

Second Quarter Market Review

by Steve Gilbertson

In investing for retirement, it is essential to keep a long-term time horizon in mind, recognizing that short-term fluctuations in portfolio value are inherent when investing in securities. For those interested in tracking these short-term fluctuations and their causes, below is given a brief market summary for Second Quarter, 2004. Keep in mind when looking at this data that past performance is not indicative of future results.

In spite of positive economic data pointing to a strengthening U.S. economy, the worry of an interest rate hike as well as rising oil prices prevented the U.S. equity markets from taking off. Still, most major indexes were up slightly for the quarter, with the S & P 500 Index (large-cap stocks) up 1.30%, the S & P 400 index (mid-cap stocks) up 0.68%, and the Russell 2000 (small-cap stocks) up 0.47%.

Rising oil prices had an adverse effect on global equity markets as well, as did continued political tensions in the Middle East. As a result, although the global economy achieved significant growth for the quarter, the MSCI-EAFE Equity Index (international stocks) was up only 0.44%.

The threat of rising interest rates caused a general decline in fixed income securities, with the Lehman Brothers Government/Corporate Index (core bonds) down 3.17%. Though less sensitive to an interest rate increase, the Lehman Brothers Government Index (government bonds) fared little better, losing 2.31% for the quarter.

To illustrate performance results for the securities markets, we have set-up three hypothetical portfolios: 1) Aggressive Portfolio, 2) Moderate Portfolio, and 3) Conservative Portfolio. These should not be construed as “recommended” portfolios, but rather simply as a means of illustrating market performance over historical periods. The portfolio weightings used are as follows:

Aggressive	
Large Cap	50%
Mid Cap	20%
Small Cap	20%
International	10%

Moderate	
Large Cap	40%
Mid Cap	10%
Small Cap	10%
International	10%
Fixed	20%
Government	10%

Conservative	
Large Cap	40%
Fixed	30%
Government	25%
Cash	5%

Below are given the performance returns of these portfolios as of the end of Second Quarter, 2004. Note that for the quarter, Aggressive Portfolio outperformed both Moderate portfolio and Conservative portfolio. This can be attributed to its heavier weightings in equities, which outperformed debt securities over the three-month time horizon.

Performance Returns as of 6.30.04

1 Month
3 Month
1 Year
3 Year
5 Year

Aggressive	2.40%	0.92%	23.80%	1.58%	1.12%
Moderate	1.69%	-0.19%	15.91%	2.55%	2.08%
Conservative	0.91%	-1.00%	6.52%	2.52%	2.38%

*Benchmark Indexes used are as follows: **Large-Cap stocks** – S & P 500 Index, **Mid-Cap Stocks** – S & P 400 Index, **Small-Cap Stocks** – Russell 2000 Index, **International stocks** – MSCI-EAFE Equity Index, **Broad Fixed Income** – LB Government/Corp. Bond Index, **Government Bonds** – LB Intermediate Government Bond Index, **Cash/Cash Equivalents** – 30 Day Money Market Index

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