FRONT BARNETT ASSOCIATES LLC
INVESTMENT COUNSEL

April 25, 2005

To: Clients and Friends of the Firm

Subject: Presentation at the 53rd Annual University of Chicago Graduate School of Business Management Conference

Marshall Front spoke at the University of Chicago GSB Management Conference on April 22nd. Attached is an outline of his comments which we believe you will find interesting.

Readers of our *Economic Outlook* should note that we have modified our previous forecast in two ways. We now expect the Fed to react to the increased inflationary pressures we are experiencing by raising the Fed Funds rate to 4% from 2.75% currently. We had previously believed the Fed would be done removing its accommodation at 3.50%. We have also shaved our forecast for GDP growth to 3.50% - 3.75% from 3.50% - 4.00% reflecting higher than expected oil prices, less robust export growth and possibly some modest inventory overbuilding last quarter. All in all, though, 2005 should be a decent year for US business.

Nevertheless, rising interest rates, an upswing in inflation, decelerating economic and profit growth and sluggish growth abroad will present challenges for the US equity market until investors get a clearer picture as to the extent and duration of these headwinds.

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University of Chicago GSB

53rd Annual Management Conference

Mid-Year Economic Outlook

Marshall B. Front
Chairman

April 22, 2005

Talking Points: 2005 Economic Outlook

GDP

Economic growth this year will continue at an above trend *real* rate of 3.5% - 3.75%. (Long term GDP growth has averaged 2.8% annually over the past 35 years.)

- **Lower dollar should help US manufacturers although slowing business activity in Europe and Japan may become a drag on exports. The corporate sector will lead the economy.**

- **Consumer spending will expand moderately as the economy adds 2.0+ million jobs - - an average of 165,000 per month. Incomes will grow as the labor supply tightens a bit. Productivity gains will be harder to achieve. The unemployment rate will drop to about 5.2% from 5.4% currently. Record high energy prices and higher interest rates will curb consumer outlays.**

- **Higher interest rates and some improvement in the current account deficit should help to stabilize the dollar.**

Inflation

- **Absent a severe geopolitical shock, which cannot be ruled out, industrial commodity prices will cool as bottlenecks are reduced and global growth slows. Core inflation should be well contained at 2.5%. Competition remains fierce.**

- **Wage pressures remain subdued.**

- **Energy prices may be peaking.**

Interest Rates

- **The Fed will continue to reduce its accommodation. Fed Funds will be raised gradually toward 4% unless US economy slows more than expected, a geopolitical shock threatens continued expansion, or the dollar falls precipitously.**

- **10 year US Treasury bond yields will rise about 75 bp from their current 4.2% rate. We remain cautious on the outlook for bonds, preferring shorter maturities, until rates offer a more favorable risk/reward profile.**

Corporate Profits

- **Profit growth will slow to 8 – 10% from 20% in 2004. Most adversely affected will be economically sensitive companies where some estimates are already being trimmed. Growing companies should benefit because of the sustainability of their earnings gains as overall profit growth gradually slows. M&A activity will pick up, including cross border transactions, benefiting diversified financial institutions. High cash positions will support takeovers. Corporate restructurings and buyouts by private equity firms, designed to unleash hidden market values, will be a reoccurring theme.**

- **Profit margins, which have expanded to record levels in recent years, are expected to be under some modest pressure due to firmer labor markets, the lagged effect of higher commodity prices and the eventual need to add to capital investments.**

Market Outlook

- **Since the spiral which produced historically low real interest rates has reversed, the multiple expansions in stocks, housing, commodities, collectibles and bonds is over.**

- **While housing prices may rise in the future, the appreciation will only mirror inflationary and mild demographic pressures.**

- **Stock prices will rise, but only to the extent of earnings growth which is expected to be 8-10% this year. A sustained market advance may be delayed until investors believe the Fed is approaching the end of this rate tightening cycle.**

- **Large cap, high quality growth shares, out-of-favor for the past 5+ years, should regain their market leadership.**

- **Equity portfolios under our supervision continue to be "tilted" toward large cap growth.**

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4/22/05

Fed Valuation Model

The Fed stock market valuation model, which incorporates the yield on 10 year US Treasury Notes and estimated S&P 500 profits, shows stocks remain undervalued.

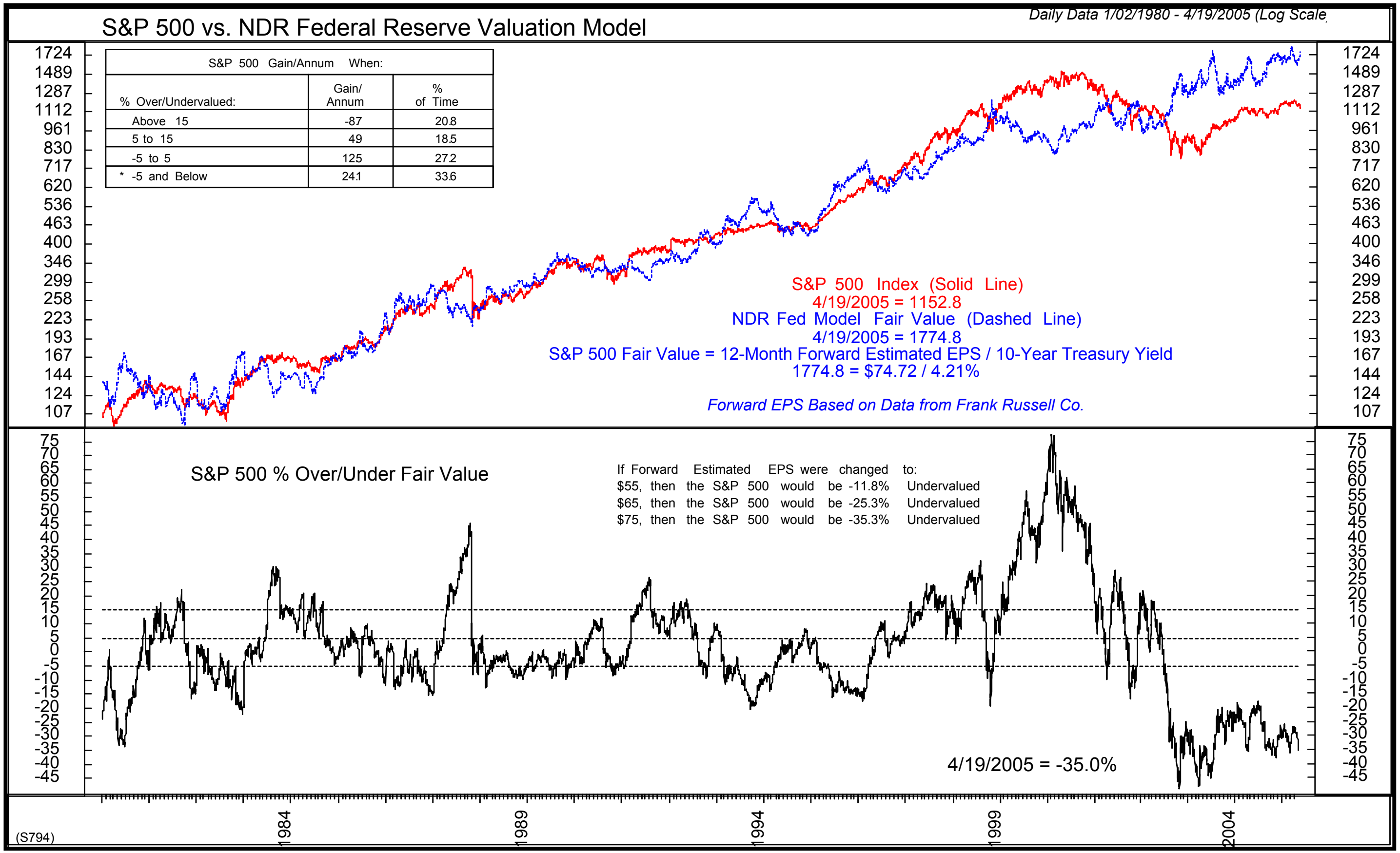


Chart Courtesy of Ned Davis Research

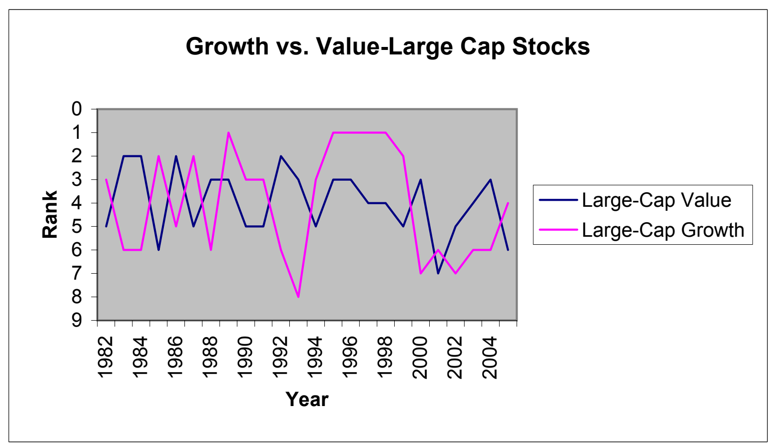
Investment Style Migration is Inevitable

Historical Returns Achieved by Various Asset Classes
Annual Returns Ranked in Order of Performance

1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Fixed Income 15.15%	Int'l 56.16%	Int'l 69.44%	Int'l 24.64%	Small Cap Value 29.47%	Large Cap Growth 36.40%	Fixed Income 8.96%	Small Cap Growth 51.19%	Small Cap Value 29.14%	Int'l 32.56%	Int'l 7.77%
Large Cap Value 10.52%	Large Cap Growth 33.31%	Large Cap Value 21.67%	Large Cap Growth 6.50%	Int'l 28.27%	Large Cap Core 31.68%	Cash 7.77%	Small Cap Value 41.70%	Large Cap Value 10.59%	Small Cap Value 23.84%	Cash 3.85%
Cash 9.89%	Large Cap Core 31.76%	Large Cap Core 18.67%	Cash 5.45%	Large Cap Value 21.67%	Large Cap Value 26.13%	Large Cap Growth 0.20%	Large Cap Growth 38.37%	Small Cap Growth 7.77%	Large Cap Value 18.60%	Large Cap Growth 3.13%
Int'l 7.38%	Small Cap Value 31.01%	Fixed Income 15.24%	Large Cap Core 5.27%	Small Cap Growth 20.37%	Small Cap Growth 20.17%	Large Cap Core -3.10%	Large Cap Core 30.47%	Large Cap Core 7.62%	Small Cap Growth 13.36%	Large Cap Core 1.31%
Large Cap Core 6.27%	Small Cap Growth 30.97%	Large Cap Growth 14.49%	Large Cap Value 3.68%	Large Cap Core 16.60%	Fixed Income 14.54%	Large Cap Value -6.85%	Large Cap Value 22.56%	Fixed Income 7.40%	Large Cap Core 10.07%	Large Cap Value -0.64%
Large Cap Growth 2.33%	Large Cap Value 29.68%	Small Cap Value 7.41%	Fixed Income 2.77%	Large Cap Growth 11.95%	Small Cap Value 12.43%	Small Cap Growth -17.41%	Fixed Income 16.00%	Large Cap Growth 5.14%	Fixed Income 9.75%	Small Cap Value -1.55%
Small Cap Value 2.27%	Fixed Income 22.12%	Cash 6.16%	Small Cap Value -7.11%	Fixed Income 7.88%	Int'l 10.54%	Small Cap Value -21.78%	Int'l 12.13%	Cash 3.55%	Cash 2.94%	Small Cap Growth -2.43%
Small Cap Growth -15.83%	Cash 7.72%	Small Cap Growth 3.58%	Small Cap Growth -10.48%	Cash 6.38%	Cash 8.21%	Int'l -23.45%	Cash 5.61%	Int'l -12.17%	Large Cap Growth 1.68%	Fixed Income -2.92%

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	YTD Thru 4/18
Large Cap Growth 38.12%	Large Cap Growth 23.97%	Large Cap Growth 36.53%	Large Cap Growth 42.16%	Small Cap Growth 43.10%	Small Cap Value 22.80%	Small Cap Value 14.02%	Fixed Income 10.26%	Small Cap Growth 48.20%	Small Cap Value 22.10%	Cash 0.70%
Large Cap Core 37.58%	Large Cap Core 22.97%	Large Cap Core 33.37%	Large Cap Core 28.59%	Large Cap Growth 28.25%	Fixed Income 11.63%	Fixed Income 8.44%	Cash 1.78%	Small Cap Value 44.50%	Int'l 18.20%	Fixed Income 0.55%
Large Cap Value 36.99%	Large Cap Value 21.99%	Small Cap Value 31.78%	Int'l 20.00%	Int'l 26.97%	Large Cap Value 6.08%	Cash 4.46%	Small Cap Value -13.20%	Int'l 35.30%	Large Cap Value 15.30%	Int'l -2.80%
Small Cap Growth 31.03%	Small Cap Value 21.36%	Large Cap Value 29.98%	Large Cap Value 14.67%	Large Cap Core 21.04%	Cash 5.86%	Small Cap Growth -9.23%	Int'l -17.50%	Large Cap Value 30.30%	Small Cap Growth 14.40%	Large Cap Growth -4.60%
Small Cap Value 25.75%	Small Cap Growth 11.26%	Small Cap Growth 12.95%	Fixed Income 8.67%	Large Cap Value 12.73%	Large Cap Core -9.10%	Large Cap Core -11.76%	Large Cap Value -22.50%	Large Cap Core 28.70%	Large Cap Core 10.70%	Large Cap Core -4.90%
Fixed Income 18.47%	Int'l 6.04%	Fixed Income 9.68%	Cash 4.80%	Cash 4.60%	Int'l -14.16%	Large Cap Growth -13.96%	Large Cap Core -23.40%	Large Cap Growth 24.70%	Large Cap Growth 5.80%	Large Cap Value -5.80%
Int'l 11.21%	Cash 5.03%	Cash 5.14%	Small Cap Growth 1.23%	Fixed Income -0.83%	Large Cap Growth -22.08%	Large Cap Value -14.71%	Large Cap Growth -24.50%	Fixed Income 4.10%	Fixed Income 4.34%	Small Cap Value -8.40%
Cash 5.54%	Fixed Income 3.61%	Int'l 1.78%	Small Cap Value -6.45%	Small Cap Value -1.49%	Small Cap Growth -22.43%	Int'l -23.39%	Small Cap Growth -30.70%	Cash 1.14%	Cash 1.30%	Small Cap Growth -11.80%

		CAGR 85-04	CAGR 95-04
Cash	90 Day Treasury Bills	4.85%	3.95%
Fixed Income	Lehman Aggregate Index	8.83%	7.72%
Small-Cap Value	Russell 2000 Value Index	13.77%	14.80%
Small-Cap Growt	Russell 2000 Growth Index	8.55%	7.03%
Large-Cap Value	S&P/BARRA Value Index	12.76%	11.45%
Large-Cap Growt	S&P/BARRA Growth Index	12.63%	11.03%
Large-Cap Core	S&P 500 Index	13.13%	11.89%
Int'l	Morgan Stanley Capital Int'l EAFE	10.95%	4.72%



Historical Market Perspective

Regression to the Mean?