

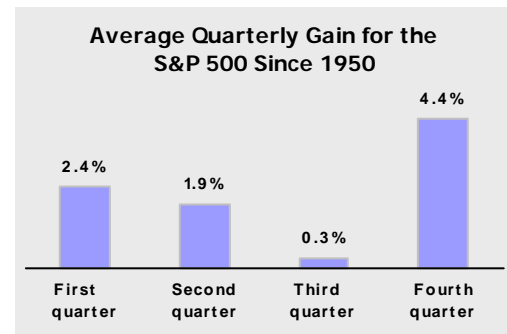


**Quarterly Investment Note  
November 10, 2005**

On Wall Street, just as in nature, bears hibernate during the winter. The fourth quarter historically has been the best period for stocks by far, and in recent times, the last months of the year have been spectacular. To illustrate, the U.S. market's performance, as measured by the Standard and Poor's 500 stock index, in 2001, 2002, and 2004 in November and December was 8.3%, 5.8%, and 7.2%, respectively.

Currently finding ourselves well into 2005, mired in a flat-to-down market, the relevant question is whether the existing economic conditions and prevailing investor sentiment can once again form a combustible mixture and ignite another year end rally. We believe conditions, notably a healthy economy and attractive valuations, are primed.

The U.S. economic engine showed its resilience and robustness in the third quarter, overcoming elevated oil prices and catastrophic hurricanes to grow at an impressive 3.8% annual rate. This marked the 16<sup>th</sup> consecutive quarter of economic expansion and the 10<sup>th</sup> consecutive quarter with growth greater than 3.0%. And Federal Reserve Chairman Alan Greenspan recently said the U.S. economy still has "forward momentum."



Approaching the end of his marvelous 18-year tenure, the soon to be retiring economist is likely encouraged by recent economic data showing a well balanced economy with supportive fundamentals. The Labor Department recently reported productivity grew at a 4.1% annual rate in the third quarter, the best gain in more than a year. Higher productivity is one defense against inflation.

In addition, consumers will head into the holiday shopping season with more money in their pockets. Personal income increased 1.7% in September, the largest increase since December 2004. Hurricane insurance payouts certainly boosted this figure but the end result is the same: consumers have more to spend. Not surprisingly, retail sales beat expectations in October.

Unemployment remains low, decreasing to 5.0% in October. And while hurricanes Katrina and Rita temporarily disrupted the labor market their overall impact should be transient. Furthermore, rebuilding efforts in the Gulf Coast region will spur economic activity. In October, gauges of both the manufacturing and the services sectors indicated ongoing strength.

But perhaps, most importantly, energy prices are declining. Oil prices have retreated more than 15.0% in recent weeks, dropping below \$60 per barrel, easing inflation fears, which has acted like a dark cloud hanging over the market all year. To combat the threat, a proactive Federal Reserve has steadily marched the cost of borrowing higher with 12 interest rate increases in a row, recently setting the Fed Funds rate at 4.0%, and signaling more increases are likely to follow. A sustained decline in energy prices, if it continues, will hasten the end to their current interest rate hiking campaign.



# Longbow Asset Management Company

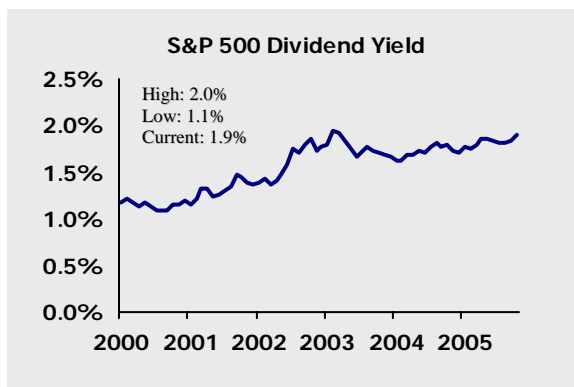
Overall, the economy appears to be walking along a path of growth on solid footing. Now let's turn our attention to equity valuations.

Rising corporate earnings have steadily lowered the Standard & Poor's 500's price to earnings (P/E) ratio from its 2002 peak. The index currently trades at approximately 18 times its component companies' profits for the previous 12 months. From a historical perspective, this is not spectacularly cheap. Rather, it is merely in line with its own 25 year average. However, given the current context of ongoing corporate sector growth—earnings grew 12.3% in the first quarter, 16.0% in the second quarter, and an estimated 14.0% in the third quarter of 2005—it may prove to be an attractive entry point for investors seeking return.



In his 1997 Humphrey-Hawkins testimony before Congress, Alan Greenspan indicated one reasonable method to value the stock market is to compare the 10-year Treasury bond's yield to the stock market's earnings yield. The earnings yield is calculated as the inverse of the market's price to earnings ratio.

This simple but effective 'Fed Model' asserts that stocks are cheap when the earnings yield exceeds bond yields. And, conversely, that bonds are preferable under the opposite conditions. Currently, the market's earnings yield is 5.5% while the bond's yield is 4.6%—signaling an equity buying opportunity.



Also, increasing dividend yields are another indicator highlighting the value present in the equity market. The Standard and Poor's 500 stock index currently yields 1.9%. According to *The Wall Street Journal*, since the 2003 dividend tax cut, firms in the Standard & Poor's 500 have raised dividends more than 735 times, and 40 companies without dividends prior to the tax cut have started paying them.

Only hindsight knows whether the market will rally in the final months of 2005. And, unfortunately, she is not returning our calls. Our belief is that the general conditions, namely a healthy economy and attractive equity valuations, are present for such a rally to occur. Time will tell whether Wall Street's bears will once again enjoy their winter slumber.

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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](mailto: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.