since May 2003.

Our Holdings & 4th Quarter Activity

Our activity during the fourth quarter involved taking a substantial position in the bond market. We had been watching rates for several quarters and felt comfortable that there would not be anymore significant drops in the market. As mentioned last quarter we were anticipating moving idle cash into bonds to take advantage of their favorable returns. We've since increased our position in bonds and fixed income to 40% while maintaining our other holdings in equity at 44%. The remaining 16% is in cash.

Although the equity markets moved up during the fourth quarter, there was little consistency or opportunities for disciplined entry. There were a number of companies we were following that failed to follow through on their growth pattern. Thus we kept our powder dry.

Conerstone Realty (TCR): TCR announced that they are in buy-out talks with Colonial Properties (CLP). This explains the significant rise during the fourth quarter prior to the announcement. Whether the deal will actually go through is yet to be seen. It will be voted on during the 1st quarter of 2005. According to the deal, TCR shareholders will receive 1 share of CLP for every four shares of TCR. The main outcome from this merger is



that TCR shareholders will realize a 15% cut in their dividend but have an opportunity for greater stock appreciation. However, TCR may cut their dividend if the deal does not materialize. Therefore, it appears that the best course is for the buy-out to take place. We will watch the proceedings to determine if we should sell out before the merger or continue to hold CLP stock.

Thoratec (THOR), Ameritrade (AMTD) and Nortel (NT): We experienced both relief and frustration in these stocks.

Thoratec continues to fail to exploit their monopoly. However, recent changes have been encouraging. During the past quarter, we were pleased to see the CFO terminated. He effected several blunders that have depressed this stock. Thor has also added more experienced management that should bode well for the company.

Ameritrade is trading consistent with 2003 levels. We thought that they were going to break out in early January but the market correction has delayed that prospect.

All along we have been saying that Nortel was not in the same situation as Enron or Worldcom. Our analysis consistently resulted in confidence that they would emerge from this scandal without a negative outlook. Nortel finally filed their 2003 restatement with the SEC on January 10th. Their filing did not reveal any additional irregularities than those previously noted over a year ago. Additionally, senior executives repaid \$8.6million in bonuses. Nortel should now be able to focus on their future and grow the company.

ACM Income Fund (ACG): We bought into ACG throughout the fourth quarter and it is now our largest holding. We felt that their excellent yield and price offset the risk of further declines. So far we have been correct but the market remains extremely volatile. Their use of leverage increases the yield to close to 9%, which is very respectable in this market. There is still a risk that they could follow the path of numerous other bond funds and cut their dividend. Therefore we continue to monitor the position daily.

Serological Corporation (SERO): We sold our positions in SERO in late October locking in a 10% profit. Although we mentioned last quarter that they had great potential, subsequent information tempered our exuberance and indicated that their future increases would be more moderate. Therefore, we decided to take our profits and pursue other opportunities.

Yahoo, Inc. (YHOO): We bought Yahoo in October and our position is up around 9%. Of all the stocks we follow, they are probably the most volatile. Some days the stock has moved over 5%. We anxiously await their earnings announcement next week and anticipate substantial growth.

First Quarter Outlook

The market is currently in a correction. We have put on hold any equity purchases until the market begins moving upward. Although the economy is improving, the market remains sluggish. The Federal Reserve will probably continue to increase interest rates as the economy improves. At some point this will have a downward effect on the real estate market which could slow the economy. While we think the prospects for growth are evident, we will probably either hold our equity positions or sell them unless the market resumes its climb.



Other Business

The dividends you received from TCR and ACG are not treated as ordinary dividends for tax purposes. If Truststar Financial Group, Inc. does not prepare your taxes, please alert your tax preparer to the nature of these 1099s so that they will be handled correctly.

Past quarterly commentaries are available on our website as well as our current ADV report.

If you have any questions about this analysis, please do not hesitate to call me. Thank you for your continued patronage.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jonathan Davey", is written over a horizontal line.

Jonathan Davey, CPA MBA
Registered Investment Advisor