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 MS Society of Financial Analysts; 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 August 31, 2004

	Balanced Accounts	Growth Accounts
5 Years	5.69 %	4.92 %
10 Years	8.39 %	8.80 %

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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Fall 2004 Investment News

A Sampling of Buffett and Munger

Tim, Kevin and Julius traveled back to Omaha earlier this year for the annual shareholder meeting of Berkshire Hathaway. **This was Tim's 18th consecutive year!** (It's not likely that many among the 19,500 present could stand behind that claim.) As usual, Messrs. **Warren Buffett** and **Charlie Munger** entertained and enlightened the crowd for some six hours. Ordinarily, when we report on our due diligence trips to see great investment managers, we offer commentary about our meetings. In this case, however, we need only share with you a few of the more notable musings from these two legendary investors.

Keep in mind that the use of recording devices in the meeting is prohibited, so we have relied on our notes. (Our legal pads are quite weighty!) The speed with which they made their remarks and our lack of shorthand skills have resulted in paraphrasing in some spots. We offer thanks to our friend **Whitney Tilson,** a fellow Buffett follower from New York, whose notes have been used to fill in some gaps.

On being a good investor:
Buffett: You need an intellectual framework, which you can get mostly from *The Intelligent Investor* [see below]. Then, look at everything in sight about businesses and industries that you can understand. And, then you have to have the right temperament.

Munger: You have to read a lot. I don't know anyone who's wise who doesn't read a lot, but that's not enough. You have to have a temperament to grab ideas and do sensible things.

Buffett: It requires extraordinary discipline, not IQ. If you can't control yourself, you're going to have disasters, regardless of your IQ. Charlie and I have seen it. The whole world in the late 1990s went a little mad in terms of investments. How could that happen? Don't people learn? What we learn from history is that people don't learn from history.

On investment mistakes:

Buffett: We've made two kinds of mistakes: (1) ones when we didn't invest in something cheap because we were not working hard enough, and (2) when we didn't maximize on something we started in on because I got anchored on the initial price. When I bought something at *x*, and it went up to *x and 1/8th*, I sometimes stopped buying, perhaps hoping it would come back down. We've missed billions when I've gotten anchored.

Munger: Do you have anything worse to confess than Wal-Mart?

Buffett: That one cost us $10 billion. We bought a little, and it moved up a bit, and I stopped buying. Perhaps I thought it might come back a bit. Who knows? That thumb sucking, the reluctance to pay a little more, cost us a lot. There are other examples. On the other hand, it doesn't bother us. If every shot you hit in golf was a hole-in-one, you'd lose interest. You gotta hit a few in the woods occasionally to make the game interesting.

Munger: Since mistakes of omission don't appear in the financial statements, most people don't pay attention to them. We rub our noses in missed opportunities, as we just did.

On the use of debt and financial cataclysms:

Buffett: We just don't believe in a lot of leverage. Almost anything can happen in financial markets. If you can hold investments during financial disasters, then you will have no problem. It's leverage that gets you clobbered. It's the one thing that can prevent you from playing out your hand.

Buffett: You want to be prepared to take advantage of opportunities. They will happen in the securities markets, and if you have any more money, you buy. Berkshire is in an extraordinary position to weather any financial cataclysm. While we don't go around like an undertaker, hoping for a plague, we would benefit and have done so in the past. We've never gotten hurt in the past 30-40 years by what's going on in the world around us.

On the outlook for the market:

Buffett: I would say that at any given point in history, including when stocks were the cheapest, you could have found an equally impressive list of negative factors. In '74, you could have written down all kinds of things that would show the future would be terrible. We don't pay any attention to that sort of thing. This country will do very well with business. There are always problems and opportunities, but over time, the opportunities have won out in this country. I expect this will continue. We don't refuse to buy because of external factors. We own stocks straight through, and we don't leverage. American business has really never let investors down, but investors have done themselves in.

Tim Medley visits with Mr. Warren Buffet at the Berkshire Hathaway annual meeting in Omaha, Nebraska in May, 2004.

On shareholders:

Buffett: We ask ourselves, "Are we telling you what we'd want to know if our positions were reversed?" We really try to tell investors enough in our annual report.

Buffett: We're looking for owners who are life-long owners, not those who are thinking about the next 3-12 months. There are relatively few investors who think about buying and putting it away forever like a farm.

Buffett: We have the best investors and the lowest turnover of any major company. Why? It's a self-selection process. People who say their not interested in a stock that trades for thousands of dollars per share, simply for this reason, are probably not as intelligent or as in-sync as this group. It's a sign, a symptom. By not splitting, we've helped attract the best shareholders, people who don't care if the stock is at $90,000 or $9.

On hedge funds:

Buffett: I think people who invest in hedge funds, in aggregate, are unlikely to do well. Hedge funds are in the midst of a fad. They don't distinguish themselves with performance, but do so with fees. Paying 2% of the assets and 20% of the profits is not a fair proposition.

Munger: Why would you want to invest with a guy whose thought process says "If two layers of expenses are good, then three should be even better."?

Buffett: Maybe fees are what the traffic can bear, but that reflects an attitude. In effect, hedge fund managers are getting four times standard fees, and I'd bet they don't have all of their own money in their own funds. Charlie and I both ran partnerships that would generally be classified as hedge funds. There are some similarities, but I don't think we had quite the same attitude that the present managers have. The fund of funds stuff, it's really unbelievable, piling on layers of costs. People don't become geniuses because on the door it says "Hedge Fund," but they may be good at marketing. In fact, if they're good at marketing, they don't need to be good at anything else.

On the influence of Philip Fisher and Charlie Munger: (These remarks were prompted by Tim's question to Mr. Buffett in front of 19,500 listeners.)

Buffett: Phil Fisher was a great man. He died a month ago, well into his 90s. I met him just once, in 1962. It was great. I loved it. Phil was nice to me. His first book was *Common Stocks and Uncommon Profits*. He wrote a second book, and they were great books. You could get what you wanted from the books. You didn't need to meet him. He got it across in words. I met Charlie in '59. He was preaching a similar doctrine, so I got it from both sides.

Munger: I always like it when someone attractive to me agrees with me, so I have fond memories of Phil Fisher. The basic idea of finding a few good stocks that you know something about makes great sense. It's helped us a lot. But, 98% of investors don't think about it that way.

If you enjoyed reading these highlights, we would encourage you to make plans to attend an upcoming Berkshire Hathaway shareholder meeting. It's an experience that's likely to leave a lasting impression.

Other Recent Travels

While in Omaha for the Berkshire Hathaway meeting, Julius also attended a Markel Corp. investors meeting and met with a team of Morningstar's equity analysts.

Tim, Kevin and Julius traveled to New York for the Sequoia Fund Annual Meeting.

While there, they also attended the New York Society of Security Analysts' function entitled, "Celebrating the Life and Legacy of Benjamin Graham." As you may know, Graham authored *The Intelligent Investor*, the work Warren Buffett has praised as "the best book on investing ever written." The program, moderated by *Money* magazine senior writer, **Jason Zweig,** featured what many felt may have been the greatest group of value investors ever assembled in one room. Among the panelists were **Bill Nygren, Chris Davis, Chris Browne, Mason Hawkins, Mario Gabelli, John Rogers, Bill Ruane** and **Walter Schloss,** all of whom are very familiar to our firm. Limited to 150 attendees, the event garnered such attention that hopefuls outside of the Penn Club were offering $1,000 for our $125 tickets.

Tim, Kevin and Julius met with **Bruce Berkowitz,** portfolio manager of The Fairholme Fund and **Ed Walczak** of Vontobel Asset Management.

Julius attended the Annual Presentation of the Longleaf Partners Funds in Memphis.

Tim and Kevin attended the Undiscovered Managers 6th Annual Wealth Management Symposium on the corporate campus of the McDonald's Corporation in Oakbrook, Illinois.

Visitors in Jackson

We welcomed FPA Capital's **Bob Rodriguez,** two-time Morningstar Manager of the Year, to our office earlier this year. In June, Cecil and Kevin met with **Tom Attebury,** co-manager with Rodriguez on the FPA New Income bond fund.

In the News

Julius was interviewed by Aaron Pressman of *Bloomberg News* for an April 1st article about highly acclaimed investor **Bill Miller**.

Also in April, Tim and Kevin were featured in *The Wall Street Journal* series "Can This Portfolio Be Saved?"

Tim was interviewed by *The New York Times* for an August 15th story on top mutual fund managers.

For the second year in a row, Bloomberg, one of the world's largest financial news, broadcast and publishing companies, has named Medley & Brown as one of their "Top Wealth Managers," their "exclusive list of the nation's leading independent financial-advisory firms." The article appears in the July/August edition of their **Bloomberg WealthManager** magazine.

New Faces

Since our last newsletter, our firm has grown. We are pleased to announce that **Beth Bush, Rimmer Covington,** and intern **Jennifer Martin** have joined Medley & Brown.