July 2005

The summer is well underway and we hope that you are making good use of the sun. It may be hot, it may be dry, but it's definitely not winter! Rosie, the kids, John, Avis and I have just returned from the 4th of July weekend at Gingerman Raceway near South Haven Michigan. We had a great weekend cheering on our Porsche Club racing buddies. Our friends and clients seem to win a lot! If you are interested in joining us at a racing weekend let us know and we'll give you our schedule of weekends and locations. Our Friday night barbecues are getting bigger all the time (held at the track next to our Itasca Horizon motor home). The feature races are on Sundays.

We have enclosed your quarterly statements with this letter. While the S&P 500 Index (with dividends) finished the first half of the year down -0.81%, the returns on all of our Risk-Adjusted portfolios are positive and beating their benchmarks for the same time period. For the quarter, all but the Conservative (2 accounts), beat their benchmarks; (Conservative NTF beat its benchmarks, it makes up 30 of our 32 conservative accounts). These results are the average returns for all of the accounts in each portfolio, net of fees and expenses. Review your own reports for your account specific results. As with all performance reports please remember that past performance doesn't mean anything about what to expect in future performance. Consider that if you own investment real estate.

We are enclosing a brief summary of some tactical portfolios changes we will begin making this quarter. The changes are to adapt to changing economic conditions and mutual fund operational requirements. With the few changes we will make, our portfolios will hold more large capitalization stocks than before, should be less sensitive to interest rate risk, and will give more discretion to our managers to change their exposure to specific asset classes or investment sectors.

Schwab is currently enrolling clients in email based services which will (soon) greatly reduce the paper correspondence you receive. We can enroll you, send us an email at rfg@rfgweb.com from the email address at which you would like to receive eConfirms, eStatements, and eventually other eDocuments. Our Retirement Asset Management Program clients will be automatically enrolled. You may enroll personally by logging into your accounts at www.schwab.com.

We welcome your calls and love to hear from all of you. Please call with any questions or changes in your lives. We hope all of you have a safe and enjoyable summer.

## *Upcoming Portfolio Changes –*

We have been pleased with the performance of our Risk Adjusted Portfolios over the past year, both in the results as well as in how they achieved those results. We are also pleased with the re-engineering of our portfolio construction methodologies. The structure is proving to be durable and responsive.

While change is something to approach skeptically in any investment portfolio, it does seem to be time to implement some change in our portfolios. We don't have a set time table to evaluate and implement changes in the portfolios. We try to make manager allocations which are durable. Hopefully, 5 years from now we will still be using the same core of managers as we have today. We shall see however, we can't change the wind, we can only adjust the sails.

Why make changes? The economy, the yield curve and inflation all look very different than they did a year ago. Also, the regulatory and operational environments in which we manage our mutual funds have changed. There are restrictions on the frequency with which we can execute transactions of mutual funds as well as on the minimum dollar allocation you must make to a fund in opening a new account.

These facts do not change our overall investment principals, they reinforce them. With regards to the economic fundamentals, we appreciate, quality managers who are given broad mandates to execute their best skills on our behalf. We do not design our portfolios such that managers are placed in narrow investment niches only to pull away from them should they stray. We want to give each of them room to be flexible in reacting to economic fundamentals and market conditions, to try to go where the profits are, or at least to try to stay away from where they expect losses. We try to select managers to provide diversification without excessive overlap.

Among the changes this year will be to increase the utilization of our most flexible core managers. Because we try to be sure that each manager plays a different role in a portfolio, a few adjustments can influence the nature of the portfolio's equity exposures very effectively.

For example, in our Moderate Portfolios, we are making the following changes:

- Turner Micro Cap Growth is being eliminated, its assets being allocated essentially to Leuthold Core Equity.
- American Beacon Small Company Value is being replaced by another small cap fund, the Keeley Small Cap Value. The Keeley has a much smaller asset base and its style of investing encompasses a broader spectrum of value and growth securities than its predecessor's does, making it a better fund to be our only dedicated small cap manager.
- Another change in this realm is to reduce our exposure to Buffalo Mid Cap, not out of any loss of confidence in the manager or his style but simply to maintain an appropriate balance with the value side of our small and mid cap exposures.
- Pimco All Asset Fund will be used selectively in the portfolios as another manager seeking equity-like returns with low correlation to both the stock and bond markets.
- Our final anticipated change is to replace Artisan International Value, which invests in small and mid cap stocks with ICAP International, which invests in large cap stocks also with a value tilt.

These changes will produce an overall increase in our large cap stock exposure from 42% currently to 53%. This is based upon the latest holdings each fund has reported to

Morningstar.  The changes will also cause over 40% of our Midpoint and Moderate portfolios to be allocated amongst 3 managers, each with a great deal of flexibility.  They can each vary their equity exposures by 20% to 40% or more if conditions warrant.

Mutual fund managers are more likely now to close their funds to new investors, or even to any new investment, if they feel asset size has gotten out of hand or that they can not profitably employ all the money that is coming their way.  The perils of success!  This is the reason for additional changes we have evaluated.

- Hotchkis and Wiley Large Cap Value is the first large cap fund we have seen in some time which has closed to new investors.  Its asset base has gotten very large. While we still like the fund, we find a compelling case to adopt its younger sibling, Hotchkis & Wiley Core Value in its place.  It is managed by the same manager, with a very similar objective, and very similar holdings.  It is a new fund, with (as of last report) only 75 million in assets, 1/50th the size of its older sibling!  Its performance has been excellent and we feel that even for taxable accounts where the switch may realize some capital gains, the implications of having an old trusted manager in a new fund with a small asset base are worth making the change.

The changes highlighted are for the Moderate Portfolios, and will be paralleled in the other portfolios, each in keeping with its specific targeted equity or risk exposure.  Please feel free to call to discuss these changes and any concerns you may have regarding their impact on your accounts.

I expect to be writing more to you soon about our thoughts on the yield curve, real estate investing, (particularly with leverage) insufficient savings, excessive debt, overexposure to single securities and other things that may be hazardous to your wealth.  I'll save that soap box for later however.  Suffice it to say, for now, pay down your debts, don't borrow to invest, be careful about owning more than you live or play in and single engine securities don't glide when the engine goes out.