CYPRESS
ASSET MANAGEMENT, INC.

MARKET OVERVIEW **January, 2004**

A strong global economic recovery is well underway and should make 2004 a good year for stocks. U.S. corporate profits have now recovered to levels that are above the previous peak set in the year 2000, and led by a resurgence in capital spending we look for corporate earnings to increase by another 12-15% in 2004. The quality of current earnings is also considerably higher than we saw in the last business cycle. In terms of value, the equity market may not be cheap, but we find its valuation reasonable at roughly 17.5 times 2004 consensus earnings. Even after rising 26% in 2003, the S&P 500 Index remains almost 30% below its March 2000 high of 1550. The market is also supported by the strongest fundamentals we have seen in some time: a powerful global economic recovery, low inflation and low interest rates, productivity gains and improving profit margins in most industries, strong growth and high quality earnings. Thus while the market is unlikely to rise faster than earnings as it did in 2003, we could see stocks move in line with underlying earnings growth in 2004.

We believe that high quality, dividend paying stocks remain undervalued in the current market. With dividends taxed at only 15% (a historic low), companies that pay a good dividend and are fundamentally capable of increasing that dividend over time are particularly attractive. While last year was an outstanding year for stocks in general, it was an even better year for "lower quality" stocks that particularly benefited from the financial relief of economic recovery. Stocks rated B or C by the S&P stock rating system (a financial quality measure) outperformed the S&P 500 Index by a considerable margin. Stocks rated B+ to A+, while providing a solid total return in excess of 20%, averaged almost 5% below the total S&P 500 return. We look for this trend to gradually reverse in 2004, with high quality, dividend paying large cap stocks leading the market as we get further into the economic recovery and the pace of growth moderates to more sustainable levels.

Attached for your review is our Market Balance Sheet, which summarizes our current outlook for the equity market. Significant risks are present such as the budget and trade deficits, and the potential for a return of inflation and higher rates, but they are widely recognized and discussed in the media. On balance, however, the positives outweigh the negatives and we continue to focus on the fundamentals which we believe drive superior stock performance over the long term. Your portfolios represent a diversified and high quality platform for future growth. As we begin a new year we are thankful for your business and will continue to work hard to build and preserve your long term wealth.

Market Balance Sheet

POSITIVE	NEUTRAL	NEGATIVE
Interest Rates	Inflation	Budget Surplus/Deficit
Economic Growth/Industrial Production	Liquidity (Monetary Growth)	Employment
Fiscal Policy	Dollar	
Economic Growth/Consumer Spending		Energy Prices
Profit Growth/Margins	Free Trade/Protectionism	
Productivity	Valuation	
Demographics		Geopolitical Stability

POSITIVE

Interest Rates	At historical lows, very favorable to equity valuations; while rates are likely to rise later in 2004 we see a gradualist, accommodative approach by the Fed
Economic Growth	Robust 8.2% growth in the 3Q (fastest in 20 years), should remain above 4% for the next few quarters ➢ We see the economic growth driver shifting from the consumer to capital spending and industrial production over the next year
Fiscal Policy	Taxes on dividends and capital gains at lowest levels in over 60 years
Productivity	Continues to drive profit growth and keep the U.S. economy the most competitive in the world
Demographics	Baby boomers in the sweet spot of wealth and investing cycle

NEUTRAL

Inflation	Remains low but seeing significant increase in industrial commodities and materials – worth monitoring
Dollar	The trend is still lower, but a weak dollar helps U.S. multinationals; should start to see improving trade balance by mid year; would worry if we see further significant declines from here
Liquidity (Monetary Growth)	Has slowed but probably reflects a shift in assets from cash to equities; would like to see a return to levels around nominal GDP
Free Trade/ Protectionism	Muddled state of affairs; a more concerted free trade policy out of both U.S. and Europe would be positive for global growth
Valuation	Reasonable at 17.5 times estimated 2004 S&P 500 operating earnings, leaves some cushion for a moderate rise in rates

NEGATIVE

Budget Deficit	A concern at 4% of GDP, would like to see more spending restraint in 2004
Employment	Finally starting to turn up, classic lagging economic indicator
Energy Prices	Oil and Gas prices remain stubbornly high, acting as a drag on the global economy (also hurting our trade deficit)
Geopolitical Stability	World remains a dangerous place, and terrorism threat will be with us for some time; reconstruction of Iraq is challenging and costly but we may see progress in 2004