



**Quarterly Investment Note
August 16, 2005**

Being an equity investor is a turbulent and sometimes thrilling experience. Anticipation builds during earnings season with the hope that better than expected earnings will cause stock prices to surge. And excitement often accompanies positive company announcements, such as when a firm increases its dividend payment or initiates a significant stock buyback program. But no single event quickens an equity investor’s pulse faster and brightens their mood more than news of a premium buyout offer.

Suddenly and unexpectedly, the atmosphere becomes charged with excitement. The 24 hour cable news networks buzz with discussion and analysis and newspaper editors scramble to print bold headlines heralding the news. Exhilarated investors see their stock ‘gap up’ on price charts to reach levels that are on average 35% higher than its pre-announcement price.

Investors in the Longbow Equity Composite have experienced this thrill several times in the past year.

Below, we highlight three buyout announcements that benefited our clients and contributed to our equity composite’s **+6.85%** outperformance versus the Standard and Poor’s 500 Index since inception, which covers the period from September 30, 2003 to June 30, 2005.¹

Premium Buyout Example 1:

<i>Acquired Longbow Client Holding:</i>	<i>Sears, Roebuck & Co.</i>
• Buyer:	Kmart Holding Corp.
• Announcement Date:	November 17, 2004
• Closing Price:	\$52.99
• One-day Price Appreciation:	+17%

The \$11 billion Kmart-Sears merger, which closed in March 2005, created the third largest broadline retailer in the U.S. with a combined presence of 3,500 stores in operation. The new company chose the name Sears Holdings, Inc. (NASDAQ: SHLD) even though Kmart was the acquirer.

We liquidated our entire position in Sears on the day of the merger announcement at an average price of \$54.42. With an average cost basis of \$38.40, it produced a 42% return for our clients.

Premium Buyout Example 2:

<i>Acquired Longbow Client Holding:</i>	<i>Gillette Co.</i>
• Buyer:	Procter & Gamble Co.
• Announcement Date:	January 28, 2005
• Closing Price:	\$51.28
• One-day Price Appreciation:	+13%

¹ The Longbow Equity Composite is comprised of actual client accounts and is calculated net of fees and commissions. Past performance is no guarantee of future results.



Longbow Asset Management Company

Procter & Gamble's (NYSE: PG) \$57 billion acquisition of Gillette (NYSE: G) will create an unprecedented global consumer products giant projected to have more than \$65 billion in annual sales and increased negotiating leverage with retailing superpowers such as Wal-Mart (NYSE: WMT), Target (NYSE: TGT), and the aforementioned Sears Holdings, Inc. The deal has been approved by both companies' shareholders and is expected to close this fall.

We held shares of both companies before the merger announcement and will continue to hold Procter & Gamble after the merger is completed. With an average cost basis of \$36.35, Gillette has produced, up to this point, an unrealized gain of 43%.

Premium Buyout Example 3:

<i>Acquired Longbow Client Holding:</i>	<i>Reebok International Ltd.</i>
• Buyer:	Adidas-Salomon AG
• Announcement Date:	August 3, 2005
• Closing Price:	\$57.14
• One-day Price Appreciation:	+30%

The \$3.8 billion acquisition of Reebok by Germany based Adidas allows the European footwear concern to address its main marketing problem—appealing to the sneaker buying masses in the U.S., the world's largest athletic shoe market accounting for 50% of an estimated \$33 billion in global sales annually. Adidas hopes that Reebok's exclusive, high profile apparel licensing deals with the NBA, NFL, and NHL will give it an opportunity to make inroads against Nike (NYSE: NKE), the U.S. market leader.

We liquidated our entire position in Reebok on the day of the merger announcement at an average price of \$56.79. With an average cost of \$44.41, Reebok produced a 28% return for our clients.

Lightning has struck the Longbow Equity Composite three times in the past year. Quite unexpectedly, several core portfolio holdings were 'electrified' by buyout offers, providing our clients with instantaneous and significant returns.

Naturally, each time we were excited. But what pleased us the most was that these returns were captured by an equity strategy that makes portfolio construction, rather than ad hoc security selection, paramount.

We use a computer driven portfolio optimization model combined with sound judgment to construct well diversified equity portfolios. Our transparent and defined process insures that reason rather than emotion invests our clients' funds. We will not be shocked if buyout lightning strikes again in the future, but we will never count on it or take unnecessary risks pursuing it.

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Each of our firm's clients is unique and each has different investment goals. We work efficiently and in a disciplined manner to design investment solutions to meet our clients' needs. We invite you to call our office at (918) 295-9929 or send an e-mail message to jakedollarhide@lbamc.com if you have any questions or need assistance anytime. We are always available to help and we appreciate your trust and confidence.