Investment Professionals

Tim Medley
President, Client Advisor; Founded Medley & Brown 1988; Among Worth magazine's 250 Best Financial Advisors in America 1998 - 2002 and Medical Economics magazine's 150 Best Financial Advisors for Doctors; First Certified Financial Planner in MS 1977; BS Business and Accounting University of Southern Mississippi.

Cecil Brown
Vice President, Client Advisor; Joined Medley & Brown 1995; Previously with Investek Capital Management; Chief Fiscal Officer State of Mississippi 1988 - 1992; Founder Tann, Brown & Russ, CPAs; Member AICPA and MSCPA; Personal Financial Specialist (PFS); MPA The University of Texas; BA University of Mississippi.

Kevin Anthony
Client Advisor; Joined Medley & Brown January 2001; Former Vice President of Finance and Chief Financial Officer Atlanta Falcons; MBA Finance and Management Emory Business School; Woodruff Scholar Emory University; BA Economics and Psychology University of North Carolina at Chapel Hill; Phi Beta Kappa.

Julius Ridgway, CFA
Portfolio Manager; Joined Medley & Brown July 2002; Investment advisor/portfolio manager since 1999; Trustmark National Bank 1989 - 1997; Member CFA Society of Mississippi; M.Sc. Accounting and Finance London School of Economics; MBA Millsaps College; BA University of Mississippi.

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MEDLEY & BROWN
Composite Performance*

Average Annual Time-Weighted Returns (%)
Period Ending February 28, 2005

	Balanced Accounts	Growth Accounts
5 Years	6.42 %	6.02 %
10 Years	9.60 %	10.40 %

**All client portfolios invested primarily in mutual funds with a combined allocation of less than 18% in cash and bonds are included in the Growth Composite. All client portfolios invested primarily in mutual funds with a combined allocation of 18% or more in cash and bonds are included in the Balanced Composite. Performance is net of management fees and reflects the average time-weighted return for all portfolios included in our Growth or Balanced Composite. Performance data includes reinvestment of dividends and capital gains distributions and changes in principal value. The larger a portfolio is in relation to others in the composite, the more weight its performance will have in the composite's time-weighted return. For several reasons including, but not limited to, asset allocation and investment choices, the performance of individual portfolios in the composite may vary significantly with some higher and some lower than the average. An analysis of variance is available upon request. Past performance may not be indicative of future results. Investment returns and values of client accounts fluctuate such that at any time an account's value may be worth more or less than the total payments into the account. Because accounts contain both US and international securities, results will depend on both management performance and underlying market and economic conditions throughout the world.*

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Spring 2005 Investment News

A San Francisco Treat

If you were to appear on the *Family Feud* game show and were asked to name something to see in San Francisco, the survey might say…the Golden Gate Bridge. Ask that same question to a seasoned investor, and the response might be something several years older and perhaps just as magnificent in its own right…Dodge & Cox. What? That's right. Van Duyn Dodge and E. Morris Cox established their investment management firm in San Francisco in 1930 (seven years before The Bridge opened), and since then their shop has grown into arguably one of the world's very finest. Given the impressiveness and history of the firm, it seems appropriate that it has chosen to use an image of the Golden Gate on its website.

Tim, Cecil, Kevin and Julius recently made a due diligence trip to San Francisco and were fortunate to have a meeting scheduled at Dodge & Cox. Apparently, that is no simple feat. In an earlier meeting at the headquarters of Charles Schwab, one representative queried, "How'd you arrange a meeting with Dodge & Cox? They don't do much of that." We have always found them to be very accommodating. Following is a recap of our most recent meeting with the firm.

In a building two blocks from where Messrs. Dodge and Cox began 75 years ago, in a 40th floor conference room (looking out over The Bridge, of course), we met with Vice President Mary Ann Milias, a graduate of Stanford, Columbia and the Harvard Business School and a shareholder of the firm. (Not to diminish her pedigree, but her high-powered educational credentials are only *ordinary* among the many, many Stanford and Harvard graduates in the office!) As Milias described for us the current happenings and thinking at the firm, we found her to be very impressive and knowledgeable. Her success in the investment business obviously runs in the family, as she revealed that her brother, Mitch Milias, is Vice Chairman and Co-Founder of PRIMECAP Management Company, subadvisor to the Vanguard Capital Opportunity and PRIMECAP funds. As an aside, even if she wanted to, Ms. Milias could not lure her talented brother to Dodge & Cox because a nepotism policy prevents relatives from working at the firm.

Key Characteristics of the Organization

During the course of our conversation, several characteristics about Dodge & Cox bubbled repeatedly to the top. First, the firm is proud of its independence, and according to Milias, it is responsible for much of the success over the years. There is a feeling among firm members that independence allows them to make decisions exclusively for the benefit of clients. At Medley & Brown, we understand and agree with how they feel. Currently, Dodge & Cox is owned by 48 shareholders, all of whom are among its 142 active employees.

A second trait is that the firm employs conservative principles and maintains a long-term investment horizon. President and Chief Investment Officer John Gunn, whom Milias described as "a brilliant strategic thinker who has no hubris," has said, "In its most basic sense, our job is to preserve and enhance the future purchasing power of clients' wealth over the long term." One question that they repeatedly ask themselves is "How would we invest an all-cash portfolio if we couldn't trade for three to five years?" Milias added, "Risk assessment for us is based on capital preservation, and risk means the chance for a permanent loss of capital." We like the way they think!

Third, original research is at the heart of what they do. They like to say, "Research is our common language." Everyone involved in the investment process functions as a research analyst. Their process involves idea generation and due diligence by global industry analysts and investment decision-making by an investment policy committee. Milias explained, "Everything here is based on a written research report." Analysts orally present their reports to the committee, which was characterized as "the jury that hears the advocates."

And finally, the organization possesses a team-oriented culture, one that Milias described as "the most collegial environment" she's seen. Chairman and CEO Harry Hagey has said, "Ours is a group process with individual responsibility." In explaining that the exact same team works on the domestic and international stock funds, Milias commented, "We all think about stocks the same way."

Milias's Current Observations about…

…the Stock Fund: "The price-to-sales ratio of the stock market is currently 1.4. The ratio for the Stock Fund is 0.9. Those compare to a 50-year historical average of 0.9 for the market. Technology stocks are currently at 6.0."

Photo by Kevin Anthony

…the International Fund: "We're not having difficulty investing cash flows in the International Fund. We are finding value in advanced emerging markets where there are property rights, corporate governance and where we can determine for whose benefit a company is being run."

…the Income Fund: "We have never been as bearish about bonds as we are now. We have shortened the duration of the portfolio in a defensive move and as a result have recently lagged the index, but we don't mind sucking a little wind right now. Our worry is that you're not being paid enough for the risk [of longer maturities]."

…expected future returns: "We don't think that international returns will be as good going forward as they have been recently. We see 8-10% expected returns on international stocks and 4-6% on domestic stocks. We think we'll do 1.5-2% better at Dodge & Cox. We expect 2-3% on bonds and less on cash."

We should remind you that Dodge & Cox thinks in terms of the long-term, and it is in that context that we accept Milias's projections. We further point out that in the most recent annual report of the Stock Fund, Hagey and Gunn warn that forecasting is difficult, and they caution, "Looking out over a three-to-five year period, we continue to believe that returns from the broad equity market will be modest and could be punctuated by some unpleasant negative contractions." However, in the International Fund report, Hagey encourages investors to "look beyond short-term price swings, and take a long-term view…" We think that is sage advice.

Manager of the Year

We were not surprised when Morningstar, the respected mutual fund rating agency, recently named Dodge & Cox as its 2004 International Stock Manager of the Year. Russ Kinnel, Morningstar's director of mutual fund research, praised Dodge & Cox for having expertise "in spades" and a strong corporate culture that "you can't improve much on." He went on to say, "Dodge simply does fundamental investing well."

This year's announcement from Morningstar prompted us to research our firm's experience with previous years' winners. Although many of the mutual funds in which we have invested have never won Morningstar's award, we can report that in all but one of the last ten years, our firm has had a significant investment in at least one of the winners or runners-up.* (Morningstar generally names a winner for domestic stocks, international stocks and fixed income, and in some years they have named a runner-up.)

* Significant is defined as $2.5 million or more of client assets at the specified year-end. Not every Medley & Brown client may have been invested in the winner's fund.

Final Thoughts on Dodge & Cox

The disciplined, methodical approach which has so richly rewarded Dodge & Cox investors through the years has paid off dearly for the firm as well. For example, looking at the 1985 annual report of the Stock Fund, net assets stood at $27.8 million at the beginning of that year. The most recent report revealed that the fund had grown to $43.3 *billion* as of December 31, 2004. For those without a financial calculator, that's a remarkable *44%* average annual growth over the last *20 years*, all without advertising, the use of salespeople or paying distribution fees.

A logical question for investors to ask now is whether this enormous growth will begin to work against the fund. To our inquiry, Milias responded, "We will not grow the portfolio to a level where we cannot deliver performance." In fact, the firm closed the Stock Fund (and the Balanced Fund) to new investors in 2004 noting that their decision was from "prospective caution" rather than any current capacity constraints. Other steps taken to manage growth include expanding its research efforts with additional analysts, enhancing efficiency with upgraded systems and improving communications with its website. We find it easy to believe them when they say that these changes (and *not* changing the way they invest money) are designed to "manage our growth for the long-term interests of our current clients and shareholders."

Other Bay Area Meetings

At Charles Schwab, we met with Chief Investment Officer–Fixed Income Kim Daifotis, Chief Economist Sheldon Engler and several members of the fixed income team to discuss the investment process, research team and performance history for the firm's eight bond funds. In characterizing their approach as very conservative, Daifotis commented, "We don't swing for the fences. We really manage our process. We're not making interest rate plays." He went on to say that lately they have been very defensive in managing the funds.

Our visit to San Francisco also presented a rare opportunity to conduct a peer evaluation on three respected firms in our business. We met with Ron Johnson, portfolio manager and research analyst at Litman/Gregory, Tim Kochis, chief executive officer at Kochis Fitz and Carol Benz, chief operating officer at Bingham, Osborn & Scarborough. Our candid meetings gave us the chance to ask questions and compare notes about various aspects of the financial advisory business including investment philosophy, asset allocation, research, portfolio management, performance reporting, client communications, minimum account size, client capacity, custodians, organizational structure, strategic initiatives and technology issues. These types of meetings help us think about how to run our business efficiently so that we can maximize our efforts in managing our clients' investments.

In the News

In the November 19, 2004 issue of Medical Economics, Tim was again recognized as one of the 150 best financial advisors for doctors.

Julius was interviewed by Gregory Zuckerman of The Wall Street Journal for a March 1st article about company CEOs now providing less quarterly earnings guidance. In suggesting that investors focus instead on what executives are saying about their long-term goals, Julius said, "I find it more valuable hearing what a CEO says about where a company will be five years from now."

Also in March, Tim was interviewed by Gregg Greenberg of TheStreet.com for a story entitled "Lessons of the Nasdaq Bubble."