

Financial & Investment Management Advisors, Inc.

Registered Investment Advisor

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"If you spend more than 14 minutes a year worrying about the market, you've wasted 12 minutes..."

-- Peter Lynch October 1987

Almost half of the USA's total expenditures; 49% according to the Treasury Department, have been spent on Social Security, Medicare or Medicaid in the first 9 months of fiscal year 2005.

The last official recession in the USA lasted only 8 months and ended 11/2001. The recession was preceded by a period of expansion of exactly 10 years, the longest duration of growth in the 150-years that the nation's economy has been tracked.

-- according to the National Bureau of Economic Research

48% of all US households own mutual funds today. However, when household income is at least \$100,000, the percentage of families owning mutual funds climbs to 83%.

-- according to the Investment Company Institute

The price of a gallon of unleaded gasoline was \$1.10 in 1995 (10 years ago), approximately half of the \$2.18 national average of today. Twenty years ago (1985), the average price of a gallon of unleaded gasoline was \$1.20.

-- according to American Automobile Association, Wall Street Journal

President George Bush's Panel on Tax Reform has requested and received an additional 2 months to deliver their recommendations. Originally scheduled to be finished by 7/31/05, the panel is now planning to complete their work by 9/30/05.

-- according to the President's Panel on Tax Reform.

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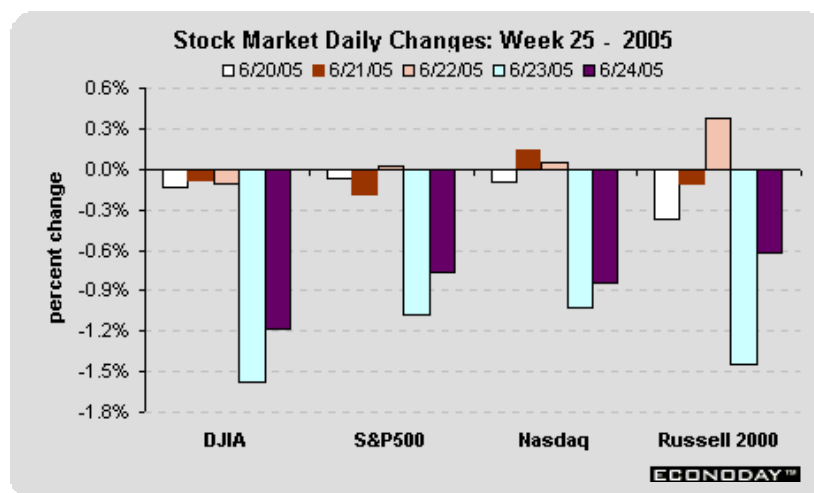
2nd Quarter Report 2005

INVESTMENT PERFORMANCE REPORTING

Dear Clients and Friends;

Enclosed is your 2nd quarter 2005 investment performance for the period beginning April 1, 2005 and ending on June 30, 2005.

During the 2nd quarter 2005, the market as measured by major indexes on a total return basis was mixed, with the DOW losing -2.18%, while S&P 500 increased 0.91% while the NASDAQ gained 2.89%¹. Generally speaking, our managed accounts performed better than the major market indexes performed, depending upon timing of cash flows and possible other factors.



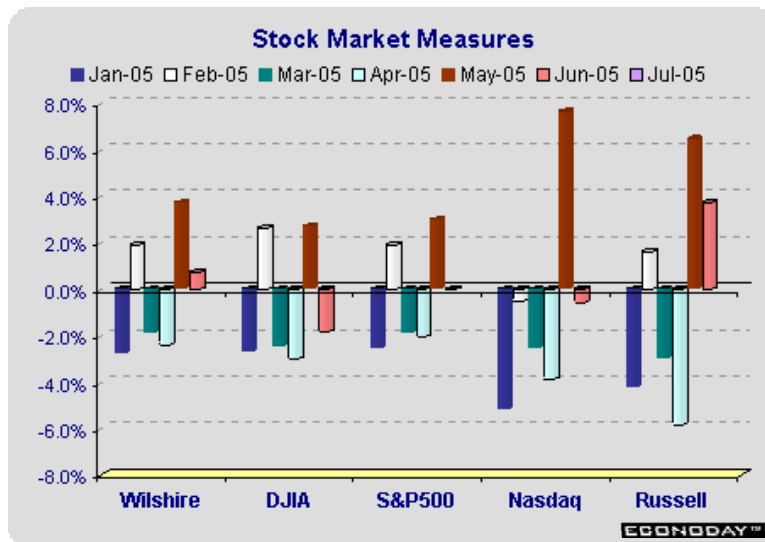
Stocks would have performed much better during the quarter if not for the negative performance endured in the last week of June caused by rapidly rising oil futures prices. During this period, every uptick in oil futures prices hurt the stock market that week. Crude oil prices hit \$60 per barrel in trading this week - although crude oil futures always managed to close just below the \$60 mark by the end of the

trading day. While oil couldn't dampen spirits last week, they were totally broken this week. Stock prices plummeted most days this week. While stocks were being pummeled, bonds generally performed very well as yields lowered and bond prices increased in the flight to quality that ensued.

Where the 1st quarter was called "The Quarter When Nothing Worked" the 2nd quarter seemed to work better. While stocks were mixed bonds were up, the economy was up and oil is still up; inflation appears to be down. Many of the economic uncertainties that prevailed during the 1st quarter seemed to dissipate during the 2nd quarter as economic conditions began to improve. Even the media pundits have had little ammunition to berate the state of the economy lately.

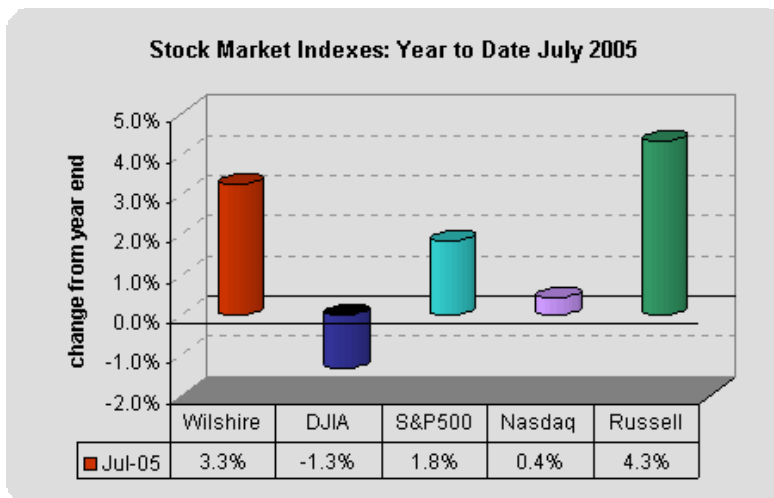
In the first quarter, the media had investors in general, not to mention quite a few of, you, my clients anxious and worried. It seems that my call for patience and staying the course was the right prescription.

With half of the year over, most all of the major markets indexes were left losing ground. Year to date stock market index results through the 6 months ending 6/30/05, the S&P 500 was down - 0.8%, the NASDAQ was off -5.2%, the small-cap Russell 2000 dropped -1.3% and the foreign stock index EAFE was down -1.2%. All numbers are total return performance results².



The first six months of the year simply don't look good. Most of the indexes depicted in the chart fell three or four times over this six-month period - the Nasdaq composite only managed to rise in one of the past six months. Some analysts have blamed the less than stellar stock market performance on the Fed's rate hikes. But long-term interest rates have not moved in tandem with short-term rates and housing is still booming.

Crude oil prices have played a role in keeping equity prices depressed relative to the end of 2004. Investors are in part worried that higher oil prices will create a potential inflationary environment. But even if higher crude oil prices don't permeate every aspect of the consumer price index, sharply higher oil prices have the potential to derail the economy. Granted, oil prices have hurt specific industries - any of those that rely strongly on oil. But the overall economy grew at a pretty good pace early in the year. The Commerce Department's final estimate revealed that real GDP grew at a 3.8% rate in the first quarter. In my opinion it is a combination of the effect of rising interest rates and rising oil prices that have had a dampening effect on market performance. The good news is that even these two items may stop increasing at some point. Let's hope it's sooner than later.



Since the end of the second quarter the markets have come back substantially in July. Most of the major market indexes are posting positive year to date performance in the month ending in July 2005. The exception to this was the DJIA that was still down 1.3% year to date through July. Historically, the markets tend to exhibit lackluster performance and even poor performance during the summer months resulting in this

period to be known as the summer doldrums. The summer doldrums are a very real phenomenon; historically stock prices are more likely to go down than up during the summer months. Chances are good that we'll get a better showing in the fall and winter. Of course, this will depend on the future path of economic growth.

Several of the worries and uncertainties that existed in the 1st quarter began to show improvement in the second quarter. The so-called "Twin Deficits" showed signs of improvement rather than the

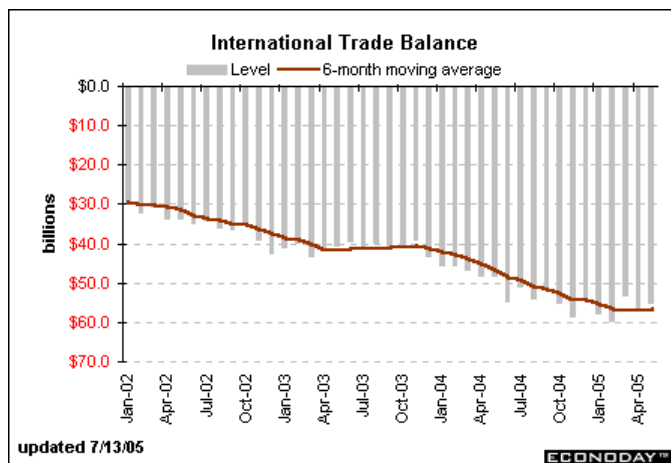
continued deterioration as projected by the naysayers. The twin deficits referred to are the budget deficit and the trade deficit. The outlook for inflation also showed big signs of improvement.

The budget news keeps getting better. The Congressional Budget Office revised their 2005 deficit estimate lower in July, saying that it would be “significantly” lower than \$350 billion and possibly lower than \$325 billion. The Office of Management and Budget followed with an estimate of \$333 billion.

Either way, the deficit will be much smaller than the \$412 billion deficit in 2004. Many critics of the current administration’s fiscal and tax policies had earlier projected the budget deficit to exceed \$500 billion. Well, it looks like they were wrong. Stronger-than-expected tax receipts have driven the revisions from both agencies. The June Treasury budget statement showed that total fiscal year-to-date receipts are 14.6% higher than a year ago, with corporate tax receipts a whopping 41.0% higher and individual income tax receipts up a robust 16.3%.

It is interesting to note that within individual income taxes, non-withheld taxes are 33.3% higher, an increase of \$66 billion. The non-withheld portion includes tax collections related to capital gains and dividends. With another three months left in the fiscal year, non-withheld receipts could reach \$88 billion³. We won’t know for sure for another three months, but it looks like the tax cuts on capital gains and dividends will have paid for themselves. The Laffer curve is working. Lower the tax burden to a reasonable level and get more tax revenue.

These results are a prime example of supply-side policies in action. The tax cuts of mid-2003 gave rise to 4.4% average GDP growth in the seven subsequent quarters⁴. Meanwhile, non-farm payrolls have grown by 3.7 million⁵. A growing economy and more people working means more tax revenues. Combining increased output with the Fed’s monetary restraint, we have achieved price stability; the latest data show that the core Boskin CPI inflation is 1.8%, the eighth straight month that core inflation has been below 2%⁶.

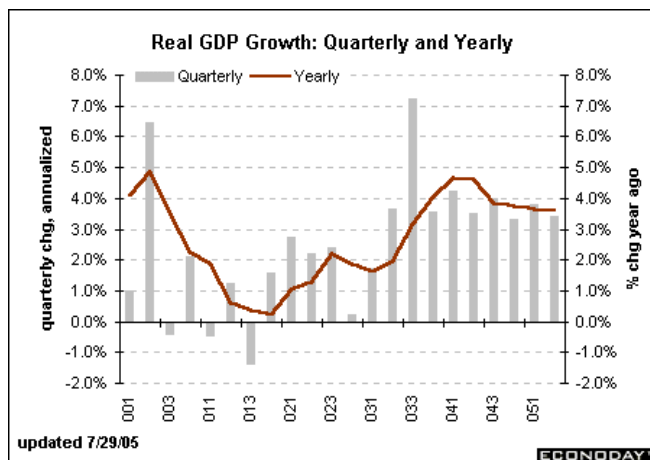


The international trade balance has posted a deficit almost continuously since the 1980s. Any trade deficit is a drag on U.S. GDP growth, but a smaller deficit adds to growth, while a larger deficit decreases GDP growth. The nation’s trade gap narrowed slightly in May, at \$55.3 billion vs. \$56.9 billion in April. A narrower petroleum gap, at \$15.8 billion vs. \$17.4 billion, was behind the improvement though the gap is likely to widen again in June due to the run up in oil prices.

Overall, both imports, down 0.9% at \$162.2 billion, and exports, up 0.1% at \$106.9 billion, contributed to the improvement⁷. The combined trade gap in April and May is a bit lower than the average for the first quarter, which should give a boost to second quarter GDP provided the gap in June doesn’t widen too much.

Overall the Economy Looks Good

Gross Domestic Product (GDP) is growing at an above average rate. Employment is up while unemployment is at low levels. Corporate profits continue to increase, although at a slower rate than last year.



GDP grew at a solid and expected annual rate of 3.4% in the second quarter according to the Commerce Department's initial report on economic growth. In a very good sign, growth was centered in final sales, which rose a sharp 5.8% on strong auto purchases, a contrast to inventory growth, which dragged on GDP in the quarter. Strong demand and low inventories are a good combination, which may lead to strong economic growth in the 3rd quarter. The Commerce Department's report is the first

estimate for the quarter and will be subject to substantial revisions. Assumptions for missing June data included a rise in inventories and a widening in the trade gap. First-quarter growth was unchanged at 3.8%.

The June gain of 146 thousand jobs to non-farm payrolls, with an upward revision of 44 thousand to the prior two months, puts the economy on pace to add better than 2 million jobs in 2005. With half of the year over, payrolls have grown by 1.1 million, a 181,000 monthly average. The household survey, which includes self-employed individuals, presents an even stronger picture. This survey shows a 1.5 million gain in employment thus far this year, a 247,000 monthly average. That's a pace for an employment gain of 3 million for the year.

With these jobs gains, the unemployment rate has dropped from its 6.3% peak to 5.0%, the lowest since September 2001⁸.

Corporate profits are solid. The 2nd quarter 2005 earnings per share of the S&P 500 companies are expected to have grown by +7.2% over the results from the 2nd quarter 2004. This would be the first quarter of less than +10% year-over-year earnings growth after 7 straight quarters above double-digit improvement⁹.

The new data show that NIPA corporate profits have climbed by \$574 billion since the 2001 trough, an 80% increase. On an after-tax basis, profits have risen by \$409 billion (79%). As a share of GDP, pre-tax profits (10.6%) are the highest since 1968 and after-tax profits (7.6%) are the highest since 1966¹⁰. We believe that these profits data are the most accurate because they are based on current production and are derived from IRS tax returns, where companies have no incentive to pump up their numbers.

Still Investor Concerns and Worries

While many of the concerns investors had in the 1st quarter have lessened or dissipated, there are some legitimate concerns that remain. Of course there is always the threat of terrorism and the war in Iraq. The war in Iraq will be resolved at some point, one way or another. I don't think terrorism will be resolved anytime soon; however, we will likely be able to cope with it better. The London

train bombings are a testament to that. However, two other potential threats are interest rates being raised too much and the price of oil rising too much.

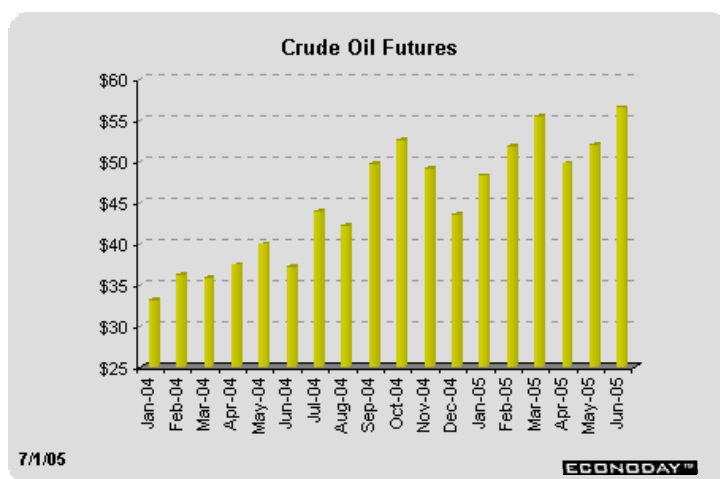
The Fed has now raised short-term rates 9 times (going from 1.0% to 3.25%) in 9 scheduled Fed meetings between 6/30/04 and 6/30/05. Over that 1-year period, the total return on the S&P 500 has been +6.3% while the yield on the 10-year Treasury note has dropped from 4.59% to 3.92%, producing a total return of +9.7%. The 9 rate hikes are the greatest number of increases since the Fed raised rates 7 times in 1994-95. The S&P 500 had a +39% total return in the 12-months following the 7th rate hike in 1995¹¹.

Some economists are calling for the Federal Reserve Board to increase rates 25 basis points in each of the next three FOMC meetings (August 9, September 20, November 1). If the 10-year bond yield remains around 4.25% the yield curve will become very flat and a yield curve inversion is a possibility.

An inverted yield curve occurs when short-term interest rates move higher than long-term interest rates. The problem with an inverted yield curve is that in the majority of cases, it has been the primary indicator of slower economic activity ahead. Let's hope Mr. Greenspan and Co. does not raise rates too much so as to invert the yield curve.

Potential Impact of Rising Oil Prices

Fed Chairman Alan Greenspan predicted the rise in oil prices in 2005 will reduce our Nation's GDP growth by 0.75%. The price of a barrel of oil has gone from \$43.45 on 12/31/04 to \$60.57 at the end of July 2005, an increase of +39% YTD¹².



Many analysts have pointed out that crude oil prices may have reached their highest level ever on a current dollar basis, but in real terms, prices were higher in the 1980s. While true, that is not the correct point to consider. I'm not convinced that looking at the real level of oil prices is altogether relevant; rather it is more important to consider changes in prices over the past 18 months. In January 2004, crude oil prices were less than \$35 per

barrel. Lately, prices have been hovering between \$55 and \$60 per barrel. This may not be a high number in real terms - but then neither was the \$35 a high number in real terms 18 months ago. The point is that when prices of crude nearly double over a short period of time, they are likely to have a real impact on the economy even if oil prices, after adjusting for inflation, were higher in the 1980s.

For now, we seem to be handling these higher energy costs very well: however, should oil prices continue to escalate, it could certainly have a more negative affect on the economy.

Taking a Long-term View

I think many investors incorrectly believe that their investments should go up most of the time when generally, that is not at all in reality how the market works. The stock market goes sideways and even down many times, especially while there is uncertainty. In many cases, when the uncertainty clears, the market may shoot up very quickly and substantially, only then to return to a sideways or perhaps even downward pattern. It's not unusual for portfolios to have one or two negative quarters in a year and still wind up with a good or even a very good year.

Rather than worry about the markets near term performance on a day-to-day basis, try taking a long-term view instead. To do this, I think it would be helpful to understand long-term market performance.

When the market's been good, it's been very good

Since 1926, the stock market has posted positive annual returns in 56 years and has registered more than twice as many up years as down years. What's more, investors have enjoyed double-digit returns in 45 out of 56 years and returns higher than 20% in 31 years since 1926¹³. Of course, past performance cannot guarantee comparable future results.

The Stock Market: The Good Years							
When the market's been good, it's been very good. Since 1926, the market has advanced more than two out of every three years—with an average annual gain of 22.66% in up years.							
More than 32% Gain		21–32% Gain		10–21% Gain		0–10% Gain	
1933	53.99%	1950	31.71%	1942	20.34%	1993	9.99%
1954	52.62	1955	31.56	1944	19.75	1992	7.67
1935	47.67	1989	31.49	1972	18.98	1978	6.56
1928	43.61	1938	31.12	1949	18.79	1956	6.56
1958	43.36	1991	30.55	1986	18.47	1984	6.27
1927	37.49	2003	28.70	1979	18.44	1947	5.71
1995	37.43	1998	28.58	1952	18.37	1948	5.50
1975	37.20	1961	26.89	1988	16.81	1987	5.23
1945	36.44	1943	25.90	1964	16.48	1970	4.01
1936	33.92	1951	24.02	1971	14.31	1994	1.31
1997	33.36	1967	23.98	1965	12.45	1960	0.47
1980	32.42	1976	23.84	1959	11.96		
1985	32.16	1996	23.07	1926	11.62		
		1963	22.80	1968	11.06		
		1983	22.51	2004	10.87		
		1982	21.41				
		1999	21.04				

Source: Ibbotson Associates Inc., Stocks, Bonds, Bills and Inflation

The chart represents the annual returns of the S&P 500 Index from 1926–2004, including reinvestment of dividends and price changes. The S&P 500 Index is an unmanaged index considered representative of the U.S. stock market. An investment cannot be made directly in an index. Past performance does not guarantee future performance.

Patience may help investors survive market swings

Sure, the market was up roughly two out of three years since 1926. But what about the down years? The market's 23 down year's averaged -12.60%—but the 56 up years averaged 22.66%. The market downturn in 2000–2002 was the first time since 1973–1974 with back-to-back down years¹⁴.

The moral of this story? Over time, the positives have out gained the negatives. Keep in mind that the media will constantly be focusing on the short-term day-to-day outlook, which is of little or no value to long-term investors. In addition, the media will be focusing on the negatives not the positives. So don't look at the bumps in the road—keep an eye on your long-term goals.

Remember what Peter Lynch said in October of 1987, "If you spend more than 14 minutes a year worrying about the market, you've wasted 12 minutes..."

The Stock Market: The Bad Years			
When the market's down, you may want to consider it a prime opportunity to buy. During the market's 23 down years since 1926, the average annual loss was -12.60%.			
Up to 5% Loss	5–10% Loss	10–25% Loss	More Than 25% Loss
1939 -0.41%	1977 -7.18%	1966 -10.06%	1974 -26.47%
1953 -0.99	1946 -8.07	1957 -10.78	1937 -35.03
1934 -1.44	1932 -8.19	1941 -11.59	1931 -43.34
1990 -3.17	1929 -8.42	2001 -11.88	
1981 -4.91	1969 -8.50	1973 -14.66	
	1962 -8.73	2002 -22.10	
	2000 -9.11	1930 -24.90	
	1940 -9.78		

Source: Ibbotson Associates Inc., Stocks, Bonds, Bills and Inflation

Past performance cannot guarantee comparable future results. The chart represents the S&P 500 Index from 1926–2003, including reinvestment of dividends and price changes. The S&P 500 Index is an unmanaged index considered representative of the U.S. stock market.

Investing is a Very Emotional Issue

It is human nature to make investment decisions based off of an emotional reaction. Generally speaking, this type of behavior usually causes us to make the wrong decisions. This is where I may add value to you as an advisor because I may be more objective with your financial and investment decisions than you maybe. Individual investors are generally too close to these types of issues and have difficulty making objective decisions.

To illustrate my point, consider the following facts. The largest monthly purchase of stock mutual funds in the last 5 years was in February 2000 (the height of the market) when \$54 billion of new net investments were made. The total return of the S&P 500 in the next 12 months following that huge inflow of dollars was a loss of -8.2%. The lowest monthly purchase of stock mutual funds in the last 5 years was in July 2002 when a net \$53 billion of money was pulled out. The total return of the S&P 500 in the subsequent 12 months was a gain of +10.6%¹⁵.

Consider also that market timing has been generally ineffective. Individuals who attempt to time the market want to be invested in the market when it's going up and out of the market when it's going down. This sounds great, if it could be done. The key word here is "if". If you had been a "buy-and-hold" investor with the S&P 500 over the 20 years ending 5/31/05, your average annual return was +9.6% (not counting the impact of reinvested dividends). If you got out of the market the day after every -2% or more tumble and you reentered the market the day after every +2% or more gain, your average annual return would have been +4.4%. Or if alternatively you got out of the market the day after every +2% or more advance and you reentered the market the day after every -2% or more loss, your average annual return would have been +5.5%¹⁶.

In Conclusion

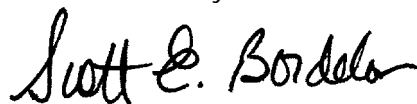
During the 2nd quarter we made some changes to some of your investment portfolios we manage custodied at Fidelity. You should have noticed changes in your portfolio as we replaced some investment positions and modified your portfolio allocation.

We appreciate the confidence and trust you have placed in us to manage your investments. We take this charge very seriously. We sincerely appreciate your business.

Please feel free to call us if you have any questions regarding this report, your investment portfolio or its performance. Please do not hesitate to call your advisor if you would like to schedule an appointment or telephone appointment. Regular consultations with you are an important part of the service your advisor provides.

I hope you are doing well and are enjoying the summer; fall is just around the corner. Your 3rd quarter investment performance report should be sent to you around the middle of November 2005 or sooner if possible. Hopefully, I will have more good news to report.

I remain sincerely,




Scott E. Bordelon, CFP[®], AAMS

Enclosures



** Please note; this information has been prepared from sources and data believed to be reliable but is not guaranteed by Scott E. Bordelon, CFP[®], AAMS, Financial & Investment Management Advisors, Inc., or Mutual Service Corporation. While considerable effort has been expended to produce an accurate accounting of your investment activity, neither representation nor guarantee is made of its accuracy or completeness. This report is provided for information purposes only and is not to be construed as an offer to buy or sell any securities mentioned herein. The preceding is the economic commentary and views of Scott E. Bordelon, CFP[®], AAMS and President of Financial & Investment Management Advisors, Inc., a Registered Investment Advisor with the U.S. Securities and Exchange Commission, and should not be construed as investment or economic advice. For specific advice, please contact us to arrange a consultation. Information contained herein is subject to change. All economic and performance information is historical and not indicative of future results. Securities offered through, Mutual Service Corporation, a Registered Broker/Dealer, and member NASD/SIPC. Financial and Investment Management Advisors, Inc. is not*

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- ◆ *The S&P 500 is made up of 500 common stocks representing major US industry sectors*
- ◆ *The Dow Jones Industrial Average is an index of 30 blue chip US Stocks*
- ◆ *The Russell 2000 is a small cap index which tracks the returns of the smallest 2000 firms in the Russell 3000 Index, which is composed of the 3000 largest companies in the United States, as measured by Market Capitalization*
- ◆ *The NASDAQ Index is a measure of the combined value of roughly 5000 stocks traded on the National Association of Securities Dealers Exchange*
- ◆ *Lehman Brothers Aggregate Bond Index is a broad based bond index composed of U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities, and commercial mortgage-based securities.*
- ◆ *NAREIT Equity Index. NAREIT share price equity index measures the performance of all tax-qualified REITs listed on the New York Stock Exchange, American Stock Exchange, and the NASDAQ National Market system.*
- ◆ *Lehman Brothers High Yield Index is an index comprised of the universe of fixed-rate, non-investment-grade debt.*
- ◆ *One cannot invest directly in an index.*
- ◆ *Investments are not guaranteed and may lose value.*
- ◆ *Past performance in no way guarantees future results.*
- ◆ *Diversification does not assure against market loss.*
- ◆ *Russell1000® Index – measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index. As of the latest reconstitution, the average market capitalization was approximately \$13 billion; the median market capitalization was approximately \$3.8 billion. The smallest company in the index had an approximate market capitalization of \$1.4 billion.*
- ◆ *The Wilshire 5000 is an index of approximately 5000 stocks designed to be a measure of the entire U.S. market.*

Endnotes:

¹ According to Internal Rate of Return calculations as calculated by dbCAMS+

² Source: BTN Research

³ Source: U.S. Treasury Dept.

⁴ Source: U.S. Commerce Dept.

⁵ Source: U.S. Dept of Labor

⁶ Source: U.S. Dept of Labor

⁷ Source: U.S. Dept. of Commerce

⁸ Source: U.S. Dept of Labor

⁹ Source: Reuters, Wall Street Journal

¹⁰ Source: U.S. Commerce Dept.

¹¹ Source: Federal Reserve, BTN Research

¹² Source: Federal Reserve, Commerce Department, NY Mercantile Exchange

¹³ Source: Ibbotson Associates Inc., Stocks, Bonds, Bills and Inflation.

¹⁴ Source: Ibbotson Associates Inc., Stocks, Bonds, Bills and Inflation.

¹⁵ Source: Investment Company Institute, BTN Research

¹⁶ Source: BTN Research