

J. L. BAINBRIDGE
& COMPANY, INC.

December 2, 2004

Dear Mr. & Mrs. Client:

This month's letter addresses two of the most misrepresented and ambiguous terms commonly used to promote investment products. The first of these is the average annualized return which is utilized by the mutual fund industry to quote performance. This term, which from a mathematical point of view has no validity, is not well understood and greatly overstates investment results. The average annualized return is calculated by dividing the total return for a period of years by the number of years. For example, a five year total return of 100% would yield an average annualized return of 20%. In reality a 100% five year return is a 15% annually compounded return which illustrates the misleading nature of the average annualized return. While many investors would think the return was 20% on average each year, the fact is, it is possible that not a single year had a return of 20%. The following table compares these returns for 1994 through 2003:

Return	J. L. Bainbridge & Co. Inc.	S&P 500	NASDAQ
TOTAL ANNUALLY COMPOUNDED	265%	138%	145%
AVERAGE ANNUALIZED	13.8%	9.1%	9.4%
	26.5%	13.8%	14.5%

The other problematic term is the guaranteed 7% annuity. The 7% refers not to any interest rate the policy holder will earn but to the maximum amount of principle one is allowed to withdraw each year. While these policies do guarantee no loss of principle, they in effect guarantee at least a 0% return. Assume you put \$100,000 in this type of annuity and you withdrew \$7,000 annually and the annuity lost money. However because the principle is guaranteed, you could withdraw the \$7,000 for 14 years and the remaining \$2000 in year 15. At that point you would run out of money. You could do better by putting your money in bank CDs.

The reason for addressing these annuities is because we have received calls from clients regarding the guarantee provision that was presented by a salesperson as a guaranteed return. In addition we have met individuals that are convinced they are guaranteed a 7% return and are planning to retire and live the remainder of their life on this return. The best advice to follow is the old saying; if it sounds too good to be true, it undoubtedly is not true.

Jerry Bainbridge- President