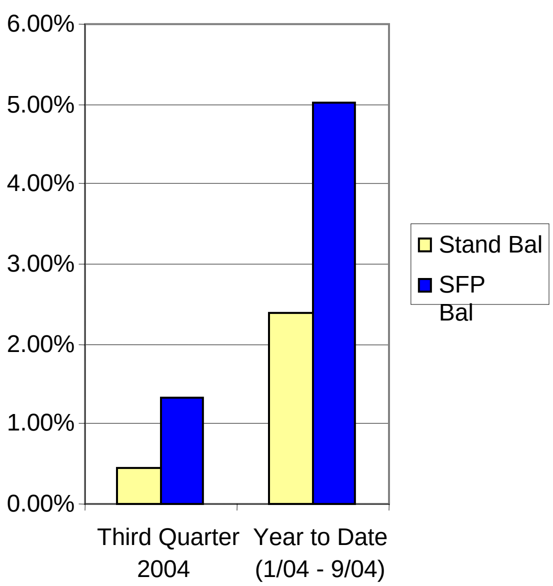
Investment Perspective

Fourth Quarter 2004

"Many receive advice, few profit by it."-- Publilius Syrus (100 BC)

SFP Core Strategies*	Quarter 3 2004	Year to Date
US S&P 500 (Enhanced)	-1.57%	1.09%
US Large Value	-0.27%	5.49%
US Micro Cap	-4.13%	2.01%
US Small Value	-2.14%	8.96%
US Equity Real Estate	8.03%	14.34%
International Large Value	0.62%	10.04%
International Small Cap	-0.48%	12.99%
International Small Value	0.31%	14.14%
Emerging Markets	8.43%	9.27%
Emerg Mkts Small Cap	9.74%	9.14%
Emerging Mkts Value	12.76%	14.72%
Ultra Short Fixed Income	0.66%	0.66%
Shrt/Inter Global Fixed Inc	2.92%	2.49%
SFP Model Portfolios		
SFP Income Portfolio	1.54%	3.98%
SFP Balanced Portfolio	1.33%	5.03%
Non SFP Std Balanced	0.46%	2.39%
SFP Aggressive Growth	0.86%	6.03%

SFP Balanced vs. Standard Balanced



Virtually all Skaggs Financial Planning, LLC (SFP) strategies produced positive returns for 2003. At the time, we pointed out that this was unusual and would not likely be repeated in 2004. Despite the odds, we can once again report to you positive returns in most areas. Every strategy that makes up our SFP portfolios generated positive results for the both the forth quarter and for calendar year 2004. Please see the chart below.

Our portfolios' performances during 2004 were especially boosted by the strong results during the forth quarter. For instance, the SFP Balanced Portfolio produced a quarterly return of 8.54 percent. This would be considered a good return for a portfolio of stocks during a one-year period. Considering this occurred in just 3 months in a portfolio comprised of only 60 percent stocks makes it even more gratifying.

One might be able to muster some dissatisfaction with the fixed-income arena. Our bond strategies produced a meager 0.88 percent and 2.90 percent respectively for the year, but after a year of gloom-and-doom predictions about interest rates and the negative impacts on bonds, we are not complaining. Besides, our conservative SFP Income Portfolio with 60 percent in bonds still produced nearly 10 percent and our SFP Aggressive Portfolio (80 percent/20 percent) returned nearly 18 percent. We feel very fortunate to have participated in the 2004 capital markets!

Our relative performance has once again been outstanding. The SFP Balanced Portfolio 2004 return of 13.99 percent compares quite nicely to the Standard Balanced return of 8.27 percent. We designed these portfolios with the intention of outperforming by a minimum of 1 percent annually over the long term. Essentially, we wanted SFP fees paid through additional returns to our clients. Over the last two years, the out-performance has far exceeded expectations by amounting to 7.55 percent per year. This has been the result of our small & value company tilts as well as international exposure. These are of course short-term results and should be viewed in that context.

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This is usually the point in which the newsletter covers information about historical returns, diversification, or some other numbers related mater we feel is important to successful investing. However, this quarter we will discuss an area of behavioral finance, investor overconfidence. Simply stated, this is when an investor believes they have information strong enough to justify a course of action when in fact they do not.

Overconfidence is quite common in the financial markets. One study, *The Courage of Misguided Convictions* by Barber and Odean, points out that over-confident investors often hurt performance by trading excessively. This is one of many symptoms of overconfidence. Consider the vast research that shows passive investing, such as index mutual funds, outperforms active investing. Yet most investors still choose active management believing they can beat the odds.

This overconfidence is not limited to investments and is really quite a common human trait. An example is how people access their own driving skills. Most individuals consider themselves above-average drivers. How many people admit that they are absent-minded drivers that follow others too close and drive excessively fast during adverse conditions? How many drivers on the road fit that description? Of course, it's not you or me. Perhaps the only place that overconfidence is more prevalent is in the casino. The fact is, the house always has an advantage. There are no strategies, betting systems, or cash management techniques that reality. However, billions are spent trying to defy the odds.

It is extremely important that when making decisions that affect our financial futures that we are aware of this tendency. Recently, I saw a commercial for a large discount brokerage firm playing on overconfidence. Their slogan, "You can do this," encouraged individuals to give up their broker and go it alone. They went on to suggest that using their research you could generate an investment idea in the time it takes to make coffee. I wish it were that easy. This is not to suggest that professionals are any less overconfident, and, in fact, they may be more overconfident. It is just a reminder to be critical of the messages and advice we receive. This is especially true of messages that suggest profits are easy, that diversification does not mater, or that there are no risks.

Do I have a feeling about where interest rates are headed, which sectors are going to well and which are in store for trouble, the direction of the U.S. dollar, or whether to favor international or US stocks? Sure. Can I come up with statistics, stories and charts to back up these beliefs? Absolutely, just as I'm sure Smart Money Magazine can for the 12 companies they claim in a headline "are growing steadily and can withstand any surprises the market has in store." The real question is: Should your lay down the $3.95 for these secrets and take the unnecessary risk by investing in these? Should we abandon the structured & disciplined approach that has worked for decades to indulge our hopes for even more? Of course, we don't think so.

Best wishes for great New Year,

Brian J. Skaggs, CFP