

E-MEMO

TO: INVESTOR/MEMBERS AND FRIENDS
FROM: Robert Ollech, CFA
DATE: April 19, 2004
SUBJECT: Special Edition – Banks Score Top Ranks

In Jon's absence this week, I'd like to bring to your attention some really great data developed by *Investor's Business Daily* (IBD), one of Jon's favorite publications for its business views (AND for its politics). The data can be found on page A 16 of the Monday, April 19, 2004, edition.

Over its twenty years of existence, IBD has developed indices of 197 industries. Domestic banks and thrifts make up seven of the 197. For the past 20 years of IBD's existence, four of those banking groups consisting of banks in the Southeast, the Northeast, the Midwest and the Southwest/West performed in the top 25 of the 197 industry groups. The top 25 industries and their 20-year index percent change were:

1.	Medical - Generic Drugs	7,791.77%	(24.33% annualized)
2.	Medical - Health Maint Org	6,459.68%	
3.	Telecom - Wireless Services	3,741.03%	(19.9% annualized)
4.	Computer - Networking	3,566.60%	
5.	Internet - ISP	3,422.14%	(19.3% annualized)
6.	Food - Confectionery	2,496.71%	
7.	Internet - Software	2,392.76%	
8.	Finance - Investment Bkrs	2,258.06%	
9.	Banks - Midwest	2,126.55%	(16.5% annualized)
10.	Retail/Whlsle - Office Supplies	2,054.60%	
11.	Medical - Drugs/Diversified	1,979.04%	
12.	Media - Radio/TV	1,964.38%	
13.	Finance - Savings & Loan	1,893.07%	(15.8% annualized)
14.	Banks - West/Southwest	1,868.86%	(15.8% annualized)
15.	Finance - Consumer/Cml Loans	1,849.77%	
16.	Banks - Northeast	1,822.84%	(15.6% annualized)
17.	Internet - Network Sltns	1,745.67%	
18.	Food - Dairy Products	1,682.87%	
19.	Medical - Whlsle Drg/Supplies	1,607.91%	
20.	Media - Cable/Satellite TV	1,591.74%	
21.	Telecom - Services Frgn	1,533.21%	
22.	Beverages - Soft Drinks	1,533.21%	
23.	Computer - Tech Services	1,543.01%	
24.	Banks - Southeast	1,477.20%	(14.4% annualized)
25.	Finance - Investment Mgmt	1,442.36%	

One could have a field day analyzing these numbers but several facts stand out. First, and foremost, an annual return of 15%-16% over 20 years adds up to serious money! Second, the top gainer of any of the banks and thrifts in the US over the last 20 years was 6,807% and the lowest #2 performer in any of the bank groups grew by 3,175%. With over 975 publicly traded banks, it takes a savvy stock picker to identify the top performers of the next 20 years or, for that matter, the next three to five years. Third, and something that is not evident from the rankings, is that banks and thrifts have generated those returns with significantly less volatility (risk) than the broader market – steady performance achieved by year after year of reliable fundamental results.

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As an aside, look at the #22 ranked category, Beverages - Soft Drinks. As you might surmise, Coca-Cola is the #2 performer of the group, up 2,900%. You know, of course, that Coke is a favorite of Warren Buffet and represents a huge holding of Berkshire-Hathaway. The number one and number two banks and thrifts in each of the five bank and thrift categories all out performed Coca-Cola for the last twenty years. I'm not sure that Mr. Buffet knows that, but we do know that he has owned plenty of banks and financial services companies over the years so I guess it's OK to allow him to indulge in ownership of company that produces his favorite soda pop.

It's natural to wonder why banks have performed so well for such an extended period of time. A little known fact, outside the small circle of dedicated bank stock investors, was unearthed last year by our colleague, John Cornwell. Over the past 40 years (1962-2002) bank earnings have grown at a compound annual growth rate of 9.54% compared to 6.58% for all industrial corporations.

	10 Years 1992-2002	20 Years 1982-2002	40 Years 1962-2002
U.S. Commercial Bank Earnings	9.15%	9.43%	9.54%
U.S. Corporate Profits	6.65%	7.05%	6.58%

Source: US Department of Commerce, FDIC and BEA

Those differences might look relatively modest to most people, but the real impact is huge. To put it into perspective, \$100 compounded at 9.54% for 40 years results in a terminal value of nearly \$3,300 while the same \$100 dollars compounded at 6.58% results in only \$1,279. Three percentage points in the annual growth rate over 40 years results in a dramatic difference in ending wealth! This is one of the primary reasons that banks have performed so well! Like the adage that the three most important elements for success in real estate are "location, location, location," long-term stock performance is first and foremost attributable to "earnings, earnings, earnings." Banks *are* exciting and their earnings growth rate over the most recent 10 year, 20 year, and 40 year periods really reinforces that notion.

Certainly banks have taken their lumps over the past two weeks. But, as investors, we're not investing for the past two weeks, or the next two weeks, but for the long term.

As you may know, the three of us have collectively invested over 95 years managing, regulating, analyzing and investing in banks and thrifts. While it may seem like we're tooting our own horn (and I guess we are), there are likely few other investment management teams with the strength of experience such as ours. We think that really counts for a lot when it comes to picking bank and thrift stocks. And so with what you've just read in mind, we invite you to join with us at our next available investment opening on July 1, 2004 and become a participant in the unique investment opportunity afforded by banks and thrifts.

Thanks for taking the extra time to read this extra-E-Memo.

Bob

PS: Several of you have notified us that when our E-Memo is delivered to you, shortly thereafter you receive some strange virus-laden e-mails apparently associated with fortresspartners.com. We have thoroughly vetted our systems and all of our computers and have been advised that culprit is not us - but one of you. If any of you have not updated your virus protection software recently, it may be you. The "NETSKY" virus is annoying but harmless and that seems to be the virus in question.

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