MANCHESTER CAPITAL MANAGEMENT LLC

June 3, 2004

In this Issue:

Market Outlook

Wide swings in market timing are not our forte, nor has it ever been that of any responsible investment management firm. We try and pay attention to valuation work, and when we have conviction, add or subtract from asset classes on the margin rather than in substantial increments. Price has been our most important timing tool as applied to individual securities and asset classes rather than the influence of macroeconomic factors or current news.

If we look back at the history of the markets for guidance, the recent bull rally in 2003 could be cyclical rather than secular in nature. It is unlikely that we are at the doorstep of a new era of 20% per year stock market gains.

At present, the United States stock market is not cheap, a prerequisite for an extended bull market. Stocks are fairly valued with price to earnings, dividend rate, market cap to GDP, and price to book measures at or above historic norms, but not draconian. The low interest rate environment makes current measures seem reasonable, and corporate fundamentals are improving. But it is unlikely we can enjoy much multiple expansion, whereby investors are willing to bid up the price of stocks without a corresponding increase in earnings.

At present, the United States stock market is not cheap.

Ultimately, corporate earnings drive stock prices, and corporate earnings are controlled by the growth of the economy. If the economy grows at 3.5% to 4.5%, even if productivity is strong, stock prices will likely only provide single digit returns over the next five years or so. It is irrational to think equity markets can grow dramatically faster than gross domestic product and productivity.

It is likely that the markets will experience sudden advances and declines as they react to global growth and global conflict. The current easy-money policies of central bankers from China to the Federal Reserve are being reversed in recognition of accelerating inflation. Spain has shown how a handful of terrorists can influence a

3657 Main Street
Manchester, VT 05254
(802) 362-4410

30 Main Street
Burlington, VT 05401
(802) 951-2512

1155 Coast Village Road
Montecito, CA 93108
(805) 969-5670

(Continued from page 1)

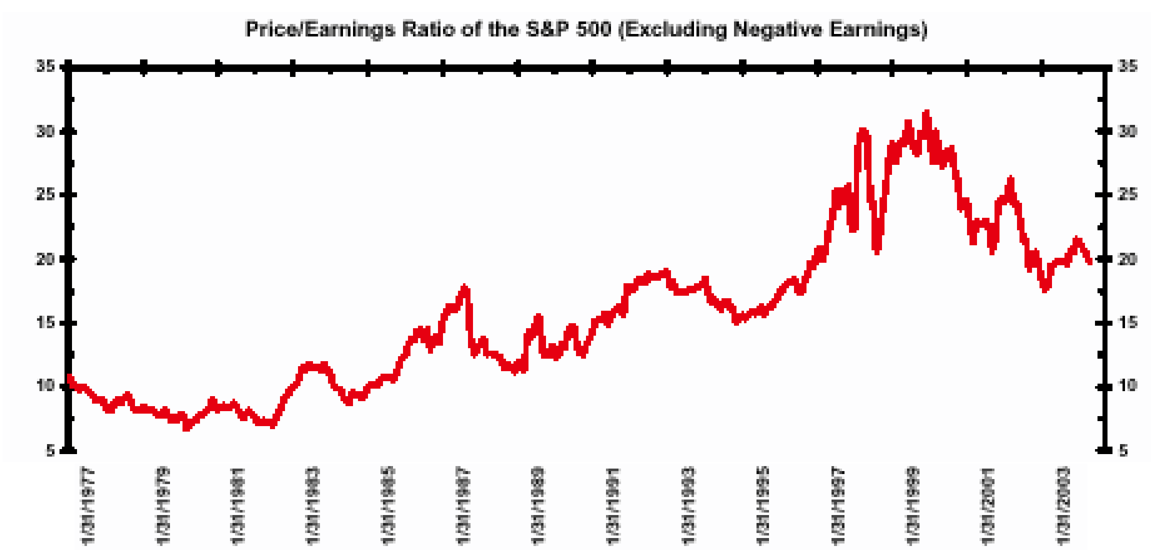
nation. And the United States Presidential election represents a significant policy debate on deficit spending, healthcare, tax matters, international terrorism, and relations with our allies. No one can be certain how these issues will be resolved nor of their impact on economies, sectors, and individual companies.

There are opportunities to make money in equities.

Rigorous investment discipline is imperative. Indeed, there are good opportunities to make money in equities, especially in those large companies with pristine balance sheets (think dividends) and smaller companies that are growing rapidly (think stock selection). Allocations to international equities are important, both to take advantage of changes in currency valuations and to participate in foreign markets with lower prices and stronger growth.

Global demand is driving up the values of commodity and resource-based companies. Rising inflation appears almost certain to trigger higher interest rates, although the rate of increase will probably be less than the consensus opinion believes. Labor costs remain stable, even if raw materials are appreciating. Fixed income securities appear vulnerable to these rising interest rates, but we would argue that almost all investors should have exposure.

There has never been a better case for diversification. Now is a time to prioritize preserving portfolio capital rather than growing it aggressively. Now is a time to sell strength and wait patiently to buy weakness. At times, inactivity is the best policy. We have entered a period when event risks are disproportionate to return expectations, and a buy-and-hold strategy can prove unrewarding. Successful investors will be those who avoid becoming mesmerized by day-to-day events, and focus on long-range goals with an understanding of financial fundamentals.



The Importance of Voting Your Proxies

Every year about this time, we receive shareholder proxies. Proxies allow shareholders to vote on issues such as approving the Board of Directors, reappointing the Company's auditors, shareholder rights, takeover defenses, and social and environmental issues. As an investment firm representing the interests of our clients, an important part our job involves voting proxies. Manchester Capital votes proxies on behalf of our clients, unless requested otherwise. When we cast our vote, our primary goal is to promote and enhance shareholder value at the company level.

Our primary goal is to promote shareholder value at the company level.

Given the flurry of corporate misdeeds, we are trying to look critically at all of management's recommendations on the proxy. Unfortunately, we are still seeing a number of issues the SEC and Manchester Capital would not consider *"recommended business practices."* Most of these issues relate to Board practices, as well as Board Member nominees. We understand the Board exists for guidance and oversight as shareholder representatives. However, they do have decision-making powers such as hiring and firing the CEO, executive compensation including bonuses, share repurchase plans, and dividend policy. These decisions can have a significant impact on creating and maximizing shareholder value.

We also see evidence of "stacked boards", or boardrooms filled with company executives and friends doing business with the company. Some insiders even sit on the compensation committee - clearly limiting their objectivity. We see on some proxy statements that executives such as those at Qwest and the former CEO of Rite Aid, Frank Bergonzi, are having the company *(shareholders)* pay their legal fees. These are legal fees paid to defend themselves against charges of defrauding the company *(shareholders).*

It often takes shareholder intervention before effecting change.

It often takes shareholder intervention before effecting change with stubborn Boards. Board members of Cendant, which owns Century 21, Day's Inn, and Budget Rental Cars, didn't lower CEO Henry Silverman's $60m 2003 pay-package until shareholders filed suit against the company. Applied Materials did not stop paying PriceWaterhouseCoopers for non-audit related work until CalPERS *(The California Public Employees' Retirement System)* said they would not vote to reinstate the firm for auditing work. And just when we thought things were getting better because of public outrage, the NYSE appointed Jeff Greenberg to its Executive Board. Mr. Greenberg is the CEO of Marsh & McLennan, the mutual fund holding company of Putnam, one of the most egregious offenders of the late-trading and fee abuse scandals.

There are also cases of smaller companies trying to dodge the new NYSE Listing Standards. The new Listing Standards require listed companies to have a majority of independents on their Board, unless

(Continued from page 3)
more than 50% of the voting power rests with one individual, family, or group of shareholders who vote as a block. Some companies are studying ways to reclassify the voting class of shares so that they do not have to have a majority of independents on their board.

The most troublesome aspect about these abuses is the lack of Board accountability. In the cases where Boards are exposed publicly for unethical or inappropriate actions, Board members simply resign or withhold a request for re-election.

As shareholders, we rely heavily on the critical role of the Board of Directors. Independence, integrity, and objectivity are paramount. In most cases, Manchester Capital will withhold votes for any Board where we see a majority of insiders, Board Members doing business with or against the company, or evidence of unreasonable executive compensation. We also encourage the separation of the CEO and Chairman positions. The Hobson's Choice-style of balloting limits our power to effect change. Fortunately, the SEC is examining proposals on how to give shareholders more power to nominate and elect directors.

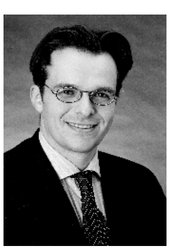
A copy of our proxy voting policy and procedures or the details of a company-specific vote may be requested by contacting Bart Kraft at (800) 922-6477.

Inside MCM

We are pleased to welcome three new Investment Associates to MCM!

Read Cronin manages the administration efforts at our Montecito office, where his responsibilities range from welcoming clients to producing reports. He is a graduate of Champlain College having obtained his General Business degree in 2001.

Erik Hausler concentrates on client servicing, operations, research and reporting in our Burlington office. He received an Associates in Science Degree in Accounting and Marketing from Champlain College.



William Morgan works on all elements of portfolio management, trading, investment analysis, investment plan design, client servicing and the administration of charitable foundations in our Manchester office. With prior experience in investment banking and consulting, he received a Masters in International Finance and Business from Columbia University and a BA from Manhattanville College.