



## BUSY START TO 2005

With strong earnings reports from important companies, audacious mergers involving blue-chip names and one of the strongest seasonal periods on the market calendar, one would expect a skyrocketing stock market. However, we AGAIN find ourselves with geopolitical issues outweighing the positive.

While the first election in Iraq in half a century has come with an enormous cost in terms of human life and financial resources, we are extremely proud to be Americans. The cost of liberating Iraq is likely to be close to \$300 billion during the first three years. Then, the cost is likely to quickly decrease. Iraqi oil revenues spent by Iraqis on rebuilding their country should contribute to the ongoing global boom. Egypt and Jordan have both recently moved to reform and restructure their economies. Palestinians could prosper if they made peace with the Israelis and developed the natural gas fields off the coast of Gaza. There are more than 300 million people in the Middle East. Modernizing their economies and increasing the standards of living in the region would clearly have a very positive impact on the global economy.

President Bush begins his second term with an ambitious domestic agenda that includes a major transformation of Social Security and a revamp of the nation's tax code. Both issues have one core political issue at the heart of the debate: should Americans have more control than the government when it comes to their money? Currently, we believe social security will either be gone or so small that we will forward our "Important Tax Information Enclosed" letter to the CPA without even opening the envelope! The details of each issue will determine the success of each endeavor, but anytime taxpayers can have more control of their money is a positive step. If the administration is successful with both issues, Americans will be forced to take more responsibility of their retirement and possibly understand how the taxman determined the April 15th bill.

Meanwhile, overall fourth quarter earnings reports continue to be positive. January's across the board pullback is more a result of reactions from the rapid run up in December 2004 than the future economic outlook. The US economy continues to improve, albeit at a measured pace. The mergers and acquisitions we have been anticipating are in full force. As we previously stated, companies have been earning large amounts of cash during 2003 and 2004. Some companies have been buying back stock and some have been upping their dividend, but most have been looking to make a bigger impact for shareholders by purchasing other companies. The shareholders of the companies who pay fair prices for acquisitions or don't sacrifice too much in a merger will benefit the most.