

ON COURSE

A QUARTERLY NEWSLETTER FROM
GEOVEST ADVISORS

A Little More Patience

I've been accused of negative on the market and on the economy. I happily admit that I've been a bear all year because it has been the right thing to do for our clients, and in the end, that is all that matters. People have entrusted us with their hard earned savings in the belief that we can make a difference in their lives by ensuring that those savings grow.

Notice how the chart I've provided of the Dow Jones Industrial Average goes up and down. This means that over the course of a 10 year cycle, clients should perceive my investment strategies as

ward our faithful clients for the trust they have bestowed on us.

At GeoVest, we pride ourselves on making rational, well-considered decisions. Generally, when you see a change in the portfolio, we've been considering it for at least a few months, if not longer. Our hedging strategies, that we slowly started to implement in late January, were the product of five months of preparations and discussion. If you take a close look at our performance, both with equities and bonds, you'll discover that we've done quite well with relatively little risk when compared to the average level of risk in the market.

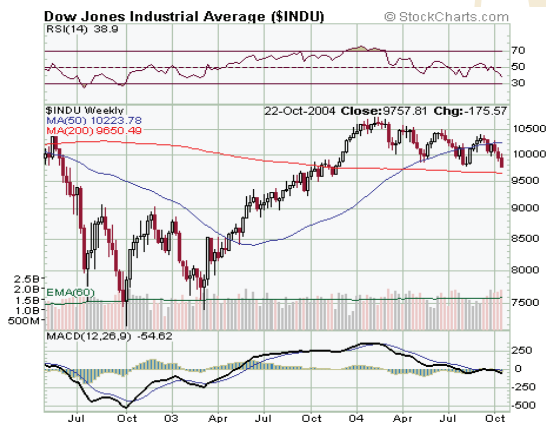
Sometimes it takes a year or two before you see the results of the decisions we make. Two years ago, we sold all the bonds of Ford and General Motors in client accounts. At the time, we forecasted a decline in credit quality due to the aggressive financing options that

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Special points of interest:

- The wrong kinds of jobs are being created in the US.
- China could spark a global economic crisis.
- Rising inflation may lead to higher interest rates.
- The risk to the markets has increased.



being positive, negative, and neutral when the time is appropriate for each. I may be temporarily negative on the economy and the market, but I am unabashedly positive in regards to GeoVest Advisors, and our ability to re-

Why I am Optimistic

I believe in the old saying that the market swings back and forth between greed and fear. Sure, that sounds bad, but there is a lot of money to be made during times of fear if you are a rational investor. As rational investors, we've taken precautions in your port-

From a potential downdraft in the market. But, that's not why I'm optimistic.

My optimism stems from my perception that the market is about to transition into a cycle that will take advantage of GeoVest's core strengths – our focus on international economics and our strong valuation disciplines.

I predict that things will happen internationally over the next few years that will catch a lot of investors unprepared. Some of those things may include weakness in China, Japan, and South Korea, social change in Europe as they to huge changes in the makeup of their populations, and barriers to trade in the US in reaction to our weakening jobs market.

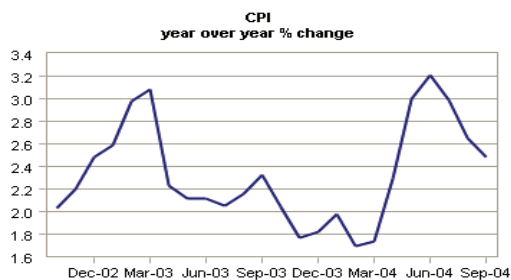
Sure these changes sound ominous but remember one very important thing – when money exits one place it flows to another. Money doesn't go away, it just seeks greener pastures. We're in the proc-

Is it Inflation?

ess of anticipating where those greener pastures are, and how we can invest in them to make money for our clients. We employ a discipline at GeoVest where we try to find anecdotal evidence to either support or contrast reported government numbers. That way we can be sure that the government's notoriously volatile measurements actually reflect the reality that we perceive as consumers. Today, there is a divergence in that reality.

Try to buy a house, or fill your gas tank, or simply buy milk and eggs, and you see higher prices. The only places where you see prices falling are at your local Wal-Mart or furniture store where they import goods from Asia. The problem is that you can't eat a couch that's been marked down 50%.

Country, yet those of us who shop, fill up the gas tank, or pay monthly bills know that prices are rising.



Now, before you start to question the sanity of government statisticians, it is helpful to add that they, as a group, are very bright people. Also consider that we've just ended a decade of extraordinary improvements in all aspects of our lives from the quality of food to the speed of computers to the durability of cars. Instead of just allowing us to make up our own minds regarding the value of these quality improvements, the government statisticians have tried to quantify these changes. The result, in my opinion, is a measurement that is no longer a useful gauge of inflation in our country.

So what difference does it make? The answer is that it results in overstated economic growth and corporate earnings. Some of what we perceive to be real economic growth is just an inflationary rise in prices. It also ultimately leads to higher

The Interest Rate Conundrum

As I mentioned in the last newsletter, forecasting interest rates is currently very difficult. To our credit, we've gotten it right up to this point, but we are not resting on our laurels. Given the higher level of inflation than implied by the consumer price index, the easy decision would be to position our portfolios to take advantage of higher interest rates. This would be the case if the markets were free to trade without government involvement, but they are not.

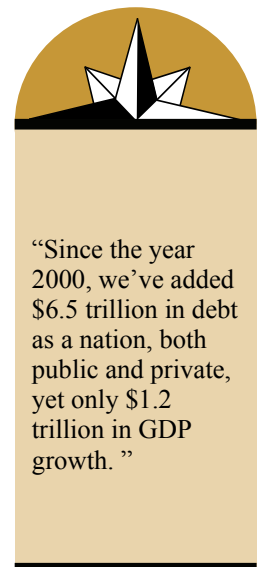


"As I've mentioned in previous newsletters, I'm worried that the Chinese economy is at risk of sparking an international crisis."

Asia is running an enormous trade surplus with the United States. This means that we buy more from them than they buy from us. Normally, when this happens, the value of the dollar would fall as Asian companies convert dollars back into their home currencies. This would make it more expensive for Americans to buy Asian goods. The difference today is that the economic policies of every Asian nation revolves around exporting more than they import, and the only way to facilitate this policy is to maintain a strong dollar.

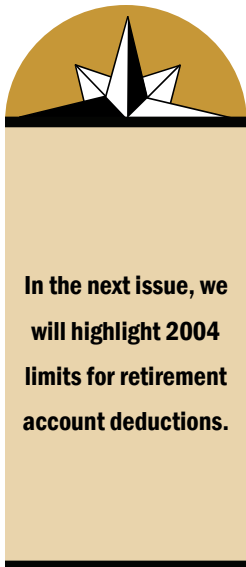
Monetary Policy

The Stock Market – Risk



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**In the next issue, we
will highlight 2004
limits for retirement
account deductions.**

- Philip M. Byrne, CFA

