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May 13, 2005

Re: April 2005 Client Letter

Dear Clients and Friends,

We've made several changes to both the Relative Value and the Choice Portfolios.

We rebalanced the Relative Value portfolio and eliminated some positions from the Choice, while adding others. The returns for both model portfolios versus relevant stock market indices (including reinvested dividends) as of April 30, 2005 follow³:

	April	YTD 2005	2004	2003	2002	Since Inception
Relative Value¹	-6.10%	-9.42%	33.54%	44.09%	-2.09%	70.64%
Russell Midcap ¹	-3.19%	-3.43%	20.22%	40.06%	-1.10%	60.73%
S&P 400 ¹	-3.89%	-4.27%	16.48%	35.62%	-4.10%	45.02%
Choice²	-4.09%	-15.98%	15.31%	22.31%		18.53%
S&P 500 ²	-1.90%	-4.00%	10.88%	32.87%		41.43%
Russell 1000 ²	-1.84%	-3.71%	11.40%	29.65%		39.03%
Russell 3000	-2.17%	-4.33%	11.95%	31.06%		
Dow 30	-2.81%	-4.81%	5.31%	28.26%		
Nasdaq	-3.85%	-11.50%	9.15%	50.77%		

1. The inception date for the Relative Value model portfolio is 12/6/2002. For comparison purposes the S&P 400 is assumed to have an inception date of 12/1/2002 and the Russell Midcap is assumed to have an inception date of 12/6/2002. All returns are total returns.
2. The inception date for the Choice model portfolio is 4/4/2003. For comparison purposes the S&P 500 is assumed to have an inception date of 4/1/2003 and the Russell 1000 is assumed to have an inception date of 4/4/2003. All returns are total returns.
3. Notes: The returns of the Relative Value and Choice portfolios represent models each with an initial investment of \$10,000. They do not represent actual trades of client portfolios although client portfolios are based on the model portfolios. The model portfolios are for informational purposes only. Although Brick Financial believes the information and data in this report were obtained from sources considered reliable and correct, we cannot guarantee their accuracy or completeness. Neither this commentary, nor any opinions expressed herein, should be construed as an offer to sell or a solicitation of an offer to acquire any securities or other investments mentioned herein. Persons associated with this firm may own or have an interest in securities or investments mentioned in this presentation. Their positions may change from time to time and they may buy or sell such securities or investments. Past returns are no guarantee of future performance. Model portfolios and charts are maintained at Foliofn.com. The index data comes from several sources including Standard & Poor's, Russell, Barra and Bloomberg.

How is the market doing?

The S&P 500, Dow Industrials and Nasdaq are all down for the year. Ending April 30, each is down 4.00%, 4.81% and 11.50%, respectively.

Total Returns					
	Jan	Feb	Mar	April	YTD
S&P 500 Index	-2.44%	+2.10%	-1.77%	-1.90%	-4.00%
Dow Industrials	-2.59%	+2.92%	-2.31%	-2.81%	-4.81%
Nasdaq Composite Index	-5.18%	-0.43%	-2.50%	-3.85%	-11.50%

Source: Standard & Poor's, Dow Jones, Nasdaq

Most experts feel that the market's poor performance can mostly be blamed on increasing oil prices and rising interest rates. Not surprisingly oil and utility stocks have been among the best performers this year, up 10.8% and 7.5% respectively. However, most S&P 500 sectors are flat or down year-to-date (YTD), with financials responsible for a significant part of the overall decline (down 7% YTD). Other sectors hit hard were tech, telecom and consumer discretionary stocks.

How are we doing?

Our portfolios happen to be heavy in the sectors that have not done well so far this year. For the fourth month in a row, the Choice portfolio lagged its benchmark (the S&P 500). Our holdings - Bank of America, Freddie Mac and Washington Mutual – each with their own problems, have all performed poorly for the year for many of the same reasons the financial sector underperformed as a whole. Our tech stocks have also done poorly so far this year. The most egregious culprits were eBay, Amazon, and Interactive.

The Relative Value portfolio fared a little better compared to its benchmark (Russell Midcap) but still had some hiccups of its own. Heavily invested in financial services and consumer discretionary companies, the portfolio experienced some setbacks. Capital One, WSFS Financial, and TJ Maxx all experienced outsized *negative* returns for the first part of the year.

You might ask, "Isn't the fall in prices evidence of poor stock picking?" Or, you might ask, "If stock prices are falling, shouldn't I cut my losses and sell?" (Actually, I was just asked a similar question by good friend.) Well, my answer to both questions would be that while in the long-term (5 or more years) price change is a good indicator of investment performance, in the short term it is not necessarily the best measure. So an investor must depend on alternative measures of performance.

How are other concentrated, value-oriented funds doing?

Although we just told you that the short term doesn't matter much, it is interesting to see how other highly concentrated (less than 40 positions) value-oriented portfolios are performing. These types of portfolios are extremely rare in the mutual fund world (they are little more popular among hedge funds). The list below represents nearly all the mutual funds that fit that description. All of these funds and their managers have been able to beat the stock market over any period greater than 5 years. But let's take look at the one year returns of these funds compare to our portfolios:

Name	Symbol	Capitalization Focus	Number of Holdings	1 year return as of 4/30/2005
Relative Value	n/a	Mid-Cap	35	+14.84%
<i>iShares Russell 3000 Index</i>	<i>IWR</i>	<i>Mid-Cap</i>	<i>Index ETF</i>	<i>+14.04%</i>
Oakmark Select	OAKLX	Mid-Cap	27	+7.03%
Mairs & Power Growth	MPGFX	Mid-Cap	41	+6.83%
Ariel Appreciation	CAAPX	Mid-Cap	38	+6.55%
Legg Mason Special Interest	LMASX	Mid-Cap	38	+3.44%
<i>iShares S&P 500 Index</i>	<i>IVV</i>	<i>Large Cap</i>	<i>Index ETF</i>	<i>+6.34%</i>
Clipper	CFIMX	Large Cap	27	+5.19%
Legg Mason Value Trust	LMVTX	Large Cap	39	+5.10%
Longleaf Partners	LLPFX	Large Cap	29	+2.05%
Legg Mason Growth Trust	LMGTX	Large Cap	27	-2.74%
Choice	n/a	Large Cap	17	-3.25%
Sequoia	SEQUX	Large-Cap	23	-5.09%
White Oak Growth	WOGSX	Large Cap	22	-12.93%

Source: Foliofn

Take note of a couple of things. First, the range in returns from port to port is very wide (from our port Relative Value at 14.84% to White Oak Growth's -12.93%). The second thing you should take note of is that *none* of these outstanding managers are beating their respective indexes (represented by the iShares ETF funds¹). Does this serve as evidence that each manager has lost his/her investment muster? Doubtful. It is just the economic climate we find ourselves in.

How we measure our performance

When we consider a stock for purchase or sale, we think of it as if we were buying a home - we plan on keeping the thing for a while. So we are more interested in the long term operational performance of the company, as we would be the long term functional performance of a home. **Warren Buffettⁱⁱ once said, "We let our (stocks) tell us by their operating results – not by their daily, or even yearly, price quotations – whether our investments are successful.** [We encourage you to make note of this statement!] The market may ignore business success for a while, but it will eventually confirm it."

We feel like there is a definite disconnect between what is actually happening in the economy and the reaction in the stock market. We mentioned that rising oil prices and interest rates will have a dampening affect on stock market returns, but the degree to which this occurring seems to be severe. Most investors are still shell shocked from the market declines of 2000, 2001, and 2002. One of the consequences of this is that investors are starting to price great companies as if they were average. This is especially true of the stocks in our ports. The following stocks are representative of what most of the positions we hold are experiencing:

Anheuser-Busch (YTD return = -10% prior to Warren Buffett announcement)

Anheuser-Busch's P/E is at an atypical low of 17x which is as low as the ratio has been since 1997, when the P/E was 20. Domestically, beer sales are slowing due to

consumers' preference for alternative "spirits" and Bud is losing market share to smaller brewers. But the company is still strong internationally. It's continued to perform well with high returns on capital and high returns on equity. Bud also has a generous share repurchase programⁱⁱⁱ, which will have the affect of making the remaining shares more valuable.

Our view is that BUD should have no trouble continuing to grow at 10% to 12% a year. With the current price of the stock at about 25% below our estimate of intrinsic value, we see promise in this company over the next few years.

We are not the only investors who feel this way. On April 21st it was announced that Warren Buffett (through his company Berkshire Hathaway) had acquired a "significant" stake in the company, which sent its shares up more than six percent that day.

eBay (YTD return of -41%)

We talked about eBay in our January 2005 letter. Since that time eBay has continued its winning ways operationally. The online auctioneer's net revenues in the first quarter climbed 36% to \$1.03 billion. Meanwhile, net income rose 28% to \$256.3 million. Although eBay's overall and domestic growth are slowing, international growth figures should remain high and strong. International revenues grew 52% to \$393.8 million, while the PayPal payments business saw revenues climb a healthy 47% to \$233.1 million for the first quarter. The company remains debt-free.

Unadjusted free cash flow for the company reached \$1.1 billion in March 2005 representing a 69% increase over the previous year. Our intrinsic value calculation estimates eBay at about \$52 per share. It should be noted that these estimates don't reflect the expensing of the company's stock options program. Stock options would lower the valuation by about \$6 per share. But even at \$46 per share, this represents a significant discount to the current price of about \$33.

Capital One Financial (YTD return of -16%)

Cap One has gone from a small credit card issuer to one of the largest consumer lending organizations in the country. Since 1996, the company has moved into auto lending, medical patient financing and has increased its international operations. Recently, it acquired Hibernia bank with about 300 regional locations. Hibernia will serve as a source of funds for Cap One and stabilize its lending practices.

This past quarter their earnings increased by 12.4% year-over-year and revenues increased by 9.2%. These figures were more than most analysts estimated. Part of the stellar performance was due to Cap One's success in reducing its loan loss reserve^{iv}. Defaults on loans outstanding fell by 0.25% to 4.18%. Cap One is currently trading at a P/E of just over 11x, much lower than its 10-year average P/E of 16x. Should the company reach its target earnings for FY2006 (~\$7.70 per share) and return to a "normal" price multiple of 15x, we're looking at an \$115 stock. That amounts to a 61% return over its current price at \$71.

Patience is a virtue

We'll keep to our strategy of buying undervalued securities of quality companies. In the short term, these investments won't always turn out. But over the long term we expect them to.

A few quotes from the latest Berkshire Hathaway annual meeting:

Charlie Munger^v: Our system [concentrated portfolio, value investing] has worked wonderfully well. The only surprise is how few people copy it.

Warren Buffett: The beer business won't grow significantly in the U.S., but [Anheuser-Busch]'s popularity is growing worldwide. Bud will be strong.

Buffett: There are no secrets to investing that only some select priesthood knows. Successful investing requires a quality of temperament, not a high IQ.

Munger: [Berkshire Hathaway doesn't own real estate because] right now many properties have bubble-type valuations. All my rich friends have been selling their worst properties at high prices. Property valuations are high.

Munger: I'm the Republican ... and I think the Republicans are out of their minds to take on this issue [Social Security reform].

Buffett: Rule #1: Don't run up charge card debt. That's the first thing I tell students when I talk to them, and I tell them that if you remember nothing else, remember that.

Munger: You'll never get rich by diversifying.

Buffett: Equities will be the best investment [over the next 10 years].

Thank you for your continued confidence in us and our portfolios. As always, we welcome your comments or suggestions. Please don't hesitate to call us at (973) 313-1220 or 1-888-BRICK-10 or email us at info@brickfinancial.com.

Sincerely yours,



Benjamin B. Taylor

Endnotes

- ⁱ ETF. A fund that tracks an index, but can be traded like a stock. iShares is the largest provider of ETFs.
- ⁱⁱ Warren Buffett: The Chairman of Berkshire Hathaway, and arguably the greatest stock market investor of all time. His forte is in identifying undervalued companies, and he is well-known for taking very long-term positions in companies he identifies as being good investment prospects. Buffett provides strong evidence that it is possible to consistently outperform the market.
- ⁱⁱⁱ Share repurchase program: Program through which a corporation buys back its own shares in the open market, typically an indication that the corporation's management believes the stock price is undervalued. Has the affect of increasing the value of the shares that remain outstanding in the open market.
- ^{iv} Loan loss reserve: In asset-based lending, it is the percentage of the amount lent required to be held in reserve to cover the costs of potential loan default.
- ^v Charlie Munger: The Co-chairman of Berkshire Hathaway and right hand man of Warren Buffett.