

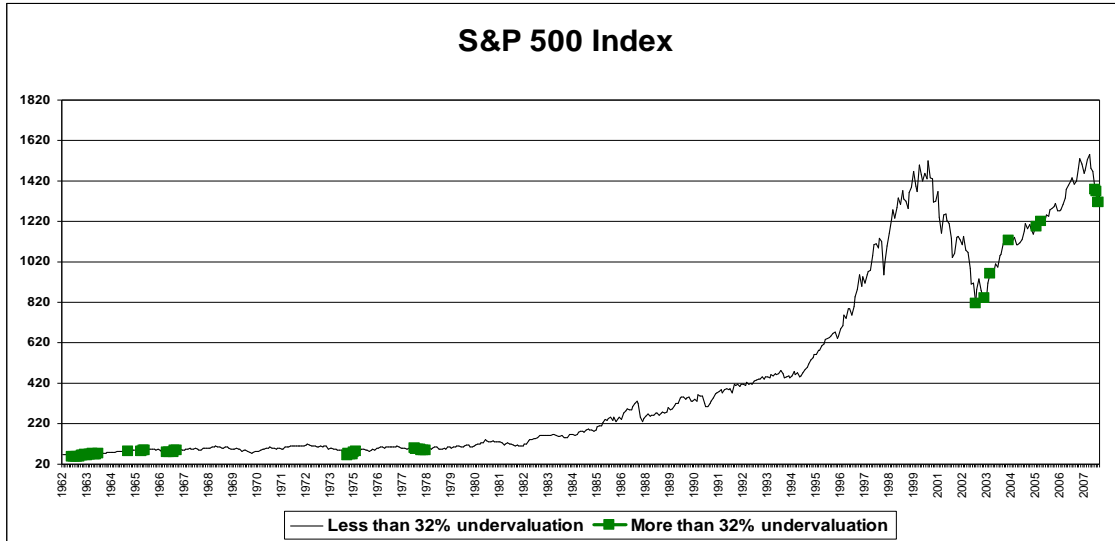


As good as it gets – III

For those of you that remember our commentaries from October, 2002 and March, 2003, you may recognize the title of this commentary. Equity prices have once again reached extreme levels of undervaluation relative to bond values.

Our Global Balanced portfolio discipline seeks long-term appreciation of capital through investment in mutual funds that invest in common stocks, bonds, or money market instruments. The allocation between stock, bond and money market funds will be adjusted periodically based on AAMA's proprietary equity market valuation process. The portfolio's exposure to the equity market will range between 40 and 80 percent of assets, depending on the relative attractiveness of equity investments. The balance of the assets will be invested in bond funds or money market funds. AAMA's equity valuation process is a quantitative, disciplined approach, requiring periodic adjustments to equity exposure as valuations and prices change.

The recent weakness of equity prices, coupled with low interest rates, and stable corporate earnings trends has developed an extreme level of valuation with stocks now 40% undervalued compared to bonds. Consequently, our asset allocation has recently been changed from 75% stocks/25% bonds to 80% stocks and 20% money market securities. Our discipline is designed to guide long term asset allocation and is currently favoring equities at the maximum level. History shows that stock valuations have been here before...in the early 1960's, near the market lows of 1974-75, 1977-78, at the low of the 2001-2002 bear market and a few times during the recent bull market. The green plots on the chart indicate the periods when stocks were at least 32% undervalued.



We are not predicting an immediate 'straight-up' market, nor are we predicting the end of the decline...just recognizing that stocks are very under-valued.

The fixed income portion of the portfolio is currently positioned in money market securities instead of long-term bonds. There are three reasons for the money market position:

- Credit spreads have increased and will not likely contract in the foreseeable future. This increases the risk of holding corporate credit exposure.
- Rates are near historical lows, and the risk/reward characteristics of the bond market favors an extremely short portfolio duration.
- There is an increasing risk of accelerating inflation that may begin to drive longer rates higher.

We will have some further updates on the economy and corporate profits after the end of the quarter. If you have any questions, please give us a call.