

LYON

CAPITAL MANAGEMENT

A Registered Investment Advisor

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STOCKS OR BONDS? WE SAY STOCKS.

BY DOUG LYON, CFA

2002 was the third down year in a row for equities. The U.S. has not experienced three consecutive years of negative stock market returns since 1939-41 when the Nazis invaded Poland and Czechoslovakia and seemed on the verge of taking Britain. Although many stocks are down over the past three years, the main casualties are the tech and telecom stocks that were bid up so precipitously during the great stock market bubble of the late 1990s.

Have stocks finally bottomed out? No one really knows. ***But, given the choice of whether to buy stocks or bonds we say now is a better time to buy stocks.***

Bonds are an important part of a balanced portfolio and we have always owned them. But, bonds have seen record increases in value as interest rates have fallen to levels not seen in 40 years (remember: bond prices move inversely to interest rates). As with stocks, real estate or any asset, the time to buy is not when the asset is in high demand but when the asset is in low demand.

Bonds are currently in high demand. Investors, burned by the collapse of the internet/telecom bubble, are looking for safety. Many think bonds will provide it. Bonds have been and always will be a valid part of a well diversified portfolio. Bonds even outperform stocks from time to time (as they have done over the past three years).

Over time, however, stocks by their very nature, will outperform bonds. Bonds generally have a fixed payout for their whole life. Stocks have a variable payout that is not always guaranteed. The value of a stock grows with the size and profitability of the underlying company. If you are investing in the stock of a company that is a major participant in the U.S. economy, the business of that company will likely grow with the economy over time. As economic growth occurs, the underlying stock will very likely increase in value. A bond, if held to maturity, does not increase in value, no matter how successful the issuing company.

We evaluate stocks individually and buy companies when there are a large number of positive attributes including:

solid management, a strong balance sheet, a leading industry position, a proven ability to generate positive cash flow after paying all expenses and all of this at a good price. Over the past 6 to 12 months we believe we have found such investment opportunities in a number of different industries.

In addition, since the implementation of the new tax bill the attractiveness of dividend-paying stocks will increase. And, we may see more companies start to pay or increase cash dividends. Our clients are well-positioned to profit from this newly enacted legislation since we have long been buyers of dividend-paying stocks.

We are bullish on the U.S. economic future. Stocks do well when the economy does well. In the long run stocks will likely produce returns superior to most other asset classes. Stocks are currently out of favor. As a result, prudent investors can buy shares of many stocks at prices not seen for 5 to 7 years. We think now is good time to buy undervalued stocks.\$\$

Lyon Capital Management is a Registered Investment Advisor. Our clients give us discretionary power to buy and sell individual securities: stocks, bonds, and cash in their accounts

We don't have a "stock of the day" or "fund of the moment" to sell you. We do not sell insurance or annuities. We do not invest in limited partnerships, penny stocks, IPOs, options or other exotic investments. We are not brokers selling a product

We apply our value investing style to purchase securities. Over time this investment style has been shown to produce higher returns with less risk than other investment styles. We are long term investors.

We are paid a fee based on a percent of assets we manage. We are paid for performance, not trading activity. Our interests are aligned with yours! Visit us at: www.lyoncapital.com

Selecting a Money Management Professional

By Kate Lyon

What is it that makes for successful investing during markets like ones we experienced over the last 3 years? We believe the secret is to select a qualified *professional* with a long-term outlook and strong track record, a professional that tailors investments to meet specific needs. Our clients preserved, and in many cases grew, their assets over the last three years. This was, in large part, because they selected a qualified professional to serve as a steward of their assets. We believe that going forward a successful investor must:

Select a professional advisor who is qualified.

Is your money manager a registered investment advisor? Can you access information about them or their firm at the S.E.C. website? Are they a Chartered Financial Analyst or a Certified Financial Planner? Do they belong to the nationally recognized and local professional investing organizations (The Rochester Society of Security Analysts, The Association for Investment Management and Research, The Financial Planning Association)? Is their disciplinary record spotless? Are they active in the preservation and improvement of their profession? You deserve a professional with the highest qualifications. Verify these before you invest.

Select an advisor that uses a range of investing tools.

Our strong performance over the last 3 years can be attributed to strategies that were often criticized during the 90's as dull, boring, and out of sync with the "new economy". We employed a value investing strategy. We bought undervalued stocks paying dividends. We used real estate investment trusts and Treasury Inflation Protected Securities (T.I.P.S.) to provide diversity. Preferred stocks and convertible securities generated steady income and captured growth in the equity market. We also used a range of bonds: corporates, treasuries, and tax-exempt municipals.

Select an advisor who is long-term oriented.

Many investors and money managers are either still on the sidelines of the stock market or selling stocks now to "lock-in" profits for this year. They don't want to risk losing more money or they think the market has had a nice little run-up this year and they just won't accept another year of poor performance. These investors or managers are totally focused on short-term performance and not on long-term results.

This is what got them into the bubble and keeps them from moving ahead now. We have always been long-term oriented investors and our strong track record bears this out.

Select an advisor that actively manages. (No index hugging!) How did the major indexes do over the last 3 years? Not very well. What is an index after all? It is merely a statistic based on a group of securities. Most indexes are not very diverse. The DOW only contains 30 stocks. The S&P 500 is driven by large-cap companies. The NASDAQ was created as a marketing device to give the exchange publicity. Those who invested to follow the indexes had large drops in their portfolios as the bubble burst. Why look to artificial measures to benchmark your portfolio? You are not an index. Why invest with the goal to meet or beat an index? Why not benchmark your portfolio to your investment goals.

Select an advisor that crafts a portfolio unique to the individual or business. Many larger money management firms and banks have a list of companies that clients are literally dumped into the first day they sign up. All money is fully invested in the list of stocks regardless of the price. All clients own the same securities. This provides efficiencies for the manager: performance is easily tracked, all accounts look the same, communicating with clients is easier. But, this form of management virtually ignores the specific needs of the individual. You often end up paying more for the items in your portfolio, missing opportunities, and earning less.

Select an advisor whose interest is aligned with yours.

Avoid brokers and loaded mutual funds. Brokers simply are not given an incentive to manage for your individual needs. Their incentive is, pure and simple, to sell products that generate commissions. Loaded mutual funds provide commissions to the broker, banker or agent who sells them to you and reduces your portfolio return. Loaded funds are almost always more costly than working with a professional investment advisor. An advisor, like Lyon Capital Management, that is compensated based on a percent of assets under management has only one incentive, to preserve and grow your portfolio.

In short we believe that Lyon Capital Management's personalized approach to money management coupled with a strong long-term orientation has helped to maintain and grow our clients wealth. If you did not adequately preserve or grow your assets over the last three years we urge you to consider a professional money manager who has performed well in the difficult times – Lyon Capital Management. You can find us at www.lyoncapital.com or give us a call at 585-248-9821.\$