

May 2004

Dear Investors,

Hope that your 2004 has been happy and healthy thus far! 'Happy' is pretty much an emotional state, and is easily changed, often in an instant. 'Healthy' can be an emotional state as well, but it is primarily a physical state. Without at least a partial 'feeling' (or emotion) of good health, your retirement years (even your working years) can be extremely difficult. Enjoyable retirement years are never even reached by a shocking percentage of people, primarily due to health reasons, and not financial reasons. Even though our physical state of health is normally developed over a longer period of time, one's health status can change, often in an instant as well, if not taken seriously throughout the entire course of life.

Making even slight adjustments to our daily routines can add 3-15 more quality years to our lives, regardless of age. *If each of us was put in a position of having only 30 quality days to live, what would an extra 30 days mean to you? Or how about an extra 300 days, or even 3,000 days of healthy, quality life mean to you? Not only for you, what would it mean to your family and friends? Many people would give a fortune to spend even one extra day with someone they care about who is no longer alive or healthy enough to enjoy the day, much less one, three or ten extra years. Someday, we will all be in that position of being in our 'last 30 days' of quality life – and we won't get an email, fax or phone call saying "Attention! You now have 30 days of quality life left!"*

*Here's our wake-up call - for all of us, **today is the first day of the rest of our lives**, however long we each have. Eating better, stopping smoking, visiting your physician on a regular basis for a routine check-up (and not just when you have to), deciding to exercise more (or even deciding to start to exercise!) or buckling a seat belt could make a **HUGE** difference for you – and don't forget the people that care about you - your family and friends, like me. As we go into 2004 and beyond, one question we all should take action on is "**How can I be healthier today?**" If you don't take action for yourself, take action for the people who care - it truly will make a difference in your health, and give you a 'wealth' of more happiness for years to come.*

Speaking of 'wealth', the start of 2004 has had slight fluctuations in both directions. All bond and stock indexes were on the slight upswing as of late January, with the Small Cap Index and Emerging Markets Index having the biggest gains - about 7%. In fact, the Emerging Markets Index, after being up over 55% last year, was up an additional 10% at one point during the quarter. Some volatility occurred in March, when most of the equity (stock) indexes were down from one to three percent and the bond indexes were up one to three percent.

As of the end of the first quarter, The Large Company Index was up 1.3%, The Small Company Index was up 6.0%, The NASDAQ Index was down ½%, The International Index was up 4.6%, The Emerging Markets Index was up 7.9%, The Long Term Bond Index was up 5.1%, The Short Term Bond Index was up 1.7%, The High Yield Corporate Bond Index was up 2.0%, and The High Yield Tax-Free Bond Index was up 1.4%

After the end of March, there has been some backtracking that has made the indexes mixed thus far in 2004. Currently, The Large Company Index is up 0.8%, The NASDAQ Tech Index is down 1%, The Small Company Index is up 2.1%, The International Index is up 1.7%, The Emerging Markets Index is down 2% (after being up as much as 10% this year), and all of the Bond Indexes now have pretty much a zero total return for the year, due the change in interest rates. As seen in 2004, bonds can be risky, too.

*Speaking of risky, one of the most puzzling items I've read recently was the results of a recent survey done by a prominent and nationally recognized investment research firm. **From 1984 to 2002, when the S&P 500 index (The Large Company Index) grew at an annual rate of 12.2%, individual investors in equity mutual funds saw average returns of 2.6% a year, before taxes and inflation.** They're not comparing to the stock market's return of just the past 4 years, they're referring to the 18 year time period of the unprecedented bull market in US stocks. I call this 'Behavioral Economic Risk'.*

*Furthermore, after factoring in federal and state capital gains taxes, as well as factoring in 1984-2002 average inflation of 3.2% annually, **the average investor (of the tens of millions of investors) during that 18 year timeframe was a negative 1.2% annually vs. 12.2% annually.** How and why does this occur? Without goals, a disciplined approach, and concise actions, most investors decide to invest when the headlines are rampant during a market upswing; they decide to sell again when headlines are hopeless during (or at the end) of a market downswing.*

Statistically speaking, even if an investor in this 'average acting' group did achieve 12.2% per year (which was the return of the general index) they would be in the 99.9th percentile of investors (1 in 1,000). And most of the masses of the average investors continue to chase and chase 'hot' mutual fund companies, 'hot' stock of the past, and three month, one year, and 3+ year returns in the unlikely chance to beat the index in any given year, must less the remote chance over 5, 10 or 20 years. They almost have a better chance of getting hit by lightning, or winning the lottery. In fact, there's a very good chance their health may suffer just worrying about it over time.

One of the most important parts of the continued economic and market growth is the activity of the short-term interest rates controlled by the Federal Reserve over the next 18-24 months. Rates were needed to be low during past few years due to worries of a weak economy. A measured pace of increases by the Fed, bringing short-term rates from 1% to about 3% is needed to further confirm a self-sustaining recovery. There will no doubt be a ¼ point increase at the end of June, which is long overdue. The only thing that could derail the recovery is a sharp increase in the short-term interest rate and/or a sharp increase in inflation, which I don't see happening (however, there's always a risk).

The growth of the economy should exceed 4% for the rest of the year, which would be great news. Other factors for a stronger economy and stronger stock and bond markets over the next 12 to 18 months are favorable elections, the ultimate successful transfer of political power in Iraq, the further admonishment of terrorist activities, and continued job growth.

Expounding a bit about the “health” theme for this quarter, much of the cost of lifelong health care can be drastically reduced by our current health, and future lifestyle choices. Beyond that, medicine and health care providers are much responsible for our healthy longevity. The cost of the 30 most frequently used drugs rose 22%, and the cost of 155 brand-name drugs rose 27.6%, vs. total inflation of 10.4% over the past four years. The average person under 65 spends \$485 on prescription drugs and \$200 for over-the-counter medicine. For those over 65 and over 75, that figure can double or triple easily. Adding other health care costs, many people exhaust their entire life savings during their lifetime to attempt to stay alive, much less healthy and alive.

If you are 65 or more, Medicare offsets health care costs greatly. However, here’s my major concern with the current Medicare system. Our Medicare Fund is to cover individuals over age 65. Currently workers are taxed 1.45% for the Medicare fund, and employers add 1.45%, for a total of 2.9% of gross wages. The Medicare tax rate really hasn’t changed in about 10 years. If health care and drug cost increases continue to be double or triple vs. typical average wage increases, at what point will this become clear that this model must be changed? We need change now, and before our nation gets desperate, if we are to keep our retirees’ health care system intact. Hopefully most of us will be lucky enough to be healthy and retired, but what will keep us healthy and retired? The reality of this concern must be addressed before it’s too late.

If you have any questions, we look forward to your phone call or e-mail. And again, thank you for your business; it’s a pleasure to serve you.

Sincerely,



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