TRIVANT
CUSTOM PORTFOLIO GROUP, LLC

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quarterly
INSIGHTS

Second Quarter 2005

In This Issue

3 Equity Market Review

10 Bond Market Review

11 Closing Thoughts

EXECUTIVE SUMMARY

Dollar Appreciation & Small Cap Recovery Highlight Flat Q2 2005

In the Second Quarter, the domestic S&P 500 Index rose 0.91%, out-performing the MSCI EAFE Index (foreign) by almost 2%. We expect domestic equity to continue to out-perform foreign equity for the remainder of 2005. There were three primary trends to note regarding Second Quarter 2005 performance:

- The US Dollar continued to appreciate versus foreign currencies
- Overall market performance remained relatively flat
- Small cap stocks rebounded and caught up to large cap performance year to date

Oil & Politics Have Postponed a 2005 Market Rally

We believe concerns regarding rising oil prices and impending political showdowns have thus far neutralized attractive equity valuations and continued economic growth. Oil prices continued to rise in the Second Quarter ($55 to $56 per barrel), but at a much reduced pace from the First Quarter ($42 to $55 per barrel). Year to date, oil prices have increased more than 40%. US Social Security reforms along with a contentious Supreme Court nomination process to replace Sandra Day O'Connor are overshadowing a healthy economy. Despite these pressures and concerns, equity markets have been resilient.

US Monetary & Fiscal Policy Increasingly Tied to China

China has become the rising star of the global economy. It is our contention that US/China political relations are now a key driver that affects US monetary policy which, in turn, affects US fiscal policy. We view current US/China political relations as a "wildcard" (unpredictable). If political relations between the US and China are a wildcard, then US monetary and fiscal policy becomes tougher to predict. From a portfolio management standpoint, we must best position portfolios bearing in mind not only a potentially lucrative investment opportunity in China itself, but a growing US vulnerability to China.

We Maintain Our 2005 Market Forecast

We continue to expect that global equity markets will advance in the mid single digit range (5%-8%) for 2005 (*2005 Market Forecast, January 2005*). It is our belief

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EXECUTIVE SUMMARY

Continued from Page 1

that energy prices will decline (*TriVant Quarterly Insights, April 2005*). Even if we are wrong, the effects of rising oil prices should continue to be less significant than perceived. Continued corporate profitability, strong GDP growth, an improving budget deficit, and attractive equity market valuations should positively impact the market.

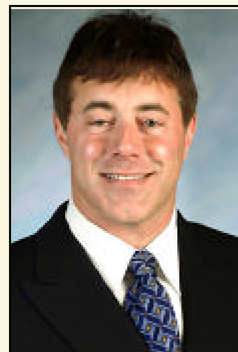
Fixed Income

The Fed Funds rate is 3.25% after two more quarter point rate hikes. We would be surprised if the rate reached 4.00% by the end of this year, and maintain our view that longer term interest rates will rise. Our fixed income portfolio position continues to be focused in shorter term maturity bonds and Treasury Inflation Protected Securities (TIPS). Should we determine that yield spreads will widen, our position in corporate bonds may be reduced.

TRIVANT CUSTOM PORTFOLIO GROUP, LLC **Second Quarter 2005 Review**

Commentary in this review reflects our portfolio strategy. Many of our clients have different objectives and circumstances which are reflected in unique portfolio considerations. Please note that accounts may not contain all elements of the strategy discussed here. Additionally, individual client customizations and start dates may preclude certain elements of this strategy from being implemented. Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.

John Barber, CFA
Chief Investment Officer



Dan Laimon, MBA
President

Equity Market Review

Dollar Appreciation & Small Cap Recovery Highlight Flat Q2 2005

In the Second Quarter, the domestic S&P 500 Index rose 0.91%, out-performing the MSCI EAFE Index (foreign) by almost 2%. We expect domestic equity to continue to out-perform foreign equity for the remainder of 2005.

There were three primary trends to note regarding Second Quarter 2005 performance:

- The US Dollar continued to appreciate versus foreign currencies (The US Dollar, page 4)
- Overall market performance remained relatively flat
- Small cap stocks rebounded and caught up to large cap performance year to date

Equity Index Performance	Q1 2005	Q2 2005	YTD 2005
S&P 500 (Domestic)*	-2.59%	+0.91%	-1.70%
MSCI EAFE (Foreign)**	-0.10%	-0.75%	-0.85%
MSCI World	-1.00%	+0.61%	-0.40%
MSCI Emerging Markets	+1.94%	+4.24%	+6.26%
Russell 2000 (Small Cap)*	-5.60%	+4.00%	-1.83%
MSCI Japan	-2.33%	-3.55%	-5.80%
MSCI UK (United Kingdom)	+1.35%	-0.43%	+0.92%
MSCI EMU (European Monetary Union)	+0.10%	-0.80%	-0.79%

* Performance data does not include dividends
** Europe, Australia and the Far East Index

Oil & Politics Have Postponed A 2005 Market Rally

We believe concerns regarding rising oil prices and impending political showdowns have thus far neutralized attractive equity valuations and continued economic growth.

Oil prices continued to rise in the Second Quarter ($55 to $56 per barrel), but at a much reduced pace from the First Quarter ($42 to $55 per barrel). Year to date, oil prices have increased more than 40%. US Social Security reforms along with a contentious Supreme Court nomination process to replace Sandra Day O'Connor are overshadowing a healthy economy. Despite these pressures and concerns, equity markets have been resilient.

We Maintain Our 2005 Equity Market Forecast

We continue to expect global equity markets will advance in the mid single digit range (5%-8%) for 2005 (*2005 Market Forecast, January 2005*). It is our belief that energy prices will decline (*TriVant Quarterly Insights, April 2005*). Even if we are wrong, the effects of rising oil prices should continue to be less significant than perceived.

The political issues mentioned above should ultimately be resolved and not hinder the market. Continued corporate profitability, strong GDP growth, an improving budget deficit, and attractive equity market valuations should positively impact the market.

Currency, Country, Sector & Market Cap Performance at a Glance

The US Dollar

The US Dollar rally accelerated in the Second Quarter. Year to date, there has been a double digit percentage increase against the Euro and strong returns against the Yen and Pound.

US Dollar Appreciation vs. Foreign Currencies

Currency	Q1 2005	Q2 2005	2005 Year-to-Date
US Dollar / Euro	4.39%	7.02%	11.72%
US Dollar / Japanese Yen	4.42%	3.43%	8.00%
US Dollar / British Pound	1.01%	5.56%	6.63%

Source: Discount Currency Exchange

We anticipate the US Dollar will continue to appreciate throughout the remainder of 2005, but may lose momentum in 2006. There are three main reasons to support this viewpoint:

- The *American Jobs Creation Act of 2004* (*2004 Jobs Act*) has encouraged US companies to repatriate profits from foreign subsidiaries via special temporary tax incentives (*TriVant Quarterly Insights, April 2005*). The resulting inflow of US dollars ($300-500 billion) has caused / will cause an appreciation of the dollar. However, time is running short as profits from subsidiaries must be moved by the end of this year.
- Raising US interest rates in an environment of stagnant foreign interest rates has spurred global demand for the US Dollar (capital inflows) which, in turn, has helped the dollar appreciate. Fed interest rate hikes may be near an end (Bond Market Review, page 10). The relative spread of US versus foreign interest rates has narrowed. Without the momentum of further interest rate hikes, future demand for the US Dollar may be reduced.
- Assuming the US Dollar continues to appreciate, the dollar will have made a large upward move by the end of 2005. Given that there will be no future stimulus from the *2004 Jobs Act* and limited (if any) stimulus from interest rate hikes, the presiding level of the dollar may be tough to maintain in 2006. Other future factors that could pressure the dollar include Fed monetary policy (the possibility of reducing short term interest rates to propel a slowed economy) and foreign government policy (investment decisions from the Chinese and Japanese governments regarding the retention and purchase of US Treasury Bonds).

The US Dollar: Portfolio Strategy Considerations

1) *Domestic vs. Foreign*

At the beginning of this year, we slightly raised our domestic versus foreign equity exposure in anticipation that:

- Higher US interest rates would foster an appreciation of the US Dollar versus foreign currencies
- Domestic GDP growth would out-distance foreign GDP growth (*2005 Market Forecast, January 2005*).

Thus far, we have correctly anticipated an appreciation of the US Dollar. Although raising our domestic equity exposure has had negligible performance impact year to date, we anticipate positive impact through the remainder of 2005 and continue to position our portfolio accordingly.

The US Dollar: Portfolio Strategy Considerations
Continued from Page 4

2) *Sector Weighting*

Prior Adjustments:	**Sector**	**Portfolio Exposure**	**Rationale**
Q1 2005	Financials (Banks)	DECREASE	- Higher short term interest rates coupled with slower economic growth should lead to flatter yield curve - Reduced bank lending spreads should lower profits
Q1 2005	Technology	INCREASE	- As a major exporter, the US technology sector should benefit from substantial prior US Dollar depreciation (2001-2004) - Sector is less susceptible to rising interest rates and slower economic growth
Potential Future Adjustments	Health Care	INCREASE	- Sector is less susceptible to rising interest rates and slower economic growth
	Cyclicals	DECREASE	- Sector is highly susceptible to rising interest rates and slower economic growth

3) *Average Market Cap*

At the beginning of this year, we anticipated that an appreciation of the US Dollar in the latter stages of the economic growth cycle would favor large cap versus small cap stocks. Small cap stocks generally out-perform in the early stages of economic growth, and large cap stocks out-perform in the latter stages. Consequently, we raised the average market cap of our equity portfolios from $25 billion to $35 billion because we believed it would lower our portfolio risk without sacrificing performance. Thus far in 2005, this has been the case. Small and large cap stocks have performed almost identically. Raising the average market cap of the equity portfolio has helped to lower our portfolio beta (risk).

Japan

The Japanese stock market lagged the S& P 500 Index in the Second Quarter with a decline of 3.55% (in US Dollars). Japanese currency depreciation was mainly responsible for weak performance. In local currency (Yen), performance was nearly flat with a decline of -0.08%.

Japan: Portfolio Strategy Considerations

The Yen continued to fall and hit a 14-month low against the Dollar. Japan has maintained a weak currency policy to export its way to economic growth to the detriment of Japanese consumers. Signs that the Japanese economy is healthy include rising corporate capital expenditures, an improving job market, and rising consumer spending. GDP growth, while modest, continues. Falling oil prices could act as a catalyst for quicker growth. We will likely maintain our current portfolio position.

Emerging Markets

Emerging markets led all markets with a Q2 return of 4.24% and is now up over 6% for the year. Rising oil and commodity prices have been the performance drivers.

The Central American Free Trade Agreement (CAFTA) will now gain the spotlight as President Bush pushes forward his economic policies. According to US Trade Representative Rob Portman, CAFTA will allow the US to compete more effectively with China. However, many in Congress fear that US jobs could be lost. Special interest groups, such as the sugar producers and the National Textile Association, will likely oppose the treaty along with Democrats and some Republicans. Several countries in Central America are waiting to see what Congress does before signing the agreement.

Emerging Markets: Portfolio Strategy Considerations

Emerging markets usually experience higher volatility, and this is why we limit our exposure to this market segment. Low correlations with developed markets reduce risk. Continued out-performance may cause us to rebalance in the future.

Europe

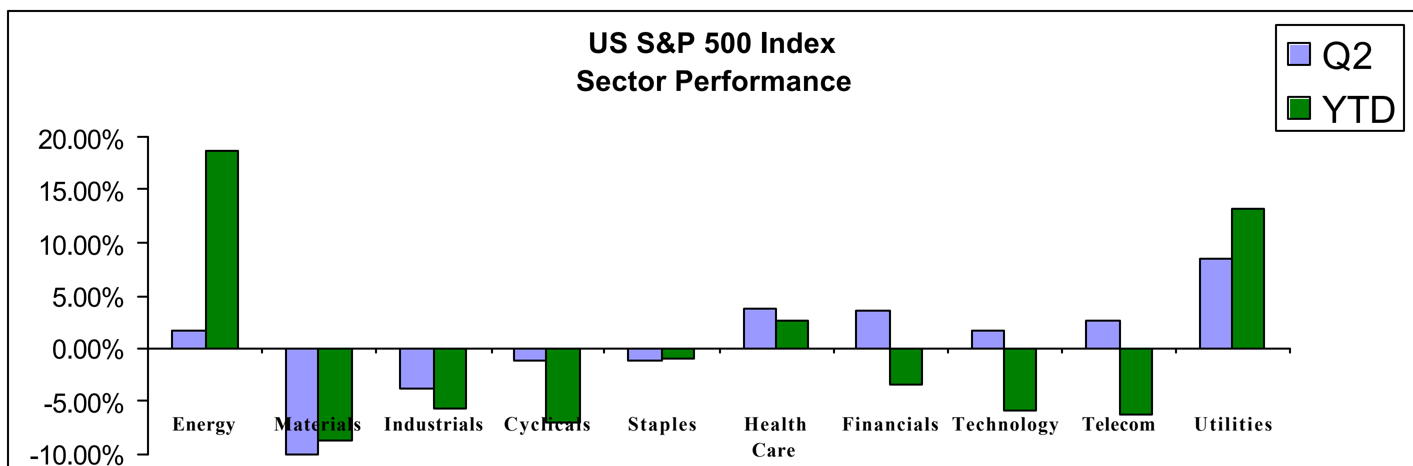
The MSCI European Monetary Union (EMU) Index declined 0.43% while the MSCI United Kingdom (UK) Index fell 0.80% for the Second Quarter. The Euro and the British Pound were very weak in the quarter, falling 7.02% and 5.56% respectively. Some of the currency decline can be attributed to the failure of France and The Netherlands to ratify the European Union (EU) constitution. The EU constitution requires ratification from all 25 countries by late 2006. France's rejection essentially ends the possibility of having a constitution. This has caused some chaos in the currency markets in Europe.

European Markets: Portfolio Strategy Considerations

We believe that Europe will under-perform US markets in 2005 (*2005 Market Forecast, January 2005*) and consequently we lowered our European equity exposure at the beginning of this year. Equity valuations in Europe remain higher than the US. UK GDP growth was an anemic 0.4% versus 3.8% for the US on an annualized basis. Interest rates are nearly identical for the 10-year government bonds. Higher valuations coupled with slower growth make a compelling case for underweighting European equities in the long run. We will maintain our lowered level of European equity exposure at this time.

Sector Performance

Energy stocks were market performers in the second quarter with stable crude oil prices that rose just over 2% ($55.31 to $56.63 per barrel). Utilities, a small sector (3.47% of the S&P 500), led the market. Financials (20.3% of the S&P 500) and Health Care (13.39% of the S&P 500) performed well. Materials (2.95% of the S&P 500) disappointed, which was primarily due to interest rate hikes. Materials perform well when inflation rises but higher interest rates tend to reduce inflationary pressures.



Sectors: Portfolio Strategy Considerations

Financials is the largest sector of the US and global markets (20.3% of the S&P 500 Index and 27.34% of the MSCI EAFE (foreign) Index). We feel that caution is warranted when a sector grows to over 20% of a major index.

Banks, the largest industry in the financial sector, borrow money from depositors (checking accounts, money market funds, CDs). The Federal Reserve has enormous influence over the yields that depositors receive. Banks take these deposits and make loans to businesses and consumers. Most loans are between 5 and 10 years for businesses and often as long as 30 years for mortgages. When the spread between what banks pay depositors and charge for their loans is great, profits rise. When the spread narrows, profits fall. Federal Reserve Board Chairman Alan Greenspan has been raising interest rates at a measured pace, but longer term interest rates have stayed stable. Because the yield curve has flattened, we feel bank profits will face pressure. We will maintain our lowered weight to this sector.

The rapid pace of US economic growth is ending but all indications are we will have moderate and sustainable growth. When growth in the economy slows, sectors that can still deliver growth tend to gain favor. Our two favorite sectors remain health care and technology.

Market Cap Performance

Small cap US stocks rallied back in the Second Quarter to nearly catch large cap stocks year to date. Smaller stocks tend to be more volatile. As such, even if large caps out-perform over the next couple of years, we will expect intermittent small cap rallies.

Foreign small caps (which had a powerful First Quarter) performed in line with foreign large cap stocks in the Second Quarter. Weak foreign currencies could stimulate increasing growth abroad which may benefit smaller foreign companies. We will watch to see if foreign economic growth gains traction before considering portfolio adjustments.

2005	First Quarter	Second Quarter	Year-to-Date
Large Cap Performance			
World	-1.00%	+0.61%	-0.40%
Foreign	-0.10%	-0.75%	-0.85%
USA	-2.02%	+1.66%	-0.41%
Small Cap Performance			
World	-0.37%	+2.04%	+1.67%
Foreign	+4.41%	+0.41%	+4.84%
USA	-5.45%	+4.33%	-1.36%

Source: MCSI

Market Cap: Portfolio Strategy Considerations

We expect large cap stocks to be better positioned from a risk / reward standpoint. Therefore, we will maintain our large cap focus. Current average market cap is approximately $35 billion which is slightly smaller than the S&P 500 Index and larger than the MSCI EAFE Index.

Style Performance

Growth stocks outpaced value stocks in the Second Quarter, although value has outpaced growth year to date. Value out-performance is attributed to rising oil prices and strong First Quarter energy returns.

2005	Q2	Year to Date
US Growth	2.20%	-1.37%
US Value	1.14%	0.56%
EAFE Growth (Foreign)	-0.66%	-1.47%
EAFE Value (Foreign)	-0.82%	-0.22%

Historically, value stocks tend to out-perform growth stocks in the beginning of a new bull market. As economic expansion begins to slow due to a maturing business cycle, growth starts to prevail. We believe that we are now in the latter stage of the business cycle.

Style: Portfolio Strategy Considerations

We maintain our growth bias due to rising interest rates and slowing, but positive, economic growth.

US Monetary & Fiscal Policy Increasingly Tied to China

China has become the rising star of the global economy. According to the International Monetary Fund (IMF), China is now the second largest economy in the world, accounting for 13.2% of the global GDP. Nearly one quarter of the world's economic growth comes from China. US/China trade policy affects political relations. It is our contention that US/China political relations are now a key driver that affects US monetary policy which, in turn affects, US fiscal policy.

1) *The Trade Policy Standoff*

We view current US/China trade policy as an effective "standoff". Each country prospers from the other and has a vested interest to maintain healthy trade relations. China needs the US to buy its products. Relatively cheaper Chinese products help the US to control inflation.

In 1994, China adopted a policy of fixing its Yuan to the US Dollar at a rate of 8.277. An undervalued Yuan has stimulated Chinese exports and hurt US exports. To appease US concerns regarding its currency advantage, China has recently altered its policy of fixing the Yuan and taken a first step towards adopting an alternate currency valuation mechanism. Additionally, China has charged export tariffs to some industries in order to control product outflow, as well as taken steps to control piracy (infringement of copyright laws). The US has adopted various import tariffs and quotas to slow down the rate of Chinese exports.

Whatever measures either government takes regarding trade policy at the present time, we believe the measures will be taken in the spirit of cooperation versus confrontation. As US mid-term elections (November, 2006) approach, we will likely see more confrontation regarding US/China trade policy as incumbents/challengers posture for votes.

2) *The Political Relations Wildcard*

As a general statement regarding global political relations, China dislikes interference from outsiders and the US has shown a propensity to interfere (whether welcomed or not). We view four potential "hot buttons" regarding US/China political relations: Taiwan, North Korea, Iran and the CNOOC bid for Unocal.

China considers Taiwan a renegade province while the US considers Taiwan a sovereign nation. Taiwan is only miles away from China and would likely succumb quickly to any Chinese invasion. The US has a mutual defense treaty with Taiwan (1954), but honoring the treaty would likely provoke a war with China.

China has taken the lead in negotiating with communist North Korea, who accuses the US of threatening its safety. The US relationship with North Korea is strained.

China sells missiles and missile technology to Iran. China also supports Iran's nuclear energy program. The US is concerned that Iran is acquiring weapons of mass destruction.

The China National Offshore Oil Company (CNOOC), which is partially owned by the Chinese government, has outbid Chevron for Unocal but the US Congress has demanded that the Administration review this purchase for concerns regarding national security. If a potential sale to CNOOC is blocked, this may damage US/China political relations.

We view current US/China political relations as a "wildcard" (unpredictable). It is our contention that political relations are now a key driver that affects US monetary policy, which in turn affects US fiscal policy. If political relations between the US and China are a wildcard, then US monetary and fiscal policy becomes tougher to predict.

3) *US Monetary Policy*

China has gained enormous influence over US monetary policy through purchasing large amounts of US government bonds. Essentially, China has played a huge role in financing our deficit.

If US/China political relations were to sour, China may limit its bond purchases, discontinue its bond purchases, and/or sell its bonds. Any of these situations would put upward pressure on US interest rates. Stable political relations would likely equate to stable US interest rates.

4) *US Fiscal Policy*

Upward pressure on US interest rates (sour political relations) will foster restrictive US fiscal policy. Stable

US Fiscal Policy
Continued from Page 8

US interest rates (stable political relations) will foster flexible US fiscal policy.

5) *Portfolio Strategy Considerations*

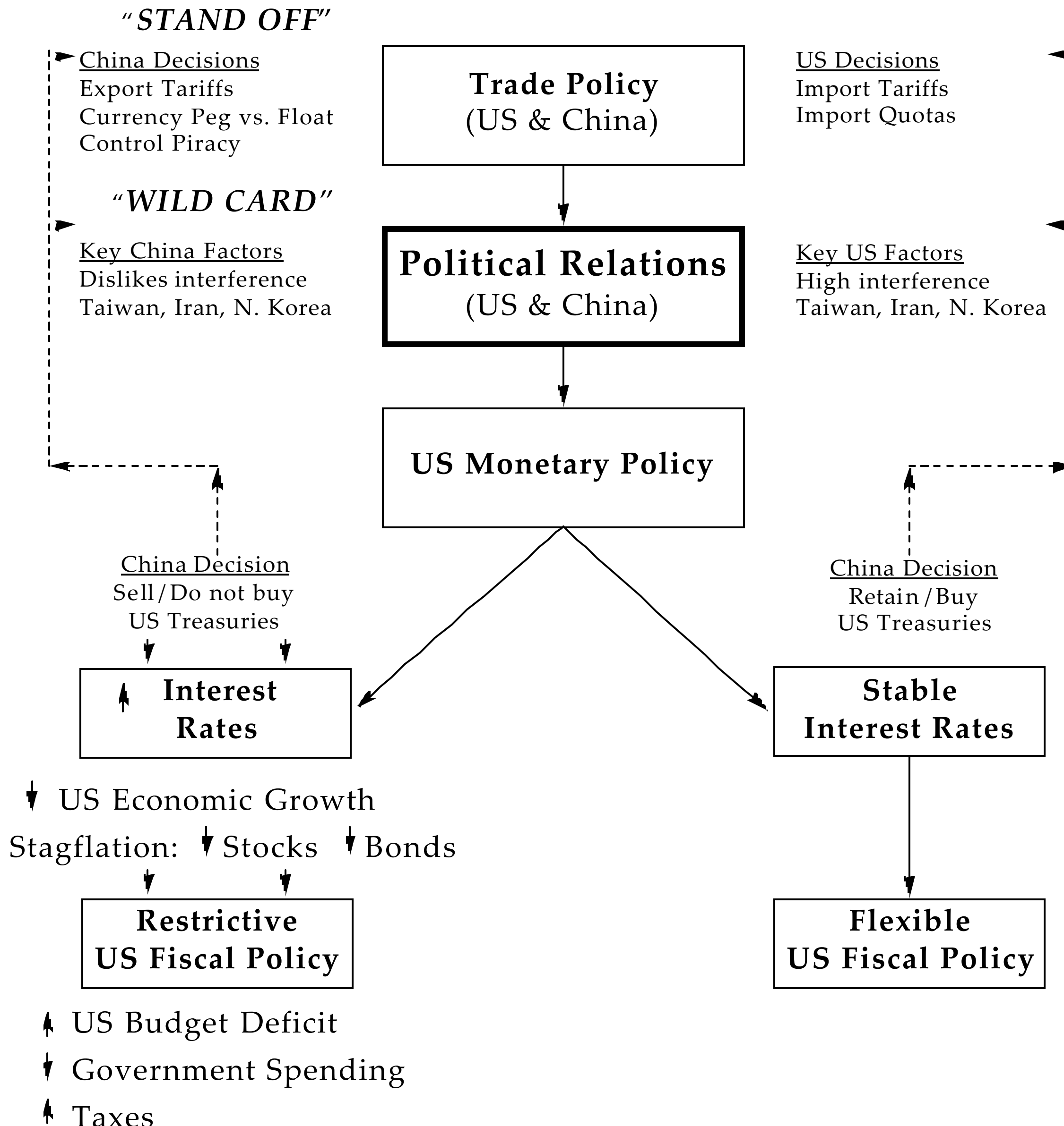
From a portfolio management standpoint, we must best position portfolios bearing in mind not only a potentially lucrative investment opportunity in China itself, but a growing US vulnerability to China.

It is difficult to invest directly in Chinese stocks because China's laws mandate a separate (lower) class of stock to foreign investors. We have direct China portfolio exposure via an emerging markets index fund.

We can best position the portfolio to China via a "top down" management style. According to our assessment of the state of US/China political relations, and its potential effects on US monetary and fiscal policy, we can adjust the portfolio in any or all of the following ways:

- Domestic versus foreign exposure
- Sector exposure
- Average market cap size
- Style (growth versus value)

China Drives US Monetary & Fiscal Policy



Bond Market Review

The measured pace for Fed rate hikes may not yet be at an end. According to the Minutes of the May 3, 2005 meeting of the Federal Open Market Committee (FOMC):

> "The ability of the U.S. economy to withstand significant shocks over recent years buttressed the view that policymakers should not overreact to a comparatively small number of disappointing indicators, especially when economic fundamentals appeared to remain quite supportive of continued solid expansion."

The Fed Funds rate is 3.25% after two more quarter point rate hikes this quarter. Consensus forecast for end of the year Fed Funds rate was 3.50% at the beginning of the year. It now seems that the rate could go above 3.50% by the end of the year, but we would be very surprised if it reached 4.00%.

	31 December 2004	30 June 2005	Change
Fed Funds Rate	2.25%	3.25%	+100 basis points
2 yr Treasury (Constant Maturity)	3.01%	3.64%	+63 basis points
5 yr Treasury (Constant Maturity)	3.61%	3.73%	+12 basis points
10 yr Treasury (Constant Maturity)	4.22%	3.95%	-27 basis points

Note: 100 basis points = 1.00%

Longer term bond yields fell unexpectedly in the Second Quarter with the 10-year treasury yield declining to 3.95%. This change helped to flatten the yield curve. We are approaching an inverted yield curve which historically has signaled a possible recession. Though we forecast a flattening yield curve at the beginning of the year, we do not expect the yield curve to invert. Our beginning of the year forecast for the 10-year treasury was for yields to reach 5% by year's end. Early indications may not support that prediction; however yields can rise very rapidly. We maintain our view that longer term interest rates will rise.

Bond Market: Portfolio Strategy Considerations

We continue to maintain our fixed income portfolio position in shorter term maturity bonds and Treasury Inflation Protected Securities (TIPS) (*TriVant Quarterly Insights, April 2005*). Should we determine that yield spreads will widen, our position in corporate bonds may be reduced.

Closing Thoughts

Despite a flat Second Quarter, we continue to expect that global equity markets will advance in the mid single digit range (5%-8%) for 2005. We believe the yield curve is now very flat and may widen going forward. The Fed funds rate should not exceed 4.00% by the end of 2005.

Nothing has happened thus far to cause us to deviate significantly from our 2005 Market Forecast of January 2005.

We will continue to monitor the market and adjust your portfolio accordingly when necessary. Please feel free to contact us anytime to discuss questions or concerns you may have. We will keep you apprised of portfolio progress.

Respectfully submitted,

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"In the business world, the rearview mirror is always clearer than the windshield."

Warren Buffett

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