2004 Second Quarter

MARKET REVIEW—July 7, 2004

Clear as mud! The past quarter brought a wealth of good and bad news. As the situation in Iraq worsened, due to very unstable conditions in Fallujah, the publicity of prisoner abuse in Abu Ghraib, and ever-increasing acts of resistance/terrorism against Western military and civilians in the area, the market fell in April and during most of May. Against this depressing backdrop, the economy appeared to revive, with two consecutive strong job reports for March and April. Unfortunately for investors, a stronger economy enables the Fed to begin to raise interest rates. Just the threat of this (the first bump didn't occur until late June) saw bonds fall sharply, with the worst quarter in the seven years Mallard has been around.

Stock markets appeared to have a quiet quarter, some rising 1%, and some falling 1%. Growth and Value ended in a dead heat, +1.06% versus +1.02%. With the rising uncertainty in the Mid East, it is not surprising that natural resource funds had a strong result, rising 4.65%. Real estate fell even harder than bonds—most of this was 'well-deserved' due to their extremely strong performance in the past five years. Gold funds fell more than 18%, as precious metals and mining were the worst stock sectors during the quarter. International stock funds fell a bit, 0.8% on average. Only Europe funds made a profit during the quarter, as Emerging Market and Latin American funds fell close to 10%.

Granted, they began from a very low starting point, however stocks both in the US and abroad had a wonderful year, in most cases the best since Mallard began in 1996. Foreign stocks were absolutely on fire. While the rebound began with speculative growth stocks leading the charge, surprisingly, value stocks had a better 4th quarter than growth (this is quite unusual when the markets are rising so strongly).

The stock markets will likely move sideways for the next quarter, until it is clear who will win the November election. Then the markets should determine the likely impact of the next President's fiscal and economic policies, and move appropriately. The Fed is likely to use several small rate increases, which in the future will mostly affect very short-term rates (wouldn't we all like a higher return from our money markets?). I continue to recommend a bias in favor of larger US stocks, and an ongoing commitment to investing both in US and non-US stocks. I am currently lukewarm on high-yield bonds and on real estate funds. I am becoming a bit more comfortable with intermediate-term bond funds.

The following average mutual fund performance figures come from the Wall Street Journal and from Morningstar:

Category	2nd Quarter '04	12 Month Return	5-Year Avg	10-Year Avg
Money Market—Taxable	+0.12%	+0.49%	+2.71%	+3.83%
Intermediate Term Inv Grade Bond	-2.39%	+0.18%	+6.15%	+6.59%
Intermediate Term Tax-Exempt	-2.10%	-0.20%	+4.71%	+5.04%
Large-Cap Core Stock	+0.93%	+16.13%	-3.35%	+9.58%
Mid-Cap Core Stock	+0.98%	+26.28%	+7.34%	+12.18%
Small-Cap Core Stock	+1.16%	+33.47%	+10.22%	+12.24%
Int'l Stock (Large-Cap Core)	-0.80%	+28.57%	+0.36%	+5.02%
Real Estate	-5.62%	+26.71%	+13.88%	+12.39%
Natural Resources	+4.65%	+34.70%	+10.87%	+11.67%
Technology	-0.49%	+25.51%	-8.04%	+11.56%
Multi-Cap Growth Stock	+1.06%	+20.53%	-3.22%	+10.31%
Multi-Cap Value Stock	+1.02%	+21.81%	+2.93%	+11.70%
Balanced	-0.31%	+11.65%	+1.53%	+8.69%