2004 First Quarter

MARKET REVIEW—April 8, 2004

Knowing the Unknowable The quarter's lack of strong market direction is due to the continued uncertainty. The 'Iraq situation' is far from resolved (nor is Afghanistan stable), the presidential election is similarly up in the air, when the Fed will raise interest rates, when real job growth will begin, when the US trade and fiscal deficits will end, and when the US dollar will strengthen are all unknown. In times when **the unknowns outnumber the knowns**, markets have little reason to advance. The next direction (strong up or down) will depend on how these issues play out, and what new uncertainties arise in the meantime.

US stocks began the year well, buoyed by merger announcements by JP Morgan/BankOne and Comcast/Disney. The Madrid terrorist attack in March quickly ended the advance. While a late March rally was unable to erase the March decline, for the entire quarter most investments still ended up with a gain. Of fifty mutual fund categories, only one, gold funds, fell during the quarter. This does not, however, indicate that it was a strong quarter—only real estate funds rose 10% or more. Instead, **it was a modest quarter**, with large US stocks rising only 1%, technology rising 2%, smaller US and foreign stocks rising 4 to 6%, and bonds rising 1 to 3%.

Broad-based stock funds rose 1 to 6% during the quarter. Real estate funds rose almost 12%, natural resource funds rose 6%, technology funds took a breather, rising only 2%. Emerging market stocks rose 9% during the quarter (interestingly, leadership shifted from Thailand to Mexico and South Korea), and over 80% for the past year. In the past year, gold is up 77%, small-cap US, tech, real estate, international are all up over 50%. Few stock categories rose less than 30%. **Bonds surprised most investors during the quarter by rising nicely** (despite record-low rates), as the continued weak labor market convinced investors that the Fed would take more time before raising rates. US government bonds were aided by strong purchases by Asian central banks. High-yield bond funds rose less than 2%, but still are up almost 20% in the past year.

It is **unlikely that the markets will make any major moves for most of the year**—there are simply too many uncertainties (Iraq and the presidential election are at the top of the list). Strength in the job market, and a decline in oil prices would be viewed as strong positives for stock investors (and negatives for bond-holders).

Whether stocks are cheap or expensive is also debatable. I feel that large US stocks are more reasonably priced than smaller stocks at this time. Foreign stocks and smaller US stocks have done so well in the past year that it is reasonable for them to take a breather. The Mallard approach, in which long-term asset allocation targets are set, demands **periodic rebalancing**. This is the crux of the approach's strength. The following table shows that in the past year bonds rose 5% while stocks rose 30 to 60%. The Mallard approach calls for 'right-sizing' each type of asset class, sealing in profits to control future investment risk. If you haven't already rebalanced your portfolio after this amazing 12-month stock market run, **do it now**!

The following average mutual fund performance figures come from the April 5th edition of the Wall Street Journal and from Morningstar Principia Pro:

Category	1st Quarter '04	12 Month Return	5-Year Avg	10-Year Avg
Money Market—Taxable	+0.09%	+0.42%		
Intermediate Term Inv Grade Bond	+2.36%	+5.43%	+6.45%	+6.71%
Intermediate Term Tax-Exempt	+1.00%	+4.06%	+4.76%	+5.34%
Large-Cap Core Stock	+1.14%	+31.22%	-2.34%	+9.27%
Mid-Cap Core Stock	+4.46%	+47.77%	+9.96%	+11.32%
Small-Cap Core Stock	+5.89%	+60.36%	+13.32%	+11.19%
Int'l Stock (Large-Cap Core)	+4.45%	+53.63%	+1.76%	+5.10%
Real Estate	+11.91%	+51.19%	+17.52%	+12.49%
Natural Resources	+5.65%	+43.73%	+13.60%	+11.68%
Technology	+1.70%	+58.24%	-5.88%	+10.99%
Multi-Cap Growth Stock	+2.73%	+39.55%	-1.91%	+9.48%
Multi-Cap Value Stock	+3.22%	+41.67%	+5.33%	+11.65%
Balanced	+2.09%	+23.88%	+2.50%	+8.64%

How Much Did I Pay For This Stock

Pam Baumbach

Accurate cost basis information is vital, especially when planning for taxes. In this article I'll share some of the insights I've gained while researching the cost basis of shares of stock and funds new clients bring to Mallard.

What is meant by cost basis?
Basically, it is the cost of the investment when it was acquired. It can be reported as a cost per share, or a total dollar cost (cost per share multiplied by the number of shares). The cost basis includes any fees and commissions paid.

The cost basis typically is maintained along with the acquisition date, as both are required when reporting taxable sales. Since sales of securities within IRA accounts are not reportable, there is **no need** to maintain accurate cost basis information for investments held in IRA accounts.

Shares are most often acquired by lifetime gift, inheritance, outright purchase, or dividend reinvestment. They can also be acquired through spin-offs and mergers.

How do your determine the cost basis of inherited and gifted securities?
The cost basis of inherited shares is the value of the investment on the date of death (or the alternative valuation date). You can obtain this information from the executor. For lifetime gifts from relatives, the cost basis transfers with the gift. You 'adopt' the cost basis from the previous owner, including the purchase date. The next time you receive a lifetime gift of shares, right after saying Thanks, ask for the cost basis!

Make sure someone else hasn't already done the work
Check current and past statements to see if you already have a record of the cost basis. If you don't have complete statements for all acquisitions, call the custodian. This could be the mutual fund company, a dividend reinvestment plan representative, or your broker. Check your financial advisor or tax preparer; they may have the necessary records. If that didn't work, you will need to do the dirty work yourself.

The Do-It-Yourself Method
The first step is to determine the stock/fund symbol. There are many "financial" web pages that offer basic financial tools; I use **finance.yahoo.com** **(Yahoo! Finance**). It provides a way to enter the investment's name and obtain the related symbol(s).

For an overview of the stock I click on the symbol and get a "Home Page" for the stock; the home page has a "Historical Price" button. GE's and AT&T historical prices both go to 1962, while Fidelity Magellan to 1986. This webpage also permits me to enter a date range, so if I already know the date of the original purchase(s) and the number of shares bought, I can complete the job with the share price from the Historical Prices.

Instead of using **Yahoo! Finance** for stocks, you can go directly to the company's website. When there are complicated mergers and spin-offs, the Investor Relations sections of company websites may offer extensive tools for researching cost basis.

What if I made additional purchases?
When tracking cost basis, each security purchase is considered a "lot" and all shares in a lot have the same cost basis. When you purchase additional shares, each new lot has its own cost basis; additional purchases do not change the basis of earlier positions/lots. Generally, the cost basis of lots should not be averaged together. When you sell shares, you identify from which lot(s) the sale was made. Any subsequent sales must come from the remaining lots. Which lot to use is up to you and your tax-preparer.

What if I previously sold shares?
You should determine the cost basis of all the shares you ever purchased and deduct the cost of the lots sold. You can often determine which lots are already sold by reviewing Schedule D of your tax return for the year the security was sold. The remaining shares' dollar cost basis is the dollar cost basis of all shares purchased, less the dollar cost basis attributed to the shares that have been sold.

What if I reinvest my dividends?
Dividend reinvestment involves two transactions. First you receive the dividend. Next you use that dividend money to purchase additional shares. This is an additional purchase; typically the cost basis per share of the new shares is the share price on the dividend date.
When you can't find statements for a security that you have been reinvesting, the cost basis determination can be quite involved, and can include some pure guesswork. In these situations, my actual steps differ with each case.

How does a stock split affect the cost basis?
When a stock splits (for instance after a 2:1 stock split in which your number of shares double, while the share price drops in half), your total **dollar** cost basis is unchanged. However since the number of shares doubled in this example, the cost basis **per share** of each lot is cut in half. The purchase date is unchanged by a split.

Splits (the dates and the ratios) can usually be found on **Yahoo! Finance**, the company website, or by contacting Investor Relations.

I find that this process is easiest if I begin at the first date of purchase, and accumulate information of all subsequent purchases and sales. The next-to-last step is verifying that the number of remaining shares you have calculated matches the actual number of shares you have. The final step is to record, and store the cost basis information.

While determining your cost basis can be a grueling process, there is a bright side—if done right, it only needs be done once.