

Your Questions Answered

On February 7th we held our annual client dinner at the Crowne Plaza Cabana Hotel in Palo Alto. The event, attended by over 120 guests of LMC, was a great success. We had a wonderful dinner which was followed by brief presentations from Lehrer Management personnel. After the presentations we held a lively question and answer session. For those that were unable to attend the dinner, we wanted to share some of the questions and responses in this newsletter.

It is also our hope that we can continue to answer questions in upcoming newsletters. If you have a question that you would like answered by LMC we encourage you to call or email us at lmcinfo@lehrermanagement.com.

Will there ever be a 10% municipal bond again?

Many of you may remember when California Municipal bonds were yielding over 10%. Compare that to a few years ago when yields were as low as 4% and to today where we are targeting bonds with a yield of around 4.5%.

So will we ever see another 10% municipal bond? The easy answer to the question is, yes, there is a good chance that at some point we will. However, it is almost impossible to know when this will occur because it is extremely difficult to know where

interest rates will go in the long term. It is not just a matter of whether or not the Fed will continue to raise rates, because bond yields are also affected by many other factors such as supply and demand or current income tax rates.

Our goal is to give clients the tax-free income they need from bonds, put them in a position to take advantage if yields were to increase and also protect them in case yields decrease. In today's interest rate environment we do this by making minimum commitments to long term bonds and place an emphasis on short to intermediate term bonds. We also look to spread out the purchasing of the bonds. This allows clients to take advantage of any potential increases in yields over the short term.

The purchase of individual bonds versus mutual funds is imperative today due to the changing interest rate environment. When you own the individual security, and the bond matures as scheduled, you truly have a fixed income. Also, when the bond fully matures it will typically be redeemed at par (100% of its original offering price) or more. In contrast, if a bond fund is purchased, the amount of payment fluctuates depending on what is held in the fund and as interest rates rise the price of the fund is likely to decline so you may not receive your original investment back when you sell.

As the interest rate environment changes we will modify our strategy. So today



we may be purchasing mostly shorter term bonds, but 5 years from now we could be purchasing much longer term bonds.

Does LMC invest in international stocks?

Generally, we do not invest in stocks that are not listed on an U.S. exchange. When a company is listed on an U.S. Exchange (NYSE, NASDAQ, etc.) it has to meet and follow SEC requirements. This includes, making information public, filing quarterly and annual reports, and following GAAP (Generally Accepted Accounting Principals). This usually provides the reliable basis we need in order to make informed investment decisions.

On the other hand, each foreign exchange is different and each exchange can have their own rules and reporting requirements for listed companies. This can create great risk in that we may not know all the information needed to make an informed decision. For example, if their accounting standards differ from the U.S. it can be difficult to ascertain their financial condition. Other risks associated with foreign markets can include currency risk, government risk, inflation risk, etc.

The way we obtain international exposure for clients is to invest in stocks traded on U.S. exchanges that have international operations and/or compete in international markets. A great example of this is Coca-Cola. Coca-Cola, listed on the NYSE under KO, operates in 200 countries and in 2004, business outside of North America accounted for 70% of net sales and 76% of operating profits. Coke continues to expand into emerging markets such as China, Russia, South Africa and the Middle East. Here you have a U.S. based company with the majority of its revenues and profits coming from

international markets.

Due to Coke being listed on the NYSE its accounting procedures follow GAAP, they provide quarterly and annual reports, and release information according to the rules of the SEC. Also, we have an understanding of how the company operates in the U.S. and we feel confident that management has the knowledge and resources to translate the success they have had in the U.S. to foreign markets.

We will also invest in international companies that our listed on our exchanges through ADRs (American Depository Receipt). Nokia and Taiwan Semiconductor are good examples of international companies we have purchased because they offer ADRs. By offering an ADR these companies are required to follow the rules of the U.S. exchange they are listed on, meaning they must abide by the rules of the SEC just like any U.S. company. Again, this gives us a familiar base from which to evaluate the company.

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