A.R.Schmeidler & Co., Inc.

The Outlook

June 16, 2005

As of June 16, 2005		
Index	**YTD % Change**	**Market Value**
Dow Jones Industrials	-1.9%	10,578.65
S&P 500	-0.10%	1,210.96
Nasdaq Composite	-4.0%	2,089.15

Key to the US financial markets and the real economy's performance will be the level of energy prices, interest rates, raw materials costs, labor costs and corporate profits. We expect sectors that are benefiting from strong tangible asset prices to do well. We also favor high dividend-yielding equities and medium term fixed-income investments to be well positioned for the outlook described below.

Worldwide Energy Backdrop

Energy issues have taken center stage in the global economic arena. World oil demand for the fourth quarter is expected to reach 86.4 million barrels a day (mbd) or 1.78 mbd more than last year, a 2.2% increase according to the International Energy Agency. World demand rose 3.4% in 2004, its fastest pace in 25 years. **Unlike the 1970's where OPEC supplies determined energy prices, today's prices are being determined by global demand growth and lack of infrastructure that can handle growing demand**. Hundreds of billions of dollars will have to be spent over the next several years in order to accommodate growing global needs which include the emergence of Asia's large populations in China and India which are industrializing rapidly and building large populations of consumers.

China's Growing Influence On Energy

High oil prices and tight supply/demand conditions have led to a growing belief that the oil market has shifted to a new and higher price equilibrium. Growing competition between international oil companies and national oil companies, between China and India, and rising U.S. demand is putting a premium on access to reserves. It should be noted that India is producing less than 700,000 barrels of oil a day and has proven reserves of 5.3 billion barrels. This compares to China's production of 3.5 million barrels per day and proven reserves of 18.3 billion barrels. China's demand for energy will continue to grow.

The Chinese energy sector is at a critical juncture as demand is currently 6.7 million barrels per day and rising. **Supply is increasingly falling short of demand, and as the number two energy consumer in the world China has generated 1/3 of the world's incremental demand for oil from 2002 through 2004. In addition we believe China plans to build a strategic petroleum reserve.** At the same time OPEC is pumping at full capacity and will require an investment of hundreds of billions of dollars to significantly increase their production capability.

Insufficient Exploration Investments, Political And Economic Risk

At the same time insufficient capital is being invested in the industry to increase reserves. **As Fed Chairman Alan Greenspan testified last week to the House Finance Committee, oil investment is going into production rather than into new reserve discoveries.** The recent agreement by Chevron to purchase Unocal for $18 billion underscores their belief that it is less expensive to buy than to invest in new exploration. We expect further industry acquisition and consolidation to occur.

Political risks have also increased; for example Venezuela which produces 2.2 million barrels a day, has 32 private operating agreements which it wants to change to put the government more in control. Last year President Chavez raised royalties from 1% to 16.6% on the Orinoco Projects. He also increased taxes on operating agreements to 50% from 34%.

The U.S. Oil Imbalance

U.S. oil consumption continues to grow and production continues to decline. Jet fuel demand has risen by 4.1 %, gasoline by 1.4% and distillate demand by 4.6%. Current U.S. production stands at 5.5 million barrels a day with consumption at approx 21 million barrels a day. **Refineries are operating at capacity and no amount of additional crude oil into the U.S. will increase production of more gasoline and heating oil unless refinery capacity is increased, and this can only occur by building more refineries - something that has not been done in thirty years.**

In 2003 most U.S. oil discoveries were in the Gulf of Mexico. During that year proved reserves of oil in the U.S. declined 3.5%, the first decline in 5 years, and operators replaced only 58% of production. In 2004 U.S. production declined by about 5%. Without trying to forecast the price of oil it appears that as long as global growth continues it will be costly to bring supply and demand into balance.

Moreover because the environmental standards for diesel and gasoline purity will become much more stringent next year it will be more difficult and more costly for the U.S. to import refined product.

Strong US Natural Gas Dynamics

The outlook for natural gas is in some respects even stronger than for oil. The U.S. natural gas position is tight with little prospect of much increase in supply, while demand continues to grow. Demand is particularly augmented by natural gas use for generating electricity. LNG (Liquefied Natural Gas) will take some years to import in any significant quantities to make a big difference, and in the meantime growing demand will outpace domestic supplies. At the present time U.S. natural gas is selling for $7.40 per mcf and gas for January 2006 delivery is selling for more than $8.50 per mcf. Companies that produce principally natural gas should be in a position to deliver meaningful returns to investors. In 2003 the majority of natural gas discoveries came from extensions of existing fields. **New field discoveries were 33% below the prior 10-year average.** Large reserves were added in the San Juan Basin in Colorado and New Mexico in addition to Texas's Barnett Shale Region (part of the asset base of Devon Energy). From an environmental viewpoint natural gas is highly desirable, and it is worth noting that, in conjunction with coal, it has major use in electric power generation. In fact, coal is used to generate more than 50% of the nation's electricity needs.

U.S. & Asia Take Up Europe's Slack

Economic growth in the U.S. and much of Asia remains relatively strong, but below the levels registered a year ago. As long as U.S. consumer demand and China's economic expansion continue, the global economy can be expected to do reasonably well. However, a combination of high energy and raw materials prices and Asian competition has hurt the Western economies. Union contracts, a lack of education, training, and worker mobility often make it difficult and expensive for both U.S. and European companies to cut labor costs and be competitive. In recent years Western European economies have found it particularly difficult to reduce their labor costs, and for this reason Europe has been a drag on the global economy.

Interest Rates And The Rising U.S. Trade Deficit; Conundrum Explained

While Federal Reserve Board Chairman Alan Greenspan has commented that falling long-term rates in the face of rising short-term rates is a conundrum, there are several forces at work that have produced this result. The high and rising U.S. trade and fiscal deficits of $800 billion and $400 billion respectively are likely to continue to put upward pressure on the prices of raw materials and other tangible assets. The capital flows going overseas have generated excess savings for those countries that are running large trade surpluses, and these dollars are coming back to the U.S. Treasury market and keeping long-term interest rates low. **Since the average maturity of the national debt is about 54 months, there is a real shortage of long-term bonds issued by the U.S. Treasury**. **The demand for longer-term paper exceeds the supply causing those interest rates to decline despite the Federal Reserve's eight quarter-point increases from the 1% level.** Furthermore, our deficits are other countries' surpluses and these countries, particularly China, are creating low-cost manufacturing capabilities that are responsible for low global inflation and low interest rates.

Protectionist Sentiment Is Rising

The rapid industrialization of China, India, Korea, and other Asian countries has resulted in a rise of protectionist sentiment in the western world. Over the past five years the expansion in global trade has accounted for over 1/3 of the cumulative increase in global GDP. Protectionist actions aimed at restricting the growth of Chinese trade could hit the fastest growing component of world trade thereby arresting one of the most important sources of global economic growth. The U.S. trade deficit continues to grow, with an outsized imbalance with China now accounting for the biggest piece of our trade deficit. As outsourcing of jobs moves from lower level manual labor to higher value white collar occupations, job and real wage protection issues will get scrutinized by government policy makers as never before. In both Western Europe and the U.S. there is a growing political resistance to free trade and economic globalization.

The Market's Current Focus

Equity investors hope that falling bond yields are predicting good news. They hope it means low inflation, moderated economic growth and an end to the Federal Reserve's rate increases. Unfortunately lower government bond yields are encouraging hedge funds and others to take greater risks in an effort to boost investment returns. This could pose a threat to stability in the financial markets in the future. Over the years Federal Reserve rate increases have tended to end with trouble, most recently the Russian debt default and Asian economic crises of 1998, and the bursting of the technology stock price bubble in 2000. The U.S. economy is now facing pricing pressures as a result of high-energy prices and raw materials costs. Past underlying fear helps explain why most stock indices still are not back to where they began this year. It is also why investors are watching the bond market with a mix of hope and anxiety. When long-term interest rates fall as short-term rates rise, the economy generally slows eventually leading to disappointing corporate profits and lower equity valuations.

U.S. Homebuilding Remains Strong

The most obvious result of the declines in long-term interest rates is low mortgage rates and increased home sales and prices. Also fueling housing activity is the spread of interest-only loans and adjustable-rate mortgages that let buyers minimize their down payments or delay repayments of principal. The homebuilding industry is poised to deliver record results in 2005. The sector is not only benefiting from low mortgage rates, but also from other positive factors. **Underpinning the acceleration of housing demand is improved employment levels, increased immigration, and a rise in the number of affluent households in the U.S.** The latest set of housing statistics does not indicate, in our opinion, that there is a national housing bubble that is about to burst. A shortage of desirable land has allowed most builders to push through several price increases that have helped these companies expand their margins. **The large publicly owned builders that we favor also enjoy significant cost advantages over their smaller privately held competitors.**

Basic Materials-- The Rest Of The Decade

The global economy continues to move forward, underpinned by the resiliency of residential construction and the need for roads, bridges, electric power generation, oil refineries and other important infrastructure projects. In addition global demand for electric power has been rising along with increases in personal income. China alone expects to spend $24 billion in 2005 on electric power generation, and the industrialization of China is having a powerful effect on demand for raw materials. Some of the most critical materials such as copper and nickel are in limited supply and have helped to fuel the strongest market for basic materials in decades.

Overall we are optimistic about the sector's long-term prospects. Our sense is that the second half of this decade may even see acceleration in the global demand for these materials. **Given such an economic setting, sound balance sheets, powerful cash flows, and superior management, a period of solid earnings growth, dividend increases and stock appreciation should lie ahead. As noted in our prior Outlook, volatility will be a continued feature of any likely advance.**

Conclusion

The share-price declines that were experienced in April and May in some of the sectors that we favor, served the purpose of weeding out speculation and refocusing market participants on the positive industry fundamentals and favorable company valuations. **The equity market will remain a stock picker's market, and investors will need to pay close attention to asset allocation**

and sector positioning. We continue to take an opportunistic approach with regard to purchasing the equities and bonds that are beneficiaries of the global outlook.

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