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A copy of a letter we wrote to a business owner about their pension plan

Subject: Some Thoughts Regarding Your Investment Philosophy

We have had several conversations with you over this past year regarding your investments and your feelings about these investments. The theme that was most consistent during these conversations has been a desire on your part to maximize your investment returns. We are not sure that you are truly aware of the attendant risks in this approach to investing, especially when we had discussions you initiated with us about pulling all the money “off the table” and investing it all into fixed income investments. You have also made comparisons with other investment managers and the investment returns that your friends were receiving. Our sense is that you are trading hindsight for future investment return expectations. This makes for a no-win situation.

We would not give you or anyone else for that matter, investment advice unless we had a high degree of confidence that we are on firm ground. Mark and I have more than 35 years of experience in the financial services business between us. We would stress however that it is not the time alone (time, by itself, doesn't give you knowledge) that gives us the confidence that we know and understand what we are doing in the investment business. Rather, our confidence comes from having had the opportunity to talk with and learn from people who have achieved investment success. This has also been combined with reading the writings of investment legends we could only dream of working with. These include; Benjamin Graham, Peter Lynch, Warren Buffett, and others. A solid understanding of this knowledge has convinced us that there are certain principles of investing that give those who use them a high probability of success. Conversely, violating those principles means a good chance of disappointment. We have the confidence to make the recommendations that we do based on what we have learned.

We understand the way the financial markets works. We also understand why the general distribution of investment returns skews towards the negative as a whole. Most investors are average and do less well than average, and a few investors do far, far better than average.

We believe that there are two investment principles that truly transcend time; discipline and consistency. If you have an effective investment discipline and you employ it consistently, you have a very good probability of success. The investment disciplines may vary. For instance, Benjamin Graham invested in cheap stocks where the break-up value of companies far exceeded the market price. Warren Buffett bought good companies when they were out-of-favor. Philip Fisher, on the other hand, bought well-run growth companies and just held his positions in them.

The point is this: there are many ways to achieve investment success. One strategy that never works, however, is getting more aggressive in a rising market and more conservative in a falling market. This is what the average investor does and the average investor never gets rich. A value investor makes money in a down market by buying when stocks are so cheap that the probability of success is very high. A growth investor gets rich in bull markets by faithfully holding on to great companies and not allowing the periodic corrections in the market to tempt them to abandon their discipline.

The most successful investor we know personally (an individual advisor we have known for over twenty years, who manages over a billion dollars for just seven clients) has a minimum ten-year investment time horizon. He frankly, could basically care less what his stocks do on a weekly, monthly, quarterly basis or even an annual basis.

In order to be successful each investor has to make a decision about what is most important to him or her, appreciation or preservation. From that investment platform, they must formulate a strategy that fits both their objective and their personality. Finally, they must commit to stick to it, even when other strategies appear to be working better. Graham was inherently conservative and his “margin of safety” concept forced him towards those situations where the “downside” was very low. Peter Lynch was more aggressive. He felt that if the business was doing well, the stock eventually would follow.

We can help you employ low risk, modest reward strategies, or we can build portfolios for which the volatility may be large, but the long term growth potential is excellent. However, any investor, or investment advisor, who tries to implement a high growth, low risk strategy is kidding themselves. They will buy into a rising market and sell during a falling market, and will, no doubt, be very disappointed!

Our advice is straightforward. Pick an investment philosophy and stick with it. Also understand and be sure you are comfortable with the risks that you are assuming in your investment portfolio. Most importantly, stay the course and don't change your investment philosophy midstream.

**Eric C. Graber
President**

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