A.R.Schmeidler & Co., Inc.

The Outlook

April 1, 2004

As of March 31, 2004		
Index	**YTD % Change**	**Market Value**
Dow Jones Industrials	-0.9	10,357.70
S&P 500	+1.3	1,126.21
Nasdaq Composite	-0.5	1,994.22

The investment climate continues to be dominated by low interest rates, a high risk of negative events, high and rising commodity prices and more than $5 trillion of cash in our financial system earning practically no interest. Because interest rates are so low investors are trying to improve their income returns, particularly since 85% of corporate dividend payouts are now free of federal taxes in many cases.

China, with 1.3 billion people, is rapidly industrializing resulting in the most significant increases in energy and industrial commodity prices in memory. Moreover demographic changes in the United States have augmented demand for housing, which is also increasing demand for energy and industrial commodities. **Because interest rates are so low home-ownership has become more affordable in spite of rising home prices due to strong demand. Moreover because housing is a home grown product and not an imported one, pricing power exists in the homebuilding industry. In fact where U.S. goods and services do not have to compete with overseas suppliers, prices have been rising much faster than the government's measure of inflation as represented by the Consumer Price Index**. For many consumers and investors to offset higher costs in a low interest rate environment, capital is flowing to higher yielding securities.

The Market's Focus Will Shift To Upcoming Earnings

As we enter the earnings-reporting season the markets will be focusing more on individual corporate results and less on the big picture as is customary at this time. **We believe this upcoming reporting season will be quite positive and likely to be better than projected**. When upcoming earnings are robust or likely to be better than anticipated, the markets tend to have a positive bias. It is worth noting that the equity markets refocus on the big picture after companies have reported their results for the quarter.

Employment Comparisons Are Likely To Be Improved Temporarily

We are not surprised at the sub-par employment growth during this economic cycle, and notwithstanding the fact that upcoming employment reports could make for better reading particularly since 65,000 West Coast striking grocery workers returned to their jobs, we expect corporations to continue to maximize efficiencies rather than hire many additional workers. It should be noted that accelerated depreciation allowances enacted last year give corporations an incentive to purchase new equipment which must be operating by year-end to qualify for this special tax benefit. To the degree that this capital investment redirects corporate spending away from hiring, employment growth suffers.

Expect Lower European Interest Rates And A Stronger Yen

The euro-zone economy has not delivered the necessary growth to reduce high levels of unemployment. Moreover the strength of the euro has taken a toll on European exports. **We expect the European Central Bank to reduce interest rates by a quarter to a half a point over the coming months**. While this could temporarily strengthen the dollar versus the euro, the dollar remains a weak currency in relation to the Japanese yen. And while the Japanese have spent enormous sums ($142 billion during the first quarter) to prevent the yen from rising against the dollar in order to protect their export business, we do not expect this to continue indefinitely, and consequently the dollar should decline against the yen. The extensive currency intervention by the Bank of Japan has resulted in their purchasing significant amounts of U.S. Treasury Securities, thereby tending to keep U.S. interest rates lower than they otherwise would be. While we do not doubt that ending this practice could result in some upward pressure on U.S. rates, we still expect short-term rates to remain at relatively low levels.

Federal Reserve Policy Is Likely To Remain Accommodative

We continue to expect the Federal Reserve to provide a generous amount of monetary stimulus to the U.S. economy. Employment gains are far smaller than past history has led economists to expect during a recovery, and when statistical economic relationships that worked for many decades no longer appear to work, there is a reasonable chance of seeing some fundamental shifts in economic policy. Not surprisingly the outsourcing of manufacturing jobs to Asian countries has become and will continue to be a hot political topic in the 2004 presidential campaign. Unless the United States economy gets materially stronger, **we believe the probability is high that our short term rates will stay low for as**

long as Alan Greenspan remains Chairman of the Federal Reserve Board, which is until January 31, 2006.

In the 1970's and 1980's the main issue confronting the Federal Reserve was fighting inflation. Today inflation, as measured by the Consumer Price Index, is at very low levels even as energy and commodity prices have risen substantially. In today's economy commodity prices have a much smaller influence on the U.S. Consumer Price Index than they have had in the past. This is evident as we have become more of a service-based economy with productivity gains driven by automation and technology, while over time we have outsourced increasing amounts of industrial production to lower cost nations. Consequently, the Federal Reserve Board has been more concerned with deflation than with inflation. Unless employment growth would get so strong as to put real upward pressure on U.S. labor costs, we should expect an accommodative monetary policy to continue.

Today's Challenges Beget Investment Opportunity

The economy has been improving while corporate profits are rising faster than most analysts had expected. For many companies the bulk of the profit improvement has come from productivity and cost cutting, a characteristic that is difficult to maintain and even less likely to propel a sustainable economic expansion. Below, however, we highlight three areas that are benefiting from revenue growth and pricing power.

Oil and Gas Sector Dynamics Remain Attractive

Overall oil demand will continue to increase in the years ahead, with China accounting for the biggest portion of the rise. In viewing China we note the following; increasing motor vehicle use and the de-emphasis on coal in addition to increasing industrial demand for fuels has resulted in a projection of an increased need of 3 to 5 million barrels per day of additional oil imports over the coming years. According to the Energy Information Administration, in 2001 China vehicle ownership was 13 per 1,000 persons compared to 779 per 1,000 in the United States. As part of its industrialization program, China has embarked on massive highway projects to connect its western provinces which are largely undeveloped.

Last year oil prices in the United States averaged $31 a barrel and this year oil is selling for approximately $36 per barrel. Wall Street analysts for the past two years have expected oil to sell between $18 and $24 per barrel and have recently raised their targets to $28. In so doing they have also raised their estimates of the value of many oil and gas companies.

As clients of our firm know, many of our energy investments have yields of 4% to 9% and not coincidently benefit from negative exogenous forces, a stronger economy, inflation of commodity prices, the need for the United States to import 50% of its needs and increased electric power generation which is often fueled by oil and gas. In 1980 the oil and gas sector represented more than 25% of the S&P 500 and is now 6% to 7% of that index. Oil and natural gas equities look particularly attractive at their current valuations. **Looking ahead we believe that earnings and cash flow in this sector will be stronger than expected if oil and natural gas prices persist at relatively high levels**.

The Housing Industry Continues Its Secular Up Trend

The recent release of housing data indicated that the homebuilding industry remains very strong. The homebuilders as a group are sharing in a national housing boom fueled by demographics and record low mortgage rates. The companies that we like in this industry continue to report impressive new order growth and profit margins. The strong order growth and an ample backlog of homes under construction should result in excellent revenues, earnings and cash flow in 2004. It can be noted that despite some large fluctuations in interest rates in the 1990's many of these companies continued to grow revenues and earnings at double-digit rates and yet currently sell from 7 to 9 times this year's earnings, a low market multiple for growth.

The homebuilders in recent months have rewarded their shareholders with stock buybacks and increased dividend payouts. A number of homebuilders, who in the past have not paid cash dividends, have initiated a quarterly dividend, and they are quite confident that they will be able to sustain and increase their dividend payouts over time.

Gold And Precious Metals Prices Are A Beneficiary Of Dollar Depreciation

Gold bullion continued to enjoy relatively high prices in the first quarter with the average price in the quarter staying above $400 per ounce. At this point, there appears to be almost a perfect correlation between gold prices and the exchange value of the U.S. dollar. The dollar has depreciated against the euro and the yen for almost two years with the likelihood that, with temporary interruptions, this process will continue. The U.S. Federal Reserve's accommodative monetary policy fundamentally set the stage for the dollar's decline and the rise in the value of gold. Meanwhile, the Federal Reserve seems perfectly willing to accept the fall in the dollar's value because of the lack of associated inflation in the U.S. economy. The low investment returns currently available from fixed-income securities, bank certificates of deposit and money market accounts are also supportive of higher gold prices and the companies that mine gold. Industrial metals prices have also soared to their highest levels in many years arising from limited mine production and strong demand from China and India. We expect the leading precious and industrial metals companies to continue to be good investments.

Conclusion

Many investors find the current environment confusing. We would suggest that, among other factors, this is due to the tacit recognition that high budget and trade deficits are unsustainable. However, since our system is highly adaptive and resilient it will readjust as necessary. Logically this leads to industry consolidation and the rationalization of productive resources. Within this overall context we are optimistic about the current and future prospects of many market sectors whose secular trends present unique and exciting investment opportunities. As mentioned in past Outlooks, such secular trends include the economic emergence of China, the growing need for U.S. housing, building of homeland security capabilities, the continuing energy shortfall in the U.S., healthcare innovation, and the need for improved education and job training.