



**Investment Management  
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*Hope you are enjoying the winter as much as we are, even though the temperature is barely above zero here. The financial markets, since the end of last winter, are well above zero, as I am happy to report. They had been below zero for three solid years, as we all know. Let's not prepare for any more winter financial weather anytime soon. Looking at and feeling the financial temperature of twenty or thirty below zero less than a year ago was no fun, but spring always finds a way to emerge.*

***Fortunately, the final three months of 2003 turned out to be much better than anticipated***, especially after just over a 2% gain last quarter and heading into a historically tough October. The Large Company Index continued its recovery with an 11.6% gain, The Small Company Index gained 14.2%, The International Index gained over 15%, the Emerging Markets Index gained 18.9%, the High Yield Corporate Bond Fund gained 4.6%, the Short Term Bond Index gained fractionally, and the Long Term Bond Index was down fractionally for the quarter.

***For the calendar year 2003, solid recovery and even further gain occurred in the financial markets.*** The Large Company Index was up 28.7%, The Mid Cap Index was up 42.7%, The Small Company Index was up 45.7%, The International Index was up 33.8%, The Emerging Markets Index was up 58.8%, The Pacific Index was up 38.4%, The European Index was up 38.5%, The REIT Real Estate Index was up 36.7%, The High Yield Corporate Bond Fund was up 17.2%, The High Yield Tax-Free Bond Index was up 5.7%, The Short Term Bond Index was up 5.7%, and The Long Term Bond Index was up 5.9% for the year.

*Looking at the trends in the financial recovery process, I tend to gravitate back to April 4<sup>th</sup>, 2001, which is a good valuation baseline - much of the irrational exuberance had shaken out of the market, however terrorism risk and corporate corruption risk had not yet tested the market. **Since April 2001, the clear winners have been the REIT Real Estate Index, the Emerging Markets Index, and the Small Company Index. From a pure risk standpoint, the other big winner has been the High Yield Corporate Bond Index.***

*Taking a step further all the way back to the peak (but clearly overvalued) period of the financial markets, March of 2000 (almost four years ago!), the REIT Real Estate Index remarkably almost has doubled, and most of the Bond Indexes are up between 23% and*

30%. Also it's interesting to note The Small Company Index is above its peak valuation in March of 2000 as well. As noted previously, The Small Cap Index ended 2003 with a 45.7% gain, which ironically was very close to the same gain after 1991, which was the calendar year after the Gulf War of 1990. Getting in on the ground floor of some of the explosive growth in some of the newer, faster growing companies with revolutionary and exciting ideas is evident in this index. Since January 1<sup>st</sup>, 1991 this index is up over 400%. Even when things looked dismal in October of 2002, this index was up 245% from that same point in time.

**The average guaranteed taxable money market fund in 2003 returned less than ½ of 1%, which is probably the most troubling aspect of the investment world currently.** Back in 1984, you could get a guaranteed 10.1% in a guaranteed and fully liquid money market fund. In 1990, the same money market fund returned 7.7%. Even in the year 2000, a good money market fund earned 5.7%. Now we into 2004 at a projected money market fund return again of less than 1%.

Here is the troubling part of the whole risk/return equation. When investors were expecting to earn an anticipated 12%-14% return on the various stock indexes each year (and true since 1972), this was about 7% to 8% 'risk premium' above the "risk free" money market rate of about 5% or 6%, and quite reasonable at the time. Currently, the risk free rate, depending on how you define it, is much, much lower, and along with the 'risk premium' of 7% to 8% and gives us anticipated average return of about 7.5% to 9%. This, coupled with the historically high price to earnings ratio of the stock market, we are not looking at 12% returns over a long period of time, rather about 7% to 8%. ***Ironically, this goes along the same lines as what Warren Buffett has been talking about, and why he's figuring on 7% stock index returns over the next longer period of time.***

The annual rate of inflation is helping these lower returns projections, however. The government just reported a 1.9% percent increase in the inflation rate (CPI) during 2003, which was slightly less than 2.4% reported in 2002. If we can achieve an 8.5% annual return with 2% inflation over a long period of time, that nets out to be just over a 6% return above and beyond inflation, which I am very comfortable with (and what we were getting from 1972-1990). For those of you with Social Security benefits, they have announced a 2.1% increase in benefits starting immediately.

One increase that I have always had a concern with is the inflation rate of college tuition and fees (for those of you with children and grandchildren thinking about college). Last year alone, in a low inflation environment, these costs increased 9.8%, almost 8% above normal inflation. Pre-planning for these expenses is a must for every generation.

I'm sure sometimes these quarterly reporting figures, buzzwords, analysis, and re-analysis put you to sleep sometimes, but I find it important in case you like to keep informed at times, calm your thoughts, or... want to fall asleep! In any case, the financial planning, investing and reporting process are a means to an end - the means to enjoy a healthy, happy and rewarding life when it is all reflected on in the end.

*One of the toughest things of my job is when life does come to an end for the people that entrust me to help make their life a little easier, or a little more successful, or a little more rewarding. Over the past year and a half, three of our clients are no longer with us (their loved ones still are) – however all have had happy, healthy, and rewarding lives. While going through executor’s papers, one of my clients (94 years young) who had recently passed away included these words that I hope will help you, too, lead a life a little more happy, healthy, and rewarding as well.*

## ***Attitude***

***“The longer I live, the more I realize the impact of attitude on life.  
Attitude, to me, is more important than facts.***

***It is more important than the past, than education, than money, than circumstances, than failures, than successes, than what other people think or say or do. It is more important that appearance, giftedness, or skill. It will make or break a company... a church... a home.***

***The remarkable thing is we have a choice every day regarding the attitude we will embrace for that day. We cannot change our past... we cannot change the fact that people will act in a certain way. We cannot change the inevitable. The only thing we can do is play on the one string we have, and that is our attitude...***

***I am convinced that life is 10% what happens to me and 90% how I react to it. And so it is with you... we are in charge of our attitudes.”***

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

*Sincerely,*



*Les Jepsen  
Jepsen Investment Management*



*P.S. Please note my direct cell phone number of (612) 730-7750. As always, the company’s annual disclosure Form ADV is available for viewing.*