C Y P R E S S

ASSET MANAGEMENT, INC.

MARKET COMMENTARY

October, 2004

While stocks continued to struggle in the 3rd quarter, with the S&P 500 declining 2.3% and the NASDAQ down 7.4%, our Market Balance Sheet actually strengthened in the quarter. Reflecting strong underlying economic fundamentals, employment has moved from negative to neutral territory, and stock valuations have turned positive given a combination of lower equity prices and significantly higher earnings. Moreover, despite higher oil prices, inflation remains relatively subdued and the reduced inflationary outlook has temporarily removed the fear of a significant rise in interest rates over the next 24 months. With resolution in the Presidential election approaching, we continue to believe the ingredients are in place for a 4th quarter market rally and for continued strong global economic growth through 2005.

Market Balance Sheet

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

POSITIVE

Interest Rates — Still historically low and very favorable to equity valuations; while the Fed Funds rate is likely to modestly rise from the current 1.75% over the next year, we still see an accommodative Fed. A gradual rise in rates is actually a positive signal confirming an ongoing economic expansion.

Economic Growth — Should remain in a healthy 3-4% range for the next few quarters.

- Business Confidence and Profits are surging, providing the foundation for the next stage of the recovery: increased business investment and higher employment; and, for shareholders, a period of rapid dividend growth and share repurchase.
- We see the economic growth driver shifting from the consumer to capital spending and industrial production, and toward innovation, small business, and more entrepreneurial activity.

Fiscal Policy — Taxes on dividends and capital gains at lowest levels in over 60 years, not in jeopardy of change prior to 2009 unless we have a change in control of Congress.

Productivity — Continues to drive profit growth and keep the U.S. economy the most competitive in the world; will moderate somewhat as economic expansion lengthens and employment picks up.

Demographics — Baby boomers in the sweet spot of wealth and investing cycle, hungry for growth and income.

Valuation — Reasonable at 16 times estimated 2005 S&P 500 operating earnings, leaves some cushion for a continued moderate rise in rates. Moreover, stocks are significantly cheaper than bonds, where the bellwether 10 year treasury currently yields only 4.15%, and is thus valued at roughly 24 times "earnings" (its coupon).

NEUTRAL

Inflation — Remains low but over the last year we have seen significant increases in the price of global commodities and industrial materials – worth monitoring.

Dollar — The dollar has stabilized during 2004 after a decline of some 20% during 2002-2003. The weaker dollar helps U.S. multinationals, and we should start to see improving trade balances over the next 18 months. We look for the dollar to remain around current levels, supported by higher interest rates.

Liquidity (Monetary Growth) — Money growth has recently accelerated and is back above levels of 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; "outsourcing" issue a political red herring (remember the U.S. economy is the primary beneficiary of global growth).

Employment — Thirteen consecutive months of job growth reflect a steadily improving employment picture, and the 5.4% overall unemployment rate is relatively low by historical standards. Still, employment growth has been less robust than in typical recoveries and continues to stubbornly lag the economy.

NEGATIVE

Budget Deficit — A concern at 4% of GDP, would like to see more spending restraint in 2004-2005. Bigger issue is the persistent growth of medical care costs and the long term liability of retirement in our aging society.

Energy Prices — Oil and gas prices continue to rise, with oil hitting an all time high above $50. While this does act as a drag on the global economy, on an inflation adjusted basis, oil prices are well below the peaks seen in 1980 and 1990. We continue to find the sector attractive from an investment standpoint.

Geopolitical Stability — Reconstruction of Iraq is proving challenging and costly; terrorism threat will be with us for some time.