



January 19, 2005

RE: **2005 Outlook & Other Issues**

Dear Valued Client,

I am happy to report that accounts managed by Winans International posted some of the best returns in the company's 13-year history. While the S&P 500 Index was up approximately 9%, most of our growth portfolios posted net returns of approximately **21% in 2004** and thus extending our **2 year net gains to 48%! ***

Although higher interest rates slowed the Goldman Sachs Bond Index to a 3% return, most of our income portfolios were able to post 5% to 6% net returns and thus extending our 2-year net gains to 18%.

Stock Outlook: We are not going back to the 1990's!

History has repeatedly shown that after large, multi-year stock market declines like the Great Depression, World War II and the 1970's recession, the stock market moves "sideways" for several years (see the chart of the S&P 500 Index in the 1970's).

We are expecting the economy to grow at a low to moderate rate over the next four years with moderate increases in interest rates during this time. *From a historical perspective the S&P 500 should reflect this by trading in a range between 1300 and 1000 over the next four years, and I will probably be retired by the time the NASDAQ climbs above 5,000 once again!*

Although trading markets can be difficult to deal with if you are a "buy & hold" index fund investor, a stock investor can make money in this kind of market by "sticking with" companies that prosper in this kind of economic climate and rotating out of lagging stocks. Our research clearly points to stocks in various industries that have been performing well recently and also weathered the bear market of 2000-2002 exceptionally well. The following statement in our 2004 mid-year client letter sums up our current investment policies; "We consider investment rotation as an important key to success in this "stock picker's" market, and our tolerance for any stock falling below its 200-day moving average is low. Stock market history is full of examples of once-popular stocks trading sideways for many years after a bear market."

Simply put, our job is to provide growth through investment selection and trading strategies regardless of the market conditions, and 2005 is going to be a very active trading year as higher interest rates place new pressures on markets worldwide.

Bond Outlook: The Bond "Bull" Market Continues for a 5th Year.

The investment climate should continue to be moderately good for income investors due to relatively low interest rates caused by low inflation. In fact, I expect the availability of bonds to

increase over this year and the yields on new investments to be noticeably higher. We have also structured hedging strategies in order to protect the value of bond holdings if interest rates rise unexpectedly.

Corporate Bonds- Although it requires patience, we are able to find 3 to 5 year bonds yielding up to 6% and 6 to 10 year bonds yielding up to 7.5%. I strongly suggest that clients refrain from buying bonds with maturities beyond 10 years. Long-term bonds have proven to be very volatile investments during times of rising interest rates.

Equity Income- We have increased our research and investment management capability in equity investments that generate annual dividend yields of 6% - 7%. These investments include: reits, preferred stocks and master limited partnerships).

Other Income Investments- We are selectively investing in private real estate trust deeds on properties in the San Francisco Bay Area. Although they are illiquid, these investments are currently yielding 10% over 5 years. If you have an interest in these kinds of investments, please feel free to contact me to discuss this in light of your portfolio's allocation & goals.

Other Issues:

Tax Loss Carry-forwards (TLC): Our policy has been to sell losing investments near year-end and to use those losses against current or future profits in order to reduce capital gains taxes. After 2 back-to-back strong years, we believe that most of our clients have used up the TLC that we booked in previous years. When you complete your 2004 tax returns, please check with your accountant to see if you have any TLC left that we can use against portfolio gains in 2005. *If we do not hear from you, we will assume that you have no tax loss carry forwards for us to offset against portfolio gains in 2005.*

Client Restricted Investments: One of the advantages of working with Winans International is the ability to combine client directed investments with investments selected by us into one portfolio. Please keep in mind that any investments listed under "Client Holdings" on your Portfolio Overview report are considered restricted, thus we have no authority to sell these holdings without client direction. In addition, these investments have not met our selection requirements and therefore are not treated in the same manner as those we select.

If you have any restricted investments, please let us know what your objectives are for these holdings. In general, we find these investments inferior to the holdings we select, and we recommend that you allow us to remove them from the portfolio. Also, you can call the brokerage house directly on trading these investments if we are not available to help you.

Advanced Investment Strategies: We continue to expand our use of stock options and index options in the following ways:

Market Hedge – Buying put options can provide protection against deteriorating market conditions without having to liquidate a portfolio of stocks or bonds.

Position Rotation – We are systematically reducing stock positions by at least 50%, if they break below the 200-day moving average. For option-approved clients, we can sell the entire stock position and replace it with an inexpensive call option. The objective is to "bookmark" today's low price on the stock with an option that can be used to buy back the stock position for

up to two years, and reinvest the proceeds from the current stock sale into another stock that is performing well.

New Positions After a Severe Market Decline – Just as we did in July 2002, we can actively buy stock options and index options after major market declines as a way to reinvest into the stock market with limited risk.

While options are not for everybody, they can give an investor more flexibility in dealing with trading markets. If you are interested in learning more about these kinds of investments, please feel free to contact me to discuss this in light of your portfolio's allocation & goals.

Client Communication: As a general policy, we try to respond to all client requests during weekdays within 24 hours. As our business has grown, so has the volume of phone calls, voicemail, e-mail and faxes. In order to facilitate this growth, we have tried to better organize our efforts in the following ways:

Phone Calls: During a normal day, I have set aside from 11:00-12:00 to speak with clients by appointment and are usually available from 2:00 – 4:00 for general calls. Please keep in mind that Karen and Vivek are available much of the time and can assist you with most requests.

Voice Mail: We routinely check voicemail in the mornings and early afternoons. If you have a matter that needs immediate attention, and you receive a voicemail message on weekdays from 8:00 to 5:00(pst), please call back at 415-506-3071. *Please do not leave investment related instructions on voice mail!*

Emails & Faxes: We routinely check for emails and faxes in the mornings and early afternoons and email "spam" folder once a week. Unfortunately, due to our virus protection software, many emails are accidentally sent to the "spam" folder by the computer. *If you are sending us important, time-sensitive material by email or fax, please call us to confirm that it was received.*

Video Conferencing – We now have the capability to conduct video conference calls through the internet. We believe that this "easy to use" system will greatly increase our ability to communicate with our clients by being able to see each other on computer screens during phone calls. Please contact us if you would like to get information on using this service during an up coming phone call with me. The internet address used for our conference calls is <http://people.sightspeed.com/ken@winansintl.com/>. FYI, you do not need a computer video camera to use this service. Give it a try; it is the future!

As we enter our 13th year of operation, many of our clients have asked me how big I want Winans International to become? Our objective has always been to offer high quality customer service and implement some of the most flexible & innovative investment strategies used by individual investors. Currently, we serve approximately 125 clients, and because of technology, I feel we can have a total of 200 clients before the "flavor" of the company would change.

I hope all is well with you, and I look forward to seeing you during our next meeting.

Sincerely,

Kenneth G. Winans
Founder & President