

# Oakwood Outlook

## & Quarterly Review

Volume 7, Number 4 Oct 2004

### A Word

From the Advisor

#### Our Purpose

At Oakwood Capital Management, we are committed to providing our clients with outstanding investment management services. The time-tested investment process we use to tailor your portfolios to your specific needs is based on quantitative techniques and sound research. Even as we continually strive to improve our professional expertise, the one constant at Oakwood is our commitment to client service.

#### Oakwood's Value-Added

Individuals or institutions who attempt to manage their own portfolios may not have the expertise and necessary tools. This includes individuals in or close to retirement, professionals at the top of their fields who have worked hard to build precious nest eggs, fiduciaries for foundations, endowments and retirement funds. Most eventually realize that specialization is the key to their success, and come to rely on professionals to provide them with unique financial solutions to their unique financial needs.

With this in mind, what criteria should be used to evaluate a professional money manager? The obvious answer is, of

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As with investment results, it is important to look beyond the numbers to get at the real economic story. **A review of the stock and bond markets shows the Lehman Brothers Intermediate Bond Index, an accurate proxy for the bond market, returning a +2.71% for the quarter, with a year-to-date return of +2.59%. The Standard & Poor's 500 Index, which is a broad measure of the US stock market, had a negative return of -1.87% for the quarter, with a return of +1.51% year-to-date. The oldest continuing US market index, the Dow Jones Industrial Average, is comprised of 30 of the largest and most widely-held US public companies. This index showed a loss of -2.90% for the quarter, and a loss of -2.09% year-to-date.** A look at the dynamics of the economy sheds light on what is driving these returns. Economic indicators give economists, research analysts, and investors help in grasping economic trends. However, even these tried-and-true indicators may at first glance tell one story, but upon closer examination tell another.

For example, the core Consumer Price Index (CPI), the widely used measure of inflation, is running at just under 2%. Since seasonal and other factors can cause extreme price fluctuations in energy and food, our focus is on the "core" CPI, which excludes these two volatile sectors. The CPI has come under attack for its use of hedonics, a descriptor for the governmental practice of deflating prices on certain goods if the "quality" of the product is judged improved over the past twelve months, even if the actual price goes up. **An example would be prices on desktop and notebook computers which have declined approximately 8% during the past decade, but due to the improvement in computer power and memory, their hedonically adjusted prices have dropped by 25% a year since 1997.** While there are certainly some benefits from quality improvements in the cost of goods and services, the extent of the hedonic adjustments is astounding, with no less than 46% of the weight of the US CPI subject to hedonic adjustments. These adjustments are adding 1% to 1.5% of real Gross Domestic Product (or GDP) growth by cleverly lowering inflation by the same amount.

**Despite the somewhat benign core CPI number, we do see inflation of the cost-push variety in the economy.** Commodity prices as measured by the Commodities Research Bureau Index (composed of raw materials used by manufacturers) increased 17% over the past twelve months, and were accompanied by skyrocketing energy prices. These costs have yet to be pushed through to the end user. Instead, the benefit from tremendous productivity gains is offsetting the squeeze

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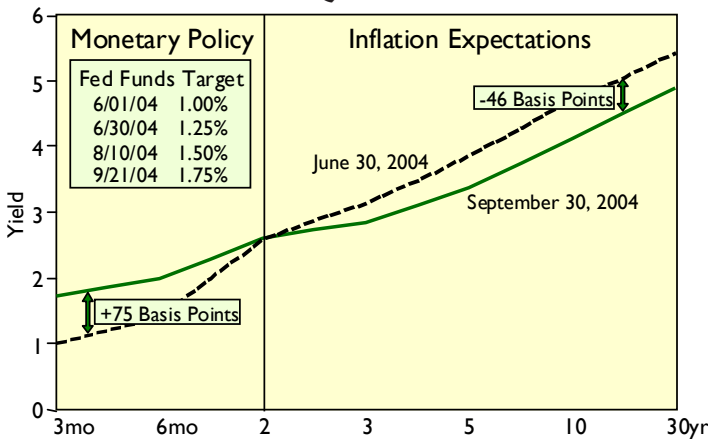


TAXABLE FIXED INCOME

Strategy

In the previous edition of the Oakwood Outlook, we outlined several conditions that could lead to a favorable bond market for the second half of the year. Essential to our forecast was an attentive Federal Reserve (Fed) policy with a particular focus on inflation. Fed policy success is critical to sustained economic growth and continued low interest rates. Shown in the following chart is a comparison of yield levels at the end of September versus June, the date marking the first of three 25-basis point rate increases:

US Treasury Yield Curve Third Quarter 2004



Source: Bloomberg, Oakwood Capital Management LLC

Contrary to most market forecasts, each rate increase was followed by a bond rally, not higher interest rates. Bond market fundamentals have been bolstered by strong foreign demand for Treasury securities and investor concerns that the economy may be losing momentum. Historically, tracking the yield of the 10-year Treasury note provides a useful tool to forecast the direction of economic and inflation trends. After reaching a peak yield of 4.85% in June, the downward move of this benchmark points to slower growth ahead and moderating inflation trends, two positives for the bond market. On September 30, the 10-year yield stands at 4.12%, a yield decline of 73 basis points.

As we near the presidential election, investors can expect the Fed to be low key and passive, unless there is a noticeable deterioration in international events, economic fundamentals or inflation trends. With the absence of extraneous factors, the Fed's long-term goal continues to be to raise rates in "measured moves" in order to achieve a neutral Fed Funds target rate versus inflation. Currently, this rate stands at 1.75%, with annual core inflation of around 2.00%. The 25 basis point differential suggests a continuation of monetary "ease" or accommodation. In the past, the favoring of this type of policy for long periods of time has led to rapid growth accompanied

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TAX EXEMPT FIXED INCOME

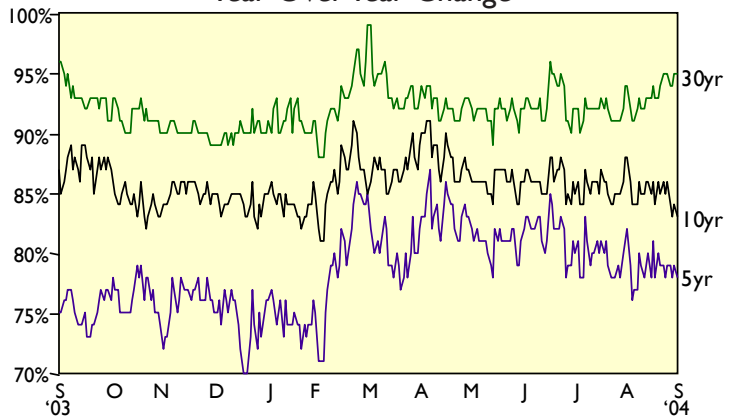
Strategy

The municipal bond market continues to surprise most market forecasters as the Fed's action to nudge up short term rates is met with concerns of a waning economy. Through the first nine months of 2004, even conservative intermediate tax-exempt strategies captured returns of around 2.5%, translating into a taxable equivalent yield of 3.9%. This is well above the skeptics' predictions who forecasted negative returns accompanied by significantly higher interest rates.

We did not share the skeptics' viewpoint and instead interpreted the shift in Fed policy as an effective tool to fight inflation and build confidence in the markets. In fact, during the quarter, we reversed our somewhat defensive stance that restricted the purchase of longer securities and the general shortening of portfolios triggered by the passage of time. As a result, we extended our duration target to 5.25, from 4.50. This is modestly longer than the Merrill Lynch 3 to 7 Year Municipal Bond Index, whose duration stands at 4.25.

One measure to determine the relative attractiveness of tax-exempt bonds versus taxable Treasuries is the yield ratio. We perform this calculation on various maturity areas throughout the yield curve. As shown in the following chart, based on a one-year comparison, the yield ratios in the five-year area at 78% and long area at 95% are attractive. In fact, we like a combination of these two maturity areas as an alternative to the 10-year area which is less attractive on a risk-adjusted and historical basis.

Municipal Treasury Ratio Year Over Year Change



Source: Bloomberg, Oakwood Capital Management LLC

Recent hurricanes hammered Florida and surrounding states, leaving behind devastation and significant hardship. However, municipal bond investors should take comfort that there is ample governmental support behind the rebuilding process. Historically, there have been few ratings downgrades to municipalities as this assistance flows in. After a review of client holdings, we see little impact on their market value and no deterioration in

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EQUITY MARKET

Strategy

While 2004 has been marked with uncertainty at home and abroad and the S&P 500 Index returns have been quite modest, there have been a number of positive developments during the course of this year. Since the beginning of the year the forward price-to-earnings (P/E) ratio on the S&P 500 Index has dropped from 18 to 16 times earnings. With the stock market modestly positive year-to-date, it makes sense that the decline in the P/E ratio is the result of growth in corporate earnings. At the beginning of 2004, earnings-per-share (EPS) forecasts for the S&P 500 ranged from 12% to 24%. Today the consensus EPS forecast for 2004 has narrowed to 18% to 19.3%. While the market P/E ratio is not classically cheap, a P/E ratio between 14 to 16 times earnings is considered in line with historical averages, providing investors with opportunities to make money through superior stock selection.

An example of the type of opportunity we seek in fairly priced markets is a great company experiencing a temporary problem. To illustrate, if a short term perspective has affected the investment community's view of the stock enough to cause it to fall in price, it allows those with a long term perspective, such as Oakwood, to buy it cheaply versus the intrinsic value of the stock. We found a few examples of this during the third quarter, including a superior retailer which has generated 29% return on capital over the long term. This particular company had trouble with a new management information system installation, causing short term problems and a subsequent drop in stock price. Once the management information system problems are resolved, we expect the market to reflect its long term intrinsic value.

Initial estimates on EPS growth for 2005 range from 7% to 10.2%. Dividend payments by S&P 500 Index companies have increased by a 12.3% annual rate, demonstrating that corporate managers and their boards share confidence in the quality and sustainability of their earnings growth. Certainly the lower tax rate paid by shareholders on dividends is also a factor in the increase in dividend payments. However, tax issues aside, we view this in-

crease in dividend payments as a fundamental positive for stocks and feel that the initial estimates for 2005 EPS growth could prove to be on the low side.

Using the initial estimates of 7% to 10.2% EPS growth for the S&P 500 in 2005 and the current dividend yield of 1.75%, the implied return on the S&P 500 in 2005 ranges from 8.75% to 11.95%. This range of implied returns assumes that the EPS growth estimates are realized and the P/E ratios remain constant. These may be big assumptions. There is an array of challenges and opportunities facing equity investors in the coming year that may impact market returns.

Cost push inflation is present in the economy. This, from an investment perspective, is a two-edged sword. For those manufacturing companies that must pay the higher costs for raw materials and energy, it is obviously a negative. For those energy companies that benefit from the increase in upstream profitability, it is a huge positive. Oakwood clients also benefit, as our portfolios are overweighted in these types of energy companies, relative to the S&P 500 Index. We recognized great quality and value in a few superbly managed, high return energy companies — and purchased them long before the recent run-up in oil and gas prices.

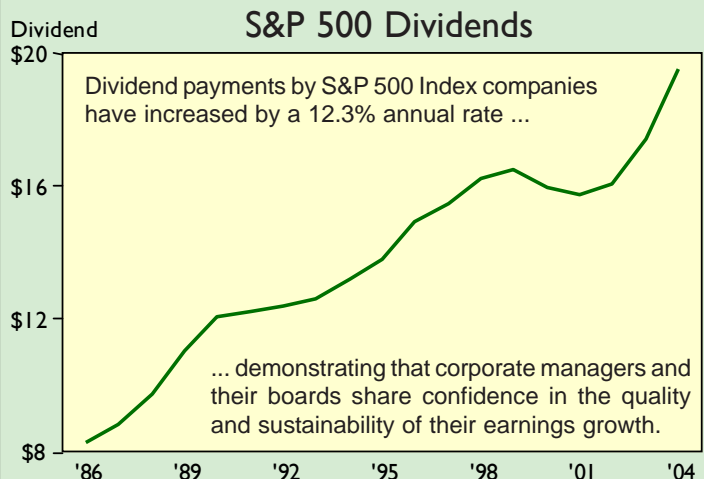
As a response to the potential threat that inflation pressures have on corporate earnings, we are focusing on owning companies that have pricing power. There are different elemental characteristics that can grant a company pricing power.

**Strong brand identity.** Adding to the power of strong brand identity is a lack of generic alternatives. An example in client portfolios is a major global beverage company whose brand identifies so strongly in the mind of consumers that price hikes can be passed along without the threat of deterioration of market share.

**Specialized niche products that are price inelastic, i.e., price changes that do not cause much of a demand change.** An example in client portfolios is a building materials company that sells very high quality kitchen faucets. This company is able to pass along higher costs that it incurs to homebuilders and contractors, as the end user is one who wants more of an exclusive product in their home, and is willing to pay for it.

**Barriers to entry.** An example of a company of this type in client portfolios is a medical testing laboratory company. The industry is somewhat fragmented, with a few large players and many regional "mom-and-pop" labs. The larger national laboratory companies have a monopoly on some of the esoteric genomic tests, gene-based testing being an example, which gives them the benefit of pricing flexibility.

While there are challenges in the current market, we believe that on balance the outlook for stocks in the year ahead is more positive than negative. In managing our client portfolios we will continue to focus on owning companies with positive cash flow characteristics, strong returns on capital, increasing dividends and healthy earnings growth prospects trading at attractive valuations. ■



Source: Baseline, Oakwood Capital Management LLC



## Spotlight on

***Tax Exempt Fixed Income Management***

We understand that municipal bond clients have several options to manage their tax-exempt needs. **The use of a mutual fund or individually selected investments may not result in a properly diversified portfolio, match client goals or be sensitive to tax planning.** Our mission at Oakwood is to combine the best features of each option.

Income taxes can be one of the largest burdens on investment performance, reducing the benefits of capital gains and interest payments. In some cases good investment decisions are even postponed because of the untimely effects of taxes. **An excellent investment choice for investors seeking protection from a significant amount of this tax liability is the Oakwood Tax Exempt Fixed Income Strategy.** This investment approach is ideal for any investor whose income is growing rapidly, investors seeking a complement to other taxable type investments and is a necessity for people in high-income tax brackets, particularly those in states with high state taxes such as California.

**Investment Philosophy**

**Oakwood's Tax Exempt Fixed Income Strategy is designed to generate strong levels of tax-free income and a generous after-tax total return through sound portfolio construction and active management.** The strategy utilizes a fully diversified fixed income portfolio that may own a variety of investment grade tax-exempt securities. All portfolios are managed under the strictest of quality standards utilizing both state-specific and general market obligations (depending on client residency), after-tax benefit and/or market opportunities. **Oakwood's actively managed client-specific fixed income management process ensures that each portfolio is structured according to client needs.** We take into consideration year-end tax management to help neutralize gains in other investments as well as liquidity for potential future asset allocation shifts and other unique tax situations.

**Investment Process**

The municipal bond market is large and complex and it can be very difficult to determine the true value of each investment. **Because the municipal market is not nearly as centralized as the stock market and is comprised of thousands of choices, each security must be analyzed and managed with a special set of skills.** Over forty years of experience in numerous economic cycles back up our fixed income team's continuous monitoring of the disparate tax-exempt marketplace. This experience provides our investment professionals with the tools necessary to evaluate individual security provisions, present and future changes in taxing policies, yield ratios and comparisons. This leads to a properly structured portfolio based on risk versus return expecta-

tions. Essential to this success is the ability to access all investment candidates and develop an extensive network of sources in order to buy or sell the best securities at the best prices.

**Tremendous variety is a hallmark of the municipal bond market in terms of maturity choices, quality type and debt service support, with an approximate \$1.3 trillion market value, consisting of over 50,000 issuers and approximately 1.5 million individual general obligation or revenue issues.** In order to identify the best issues from this vast marketplace for Oakwood client portfolios, our fixed income professionals employ a well-defined investment discipline which begins with a thorough understanding of the client's investment profile, including income requirements, acceptable volatility parameters, time horizon, return expectations, and any special tax, legal or personal considerations. This understanding provides a solid foundation for managing risk and achieving the investment goals of our clients.

**All security choices are subjected to a rigorous array of fundamental and quantitative modeling to validate rate of return expectations, including return variance and horizon analyses.** In rate of return analysis, we quantitatively determine expected rates of return in various interest rate environments, and then assign a confidence level and probability of achieving those returns. In horizon analysis, we go through a similar procedure, using differing time horizons as the key variable. The purpose of this modeling is to match volatility ranges to various time periods that are consistent with client goals.

**Tools**

**In order to provide our tax-exempt management team with all of the tools necessary to seek out securities, and evaluate and construct portfolios, we utilize industry standard state of the art systems.** At the heart of this process is the Bloomberg data system for daily monitoring of news and market developments, upcoming new issue calendars, security valuation, yield spread comparisons and options analysis. Also, Bloomberg provides access to thousands of investment candidates from countless sources.

On a daily basis, we receive numerous brokerage inventory sheets and market scales, research reports and institutional quality coverage from a hand picked list of acceptable brokers. **We refuse to overpay even for what would ordinarily be an appealing structure. Paying too much for transactions can severely impact the yield and total return benefit of a particular security.**

The most important tool to achieving clients' goals is our management experience and client support operations. Because the municipal bond market is complex, all data must be properly inter-

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**Taxable Fixed Income**  
Continued from page 2

by higher inflation. The latter fear is being displaced by evidence that the economic cycle has peaked. Despite this, we feel the bond rally will end if the Fed continues to tolerate this rate imbalance or if oil prices begin to descend. If this occurs, we feel investors will again refocus their attention on economic growth and inflation.

For the balance of the year, we are ready to initiate further steps to protect against the possibility of higher interest rates. As an example, during the year, we utilized callable type securities to augment yield, not an easy task in this very low rate environment. By eliminating this exposure, we will protect the holdings against the risk of maturity extension and further price erosion. Also, investing in higher coupon securities provides generous cash flow to client accounts along with a measure of market protection. We intend to continue this strategy as ongoing coupon payments are reinvested.

Finally, our judicious use of corporate bonds has enhanced yield and performance in client accounts. However, we remain mindful that any earnings disappointments can easily alter quality expectations and hinder future performance. Because economic growth has been somewhat sporadic and uneven within corporate sectors, we are concerned that the success of one company could come at the expense of its competition. The automobile and drug sectors are examples of this. Consequently, as each portfolio holding reaches our return goals, we may begin to reduce our overall corporate exposure, in favor of government-type securities.

During the next quarter, we should begin to see a resolution to many issues on the minds of investors. On one hand, natural disasters such as those experienced in Florida and surrounding states will initially subtract from upcoming GDP reports. However, the rebuilding process should create approximately 20,000 jobs that otherwise would not exist. Many of these jobs will be in construction, retailing, insurance and a variety of services. In the past, economic benefits from rebuilding outweighed the initial damage. As we experience these benefits, continue to make progress in Iraq and finalize Election Day results, the future for the economy should be clearer and the bond markets should stabilize. The critical unknown is the future of oil prices and the corresponding impact on the economy and bond markets. For now, caution is advised. ■

**Tax Exempt Fixed Income**  
Continued from page 2

their Aa and Aaa bond ratings.

**We have always favored general obligation versus revenue debt support, unless the debt service payments flow directly from a specific revenue source (i.e. toll road fees or direct user charges).** Additionally, general obligation bonds usually have better access to federal and state assistance programs with a greater flexibility to levy taxes for any anticipated shortfall. Further validation that these storms have had little impact on bond values is the unchanged yield relationship on Florida debt compared to other non-affected areas of the country.

As pointed out in the Taxable Fixed Income Strategy, higher oil prices create a dilemma for the Fed. The Fed understands that raising interest rates in the face of rising oil prices can hurt the economy, however, if they do not respond, inflation may become a greater problem. **We believe their decision to focus on inflation in the face of a waning economy is the correct course of action that will ultimately lead to economic stability and continued low inflation.** For the balance of the year, we will use periods of market pullback as an opportunity to make new purchases or reinvest coupon payments at attractive yield levels. As always, we continue to emphasize buying only the highest quality investments to obtain maximum liquidity and performance potential and remain ready to change our current investment structure if market conditions change. ■

## Investor Knowledge Quiz

Now that Fall is here, and it's back-to-school time, we investors can take some time to see how we may fare in Investing 101. The National Association of Securities Dealers (NASD) has, on their website, an Investor Knowledge quiz, consisting of twenty questions to assess the average person's understanding of investing in the financial markets. The questions vary from the basic understanding of the equity and fixed income markets to some more complex concepts regarding interest rates and options. The quiz also provides interesting information about reasonable expected returns and risk.

Individual and institutional investors alike have many challenges to face, from trying to understand economic indicators and how they impact investment decisions to figuring out what is a reasonable average return on an investment. It can sometimes be overwhelming. Taking a step back to the basics can help investors avoid misconceptions and reinforce positive investing behavior.

To test yourself, go to

<http://www.nasd.com/Investor/Education/Quiz/InvestorQuiz.asp>



## A Word From the Advisor Continued from page 1

course, investment returns. Yet investment returns are only the visible end result of an extensive undertaking that involves many people and processes. What is equally, if not more, important is to examine how those investment results are achieved - what levels of risk are taken, what type of investment process is in place to accomplish those returns. A procedure that many of the largest pension and public fund boards go through to select their investment managers starts with a short list of managers, selected from an initial examination of their investment results. Then the challenge posed to this list of managers is to delve beneath the returns, to explain their ownership and organizational structure, their investment process and presentation of performance data, along with their standards of client service. The evaluator then uses a scoring system to thoroughly sift through all the criteria, with high scores used to determine which investment manager is hired.

**An overview of this evaluation process exemplifies the superiority and strength that Oakwood possesses.** High scores are given to firms whose ownership structure is unaffiliated with any other types of businesses where a conflict of interest might arise, and is clear of any legal entanglements. Oakwood is independently owned, has no affiliation with other investment companies, and has no regulatory or compliance issues, which gives it a high score.

An analysis of the mix of investment, marketing/client service, and administrative personnel is also conducted. A proportionate mix indicates a well-run, balanced firm. At Oakwood, those in marketing and client service are equal in number to those in investments, including trading. To provide for best execution, we seek to block trades in order to reduce commissions. We have the ability to shop the various financial markets for the best price and we are only willing to buy or sell at a certain price for individual issues. Administrative positions, including compliance, complete the team. Again, a high score.

**Oakwood has the proven investment discipline to manage money unemotionally. We don't buy a stock or bond because we like the cell phone or potato chips a company makes, nor do we sell it because everyone else is selling.** No stock or bond enters a client portfolio without undergoing extensive research and scrutiny, both from an investment perspective and for client suitability. Our equity and fixed income research teams are deep in experience, training, continuous education, and knowledge. We know when to buy a security, as well as when to sell it. Our clear, concise and strong investment discipline and process once again results in a high score.

The preparation and presentation of investment results are also given close review. Returns presented according to the established industry standard (The CFA Institute, formerly known as AIMR – the Association for Investment Management and Research), include five areas: input data, calculation methodology, composite construction, disclosures, and presentation and reporting. Oakwood's compliance with Institute standards merits a top score. Unlike the highly regulated mutual fund industry, the majority of money managers are unaudited. We have our results voluntarily and independently audited by a Big 4 firm, placing us well ahead of the credibility curve.

In the evaluation process, client communication and ser-

vice are scrutinized. Oakwood clients engage in regular communication with senior investment and client service professionals. While many firms provide mere custodial statements, we generate custom reports, both hard copy and via daily online access. Each quarter, clients receive a copy of the Oakwood Outlook, in written and audio CD form, which includes economic updates, Fixed Income and Equity Strategy commentaries, and special topics.

Client retention rate is perhaps the most telling evaluation point, along with reasons for ending an investment relationship. The few clients that have ended their relationship with Oakwood did so for their own inherent reasons, such as a pension plan dissolving or the money invested was needed for personal reasons. **We are proud of our high client retention rate, and indeed, all Oakwood professionals have their own money invested in Oakwood strategies.** Our institutional array of well-defined equity, fixed income and balanced strategies enable us to meet clients' objectives, and as our clients' needs grow and change, we are able to accommodate their new and differing investment objectives.

A gorgeous home is only as valuable and solid as the foundation on which it is built. The same is true of investment returns. Oakwood's sound and well-balanced organizational structure, its team of professionals, and its audited and correctly presented investment returns are the foundation for the outstanding investment results and superior client service that you as a client have come to expect and receive. **We specialize in managing money, and that is all we do. We have the expertise that only experience can provide.** ■

## Spotlight on Tax Exempt Fixed Income Continued from page 4

preted while the thousands of securities choices need to be narrowed and tailored to each client's objectives. This interpretation is extremely specialized, as municipal fixed income securities don't fit into neat classifications as do most taxable fixed income securities. Each municipal security has its own unique structure, including callable versus non-callable. Proper diversification by issuer type, coupon preference, quality and geographic diversification all come together to provide maximum flexibility for both the manager and client. This is backed up with a professional operations team and experienced client service personnel.

**Oakwood's tax exempt fixed income sell discipline is woven into the overall investment process from the beginning, by establishing a clear sell mandate for securities that violate quality standards.** Should a bond holding in a client portfolio receive a downgrade by more than one gradation within a ratings category, a sell will result. As an example, if a bond is downgraded from Aa1 to Aa3 it will be sold. **We should note, however, that Oakwood has never had a mandatory sell triggered by more than one downgrade.** In addition, any major changes in Fed policy, which in turn affects the interest rate environment, inflation dynamics, and the health of the economy, will signal a review of securities held in client portfolios to assure that these particular holdings are still in line with client objectives and meet our strict investment guidelines. This sell discipline is the final link in the chain that provides a comfort level to our clients. ■



## Economic Outlook Continued from page 1

that these costs are putting on corporate margins. This offset will be difficult to sustain and eventually will have to be passed on to the end user.

**Global economic growth is driving the increase in commodity prices.** The International Monetary Fund estimates that global GDP will grow by 5% in 2004, moderating to a still robust 4% to 4.5% rate in 2005. In the US, we are seeing estimates of 3<sup>rd</sup> quarter 2004 GDP growth in excess of 4.0%. Despite this, the US government's balance of trade and investment flows are rapidly deteriorating, heading towards an unprecedented 6.0% of GDP, a 25% increase from last year. The US now owes \$3 trillion abroad, up 100% since the year 2000. **Currently, non-US creditors are the source of two-thirds of America's net domestic investment.** If these investors lose confidence in the US economy (i.e., if they see inflation rising or GDP declining), they could quickly sell billions of dollars worth of Treasury instruments, sending the dollar plummeting and sparking a global currency crisis, and the havoc that ensues, including a possible recession. The US must develop a mandate to reverse the fiscal deficits that absorb our domestic saving and force us to borrow so heavily. We must boost sales of US products abroad by developing a workforce that can clearly dominate high-skill, high-wage global industries. Government and business officials must press Asian and European nations to deregulate their own economies to open them to more imports and stimulate GDP.

On the oil front, the effect of spiraling prices has neutralized much of the real positive news about the economy. Oil prices have jumped over the past year, hovering at over \$50 a barrel. Higher demand is an important factor in rising prices, but doesn't totally explain the surge. Supply issues are a significant force behind the price rise, with no significant capital expenditures or increase in productivity being seen from current producers. Political factors, such as the problems between Lukos Oil and the Russian government and in the Middle East, combined with the higher demand of the upcoming winter season, all add to the tightness in supply. China's demand for oil has continued to surge, on top of supply worries exacerbated by terrorist fears and the Iraq situation. The role of speculators is a factor in the oil markets, with some analysts estimating an additional \$5 to \$10 a barrel due to speculator involvement.

Consumer spending accounts for two-thirds of US GDP. Consumer assessment of the economy has been slipping, due in part to rising gasoline prices, but based mainly on worries about the labor market. September's report shows that companies added 96,000 jobs to their payrolls during the month, well under economists' forecasts. This data comes at a critical time for the economy. Federal Reserve officials remain confident that the economy is back on track from the unexpected slowdown that struck in late spring and through much of the early summer. But many private-sector economists and the bond

market are taking a less optimistic view of current and future conditions, and are increasingly questioning the need for future Fed interest-rate increases.

What do we think about the upcoming presidential election? What history shows us is there is always a bit of short-term relief after a contentious election, regardless of the outcome, with a resulting rally. **Oakwood's long-term perspective and its proven investment discipline holds steadfast in and through any political or economic environment.** We note anecdotally that Vietti Foods of Nashville is marketing two canned bean recipes, one for Bush and one for Kerry. The Bush label is called "Conservative Republican Texas Chili Beans" and claims "Dubya would love 'em." The Kerry beans are called "Liberal Democrat Boston Baked Beans" and are described this way: "Liberally-spiced Boston beans married to a rich ketchup-based sauce." Sales at last count were about equal. An executive of Vietti Foods says: "It's not scientific," but "it could be a barometer of public opinion." Look for the validity in that. ■

*We wish you and yours an enjoyable holiday season. Please feel free to contact us should you have any questions or needs. We as always stand ready to provide you with high quality investment advice and client service.*

