

QUARTERLY REPORT

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THE PAUSE THAT REFRESHES

The New Year is off to a whimper not a bang. Entering the corporate “earnings season”, we are optimistic that profits generally will be strong. While geopolitical risk and higher interest rates may be giving investors pause, we do not believe that these factors will be enough to derail the economic expansion currently underway. We discuss our Outlook for the Second Quarter of 2004 in the article below.

Beyond our borders, China is a force to be reckoned with. In this issue, we highlight some interesting facts under China Perspective.

In the first of a two-part series, Dave Niebuhr has turned his attention to Gene Therapy and Inheritable Diseases. The challenges are as great as the potential rewards, but there is progress.

Finally, if you have a beloved pet, you will want to read the discussion about an often neglected aspect of estate planning.

Cordially,

Kathy Wimmer, CFA
President

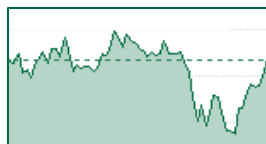


KEY FACTS FOR 2004

- Annual gift exclusion \$11,000
- Estate tax exemption \$1.5 million in 2004 and 2005
- Highest marginal estate tax rate 48% in 2004, 47% in 2005
- IRA contribution limits \$3,000 plus another \$500 for those over fifty
- 401k contribution limits \$13,000 plus another \$3,000 for those over fifty
- SEP IRA contribution limits 25% of compensation or maximum of \$41,000
- Top Federal tax rate is 35% on income over \$319,100. Highest combined effective tax rate for California residents is 41.05%

OUTLOOK FOR THE SECOND QUARTER OF 2004

After an uneventful first quarter in the stock market with the S&P 500 gaining 1.3%, we expect a resumption of the climb of 2003, albeit at a somewhat tempered pace. We attribute the weak showing in the first quarter to a perceived, but false, sense of malaise in the economy. The airwaves and newsprint have continuously cited a “jobless recovery” and a lack of corporate confidence in the consumer. The Madrid bombing and the worsening situation in Iraq have also weighed heavily on investors’ minds. Notwithstanding the dark clouds, both real and imagined, that cast a shadow over the stock market, we remain confident in the U.S. economy.



Dow Jones Industrial Average
2004 Year to Date

The April 2nd announcement of a 308,000 increase in employment was encouraging. With more U.S. workers on payroll, consumers will have additional funds for purchases which in turn encourage companies to reinvest capital to meet increased demand. This virtuous cycle of spending is a harbinger of continued strength for the stock market. With economic growth, however, come challenges from higher interest rates, increased commodity prices and a weak U.S. dollar that “imports” inflation.

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OUTLOOK FOR THE SECOND QUARTER OF 2004

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During the first week of April, the bond market erased all of its first quarter gains as improved employment and high oil and commodity prices sent a signal of future inflation into the market. As we stated last quarter, "we believe that the Federal Reserve will begin tightening monetary policy, i.e., increase short term interest rates, towards the end of

2004". Higher interest rates will have the beneficial effect of damping inflation and strengthening the value of the U.S. dollar versus other currencies.

In sum, we project improvements in the U.S. economy and stock market while bond prices continue to deteriorate as a result of rising interest rates. Higher employment, productivity gains and lower tax rates should spur consumer and corporate spending.



The demand for energy and basic commodities will remain high, putting pressure on prices. Finally, we believe corporate spending in technology will resume after its long downturn as investments made in preparation of Y2K have become antiquated and in need of replacement.

CHINA PERSPECTIVE BY ALICE WONG, CFA



Twenty five years after China opened its door to foreign businesses, it has increasingly become a significant force in shaping the global trade balance and resource allocation. In many ways, what happens in China impacts consumers and investors across the globe. With 20% of the world's population, China has grown its share of GDP from 2% in 1979 to 4% today. By comparison, the U.S. accounts for 5% of the population, but 32% of the world's GDP.

China's vast supply of cheap manufacturing labor, earning an average hourly pay of 61 cents (as compared to the \$16.14 per hour paid to U.S. manufacturing workers), has been

responsible for churning out low-cost consumer goods and has contributed to keeping the consumer price level low over the last decade.

China, on the other hand, has an inflationary effect on raw material costs. A driving factor has been the mass migration of the Chinese population from rural to urban areas. The country, with almost 1.3 billion in population, currently has about 60% of its people still living in rural areas. By 2010, 50% of China's population will likely be living in urban areas, due to better income and job prospects. As such, the country is in the midst of a huge construction boom that expands urban areas as well as building the infrastructure to connect different regions. Between the natural birth rate and migration of the population

to the cities, the annual population increase in cities is estimated to be 20 million a year. The need for raw materials such as aluminum, copper and steel to build the infrastructure helps explain the sharp increases in commodity prices since late 2001.

Although China's per capita income is still low compared to developed nations, its economic output has been increasing at 7% per year since 1995. At this rate, China's GDP will double in ten years. The country's growing middle class is a supportive factor for consumer products from motor vehicles to gold.

The road to investing in China is lined with perils. Nonetheless, we believe multinational companies that have an eye on the future will find opportunities to capitalize on these trends.

ESTATE PLANNING FOR YOUR COMPANION ANIMALS BY ANITA JONES

Many of us have beloved companion animals and want to ensure that they will be well cared for in the event of our death or incapacity. Although we cannot make companion animals beneficiaries of a retirement plan or insurance policy, we can and should



make formal provisions for them in our Wills or other legal documents. This may include instructions for their care and ownership and for the expendi-

ture of funds for these purposes. Your lawyer and financial advisor can advise you as to the best document for this purpose and what funds to designate. When you designate funds for your companion

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GENE THERAPY AND INHERITABLE DISEASES (PART 1) BY DAVE NIEBUHR, CFA

In 1989, scientists discovered that cystic fibrosis was caused by a single mutation in a single gene. This discovery created optimism that a cure for the disease would soon be found – repair the defective gene and, voila, the era of discovering cures by trial and error or accident was over. Fifteen years have passed and not only do we not have an effective treatment for cystic fibrosis but there are many more inheritable diseases for which we now know the location of the defective genes but for which we do not have a cure. Hope, however, is on the horizon. The first part of this series provides some background on genes and disease. Later, we will discuss recent clinical studies and some of the reasons for that hope.



We each have 46 chromosomes in every one of our trillions of somatic or body cells. Each chromosome is a molecule of DNA, a long, winding ladder-like structure, containing millions of rungs (or “base pairs”) each of which consists of smaller molecules abbreviated A, T, G or C. A gene is a segment of this ladder that contains thousands of these rungs and “codes” for a protein (via the ordering of the A, T, G, and C’s). Proteins are the hormones, enzymes and structural elements that keep us healthy (or, at least, alive.)

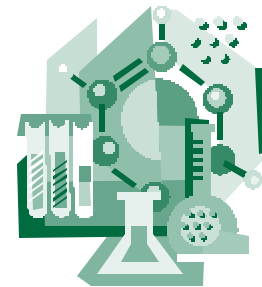
If a rung is missing or mis-coded (e.g., what should be an A is a T), the cell may not produce the proper protein when it’s needed. This mis-coding is often referred to as a ‘genetic disease’ to differentiate it



from diseases caused by the actions of outside invaders (e.g., bacteria, viruses and parasites.) There are over 3000 such diseases (hemophilia, SCID, Huntington’s, Hurler syndrome) that are caused by gene defects. Fortunately, most are rare. Collectively, however, they add up to a considerable portion of diseases, particularly among children, with estimates ranging as high as 1 per 100 live births. In addition, conditions such as cancer, heart disease and diabetes can be exacerbated by inherited genetic defects that weaken the body’s defense mechanisms.

The current approach to treating genetic diseases (unfortunately, many of them are not treatable and result in early death, usually in childhood) is to make the missing protein outside the body and deliver it when and where it’s needed. External manufacturing of the protein can be quite expensive and delivery is via sometimes painful injections. (Proteins are not viable in pill form - stomach acids rapidly degrade the molecules.) In addition, the patient’s condition has to be regularly monitored for immune reactions to the injections and to keep body chemistry in line. For the few diseases for which effective treatments are available, the costs can run as high as three or four hundred thousand dollars per year (that’s not a typo!)

Compare this approach to the one offered by gene therapy -- fix the genes in the cells in the defective organs so that they respond properly to changes in body chemistry and the disease is cured. There are no periodic injections, external monitoring of protein levels or on-going costs.



Repairing a gene is not an easy task. Getting the fix into the target cells and then getting it to turn on and off at the right time are key challenges. Early human trials began in 1990 and met with some success but a patient death in 1999 led to suspension of clinical trials.

The trials were restarted a year later but last year some clinical trials in France of a treatment for a very rare disease had to be halted because two patients developed a rare form of leukemia. These trials, however, and others have recommenced and early results are encouraging. Part two of this series will provide more detail on these early attempts and the status of some of the research currently under way.

The recent book, DNA: The Secret of Life by Nobel prize winner James Watson is an excellent introduction to genes and the entire field of molecular biology.



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We strive to optimize our clients' financial well being by coordinating investment decisions with other professionals in the fields of taxation and estate planning.

ESTATE PLANNING FOR YOUR COMPANION ANIMALS

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animals, remember that Courts will not allow excessive funds to be held for their benefit. No millionaire cats!

The Uniform Trust Code has been amended to allow trusts to be created for companion animals. The District of Columbia and more than a dozen states, including California have adopted similar language in their respective trust codes. Creating a trust during your lifetime for the benefit of your companion animals not only provides for your friends upon your demise, but also offers the advantage of providing funds immediately for their care if you become incapacitated. Moreover, assets held in such a trust generally are exempt from probate. Probate, which is the court-supervised procedure for administering an estate, can be time consuming, and could prevent funds from being made immediately avail-

able following your demise for a companion animal's care. The trust can remain in existence for the animal's lifetime, even for such long-lived companions as parrots and horses.

As an alternative to a Trust, you might consider leaving funds under your Will to one of the many species-specific rescue groups, with an understanding that this group would care for your companions. Another possibility is to leave funds under your Will to an individual with whom you have a prior arrangement to care for your pets after your demise. If possible, name more than one person willing to take the animals permanently. Be sure to give them a copy of all legal documents as well as health and care information. Keep in touch with them to be sure they continue to be willing and able to take on the responsibility of pet care.

If you do not want to go through the expense of a trust during your lifetime, you should consider giving a

power of attorney to the person you select to be responsible for the animals. This is simpler than a trust and accomplishes much the same thing during your lifetime.

In any event, pets requiring daily care may be overlooked in times of crisis. Thus, you should always make informal arrangements with family or friends for immediate care for your animals just in case you cannot provide for them. Caregivers need keys, care instructions and the name and number of your veterinarian.



For more information on a complex issue go to: www.abcny.org. Click on Reports/Publications, then select "Brochures". Scroll down and select "Providing for Your Pet in the Event of Your Death or Hospitalization".