

E-Memo

TO: INVESTORS/MEMBERS AND FRIENDS
FROM: Bob Ollech and Jon Bruss
Date: March 25, 2005
Subject: **Small Bank Stocks - A Natural Hedge for Your Portfolio**

We love data at Fortress Partners, not for its own sake, but for the information it can reveal. We have long held that small bank and thrift stocks are unique and underappreciated and that they deserve a significant allocation in many investors' portfolios. The data in the columns at right shows the annual returns for the NASDAQ Bank Index and the S&P 500 Index and for a theoretical portfolio invested 50% in each and rebalanced back to 50%/50% at the beginning of each year. These returns are for the price movement of the indices only and do not include the reinvestment of dividends.

The NASDAQ Bank Index has been up 20 of the last 25 years, while the S&P 500 Index has had 19 positive years. **Interestingly, only once in the last 25 years were both indices down in the same year!** That year was 1990, which started with the country mired in a deep recession and ended with the US on the verge of the first Gulf War.

Taking this a bit further, assume that an investor put one-half of their money in an index fund that tracked the S&P 500 Index and bought a diversified portfolio of small bank and thrift stocks that tracked the NASDAQ Bank Index with the other half. Further assume that the investor rebalanced their investment allocation back to a 50%/50% mix at the start of each year.

How would they have done? Our hypothetical investor would have had five down years in that same 25 year time horizon, but three of those down years would have seen declines of less than 2% and in only one year, 1990, would that decline have exceeded 10%. As the summary at the bottom of the columns shows, this strategy would have outperformed the S&P 500 Index by a substantial margin and done so with less volatility. In other words, while there were still a few bumps (down years) along the way, the ride was faster (higher returns) and smoother (lower volatility) than if the investor chose an investment that mimicked the broader market.

All in all, we think the hard data supports strong consideration of investing a significant portion of your investable equity assets in a portfolio of small-cap banks and thrifts. We would welcome the chance to discuss this with you further. Please give us a call.

FORTRESS

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Year	Nasdaq Bank Price Index	S&P 500 Price Index	50%/50% Blend
2004	10.99%	8.99%	9.99%
2003	29.93%	26.38%	28.16%
2002	4.52%	-23.37%	-9.43%
2001	10.08%	-13.04%	-1.48%
2000	14.67%	-10.14%	2.27%
1999	-7.98%	19.53%	5.78%
1998	-11.77%	26.67%	7.45%
1997	63.59%	31.01%	47.30%
1996	26.16%	20.26%	23.21%
1995	44.81%	34.11%	39.46%
1994	1.11%	-1.54%	-0.22%
1993	29.37%	7.06%	18.21%
1992	52.02%	4.46%	28.24%
1991	37.52%	26.31%	31.91%
1990	-34.81%	-6.56%	-20.68%
1989	-9.98%	27.25%	8.64%
1988	11.62%	12.40%	12.01%
1987	-5.33%	2.03%	-1.65%
1986	18.08%	14.62%	16.35%
1985	52.05%	26.33%	39.19%
1984	12.77%	1.40%	7.09%
1983	30.30%	17.27%	23.79%
1982	9.25%	14.76%	12.01%
1981	20.90%	-9.73%	5.58%
1980	9.38%	25.77%	17.58%
Total Annualized Return	14.55%	10.16%	12.93%
Worst Year	-34.81%	-23.37%	-20.68%
Best Year	63.59%	34.11%	47.30%