WIMMER ASSOCIATES

QUARTERLY REPORT

VOLUME 2, ISSUE 3 JULY 2004

SUMMERTIME

We are certainly in the midst of summer —high temperatures and wildfires here in California. The stock market has been "on vacation" for the past six months and the bond market is also taking it easy after its scorching sell off from mid-March through mid-June.

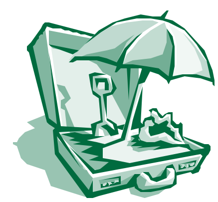
Economic news remains good and we are optimistic about prospects for investors. We discuss our outlook in more detail below.

Oil prices and concerns about shortages have been much in the news. What is not much discussed is the supply of oil. Dave Niebuhr has focused on the interplay of supply and demand in the article, "Oil, Oil Everywhere".

And just for fun, we have included some interesting "Websites for a Rainy Afternoon". Enjoy your summer.

Cordially,

Kathy Wimmer, CFA
President



OUTLOOK FOR THE THIRD QUARTER OF 2004

The U.S. economy should do well the rest of this year, benefiting from both productivity gains and increased exports due to a cheaper dollar. Gross Domestic Product (GDP) grew 3.9% in the first quarter and is projected to grow 4.4% in both the second and third quarters according to a *Wall Street Journal* survey of 55 economists.

We expect the Federal Reserve to raise short-term interest rates by its second quarter percentage point this year at the August meeting of the Open Market Committee. The Fed's interest rate increases will likely continue through the next year or until such time as inflationary pressures are deemed under control. Renewed inflation due to an improving economy is the driving force behind the Fed's decision to raise rates although "transitory factors" such as the sharp rise in oil and food prices are behind the increase in the year-over-year consumer price index, up 3.1% in June 2004 versus a year ago.

Energy costs will remain high for the immediate future, as there is limited surplus production capacity in the oil producing countries. As worldwide economic growth continues, both developed and developing countries will demand more oil. China, in particular, is believed to have accounted for nearly

Please turn to page 2

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%*

Inside this issue:

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Continued from previous page:

40% of the growth in oil demand over the last four years. With 600,000 to 800,000 new cars being put on Chinese roads each year, the appetite for oil is unlikely to abate. According to the International Energy Agency, worldwide demand for oil should rise 3.3% in 2004 but decline to a still relatively high growth rate of 2.2% in 2005.

Stock market performance is normally most heavily influenced by economic expectations, interest rate movements and corporate earnings. Economic expectations are reasonably high and the Fed has indicated that rate increases will be measured. Earnings per share for the S&P 500 companies increased 25% in the first half compared to a year ago and are expected to grow, at a more moderate pace through the remainder of the year. This augurs well for the market's prospects. However, events in Iraq, concerns about domestic terrorism and uncertainty about the outcome of the November election will impact the market. Thus, our normally clouded crystal ball is more clouded than usual, bordering on the opaque.

In conclusion, we expect the U.S. economy to continue to grow, albeit not at the record pace we've seen over the past year. High energy prices, a slowdown in the red-hot housing market, marginally higher interest rates and fear of terrorism should be more than offset by productivity gains in the economy and the continuing benefit of lower taxes on dividends and capital gains. Although the S&P 500 has climbed only 2.6 % through the end of June, we believe that sufficient fundamentals remain in place for the economy to continue expanding and for the stock market to move higher going into the November elections.

OIL, OIL EVERYWHERE BY DAVE NIEBUHR, CFA

"Although we have less than 3% of the world's proved reserves, we consume 25% of world production."

Oil is the world's major source of energy. It provides about 40% of our needs with coal and natural gas providing another 23% each. Although several recent books (*The Oil Factor, Out of Gas, The End of Oil*) express concerns about its long-term supply, we are almost drowning in the stuff. Worldwide "proved" reserves (oil believed to be economically recoverable at current prices) are estimated at 170 barrels (or 25 tons) for each of the over six billion people on this planet, almost a forty-year supply at current usage rates. Estimated reserves have actually grown over the past twenty years, although over 80% of that growth has been in the OPEC countries which, today, control 77% of proved reserves.

Unfortunately, in the U.S., we have nearly exhausted our own easily available oil (after all, we've been taking it out of the ground since 1859, longer than just about anyone else) and have grown dependent on imports to supply our needs. In 1973, during the first OPEC crisis, we imported 52% of the oil we used; last year, we imported 60%. Although we have less than 3% of the world's proved reserves, we consume 25% of world production. If we did not import any oil, we would be consuming 24% of our proved reserves each year. Canada and Mexico are our primary sources at about 16% each. Our next three suppliers, Venezuela, Saudi Arabia

Please turn to page 3

OIL, OIL EVERYWHERE

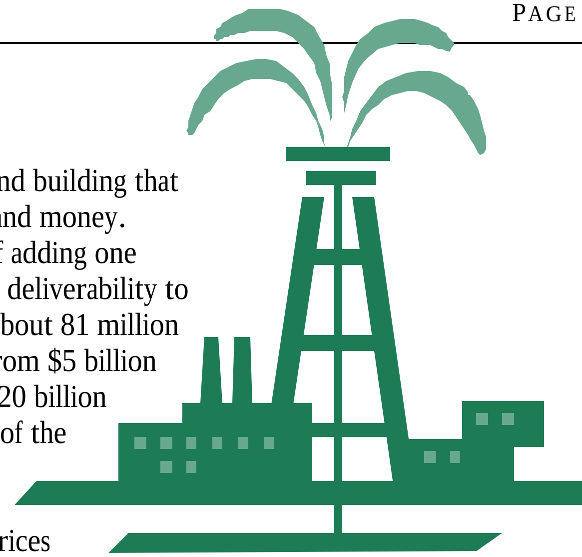
Continued from previous page:

and Nigeria, not quite paragons of political stability, are all OPEC members. Adding to our vulnerability, China, India and other rapidly growing nations are rapidly developing a thirst for oil. Although their total demand is still small, they will add considerably to the competition for new oil supplies over the next couple of decades.

The recent rapid spike in oil prices is the result of a short-term supply/demand imbalance exacerbated by worries about Iraq. Low inventories of crude oil combined with almost no spare productive capacity mean there is little slack to meet any increase in demand.

The International Energy Agency estimates that there is now only a 625,000 barrel a day spare production cushion compared to a 2.5 million barrels a day cushion as recently as May. With limited spare capacity, prices are volatile and can spike on any interruption or fear of interruption in supply.

Over time, this problem is self-limiting. As prices increase, consumption declines (we already see signs of this) and inventory levels will be built back up. Long term, however, we will continue to have a problem (or challenge, if you prefer). Although there are sufficient reserves (particularly in the Former Soviet Union) to supply our anticipated needs, getting them out of the ground and delivered to refineries will require considerable new infrastructure, namely wells and pipelines. And building that will take a lot of time and money. Estimates of the cost of adding one million barrels a day of deliverability to the world's output of about 81 million barrels per day range from $5 billion in the Middle East to $20 billion or more in other parts of the world. Given this expense and the uncertainty about oil prices (they can go down as well as up -- as recently as 1998, oil sold for $13 per barrel), companies and countries have been hesitant to add capacity. In addition, some pipeline capacity has been disrupted as a result of the conflicts in the Middle East. The result is that today the only significant excess capacity in the system is in Saudi Arabia. (Some claim that this is the goal of Saudi oil policy, i.e. to continue its historical role as a "swing producer").



Despite these obstacles and environmental concerns, oil will most likely continue to be the world's major source of energy for decades. It's easy, safe and cheap to obtain, transport and use compared to most of the alternatives. Over the long term, the price system should work: as oil prices move up and, more importantly, are expected to stay up, exploration efforts will increase, new wells will be drilled, pipelines built, refinery capacity added, consumption dampened and alternative energy sources developed. All this takes time, however, and, whether OPEC survives or not, we can expect conflict between those who have the oil and those who want it. Although the world may be awash in oil, we will have to learn to live with volatile and, probably, higher oil and gasoline prices.

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We're on the web
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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.

WEB SITES FOR A RAINY AFTERNOON

In carrying out our research/portfolio management duties, we've run across a couple of web sites that you might find interesting:

www.earthviewer.com Want to see an aerial picture of your home? Try this website. This link takes you to the web site of Keyhole, a company in northern California that has created a 3D model of the entire earth (and part of Mars, as well) that incorporates aerial and satellite pictures. For most U.S. cities, you merely type in an address, click Go and the program will 'fly' you to an overview of the house or building at the address. (Big Brother is closer than you think.) A trial version of the program can be downloaded from this site for free but your computer needs a video card. (You probably have one if your computer is less than two years old.) Use the keyhole NV version if you have an NVIDIA card or the LT version if you don't (or don't know) and click on the 'trial version' button.

"Want to see an aerial picture of your home?"

www.yourdiseaserisk.harvard.edu This site is not as entertaining as earthviewer but may be more important. The Harvard Center for Cancer Prevention has created a site that asks you a series of questions and then assesses your risk for a variety of diseases ranging from several types of cancer to heart disease to stroke. Along with the risk assessment, the site provides suggestions for lowering your risk.

www.wimmerassociates.com We invite you to visit us on the web. In addition to some useful financial links, Wimmer Associates lists several websites for the entire family to enjoy.

A note on privacy:
Anytime you enter information on the web, you run a risk. The only information earthviewer needs is your e-mail address (they ask for your name, but John Doe seems to work.) The yourdiseaserisk website claims the info you enter only exists for the time you're on the site and is wiped clean when you leave. We suspect they're being truthful but the safest assumption to make is that everything you type on your computer while on the net could appear on the front page of tomorrow's *New York Times*.

Disclosure: "Be careful about reading health books, you may die of a misprint." Mark Twain Keep that in mind as you read these articles. We obtain data from sources we believe are reliable but they should not be relied upon for making life-changing decisions.