The Outlook

A.R.Schmeidler & Co., Inc.

March 31, 2005

As of March 31, 2005		
Index	**YTD % Change**	**Market Value**
Dow Jones Industrials	- 2.6%	10,503.8
S&P 500	- 2.6%	1,180.59
Nasdaq Composite	- 8.1%	1,999.23

The following are important characteristics that are likely to continue over the course of 2005 and beyond unless the underlying economic dynamics change.

- Inflation is starting to increase
- Federal Reserve will continue to raise rates (until the economy slows)
- Energy prices are likely to stay high
- The US dollar is likely to decline further
- Corporate profit growth will continue to slow for the balance of the year
- The trade and current account deficits are likely to worsen
- Equity selectivity will continue to be a dominant theme

With a supply/demand cost squeeze feeding through the system, prices of semi-finished goods, excluding food and energy are rising at an annual rate of more than 8% - the most in 20 years. With the dollar falling, the cost of imported goods is rising allowing U.S. manufacturers to raise their prices. Moreover we expect to see higher energy prices add to this in the next two months. In the meantime the Fed has become more sensitive to signs of inflation, and we expect at a minimum a shift in language at the next Federal Reserve Board meeting which would lay the groundwork for more aggressive interest rate increases if it becomes necessary to deal with increasing inflation pressures.

Under these circumstances investors must continue to focus on the preservation of their buying power.

<u>The U.S. Current Account Deficit</u>

On March 11th the January trade gap was announced and it had widened more than expected to $58.27 billion vs. an expected $56.5 billion. In our December

Outlook we stated that U.S. dollar devaluation would not have the positive impact it used to have on our trade deficit. Our opinion has not changed. **A major component of our trade gap is imported oil. In January we imported 416 million barrels of oil at an average price of $35.35 per barrel. Because oil prices are currently higher we consequently expect an increase in our trade deficit**.

The current account deficit has been expanding since the mid-1990s, and for years economists and currency traders have been warning that it cannot continue to do so indefinitely. What can't continue has to end; the only question is how and when.

The Federal Reserve's Actions

The Federal Reserve Board Open Market Committee raised the nation's benchmark interest rate by another quarter percent to 2.75% during their March 22nd meeting. The Federal Reserve Board's accompanying policy statement signaled for the first time in nearly four years that the central bank believes inflation has become more of an issue. Rising labor costs, crude oil prices, raw materials prices and a weak dollar are weighing on the economy. While the federal funds rate now stands at 2.75% it could be substantially higher by the end of the year if inflation continues to accelerate. This would slow the economy and hurt the financial markets.

Global Industrialization Is Benefiting Specific Sectors Of Our Economy

In our last outlook we re-examined our view for the U.S. dollar and touched on some of the more attractive investment opportunities that benefit from global industrialization. **Among the opportunities, we included U.S. multinational companies that participate in infrastructure, heavy industry, manufacturing and mining and whose products and services are growing with rising global demand.** We've seen recognition of our thoughts during this quarter where many of our investment ideas delivered extraordinary returns although some have retraced their gains in recent days as hedge funds and others took profits.

One of our focuses has been in basic materials - iron ore, coal, steel, oil and gas, copper, and nickel. **During the quarter the price of iron ore was raised by 71½%, and the price of iron ore pellets was increased by 86% by Cleveland-Cliffs.** Now steel prices either will have to be raised or the steel industry must absorb higher costs. Iron ore and iron ore pellet costs are 10% of the cost of producing steel. **Another example of a basic material in short supply is copper whose global inventories have been drawn down to 3-weeks of**

supply. As for energy prices, oil prices continued to rise as refineries operated at capacity while demand for oil products (i.e. gasoline and diesel) has kept increasing. The tightness in the energy market partly results from a lack of refinery capacity that will be with us for a considerable period of time.

We believe that world demand for raw materials will continue to remain strong and barring a global recession, we expect continuing industrial expansion. Congested highways, overflowing sewers and corroding bridges are a constant reminder to Americans of our neglected needs. We expect demand for basic materials that are needed for the growth of the global economy to continue to rise throughout the decade. Some of the companies benefiting from global industrialization sell at cash flow and earnings multiples of less than 5 times and 10 times respectively, and are in a position to raise their dividends significantly.

U.S. Machinery Companies

At this juncture, we also favor investments in U.S. machinery companies; they are experiencing strong demand in the U.S., South American and Asian markets. **These companies are generally seeing better equipment pricing, market share expansion and rising exports.** Markets that are driving machinery demand include agriculture, construction, manufacturing, mining and transportation. Revenues and profits in this sector have benefited from these positive developments.

U.S. Railroad Industry

Another area of interest is the railroad industry which could offer investment opportunity to us. **Demand for rail services should continue to exceed the industry's capacity well into the decade.** Nearly all categories of products shipped by rail are experiencing volume increases. Bulk raw materials are leading the way, generating the largest revenue and profit advances for the industry. Furthermore, coal shipments are undergoing a considerable upswing in volume. Coal is one of the most profitable product shipment categories for the Railroad Industry.

U.S. Defense Companies

We continue to hold and add select defense companies to our portfolios. The Administration is currently developing its proposed defense budget for fiscal 2006. **While we do not expect a significant increase in military spending since it has grown rapidly since September 11th, there will continue to be**

important technology upgrades, and the absolute dollars spent will likely have an upward bias.

The U.S. faces numerous military challenges on a global scale. The challenge extends well beyond just Iraq and the Middle East. Top U.S. military commanders have warned Congress that China's military power is growing at a rate much faster than China would seem to need for national defense. The growth has come particularly in the areas of maritime strength and aircraft attack capability.

The Causes Of Recent Volatility

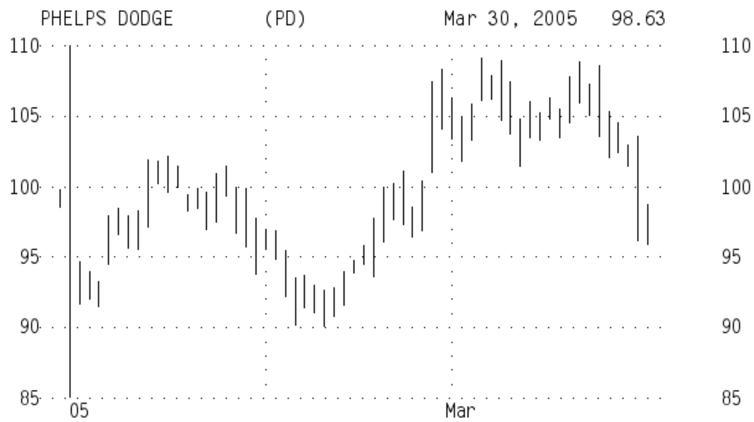
The investment landscape that we are describing is, in essence, a market within a market with only select areas that are vibrant and growing and undervalued. As a consequence there are many dollars chasing fewer sectors causing large swings in stock prices as investors, hedge funds and traders enter and exit these areas.

Unlike mutual funds, hedge funds are basically unregulated. They are able to borrow securities and sell short, and they typically use significant leverage in their operations. **Hedge fund trading tends to distort and force the prices of individual securities away from otherwise fundamental valuation considerations.** The infrastructure, heavy industry, manufacturing, energy and basic materials sectors delivered a significant amount of the equity appreciation to portfolios during the quarter and had become a tempting target for hedge funds to sell and lock in profits as the quarter ended.

Over the past decade hedge funds have been the fastest growing component of the investment management community now representing over $1 trillion of investment capital. They also represent the lion's share of daily trading volume on and off the exchanges. Hedge fund strategies are to generate positive rates of return and they are practiced on a daily basis. The goal is to garner near-term performance and lock in gains. Many are motivated by rumors and misperceptions as well as fundamental developments.

Hedge funds generate lucrative fee-based revenues for Wall Street through complicated trading strategies, creative financing deals and active trading, a major function of prime brokers. It is in the prime brokers' interests to generate as much activity as possible which can add to volatility. It is estimated that hedge funds currently generate more than 30% of the Street's equity commissions, and we expect that percentage to grow over the next several years. Hedge funds have become the focal point for profitability for prime brokers.

As an example of pronounced volatility, if one were to have owned Phelps Dodge through the first quarter of this year, the value of the holding would have fluctuated over 21% within that period…



If an investor with a buy and hold strategy disregarded the trading volatility that was in excess of 33% on the down side and held the stock for the past 2 years, the total return would have been in excess of 160%…

Volatility is a feature of today's market. And while it can be uncomfortable for an investor to experience, it should not influence ones' long-term investment discipline. However volatility does give investors the opportunity to purchase securities at more attractive prices when shares are undervalued.

In summary

With what's occurring overseas and in combination with the U.S. highway bill totaling $287 billion, demand for infrastructure goods and services should increase. It is worth noting that institutions are generally under-invested in basic materials if they have less than a 3½% weighting in their portfolios. A 3½% weighting, which we consider low, is the current basic materials weighting in the S&P 500. This under-representation is a reflection of investor disinterest. We also note that the S&P 500 weighting in energy is only about 8½% versus 7% last year while the earnings representation is far greater than 8.5%. It should also be noted that the major part of the earnings improvement of the S&P 500 this year is attributable to the energy sector. We believe that the weightings of these sectors will increase as institutional and individual investors' interest increases.

Finally, our view of the outlook supports investment in selective dividend-paying equities and fixed income securities with maturities under 5 years.