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June 22, 2005

Re: May 2005 Client Letter

Dear Partners, Clients and Friends,

Our model portfolios made strong gains in May. Both the Relative Value and the Choice model portfolios outgained their respective benchmarks returning 6.8% and 7.1% respectively for the month. The returns for both model portfolios versus relevant stock market indices (including reinvested dividends) as of May 31, 2005 follow¹:

	May	YTD 2005	2004	2003	2002	Since Inception
Relative Value²	6.77%	-3.29%	33.54%	44.09%	-2.09%	82.18%
Russell Midcap	4.79%	1.20%	20.22%	40.06%	-1.10%	68.53%
S&P 400	6.02%	1.50%	16.48%	35.62%	-4.10%	53.75%
Choice³	7.06%	-10.05%	15.31%	22.31%		26.89%
S&P 500	3.18%	-0.95%	10.88%	32.87%		45.93%
Russell 1000	3.54%	-0.30%	11.40%	29.65%		44.00%
Russell 3000	3.79%	-0.70%	11.95%	31.06%		
Dow 30	2.97%	-1.99%	5.31%	28.26%		
Nasdaq	7.72%	-4.66%	9.15%	50.77%		

[Our portfolio commentary can be viewed later in this document.]

¹ 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, Dow Jones, Nasdaq and Bloomberg.

² 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.

³ 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.

Why we write to you

These Client Letters serve several purposes. Usually, we use these letters to inform our clients and those who we hope are soon to be our clients of the state of affairs of our collective investments and our approach to managing those investments. By doing so, we hope that you will also gain insight into how we operate and the intellectual village in which we live. Occasionally, we will step out of that particular box and write about some issues that we think are pressing, important, or just plain interesting. This will be one of those occasions.

The role of wealth in our lives

Take note that we are pleased with how our current and soon to be clientele is shaping up. You are not a homogeneous set. Some of you are young in age, some of you are simply young at heart. Some of you are long time employees while some of you are short time entrepreneurs. Some of you are experienced investors while some of you are just getting your feet wet. Some of you have a substantial “Go-to-Hell”⁴ fund while others of you have yet to reach the “Go-to-Heck” fund level.

What we all share in common, however, is the desire to have more out of life. And the recognition that our hard earned dollars will and should play some particular role in that. Money, and more specifically wealth, enables the life we want. And usually, the things we want in life go past the material things. Usually, the things we want are time, love, compassion, the ability to choose and the freedom from worry. Charlie Munger is quoted as saying:

“Like Warren [Buffett], I had a considerable passion to get rich. Not because I wanted Ferraris – *I wanted the independence.*”⁵

Wealth increases our ability to shape our own destinies.

This is a partnership

In fulfilling our mission⁶ (http://www.brickfinancial.com/about_us/mission.pdf) as a firm, which in spirit is helping you reach your destiny, we’ve set out some guiding principles. The first two of these principles refer to our relationship with you. They are:

- We are partner-centric in all aspects of our business
- In line with our partner-centric orientation, we invest the majority of our personal assets alongside our client-partners

⁴ In *The Millionaire Next Door*, Dr. Thomas Stanley pointed out that most millionaires had enough cash to live on for 12 years or more without having to work. In other words, they are able to tell their bosses to “go-to-hell” any time they want.

⁵ Janet Lowe, *Damn Right!*, (New York: John Wiley and Sons, 2000), p. 4

⁶ Our Mission is to:

- strive to be an open-source, world-class value investment firm
- challenge exclusionary practices that work to undermine wealth opportunity
- operate as an advocate for investor rights and education

We view this relationship we have with you as a partnership⁷. We have aligned our interests with yours by investing our money alongside yours. Ultimately, as your partner we have a responsibility to you, which we view as being your guide, advocate, concierge in optimizing your wealth.

The “you” we refer to is not just our clients. It is anyone who comes into contact with us. As stated in our mission statement, we want to be “open-source”. Meaning, we want to be available to anyone who needs us. We can best accomplish this by converting each of “you”, our partners, into *client*-partners. To that end, we need to make those who may need us, *aware of us*. Which leads us to what we expect of you in our partnership (yes, we need you too) which is for you to (1) assist us in increasing and sustaining our brand identity by freely referring us to your friends, family and associates and (2) become a client if you haven’t already (<http://www.brickfinancial.com/ssl/quickstart.html>).

Exercise your right to refer!

One of our goals over the next year is for 100,000 people to have seen, heard of, or talked to us or read something we’ve written. Of course inherent in that goal is the expectation that we will increase the number of client-partners we serve. Although we can approach this goal through several forms of traditional marketing and public relations, no other form of client introduction has as much cache as your seal of approval. It is considered axiomatic in the investment management business that the best source of new clients is referrals. The irony is that the power of your referral may not be evident to *you*. So we will make a point to try and remind you from time to time of that power, hopefully at a level just short of obnoxious.

“Send to a Friend”

Referrals can take many forms, all of which hold some value for us. The easiest [read: lowest obligation] way to refer us is simply to forward to someone else this letter and other material you might receive from us. You may have noticed that with each mail we send you there will be a “Send to a Friend” hyper-link. We implore you use that link as often as you can. We would also encourage you not to pre-qualify your recipients as very few of us know the *true* financial status or needs of even our closest friends. Even fewer of us know the financial status or needs of *friends of friends*. Thus, we hope you share our writings freely and frequently. The best case scenario would be to have those we write, tell two (or more) friends, then they tell two (or more) friends and so on and so on⁸.

“Add a friend”

Keep in mind that should you forward our letters, newsletters and articles, we have no way of tracking the recipients. So their privacy is protected. Which brings us to the next level of referral. And that is to actually share with us the email addresses of your friends, family and associates. We will provide them with the same value added information we

⁷ Partnership: a relationship usually involving close cooperation between parties having specified and joint responsibilities.

⁸ How many of us have either sent or received an email that was nothing more than a risqué joke, a chain letter or a bogus offer that “Microsoft will pay you thousands of dollars if only you blah, blah, blah...!”? Were those things value added?

provide to you. And since we use a double opt-in mailing list system [even if you refer them, we still need their permission to send them material not once, but twice], this is also a low obligation way to refer us.

Host an “Investor-ware” party

Yet another way to refer us is to personally introduce us. This can be done on a one-on-one basis or in groups. In fact, we are able to conduct a series of topical seminars to small groups – groups that can be made up of your friends. These seminars have the dual purpose of educating the group on the featured topic and introducing Brick Financial. To be clear, these seminars are more like the financial equivalent of a Tupperware™ party rather than an uptight business affair. We prefer to hold them in our host’s home where we find most attendees are comfortable.

We want to reward you

We think *the* most important form of introduction for the business success of our firm is your referral. So much so that we’d like to reward those who take the time and trust us enough to do so. With any luck this reward will act as an incentive for you and a way for us to show our appreciation. We are going to keep track of the number of referrals (email, in person or otherwise) each of you gives us each year. [Be sure to use the “Send to a Friend” links.] We will then award a yet to be determined prize to the individual that provides us with the *most* referrals (in person), the most *email* referrals and yet another prize for the individual who provides us with the highest number of “qualified” referrals. Over the next few weeks, we’ll look for suggestions from you as what the prize should be. Our first thought was a handsome (though not outrageous) cash prize, but before we determine that, we want your feedback.

For the more commercially minded among you, we have developed a reward program in the instance that your referral actually results in our firm gaining a new client. The program operates under the terms of a “Solicitor’s Agreement” (<http://www.brickfinancial.com/forms/solicitor.pdf>). In essence, we will reward you a dollar amount based on fees received by Brick Financial from any “Referred Client”. This program is usually reserved for use between professional firms. But your recommendation is no less valuable to us, thus we will treat it as such.

So please continue, or start, to tell any and all individuals you know about the services we offer. And remember not to pre-qualify.

Don’t be a market timer!

As we were thinking about the market timing issue (mentioned in our portfolio commentary) we realized that a lot of you who receive this letter are market timers. A market timer is essentially someone who for whatever reason has not invested his or her money, especially in stocks. He or she *falsely* thinks that there will be some better, more appropriate or more convenient time to invest. [Of course those that know better know that the time to invest is NOW.] Consequently the market timer misses out on repeated wealth building opportunities and may as a result destroy his or her chances of becoming or staying financially independent.

If you have used any excuse not to invest, whether it be,

- I don't have the money to invest [the most frivolous of all excuses],
- I don't have the time to invest OR I have *plenty* of time to invest,
- I need my money to buy a _____ (boat, house, Gucci bag, flat screen tv, "spinning rims"⁹, trip to Jamaica, engagement ring, café latte every day, etc),
- I've had a setback (injury, divorce, mother-in-law moved in, car fell into a lake, etc) and can't spare the money right now,
- I don't know anything about investing,
- Investing is too expensive,
- I don't invest in stocks but I invest in _____ (paintings, real estate, Spongebob figurines, insurance, cars, "spinning rims", education, diamonds, baseball trading cards, etc),

then you are a market timer. In fact, if you have let some circumstance other than your own death keep you from investing, then you are a market timer¹⁰. That may seem a little dramatic, but it's not far from the truth. If you are employed, there are very few excuses that give you a legitimate reason not to secure your financial future.

Investing is simple

Perhaps some of these excuses are a result of a lack of understanding what investing is. Investing is nothing more than putting money away with the expectation of receiving more in return. And this can be accomplished with very small sums. In fact, given enough time and the right rate of return, investing as little as \$25 per month will make you a millionaire. That is the power of compounded interest and it's an important concept to understand.

For some of you it is difficult to find the money to invest, but we all have excesses in our budget we can do without. Some of you will have no trouble coming up with several thousand dollars per month to invest. But you may have yet to pull the trigger. Perhaps you think you have more than enough time before your retirement (or other big money event) to make up for it. Well, investing is something that needs time to work for you. There is no quick money, except in the lottery and your odds of becoming wealthy that way are low¹¹. Perhaps you feel that your current investment program in real estate, insurance or CD's is adequate but history has shown that those investments do not perform as well as stocks. In other words, you'd be selling your investment and wealth potential short.

⁹ "Spinning rims" is a reference to comedian Chris Rock's commentary on how our commitment to purchasing frivolous shiny luxury items destroys our ability to build wealth through saving and investing.

¹⁰ Most wealthy individuals bequeath at least some portion of their wealth to their heirs in the form of investments upon their death. So even in death, market timing should be avoided.

¹¹ New Jersey participates in a multi-state lottery game called Mega Millions. The odds of winning the jackpot are 1 in 135,145,921. In other words, if a lottery player played the game twice a week (104 times per year) chances are it would take him or her 1.3 million years to win the jackpot.

Perhaps the reason you haven't investing with us is that you are still uncertain as to what it is exactly that we do. We've had many people we've met and talked to ask us multiple times to explain to them what we do. It is possible that they expect a more complex answer than the one we give, which is usually something like, "We try to help you meet your personal and financial goals by investing your money, usually in the stock market, on your behalf". Perhaps those asking expect more of an elaborate answer, but if we gave one it would mostly be just to hear ourselves talk. But we certainly encourage anyone who may be unsure about how we can help them, to call us or email us at anytime.

You (or a friend) can start today with QuickStart

The bottom line, make sure you invest with us. Working with us will in many cases cost you less than one car payment (http://www.brickfinancial.com/our_services/fees.html). We've made it easy for you to get started with us. Just go to the our **QuickStart** page on our secure server (<http://www.brickfinancial.com/ssl/quickstart.html>), fill out the form, and we can have your investment program up and running in less than a week.

[Portfolio commentary continued]

You have to be in it to win it

Last month (<http://www.brickfinancial.com/letters/200504clientletter.pdf>) we wrote to you that we thought there was a disconnection between the overall good that was happening in the economy and the overall bad (falling stock returns) that was happening in the market. May proved to buck the trend as stock prices made their strongest one month gain in recent months. But it is too soon to tell if investor enthusiasm is here for an extended period, or even if it's warranted.

Although we welcome the sudden returns, we'd much rather see our positions rise steadily over time, with the occasional dip to allow us to buy more shares at deflated prices. But investing in equities is never really like that. What is more often the case is that stocks move in fits and starts. In fact, this is what we saw with some of our positions this past month. On one day in particular (May 26) we saw Toll Brothers rise almost 7%, Ryland Group go up just over 6% and Genesco (Johnston & Murphy shoes) rise nearly 11%. Although we think those gains are justified by the fundamentals, we have to control our enthusiasm when our positions advance so quickly. In any regard, it is good that we were actually invested. Were we market-timers (which we are not) we may have missed the rise in prices altogether.

Market timing is bunk (Taken directly from our Client Education booklet which can be viewed *here*: <http://www.brickfinancial.com/forms/clienteducation.pdf>)

It may seem logical for an investor to only be in the financial markets, especially stocks, when conditions are favorable for immediate profit. The old "Buy Low, Sell High" concept. This concept may be sensible in theory, but highly difficult to execute in reality. Although an informed investor can make reasonably accurate assumptions about a security's valuation, he can not, with any consistency, say *when* market prices will properly reflect those valuations.

Market returns, both positive and negative, frequently occur in short spurts. Successful market timing¹² requires not one, but two correct calls – getting out of the market before it goes down *and* getting in before it goes back up. To demonstrate the difficulty in catching market spurts, consider the S&P 500's price performance of 2003:

Why Market Timing Doesn't Work (2003 Stock Market Price Performance)

	<u>S&P 500 Appreciation</u>	<u># of Trading Days</u>	<u>% of Return for Year</u>
Mar 12 – Mar 21	11.9%	9	49%
May 21 – Jun 5	7.7%	14	31%
Rest of 2003	4.9%	229	20%
Entire Year	26.4%	252	100%

The table above demonstrates that in 2003, almost all of the year's positive return occurred during 23 of the 252 trading days. Almost 50% of the return was attributable to just 9 trading days between March 12 to March 21. The problem is there were no obvious indicators that the market was going to take off on those 9 days. If there was an indicator, all investors would act on it, negating any positive affects the strategy presented. As Benjamin Graham stated:

“A moment's thought will show that there can be no such thing as a scientific prediction of economic events under human control. The very 'dependability' of such a prediction will cause human actions which will invalidate it.”¹³

A final note (or two)

As a final note, we'd like to thank you for reading what is admittedly a long-winded prose on topics that few of you are as enamored with as we are. We promise that all our Client Letters will not be as long. In fact, most will be surprisingly brief. With our long term mindset, the month-to-month gyrations of the market and of our collective investments concern us little. There simply won't always be a lot for us to talk about. But on the occasions when we ramble, we appreciate the attention you give us. With that said, we will get back to a more thorough commentary of our investments next month.

As a *final* final note, be on the lookout for a few email announcements from us over the next few weeks and months. We will be introducing some new products and services and would love if you both participated in their development and benefited from their existence. We certainly want your feedback on the prizes we'll be awarding for referrals. We want your feedback on subjects you may want us to discuss in our upcoming newsletter tentatively titled, *The Third Pig*. And we want your input on topics you'd like us to discuss in our seminar series. We want to create an open dialogue with you. It's just one of the ways you can help us, help you.

¹² “Successful market timing” is an oxymoron.

¹³ Benjamin Graham & David Dodd, *Security Analysis*, (New York: McGraw-Hill, 1934 & 1962), p. 609

We will also make some functionality improvements to our website. Since we are doing this in-house, and we are not what you'd call 'technologically proficient', there may be the occasional 'malfunction' with our site. Again, we'll look for your help in catching anything you might see wrong with the site. (Email us at webmaster@brickfinancial.com with any problems you see.) As always, the things we do are with you in mind. Our primary function is being your wealth building partner.

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,



Benjamin B. Taylor