

May, 2005

Dear Investors,

We are very grateful that this past quarter marks the 10th anniversary since the idea to serve others so that they may achieve their financial goals started Jepsen Consulting. Drafting the articles of incorporation, finalizing the Securities and Exchange Commission registration, selecting Schwab Institutional and The Vanguard Group to custody the investment assets, deciding upon computers and equipment, developing the investment allocation and analysis software templates, and drafting investment policy and procedures were a big part of the time requirement the first few months. In addition, the first two years was also additionally consumed by M.B.A. degree coursework.

For nostalgia purposes I recently looked deep in my record archives to my first client account statements and discovered my very first client back in 1995 was my youngest brother Ken, at the time also earning his degree in pharmacy. We talked at length and set some initial financial goals and a plan of action... an asset allocation, a statement of financial position, a statement of cash flows, Schwab account applications and an initial sum of investment followed (quite impressive for a 20 year old college student). I'm pleased to report that he just established another new ladder of detailed written goals the past few days and he is doing very well in his personal and financial endeavors with us. It was interesting back then to plan 10, 20, 30 and 60 years in the future to the years 2005, 2015, 2025 and 2055... the actualizations are clearer than ever as we pass the 10 year milestone.

In my last communication with you I talked about the importance of choosing to define your goals – if you currently have written personal and financial goals... congratulations! You are part of less than 3% of the total population in our country has a list of clearly defined goals (most have their goals in writing). It's exciting to note that the financial successes of the 3% of active and committed goal setters outweigh the other 97% combined. This has been documented via research as far back as 1940. And these are only the financial successes. It's never too late for anyone to decide to begin setting definitive, written personal & financial goals and then taking the extra step of affirming those goals on a daily or at least a weekly basis. Remember that your goals should be S.M.A.R.T... specific, measurable, agreeable, realistic, and timed.

Most investors in the world without goals and a plan of action (nearly everyone) look at the short-term performance history or report of an individual stock or mutual fund, and decide to invest based on past performance alone. Note that there is not a goal related to this action – one would be actually trying to jump onto an already-achieved goal of another investor. The vast majority of the time this type of investor becomes frustrated and then simultaneously re-makes the same mistake with another stock or fund only to incur the same result. 95% of the population

of all investors in America fails to have a positive investment return over any given 10 year period. I'm certain that a very small portion of these 95% have written goals.

So let's start either to take action or build on your critically important goal setting process. For a fun and extremely rewarding action, take out a pen and a large, clean sheet of paper and complete three lists. The first list to draft is a list of "**PLACES I WANT TO VISIT**". This can range from the local library or landmark to anywhere around the world you can imagine. For instance, if you have a local or distant friend or relative you haven't seen in awhile, take the time to set a written goal to see them within a certain time. Be sure to put a 'due date' by each place you wish to visit. My parents talked about going to Hawaii for as long as I can remember and they were fortunate to realize that goal on December 3rd, 2003, and all that went had a super time. Cost of travel is a bit higher today (I read that gas is \$4 to \$5 per gallon in Europe, so we are lucky); however airline prices are 5% lower than they were four years ago and may never be lower.

The next list to work on is "**THINGS I WANT TO DO**". Some items on your list might be a bit similar to your first list, most will be completely different. Write quickly and brainstorm as much as possible for at least 5 minutes (you can always go back and edit later). The list could be things you want to do for yourself or things you want to do with others or things you want to do for others. Your best ideas and goals tend to happen right near the end of your five minutes when it seems like nothing is coming to mind, so keep thinking and writing.

The last list is "**THINGS I WANT TO ACQUIRE**". This at first thought might seem to be a bit materialistic in nature, however think positive and start writing and listing quickly for at least five minutes. If you are in the 'non-acquiring' mindset like many of us are, the written list you end up having in front of you might be very interesting, as you might find you want to acquire a special used book from the past that motivated you, a new skill or pastime, interesting new friends or most things that money cannot buy. Acquiring a library card or gym membership or walking group list is inexpensive - the rewards are incalculable. Think of cost vs. reward.

Once you have these three initial lists (take your time), keep it on your desk for a day or two, coming back to it periodically to edit or add to your three lists. Then re-write or re-type your lists and put it on your bathroom mirror, fridge, desk or other conspicuous place to review and take action on your list on a daily basis – **putting the list away is of no value**. If you'd like to fax, mail or email a copy of a portion or all of your new lists directly to me that would be super as it will additionally help to understand you and your goals even better (it will also help yourself to understand you better). If you want to cut out pictures from magazines or newspapers or draw or describe your lists that's even better. Again, sharing your ideas with select others solidify your actions – don't be hesitant. **Remember you become what you think about most of the time!**

Let's now think about past investment returns. Over the past 10 years, the returns of the various investment indexes we report to you have had positive returns between 63% (The Emerging Markets Index) and 230% (The REIT Investment Real Estate Index). That means a \$10,000 block of investment money fully invested with no redemption was now worth between \$16,300 and \$29,700. The only major index that has struggled has been the Pacific Index, which has returned -9% during that 10 year period. The Large Company Index was up 160%, The High Yield

Corporate Bond Index was up 109%, The High Yield Tax-Free Bond Index was up 93%, The International Index was up 81%, the Short Term Bond Index was up 75%, The Long Term Bond Index was up over 75%, the NASDAQ was up 187% and The Small Company Index was up 197%.

What is additionally interesting is that the historical market downturn not seen since the Great Depression is included in the above 10-year returns period (the downturn being between March 23rd, 2000 and March 12th, 2003, a period of three years). During the course of this 10-year period, there have been numerous times one may look at the performance of each of the investment indexes over a short period of time, depending on each individual investor's reality (most likely between one day and three years) and the vast majority of undisciplined investors may throw their hands up and try a different security, index, philosophy, approach or even take the step to keep their investment money 'under their mattress' to guarantee negative returns after 3% annual inflation. That approach is deciding to plan to fail and taking action to do so.

Here's a super example... The REIT Investment Real Estate Index from January 1st, 1997 until January 1st, 2000 had a negative 2% return. It was challenging to stay invested in that particular index as part of an overall portfolio due to the fact that the NASDAQ was up 223% and the Large Company Index was up 97% during that exact same 3-year period. From that point in January of 2000 until now, the NASDAQ is down 52%, the Large Company Index is down 15% and the 'underperforming' REIT Real Estate Index is now up 159%. That means a \$10,000 block of investment in the NASDAQ was now \$4,750 and the REIT Real Estate Index was now \$26,000. The point is the discipline and commitment to your goals, your action plan, your risk tolerance and asset allocation leads to vast success over time.

With the REIT Real Estate Index, the Emerging Markets Index and the Bond Indexes being the darlings of the past few years, the inevitable crossroads to other future performers will always occur. The key strategy is again allocation as a percentage of assets and the discipline to stay with your decisions based on your goals and risk tolerance. Currently the masses of investors might be questioning or shunning asset classes such as the International Indexes or even the Bond Indexes depending on which one-day, one-quarter, one-year or 3-year time horizon. **Doing completely the opposite of the masses is quite often the best action!**

Looking back on the past year, the S&P 500 returned 9.0% in 2004 after a 26.4% increase in 2003, the NASDAQ returned 8.6% in 2004 after a 50% increase in 2003, the Small Company Index returned 17.0% after a 45.7% increase in 2003, the International Index returned 20.3% after a 38.6% increase in 2003, the Emerging Markets Index returned 26.7% after an increase of 58.8% in 2003, the High Yield Bond Index returned 8.5% in 2004 after an increase of 17.2% in 2003, the High Yield Tax-Free Bond Index returned 4.2% after a 5.7% increase in 2003, the Long Term Bond Index returned 8.6% after a 5.9% return in 2003, the Short Term Bond Index returned 1.6% after a 3.4% return in 2003, the Pacific Index returned 18.9% in 2004 after a 38.5% increase in 2003, the European Index returned 20.9% after a 38.5% increase in 2003 and the Money Market Index returned 1.1% in 2004 after a 0.9% increase in 2003. Remember that this is before taxes and before almost 3% inflation each year, which are also guaranteed!

For the year 2005 to date The Large Company Index is down 2.0%, The Small Company Index is down 6.6%, The NASDAQ is down 6.2%, The International Index is down 2.4%, The Emerging Markets Index is up 1.7%, The Long Term Bond Index is up 0.3%, The Short Term Bond Index is up 0.1%, The High Yield Corporate Bond Index is down 4.6% and The High Yield Tax-Free Bond Index is up 0.9%. Inflation in 2005 has been very minimal (2.6% annualized) other than for energy price increases thus far in 2005, and the Fed Funds rate is 2% higher than it was less than 12 months ago, which is now at 3% (a key level that I talked about in past communications).

The key consideration now is the asset class performance going forward. The further we can look in the past, the further we can look into the future. Take a look at what I wrote above – time clearly is the key consideration. Inflation is in control save for energy costs, which I feel will stabilize. Stocks will outperform bonds and money markets over time considerably, even though money market funds have been one of the best asset classes over the past five months (the time for money markets to shine is over). Taking advantage of specific asset classes and individual securities when the ‘other 95%’ is shunning them is going to be very important in the near future. One thing is certain...making non-goal oriented decisions and short-term panic (or other negative emotion) decisions will always lead to failure over time.

*In conclusion, our Securities and Exchange Commission Form ADV documents are always available for review. We are very appreciative you decided to do business with us over the past 10 years in order to improve your financial and personal position and to achieve your goals, and looking forward to the years 2010, 2025, 2050 and beyond. **Remember that we all become what we each think about most of the time... and I see each of you as more prosperous, more secure, more healthy and more happy each and every day.***

Sincerely,



*Les Jepsen, MBA
Jepsen Consulting*

*P.S. If you have any questions on any financial topic, we look forward to your phone call or e-mail. And again, thank you for your business; it's a pleasure to serve you. **Have you started your three lists yet?** ☺*

Mailing Address:
*Jepsen Consulting
PO Box 280368
Saint Paul MN 55128-9368*

*(651) 264-1979 Office Direct Dial
(877) 553-7736 Toll Free*

Physical Address:
*Jepsen Consulting
8075 9th Street Way N
Saint Paul MN 55128-5360*

*E-Mail: Jepsen@msn.com
(612) 435-4849 Fax*

MY SUCCESS LIST

PLACES I WANT TO VISIT...

- | | |
|-----------|------------|
| <i>1.</i> | <i>7.</i> |
| <i>2.</i> | <i>8.</i> |
| <i>3.</i> | <i>9.</i> |
| <i>4.</i> | <i>10.</i> |
| <i>5.</i> | <i>11.</i> |
| <i>6.</i> | <i>12.</i> |

THINGS I WANT TO DO...

- | | |
|-----------|------------|
| <i>1.</i> | <i>7.</i> |
| <i>2.</i> | <i>8.</i> |
| <i>3.</i> | <i>9.</i> |
| <i>4.</i> | <i>10.</i> |
| <i>5.</i> | <i>11.</i> |
| <i>6.</i> | <i>12.</i> |

THINGS I WANT TO ACQUIRE...

- | | |
|-----------|------------|
| <i>1.</i> | <i>7.</i> |
| <i>2.</i> | <i>8.</i> |
| <i>3.</i> | <i>9.</i> |
| <i>4.</i> | <i>10.</i> |
| <i>5.</i> | <i>11.</i> |
| <i>6.</i> | <i>12.</i> |

We Become What We Think About!