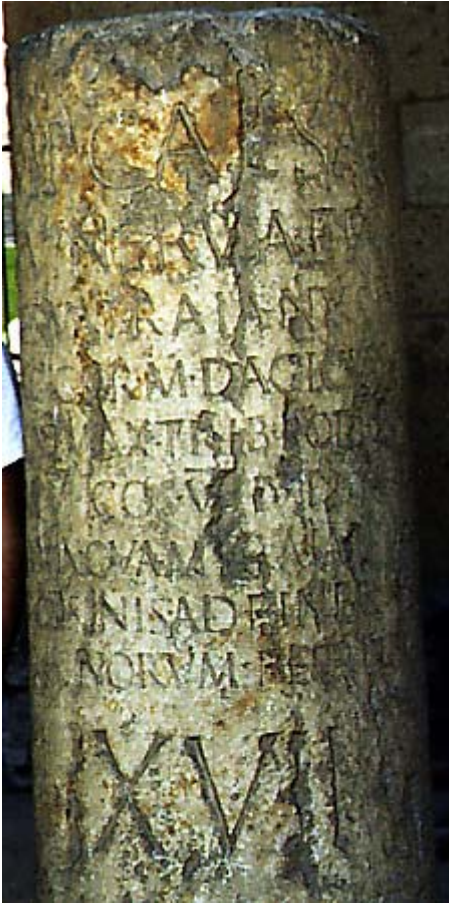


FIRST QUARTER 2005



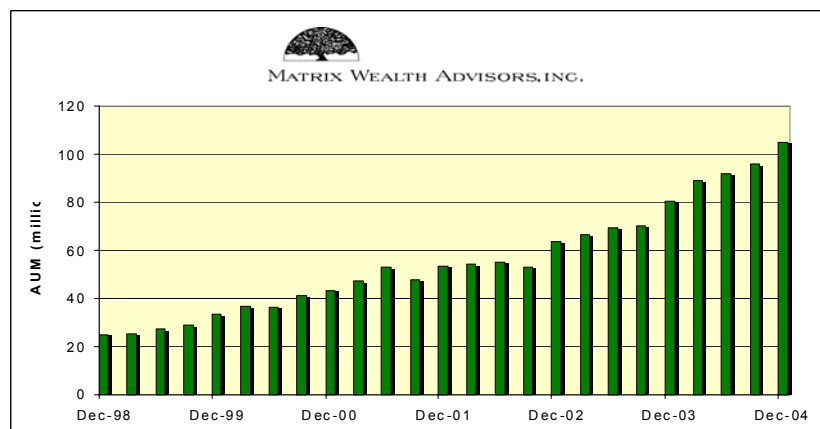
We can thank the Romans for the invention of milestones. Known as *millaria*, they marked 1,000 paces of five feet each, or the Roman mile. They were placed on roads so that travelers would know how far they had come – or yet had to go. The typical milestone would carry a tribute to the emperor or the road builder, the city where the road originated and the city where the road ended, and the mileage. With so many stretches of highways today dedicated to various political figures, it seems some things have not changed much.

Today, we typically think of a milestone as a point of achievement. You may speak of graduation, marriage, or buying a first home as a milestone, signifying that one phase of life is completed and another is beginning. A professional firm may also have milestones – notable events that mark new phases in the life of a company.

Like any other growing company, Matrix has passed or is in the process of passing several milestones this year. While we stress that we are a comprehensive financial planning firm with investment advisory services being only one part of what we do, one of

the most common means of keeping score in our profession is client assets under management. While it's a purely arbitrary number (like Dow 10,000), we can't help but notice that the amount of client assets entrusted to our stewardship passed the \$100 million mark.

This is an opportunity to reflect on and recommit to the values that led to this achievement and the lessons learned over the past fifteen years. \$100 million was an almost unimaginable number when I co-founded Matrix back in 1990 with a handful of investment clients and a few hundred thousand in assets. For many years, investment advisory services were (unintentionally) our “loss leader” as the resources required were



far more than the revenue generated, while CPA services carried the practice financially. At one point, we were “de-registered” from SEC oversight due to our small asset base – we weren’t large enough to warrant Federal regulation.

It took us eight years to reach the \$25 million milestone, when growth began in earnest. The combination with Wealth Advisors, LLC in 2000 added \$6 million. The consistent methodology that moderated returns in the late 90’s helped buoy our clients’ portfolios through the bear market of 2000-2002. That difficult period proved to be only a pause, not a decline. With no marketing program, new clients continued to come to us through the best advertising around – your referrals.

At our firm retreat earlier this year, I reflected with our staff on the lessons of this growth, which included:

- People make the difference. We must only hire the best.
- Always do the right thing for clients; everything else will take care of itself.
- Everything is subject to change - except your principles.

These lessons will continue to guide us – they will not be forgotten. A firm that puts its clients first, values its people, strives for excellence, and prizes integrity will naturally grow and prosper with its clients.

Reaching such a milestone is a sign that the firm has achieved a certain “critical mass,” allowing it to obtain more advanced resources to better serve clients. It also means the firm can chart an independent course.

Another event we count as a milestone is the addition to the firm of Kimberly K.



Wilhelm, CIMA. Kim joined Matrix in March as the firm’s first full time investment analyst. She is a native of upstate New York, receiving her B.S. degree from SUNY-Geneseo, with a major in mathematics and a minor in economics. She was awarded the CIMA (Certified Investment Management Analyst) designation by Investment Management Consultants Association in 2000. She spent seven years with an investment firm in Rochester, NY before joining the Portfolio Analytics Group with the Evergreen Funds in Charlotte in 2002. Activities outside the office include flag football, softball, and her two cats. She brings an excellent background and skill set to the firm that will enable us to increase the depth and scope of our investment research. Her duties will include manager due diligence and investigation, portfolio

monitoring, and asset allocation and rebalancing. She will be working closely with Giles and Cindy to design and implement improvements to the firm's investment management process. She will also be participating in many portfolio reviews to get to know our clients. Kim's addition is significant in that she is the firm's first dedicated credentialed investment professional. Clients can now be assured that another knowledgeable professional in addition to Giles is actively involved in their portfolio design and monitoring and will be familiar with their situations.

Another milestone will be an upcoming business transition for Matrix on July 1. On that date, for the first time in its history, Matrix will become a completely independent entity with no ties to a CPA firm. Our four-year affiliation with BDO Seidman will be ending. Since many Matrix clients are also clients of BDO, this move deserves some explanation.

First of all, it should be emphasized that our firms' separation was a mutual decision and an amicable one. We remain on the best of terms with BDO's staff and partners. We have no immediate plans to relocate our offices and will continue to work closely with our BDO colleagues.

BDO Seidman has been developing its own financial planning and investment advisory service business line over the past year with capable and dynamic leadership. While similar in some ways, the BDO business model is different in other respects. BDO sought to incorporate Matrix into its practice and offered me a management position. After considering at length all the implications for our clients, staff, my family, and myself, I decided that all would be better served by an independent Matrix. From a purely personal perspective, the idea playing a key role in the development of a national practice had its appeal. Nevertheless, the prospects of less client contact, more travel, less involvement in the investment consulting process, and being in anything less than a pure fee-only compensation environment were factors that essentially made the decision for me.

From your perspective, this transition will have little, if any, effect on our relationship. If you are a financial planning client, only a new planning agreement with Matrix will be required. If you have any questions, please feel free to ask.

Like the Roman milestones, these events give us some sense of how far we have come and perhaps of the distance yet to be traveled. However, they tell us little about whether the road ahead will be rocky or smooth, steep or just a gentle incline, straight or full of twists and turns. Seeing the road ahead will require a combination of faith and calculation, vision and imagination – just as it did in 1990. The values that have brought us this far will continue to serve us – and you – well.

In case you think we have forgotten, we are aware there are investment markets out there and they have been acting up lately. The first quarter saw mostly red ink in the financial markets, with both stocks and bonds losing ground. The S&P 500 was down 2.2% the first three months, while investment-grade bonds, as measured by Vanguard Total Bond Market Index Fund, dropped 0.5%. Small-caps fared worst, with the Russell 2000 iShares

dropping 5.4% through March. Among other asset classes, foreign bonds (the Salomon World Government Bond Index) dropped 2.6% as the dollar retracted some of its losses. Long commodity futures had another good month in March and were the lone bright spot, gaining 12% year-to-date. Long-short commodity futures (as measured by the MLM Index Fund) are slightly down for the year. So your enclosed report will almost certainly show a negative return for the quarter. If we could show you year-to-date performance through today, it would be even more negative, as April was another difficult month for the markets.

There has been no shortage of uncertainty. Concerns about sharply rising oil prices and overall inflation, rising interest rates, and risk to the dollar from our massive current-account deficit have all weighed on the markets. As they always do, markets have reacted and sometimes overreacted to short-term news. Still, this ongoing volatility makes us confident that it is only a matter of time before the inevitable forces of fear and greed create valuation excesses in one direction or another, creating opportunities for good managers to add value. We can never know when or how the next opportunity will show up. (In this business, you don't even know what you don't know.) Often it results from a surprise event, and sometimes it's just a slow grind: an asset class moves in one direction for an extended period of time, and finally gets to the point where it is either cheap or expensive. Kim and I are continuing our ongoing efforts to identify exceptional fund managers who can add value even if the markets don't give them a lot to work with.

The position in some portfolios that seems to generate the most questions from clients is commodities futures. Commodity futures generate return from the "insurance" they offer to commodity producers in providing a fixed price at a future date, as well as from rebalancing the index (as uncorrelated individual commodities revert to the mean), from investment of collateral used to purchase the futures, and from any unanticipated changes in the underlying commodities. Commodity futures are generally uncorrelated with stocks and bonds. Their appeal comes from their ability to lower risk without compromising return potential in most scenarios we consider likely or possible. Long commodity futures have been on a roll lately, raising the possibility of a near-term pullback but we think they still make sense from a long-term standpoint. Long-short indices (such as the MLM Index) have struggled this year, but again we are confident of the long-term value of including these strategies in appropriate portfolios.

In July, I will return to the theme begun in the prior quarterly memo. Thank you for your indulgence in letting me address the internal issues we discussed earlier.