CYPRESS

ASSET MANAGEMENT, INC.

MARKET COMMENTARY **April, 2004**

As you can see from the updated Market Balance Sheet, our outlook remains positive and has not materially changed over the past three months – indeed the market itself did not change a lot in the first quarter. On the positive side, both the U.S. and world economy have fundamentally strengthened year to date, suggesting both a durable economic expansion and continued earnings growth. On the other hand, geopolitical risks have increased, restraining stock prices even as the economic and profit picture has brightened. The Madrid bombing and the increasing violence and instability in Iraq have shaken confidence and kept a lid on stock prices. Unfortunately, the global terror threat is never far way and will be with us for some time to come. That said, geopolitical risk is something we cannot control and we should all realize that the world is a dangerous place. To some extent these fears are reflected or "discounted" in the market; but common sense tells us the market will not move sustainably higher until some progress is made in Iraq's reconstruction and the geopolitical picture improves. Difficult times, yet there is no reason to believe our nation will not come through the current crisis in Iraq, as we have come through many formidable global challenges in the past.

In contrast, the economic news has been very encouraging. The March employment report, with an increase of over 300,000 in payroll employment, may have marked a turning point in job growth, and strengthens the case for a durable expansion. In a presidential election year there is a tendency in the media to view the economic glass as half empty, but we believe it may become increasingly difficult to underestimate the vigor and sustainability of the current economic recovery. We would cite the following key points underlying the case for continuing economic strength:

Global Economic Growth

U.S. growth is aided by a strong global economy. India and China are both growing at 10% and their economies are now large enough to have a meaningful impact on global growth. China's middle class is reported to be about 250 million today and growing rapidly. Assuming its economy remains healthy, and its middle class continues to grow by 1% per year, China's middle class would reach 500 million in less than 20 years. Also of note, the Japanese economy grew at an annualized rate of 7% in the fourth quarter 2003, the fastest single quarter growth rate in Japan since 1990.

Early in New U.S. Business Cycle

Corporate profits continue to strengthen. Consensus expectations for S&P 500 2004 operating earnings have moved up some 10% in the last six months and are now forecast to increase 15% for the year. The surge in corporate profits should lead to further growth in business capital spending this year and to more jobs. Of note, the Conference Board Business Confidence index hit a 20 year high in March – again boding positively for both capital spending and employment. All this supports the view that we are likely in the early stages of a new business cycle, with increasing spending and job growth set to follow.

Increased Corporate Cash Flows Benefiting Shareholders

The corporate profits and liquidity picture is also very positive for equities. In the last 3 years, U.S. non-financial corporations have moved from a significant "funding gap" (i.e. capital spending in excess of corporate cash flow) of almost $350 billion to a cash surplus of about $75 billion, a huge liquidity swing to positive free cash flow. This dramatic improvement in the financial condition of U.S. companies is good news for investors. We should increasingly see companies returning free cash to shareholders in the form of higher dividends and share buy backs. While dividends for the S&P 500 increased at a high teens rate in the first quarter, the payout ratio remains at historically low levels, and in fact actually declined. This suggests that there is still plenty of room for companies to boost their payouts. We believe high quality growth and income stocks should perform well in the current environment and through the balance of the current economic expansion.

Summary

While stocks essentially held their ground in the first quarter – a reasonable consolidation period after last years big gains – 2004 could still be a good year for stocks. The current market valuation is reasonable at about 17.5 times 2004 consensus earnings, which are forecast to increase by another 12-15% this year. In sum, the best case for equities would be to see gains in line with underlying earnings growth in 2004.

Market Balance Sheet

POSITIVE	NEUTRAL	NEGATIVE
Interest Rates	Inflation	
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	
Productivity	Valuation	
Demographics		Employment

POSITIVE

Interest Rates — At historical lows, very favorable to equity valuations; while rates are likely to rise later this year we still see a gradualist, accommodative approach by the Fed. Modest rise in rates would actually be a positive sign confirming an ongoing economic expansion.

Economic Growth — Should remain above 4% 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.

NEUTRAL

Inflation	Remains low but seeing significant increase in industrial commodities and materials – worth monitoring.
Dollar	The dollar has stabilized during 1Q 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 in the second half. We look for the dollar to remain around current levels, supported by higher interest rates.
Liquidity (Monetary Growth)	Money growth 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).
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 2004-2005. Bigger issue is the long term liability for medical care and retirement.
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); we do 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.