

E-MEMO

TO: INVESTORS/MEMBERS AND FRIENDS
FROM: Jon Bruss and Bob Ollech
DATE: September 7, 2004
SUBJECT: *Sell In May and Go Away?—and Other Random Thoughts on Banks and Thrifts*

We are not chartists, though we look at charts. We are not momentum gurus, but we do consider momentum in sectors. We are not hung up with short term trends, but focus rather on the long term. We are “buy and hold” oriented rather than traders. And so, we regularly challenge our thinking to make sure that it is still defensible and provides a coherent path for our investors and ourselves because we are all focused on long term results. We are investors—America’s Bank Investor™—not bank and thrift traders. So it may seem strange that we should even be exploring the relevance of that old Wall Street saw, “sell in May and go away.” However, we think that there is value in independent research to confirm, or, more often, to debunk, Wall Street’s “rules of thumb.” What we found is worth sharing.

Would it have been a good idea this year — to “sell in May and go away”? After all, it has been a rather dull summer in the stock market. So we thought we’d check the indices and see if history has anything to teach us in this regard. Since this old saw has been around for longer than we can remember, there must be something to it, right? What we learned was very interesting. See if you don’t agree. For this particular chart, we used the period May 28 through September 3 of 2004, May 28 being the last day before the May 31 Memorial Day holiday and September 3 being the last day before the 2004 Labor Day holiday:

SELL IN MAY AND GO AWAY MARKET INDEX PERFORMANCE

	Year to date as of 8/31/04	1/1/04-5/28/04	5/28/04-9/03/04
FOUNDATION	-0.75%	-0.42%	+0.001%
Dow Jones Industrial Average	-1.34%	-1.71%	-1.12%
NASDAQ	-7.96%	-0.66%	-7.03%
S & P 500	+0.42%	+1.47%	-0.16%
S & P 600 (Small Cap Index)	+3.11%	+4.28%	+0.75%
NASDAQ Bank Index	+2.69%	-0.33%	+4.00%

We believe that we should not have taken a holiday because we actually improved our performance, albeit modestly, during this 90 day period that is considered to be Wall Street’s summer hiatus. But look what happened to the broad indices. The Dow improved and so did the Bank Index, the latter by quite a nice margin. Did we go away in May? No, actually we have been hanging in there continuing to work to create value for all of our investor/members. To the extent we were bested by the Bank Index and the small-cap S & P 600, all we have to do is look in the mirror to figure out who or what has been responsible for that performance.

Reflecting as we do on our performance on a daily basis (mind you, we don’t focus on short term performance—much) our thoughts do turn to the longer term—how have we done in the past 5 years vs. the Bank Index in a “sell in May and go away” approach to investing. That is really interesting. While we have beaten the Bank Index 130.01% to 112.62% for the past 53 months and by 2.71% annually for the last four years and by 4.65% annually for the last three years, we have been beaten by the Bank Index during the 90-day summer hiatus. Not by much though. The total return for the Bank Index averaged 4.25% for each of the last five summer periods while Foundation Financial Partners, LLC averaged 4.17%—not a huge difference but noticeable – at least to us.

We don't put a lot of stock into those old stock market bromides, but before rejecting the ideas, it is well to examine them against the record. And that we have done. Finally, for the better part of this year, as we reflected on the performance of our fund during its formative stage in the first nine months of 2000, we wondered about how that performance stacked up against the Bank Index. It felt to at least one of us that there were some eerie similarities to our performance this year and the Fund's performance in 2000. There really weren't.

For the period May 31 to August 31, 2000 (that year's proxy for Memorial Day and Labor Day respectively) the Fund was up by 8.83% while the index was up 7.90%. In that year, the Fund was up 4.08% while the Bank Index blew us out with a stunning 29.19% return. Still, our results for the last three years and the last five years have outstripped the performance of the Bank Index by a substantial margin. We continue to focus on the longer-term with the aim of continuing to produce above average results over time.

Recently we have been including a copy of a Fund Profile sheet showing you a graph and related statistics of the performance of Foundation Financial Partners against two indices: The NASDAQ Bank Index and the S & P 500, the latter being the benchmark most funds use. Being a sector fund focused exclusively on banks and thrifts it is appropriate, if not mandatory, that we also focus on the Bank Index. One of the measures used is that of "alpha." For those of you who missed Investing 101 or just plain forgot, "alpha" is simply the value added by our efforts. Another way of looking at it is that it is that gain (or, heaven forbid) loss that you pay us to find for you as we manage your funds. In our last Fund Profile for July 2004 we showed (as we have each time we've attached these to your e-memo and are available for the asking at bruss@fortresspartners.com or ollech@fortresspartners.com) the value we added through our Fund as compared to the Bank Index and the S & P 500. Sure, the Bank Index has outperformed the S & P 500 for most of the long term periods we know of. But our alpha, our value added, is nonetheless significant. Versus the S & P 500 it is 24.02% annualized and versus the Bank Index, it is 11.68% through the end of July, our most recent Fund Profile. Is this really meaningful? You bet it is. First of all, you know any time you can get out-performance as measured by alpha like 24% compared to the S & P or well over 11% as measured against the Bank Index you are getting your money's worth. Second, it does debunk the myth that investing in the index is a superior method of investing than using a stock picker like us. Compare those alphas to what you pay us as a percent of the funds we manage in Foundation and you'll see that we have earned our keep by a substantial multiple. And that is what you are paying us to do, and that is what we continue to strive to accomplish.

Finally, our results, such as they are for the month:

**August 2004
PERFORMANCE HISTORY (1) (2)**

	Inception to Date (53 Months) 3/29/00-8/31/04	Three Year Return Annualized 8/31/01-8/31/04	Twelve Months Ending 8/31/04	Year to Date As of 8/31/04
FOUNDATION	+ 130.01%	+19.19%	+10.37%	-0.75%
Dow Jones Industrial Average	+ 1.65%	+ 2.90%	+10.37%	- 1.34%
NASDAQ	- 59.11%	+ 1.06%	+ 2.05%	- 7.96%
S & P 500	- 21.18%	+ 0.80%	+11.44%	+ 0.42%
S & P 600 (Small Cap Index)	+ 37.54%	+ 8.43%	+14.87%	+ 3.11%
NASDAQ Bank Index	+ 112.62%	+ 14.54%	+15.55%	+ 2.69%

(1) **After** management and other expenses but **before** charges for Performance Allocation; indices and Fund performance include the reinvestment of dividends.

(2) The performance information has been prepared and presented in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®), the U.S. and Canadian version of the Global Investment Performance Standards (GIPS®). AIMR has not been involved in the preparation or review of this information.

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