A REGISTERED INVESTMENT ADVISOR

July 15, 2005

Dear Clients:

While the Dow Jones Industrial Average declined 2.18% in the second quarter, the other major U.S. stock indices advanced, as illustrated in the table below:

Index	2nd Quarter	Year to Date
Dow Jones Industrial Average	-2.18%	-4.71%
Standard & Poor's 500	+0.91%	-1.70%
NASDAQ	+2.89%	-5.45%
Russell 2000	+4.00%	-1.83%
Morgan Stanley EAFE	-2.00%	-2.76%

REVIEW OF SECOND QUARTER

As you will recall from our letter last quarter, our perspective on the U.S. economic outlook was cautiously optimistic, in contrast to considerable pessimism prevailing at that time. Actual recent results have been even stronger than we had expected and consensus forecasts for the balance of 2005 and for 2006 have been increased to some extent, although prevailing estimates of economic growth continue to indicate somewhat more moderate expansion going forward.

As recently reported, actual Gross Domestic Product (GDP) growth was 3.8% in the first quarter of this year, compared with earlier estimates of 3.1% and 3.5%, reflecting a considerably higher level of activity than had been expected. Prospective GDP growth for the balance of this year and in 2006 is forecast in the 3.0% to 3.5% range. More moderate global economic growth and the effect this can have on U.S. exports can partially explain this moderation in the U.S. growth rate. The recent strengthening of the U.S. dollar, if it continues, could also have a restricting effect on exports.

The U.S. unemployment rate has declined to 5.0% and the inflation rate has remained at a relatively benign level. Strong consumer and corporate spending are continuing to stimulate growth and manufacturing activity is expanding. The ISM (Institute for Supply Management) manufacturing index was 53.8% in June, up from 51.4% in May, and was well above recent estimates of 51.5%. Any reading over 50% indicates that the manufacturing sector is expanding.

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High oil prices evidently have not had the widespread impact many had feared, either at the corporate or the consumer level; the airline industry being a high profile exception. One principal reason is that, on an inflation-adjusted basis, oil prices are far below the peak price in 1981, which would be over $80 per barrel in current dollars. To have a material impact on GDP, prices would have to spike up sharply and remain at a higher level for an extended duration.

Another current issue is the trade deficit, which has increased in 11 of the past 13 years and has grown larger in most of the last 25 years. This has been fueled by strong domestic demand for foreign goods such as automobiles, apparel and oil. The trade deficit presently is about 6% of real GDP, representing a substantial portion of domestic demand lost to foreign suppliers. If a major portion could be brought back into the U.S. economy, it would add substantially to GDP. However, there would be a considerable cost - upward pressure on inflation and interest rates. This observation is not meant to be predictive, but rather intended to provide some perspective on this issue.

The expected moderate rate of economic growth through 2006 should help avoid the possibility of stronger inflation. Further increases in short term interest rates appear probable through the balance of 2005, but there is currently no apparent upward pressure on long term rates and this situation may well continue. Operating earnings of the S&P 500 companies are likely to advance in the 7% to 8% range this year, a slowdown from 2004, reflecting the expensing of stock options, decelerating GDP growth and relative comparison to a strong prior year. However, corporate balance sheets are strong with rising cash positions, and many companies will use excess cash for dividend increases and stock repurchases.

OUTLOOK

We consider this a favorable environment for equities and remain confident that our clients' portfolios are well positioned and have the potential to perform well. The combination of above average growth, predictability and relatively low valuations has historically been rewarding for disciplined investors.

We have continued to increase our overall exposure to healthcare, an industry sector which we believe offers exceptionally bright prospects and minimal exposure to economic cyclicality. The additions of Genentech, Novartis and Johnson & Johnson to our existing holdings in Amgen, Medtronic and Pfizer represent a strong participation in the industry. The recent purchase of Stericycle, briefly described below, is closely related to this industry. Although we have categorized it as an industrial company, its business of collecting and processing medical waste closely identifies it with healthcare.

NEW PURCHASES IN SECOND QUARTER

Stericycle, Inc. (SRCL)

Founded in 1989, Stericycle is the largest regulated medical-waste company in North America. In addition to collecting, transporting, and treating medical waste, the firm also offers consulting services that help its customers comply with regulatory standards. The company's two principal groups of customers include approximately 310,000 small medical waste generators, such as outpatient clinics, medical and dental offices, as well as long-term and sub-acute care facilities; and approximately 7,500 large medical waste generators, such as hospitals, blood banks, and pharmaceutical manufacturers. Stericycle is the only participant with a national footprint in the approximately $3.0 billion market with a 22% market share. With a vertically integrated network, not only is Stericycle a low-cost producer, but the scale cannot be easily replicated by other firms.

Sysco Corp. (SYY)

Sysco, twice the size of its nearest competitor, is the largest distributor of foodservice products in North America and accounts for 14% of the nearly $200 billion market. The company serves more than 400,000 customers including restaurants, hotels, schools, hospitals, retirement homes and other locations where meals are prepared away from home. Constant change in dietary habits and the increasing trend towards dining out greatly benefit the foodservice supply business play into Sysco's strength.

UPDATE FROM OUR FIXED-INCOME DEPARTMENT

Long term interest rates have remained lower than expected for a number of reasons. First, the market presumes that inflation will be benign near term. The Federal Reserve has been very competent over the past 20 years keeping inflation in check and the bond market apparently expects this to continue. Second, certain emerging economies, such as China, are running trade surpluses in contrast to our deficits and need a place to invest. Since the United States offers attractive interest rates relative to other developed countries, their purchase of our government securities keeps yields low. Lastly, pension fund liabilities of many corporations have longer durations than their pension fund assets. Note however, there is new legislation currently being debated in Congress that would require corporations to add long term assets to better match the durations of their pension assets and liabilities. Not surprisingly, the bond market already has anticipated this potential increase in future demand.

Our current fixed income strategy is to continue to maintain durations shorter than the benchmark (2-1/2 vs. 4 years), while staying fully invested. The yield curve on U.S. Treasuries has continued to flatten, with 2-year yields declining to 3.64%; 5 year yields to 3.70%; 10 year yields to 3.92%; and 30 year yields to 4.19%. Consequently, there is not very much term premium for investing in long duration income securities.

Following are three broad indices that are representative of our fixed income securities:

Index	**2nd Quarter**	**Year to Date**
Merrill Lynch Domestic Corporate/Government/ Mortgage Bond Index	+3.11%	+2.66%
Merrill Lynch Preferred Stock Index	+2.62%	+0.15%
Merrill Lynch Convertible Security Index	+0.95%	-4.37%

We are always available to discuss your portfolio and hope you have an enjoyable summer.

Sincerely,

Richard M. Brown, CFA
Chief Investment Strategist