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& C O M P A N Y, I N C.

September 1, 2006

Dear Mr. & Mrs. Client:

This year's Mid-Year Report discussed achieving and preserving ones "Number", a term commonly used as the amount of money a person requires for an enhanced retirement. This report cited Dunbar Inc.'s "Quantitative Analysis of Investor Behavior" study which found both the focus on short-term results and the aversion to loss as the primary causes of poor investment results. This study discovered that over a twenty year period, 1986 through 2005, the average investor achieved an annual return of just 3.9%. Obviously this meager return will not achieve one's "Number". This month's letter addresses the danger of relying on short-term results.

Warren Buffett describes this approach as "rearview mirror" investing and asserts this is as detrimental to your financial wellbeing as driving an automobile in this manner is to your physical wellbeing. An example of rearview mirror investing is buying a stock simply because the stock has appreciated rapidly over some period of time with no regard to either the stock's price being overvalued or the company's business fundamentals and financial condition. From an emotional point of view this investment approach can be appealing in a bullish market. Investors become confident when a stock appreciates; however, investors become concerned and fearful when a stock stagnates or declines. Emotion often overwhelms professional analysts, as well as, individual investors. WorldCom illustrates this phenomenon in that analysts became mesmerized by the stock's ever rising price and ignored the deteriorating financials. When WorldCom fraudulently capitalized expenses and reported false earnings growth, cash flow did not grow - an import red flag. Yet analysts overlooked this fact and stuck with their buy recommendations. In the end, investors suffered major losses and WorldCom's employees lost their 401k and many people lost their jobs. WorldCom is an extreme example, however following the rearview mirror approach is a major cause of not achieving ones "Number". Based solely on past short-term returns, many investors randomly and emotionally switch from one stock to another, one mutual fund to another or from one asset class to another. From a logical point of view, this behavior increases risk and decreases returns because money is moving from conservatively priced assets to overpriced assets with both reduced appreciation potential and greater risk of price declines. This is exactly what occurred over the past two or three years as investors exited the stock market and bought bigger residences, overpriced condominiums and expensive vacation homes. Looking in the rearview mirror, stocks looked dull while real estate looked exciting.

Patience and adhering to a sound investment program that is based on an analysis of future prospects is the way to attain the "Number". All investment programs encounter periods of being temporarily out of favor. With our program this usually occurs when speculation is prevalent and expectations are unrealistic as was the case in 1999 and early 2000. Without the discipline to stand clear, we would have joined the fray, and our clients could have lost a major portion of their retirement resources.

Jerry L. Bainbridge, President