BOONE FINANCIAL ADVISORS INC.

Market Watch

1st Quarter, 2005

SUMMARY

- The average domestic stock fund was down 2.02% for the first quarter.
- Bonds were down slightly across the board, resulting from increased interest rates.
- This is the first time in eight years that stocks and bonds have fallen in the same quarter.
- International stocks showed a very small gain (0.11%) this quarter, led by Latin America and Europe.
- Real estate fell 6.6% this quarter, but still average over 19% for the last five years.
- Thanks to the “dot.com declines” the major market index Standard & Poors 500 is still in negative territory for the five year period (-3.16%).
- In general, the economy is healthy, growing and inflation is restrained

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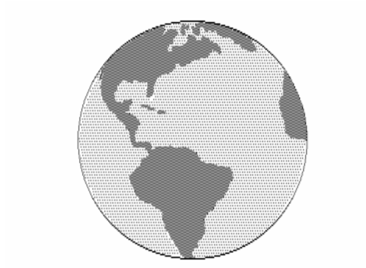
After an exuberant rise in 2004's fourth quarter, the U.S. stock market was stifled in 2005's first quarter by high energy costs, inflation fears, and higher interest rates. Investors found little to cheer about during the period. For the quarter, the average U.S. domestic stock fund was down 2.02%. Bond prices also fell on fears that the Fed could take a less measured approach to interest-rate hikes, and oil prices hit close to a record high of nearly $57 per barrel.



Investors have been taught to diversify so that when one asset class falls, others are expected to rise, thereby safeguarding portfolios from across-the-board losses. But in the first three months of 2005, stock and bond funds lost money in lock step for the first quarter in eight years. For stock funds, the quarter was the worst period of performance in two years. Yet bond funds offered little portfolio protection, as they lost money for only the second quarter since the bursting of the Internet bubble in 2000.

Still, in the coming months, it will be even more important to be diversified, despite the disappointing results of diversification in the first quarter, because there is so little clarity about which asset classes are set to perform well.

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Fundamentally, while most of the news among the investment markets was negative, it was all relatively tame and quite possibly a necessary “breather” from two years of good stock market results and a healthy, growing economy.

Investors put only about $42 billion into stock funds during the first quarter, according to estimates by TrimTabs Investment Research, which was only about half the amount of the first three months last year. In addition, more than half of these were directed into foreign funds, substantially more than in the past, not surprisingly since foreign funds have generally outperformed U.S. funds over the last 1 and 3 year periods.

Being well diversified will continue to be important for investors as the signals about what’s ahead are quite mixed.

Even so, the average

U.S. Stock Category	1st Qtr Return	1 Yr (%)	3 Yr (%)	5 Yr (%)	10 Yr (%)
Large Cap Stocks (Standard & Poor's 500)	**-2.15**	**6.69**	**2.74**	**-3.16**	**10.79**
Mid-sized Stocks (S&P 400)	**-0.40**	**10.41**	**8.00**	**6.86**	**15.13**
Small Stocks (Russell 2000)	**-5.34**	**5.41**	**8.05**	**4.01**	**10.43**

gains of international stock funds slowed to 0.11% for the quarter, in part because rising oil prices cast some doubt on the future of the global economic recovery. Moreover, a slight strengthening of the dollar during the quarter took away some gains enjoyed by American investors in foreign stock funds. Funds that are focused on Latin American stocks gained 2.12 percent, on average, and those specializing in European stocks were up 1.32 percent. Those that focus on Japan, however, lost 1.99 percent on average. Diversified emerging market funds gained an average of 1.20% this quarter. Foreign stock funds focusing on small and mid-sized companies gained nearly three percent while those with a large company focus lost about one percent.

Reviewing the U.S. Stock Market

In general during the first quarter, large cap stocks outperformed small cap and value outperformed growth, although they were all in negative territory. Energy stocks were largely responsible for both. Only large cap growth stocks are still in negative territory for the five year period.

Despite averaging over 14% per year over the last five years, small-cap value funds were not the place to be during the first quarter. The average fund in this group lost 1.9% during the first quarter, lagging large-value groups, which lost 0.77%. At the same time, small-value funds didn't suffer as badly as their small-growth peers did; where the average small-growth fund lost 4.89%. Meanwhile, the average large-growth fund retreated 2.98%.

1st Quarter Mutual Fund Returns

U.S. Market			
Large	-0.77	-2.02	-4.26
Mid	-0.32	-1.26	-2.98
Small	-1.92	-2.90	-4.89

Source: Morningstar

5 Year Returns as of 3/31/05

U.S. Market			
Large	**4.31**	**-2.78**	**-9.71**
Mid	**10.76**	**4.98**	**-6.78**
Small	**14.58**	**9.41**	**-4.35**

Source: Morningstar

Funds vs. the Benchmarks—In keeping with long-term trends, active mutual fund managers had trouble beating market indexes again in the first quarter. Of the nine areas of Morningstar's style box, only the average actively managed fund in the small-value category beat its indexed equivalent.

After years of stellar performances, real estate funds are finding it difficult to stage another encore in 2005. The funds ended the first quarter down by an average of 6.62 percent and ranked near the bottom of all mutual fund categories, according to Morningstar. It was a striking turnaround for a group that has consistently eclipsed most equities in recent years and whose fortunes have been tied to the strength of the housing and commercial markets. Real estate funds returned roughly 32 percent in 2004 and have had a 19.3 percent annualized gain over the five years through March. By contrast, the Standard & Poor's 500-stock index returned 10.8 percent last year and lost 3.2 percent, annualized, over the five-year stretch.

Of the 12 sectors of the market, the energy sector was the first quarter's clear leader. Its 10.66% gain for the year to date far surpassed that of any other sector. Within that peer group, oil and gas products firms led the way, but drillers and more-diversified exploration-and-production companies also did well. Utilities, another sector sensitive to high energy prices, came in a distant second with a 1.17% increase.

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As was the case for much of 2004, technology stocks resumed their downward slide in the first quarter. The software sector brought up the rear, losing 9.37% on average, in large part due to a slump in Microsoft shares. The hardware sector also struggled as optical equipment companies and contract manufacturers had a particularly tough time.

The remaining sectors also finished the period in the red. Financials stocks struggled, with the average name down 5.11% for the period. Although some of the asset managers and investment banks posted respectable gains, higher interest rates dampened returns for banks. But it was regulatory and Congressional scrutiny that hurt mortgage-buyer Fannie Mae, which posted a 22.6% loss and was one of the sector's worst performers for the year to date.

Bonds

Bonds fell in value this quarter as long-term interest rates finally began to respond to the seven short-term rate increases made by the Federal Reserve Board since mid-2004. The yield on 10-year Treasury notes, for instance, was 4.5 percent at the end of the quarter, up from 4.22 percent at the start of the year. Bond yields and prices move in opposite directions, so the Lehman Brothers Aggregate Bond Index fell 0.48% for the quarter while mortgage-backed bonds sunk only slightly (-0.12%). Ultrashort Bond funds produced small gains during the quarter (0.37%) while nearly every other category fell. High Yield bonds suffered the most, dropping 1.54% and Emerging Market Debt followed with a 1.24% decline. Similarly for municipal bonds, almost all categories fell during the quarter; the one exception, interestingly enough, was high yield munis, which grew 1.16%.

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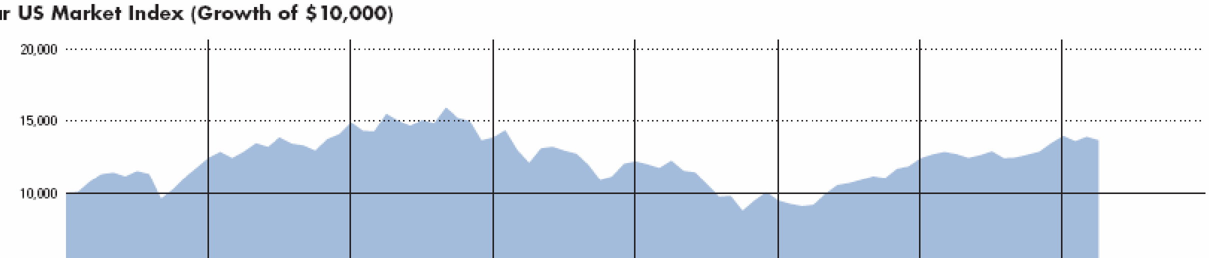
Morningstar US Market Index (Growth of $10,000)



	1998	1999	2000	2001	2002	2003	2004	2005-03
Total Returns	23.86	19.79	−7.02	−11.88	−22.16	30.73	12.35	−2.38
Price/Earnings	33.46	37.99	31.78	30.73	24.97	26.74	23.72	22.48
Price/Book	8.15	10.45	7.54	5.39	4.13	4.49	4.22	4.03
Dividend Yield %	1.25	1.09	1.12	1.29	1.74	1.45	1.49	1.58
Earnings Growth (5 Yr)	15.87	18.80	18.15	15.22	13.19	12.76	12.55	12.23

The economy in brief	*from Charles Schwab & Co*
Growth	Continued expansion, but at a slower pace
Inflation	Trending higher, yet core inflation remains within the Fed's comfort zone
Employment	Payrolls decelerated, yet the unemployment rate fell
Monetary policy	Fed rate hikes data-dependent, ¼-point increase expected May 3
Risks	Tax-like effect of high energy prices, Fed raises rates too fast, sub-par global growth, terrorism

The Economy

Broadly speaking, US economic growth is moderating to a normal pace. The economic expansion is expected to continue. The economy, therefore, is less of a worry for Wall Street. That being said, many of the issues and concerns that showed up in the first quarter are likely to continue through much of 2005. The Federal Reserve has indicated it will continue to raise interest rates. Oil and gas prices have been high due to worldwide demand, which is likely to increase, particularly as China continues to grow.

In 2004, Gross Domestic Product (GDP) grew at 4.4%, compared to an average of 3.1% for the decade of the 1990's. It is generally assumed that GDP gains must be slowed to avoid a rebirth of high inflation. Even with the Fed's steady interest rate hikes (seven increases totaling 1.75% in the past nine months), monetary conditions are still accommodative and therefore interest rates are likely to rise further.

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Employment is gradually improving. In March, the unemployment rate fell to 5.2%, from a peak of 6.3% in June 2003. During that 21-month time span, the seasonally-adjusted number of unemployed has fallen from 9.2 million to 7.7 million and the number of employed increased by over 3 million. The unemployment rate is expected to ease below 5% before the end of 2005, but dramatic improvement seems unlikely. Businesses are expanding workforces cautiously, and higher interest rates and outsourcing will tend to limit the speed of employment gains.

The US dollar rallied modestly during Q1, helped by increased interest rates, making foreigners are more willing to own dollar-denominated securities.

In summary, the economy is healthy and inflation is restrained. The US dollar and oil prices are important "wild cards", but neither is likely to derail global economic growth in the near term. While not at the level of the prior two years, we expect modest US stock and bond returns in 2005.