Equity Guardian Group
Quarterly Assessment
Q3 2004

Equity Guardian Group

INVESTMENT ADVISORY

Asset Management Update

Market Perspective & Update October 2004

- Since its inception 4 years ago, our STAMP discipline has provided returns in excess of 29.25%.
- During the last four years, Equity Guardian Group's Seasonal Timing Asset Management Program has had some of the industry's smallest drawdowns (10.54%) and one of the lowest Ulcer Index rankings.
- During the same four years, the S&P has gone down 17.60%, with an Ulcer Index of 26.41.
- In the last four years the Nasdaq has had one of the highest Ulcer Indexes (a stomach churning 59) in conjunction with the lowest returns losing over 56% of its value.
- The Dow Jones Industrial Average has lost 3.19%, with a maximum drawdown of over 35.7%
- We're beating the DJIA by over 35%. The S&P by over 52%, and the COMPX by 81%

Past performance is not a guarantee of future returns.

An Improved Outlook

Many investors and traders have had a rather challenging past nine months. As we look forward to the last quarter of 2004, we feel that the market appears to be in a more constructive state, increasing optimism for the economy and the market. As of October 7, the Dow Jones Industrial Average is down -3.14% for the year, the S&P 500 is up a modest 0.82% for the year, and the Nasdaq Composite is down a painful -4.16%. Our model account, however, has managed to perform quite well for the first 3 quarters and is up an impressive 4.4% so far. We are looking forward to managing an even greater positive return in a market that has been essentially down, and we stand to deliver a solid yearly performance again, now that we have entered the positive part of the seasonal cycle.

As a side note, it is clear that our approach has been working over the past 4 years, but it is particularly gratifying to see the validity of our discipline quantified. In a comparison of our results vs. 54 other top investment managers in the nationally sponsored Select Investor Network, we ranked 1st, 2nd, and 7th for lowest draw down, lowest Ulcer Index, and net performance, respectively. This makes us very proud, and we thank you for being a part of this success.

2004 as an Election Year

As we said in the last quarterly Asset Management Update, traditionally election years are up for the market. The Hirsch Organization (Publisher of the *Stock Traders Almanac*) reports that since 1952, there has been only one loss during the last 7 months of an election year. Since 1920, the final 5 months have only been down 4 times. When the market has been down into July, the market has closed the year higher 5 out of 6 times. Our key S&P 500 level to watch is right around 1121 level, and at this point, it looks like we're on track to close the year above it.

In addition, corporate earnings have been rising and are projected to keep rising. Inflation appears to be manageable if not completely benign. It is our position that this year we can expect a generally constructive atmosphere for investing in the stock market.

The Seasonal Cycle has been working well this year, and we expect that the positive part of the cycle will again bring about some significant gains. We will be positioning our accounts for this rally when the risk is minimal. 100 years of history shows that if we limit our long exposure to primarily the best 6 months, our returns will exceed those of the market by a handsome margin – AND decrease risk. If we can make a little bit during the negative part of the cycle, our returns are likely to dramatically exceed the returns of most investors over time, regardless of their methodology.

The Ulcer Index— Think of Equity Guardian Group as Alka Seltzer for your portfolio

In 1989, Martin & McCann's book entitled ***The Investor's Guide to Fidelity Mutual Funds*** originated the widely accepted concept of the Ulcer Index. This measurement was developed in response to the recognition that investors are only made uncomfortable by losses, not by big moves in their favor. Most measurements of "risk" in the past have focused solely on volatility, which of course ignores the fact that volatility that *increases* one's account value is welcome, while volatility that *decreases* one's account value is to be avoided.

The Ulcer Index addresses this reality, and measures the average downside movement of an investment, as well as how long the investment stays below its high water mark. Note that with this Ulcer Index rating measurement, the lower the number means the better your investment experience.

The average Ulcer Index range is between zero and 59. An Ulcer index rating of zero would imply that the account is never down at any time, ever. An ulcer index rating of, say 60, would no doubt lead to sleepless nights, extremely poor portfolio exposure, and a trip to the gastrointestinal ward of your local hospital for a lengthy stay.

Over the past 12 months, the market's Ulcer Index was 3.2. Over this same period of time, Equity Guardian Group's STAMP Portfolio has had an Ulcer Index of half of that, at just 1.63. This means that investors in the S&P 500 suffered twice as much pain (declines in account values) as Equity Guardian Group's STAMP investors.

This only tells part of the story, however. Since June of 2000, when we began publicly offering our STAMP discipline to investors, our Ulcer Index is roughly 5.3. The Ulcer Index for the market during that time has been approximately 26.4. This means that during the toughest periods, the average investor suffered much larger losses, and sustained them for much longer durations than did our STAMP investors. Over this same time, buy and hold investors in the S&P 500 have lost roughly 22.93% of their account values, while STAMP investors are up roughly 29.25%.

Could you do better elsewhere? Perhaps, but only if you were willing to take on 200-600% more risk. If you were to compare Equity Guardian with our peers in the industry, you might be surprised to discover a few impressive accomplishments on our behalf. Looking at the charts provided, you can see three excerpts from Select Advisor's performance database over the last 4 years.

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What these charts show is that out of 52 top

The Ulcer Index— Equity Guardian Group as Alka Seltzer for your portfolio, Continued

ranked national advisors, we ranked highly on every measure that is important to us.

When we decided to manage money professionally, I committed myself to decreasing the investment risks that my clients were undertaking, without penalizing their longer-term returns. It is incredibly gratifying that we are succeeding as well as we are, while still providing returns 50 percentage points better than the market, with the smallest draw down amongst our peers.

It is our view that our low risk approach, by any measure, improves one's odds of meeting important financial goals. When investors take risks that are too great for their comfort levels, they increase their odds of being scared out of the stock market at the worst possible time. We have designed our discipline from the start to help investors avoid the pain of difficult markets while benefiting from the profit opportunities. As the data shows, we are succeeding and our clients are being rewarded.

It's about the Risk

We see it everywhere. Greater rewards go hand-in-hand with greater risk. On May 29, 1953, Sir Edmund Hillary reached the top of the world by climbing Mt. Everest, 29,028 feet above sea level. His equipment failed, he endured surprise blizzards and suffered through 17-degree weather for 80 days. His fame has endured for over 50 years for that journey, was knighted by the Queen of England, and remains an icon of success.

When asked about the tragedy on Mt. Everest in the Spring of 1996 wherein several people lost their lives attempting to accomplish what Sir Hillary had done 43 years previously, he responded, "Many people have been getting too casual about climbing Everest. There is great risk involved. I forecast a disaster many times."

And he was right.

When it comes to investing, we've also seen success stories as well as the failures. Far too often we see the cause of the failures to be that many investors and traders forget to seriously quantify the real risks involved, choosing instead to focus on reaching those spectacular heights. Don't get me wrong, I'm not saying that striving for spectacular portfolio gains can't be rewarding; it's just that the odds are greatly increased that this path can lead to real disaster.

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I've seen it again and again over the past two decades. It's disheartening to see folks making decisions based solely upon a couple of years worth of returns and decide that this advisor/ mutual fund/company is THE place to put their money; failing to look at how much investors were at risk in the process of generating those returns. Good investors know never to make an investment decision with only partial information.

Nerves of Steel

There have been advisors who have been able to, on average, generate spectacular rates of return for years at a time. The problem lies in that their clients had to have nerves of steel (or be in a coma) in order to enjoy those returns.

As an example, one of our colleagues posted an impressive 4-year return of 66%, but in order to actually see such a return, his clients had to suffer through a 64.87% account value loss.

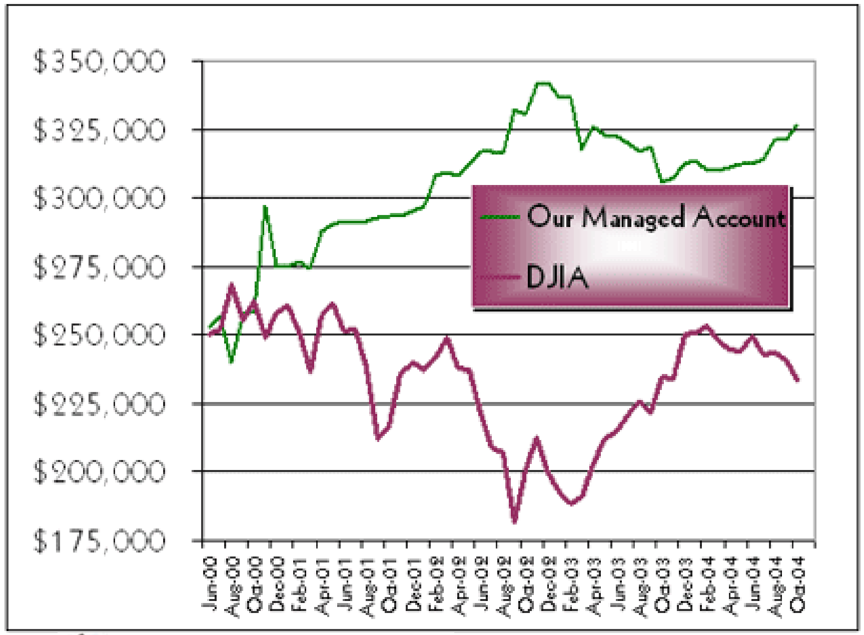
Just how many of us could stand idly by and watch a $100,000 account shrink to only

$35,130? How many would stay with that advisor long enough to see that account get back up to break even? In some instances, investors NEVER get back to even, let alone see returns similar to those that attracted them to that fund or style in the first place.

This is an uncomfortably common occurrence with former high-flyer funds or market sectors. (Think "Internet Bubble".) When you're down, that's likely to be all that you're thinking about, even if you've got the best advisor in the business. Looking at big paper losses is the one thing that makes most clients throw in the towel at the worst possible time.

It's this combination of high risk, dramatic pendulous moves and dramatic drawdowns in a client's account that cause their advisor's Ulcer Index to rise.

Every single advisory tracked that outperformed Equity Guardian Groups' STAMP performance over the last 4 years had an ulcer index from 200% to 700% greater than ours. This is key to understanding our proven methodology and how our focus on steady,



Mark Young,
President
Equity Guardian Group, LLC.

Performance

Individual account returns may vary somewhat based upon withdrawals or deposits of new funds, and somewhat different fee schedules. Additionally, different mutual fund cut-off times or broker or other limitations may cause performance to differ from the model portfolio. Accounts in excess of $250,000 held at Rydex should have returns that are nearly identical to our model portfolio, net of fees.

Past performance is not an indication of future returns. All Returns are net of fees and commissions. Our model portfolio is an actual account that we selected to track the returns of our model in June of 2000. Certain Individual managed accounts may have returns that have deviated somewhat from our model portfolio returns, though our average account return is very similar to our model portfolio's. Please call 859-393-3335 for more information regarding our investment process and our returns.

Contacting us at Equity Guardian Group

Mark Young, Investment Advisor

If you have any questions about an account, or would like to see if the STAMP Program or Value Investing Approach is right for you, just call us at 1.800.769.6980, or for more information, visit us online at www.EquityGuardian.com

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Select Advisors Track Top Advisors Rankings for 4 Years [2000-2004]

Examining the charts of our best performing competitors you can see three very noteworthy aspects of the top Select Advisors over the last 4 years. The first notable trend is that 86.5% of our colleagues tracked by Select Advisors in the last 4 years have had lower, and mostly negative returns for their clients. The top 7 performers are color coded throughout these charts.

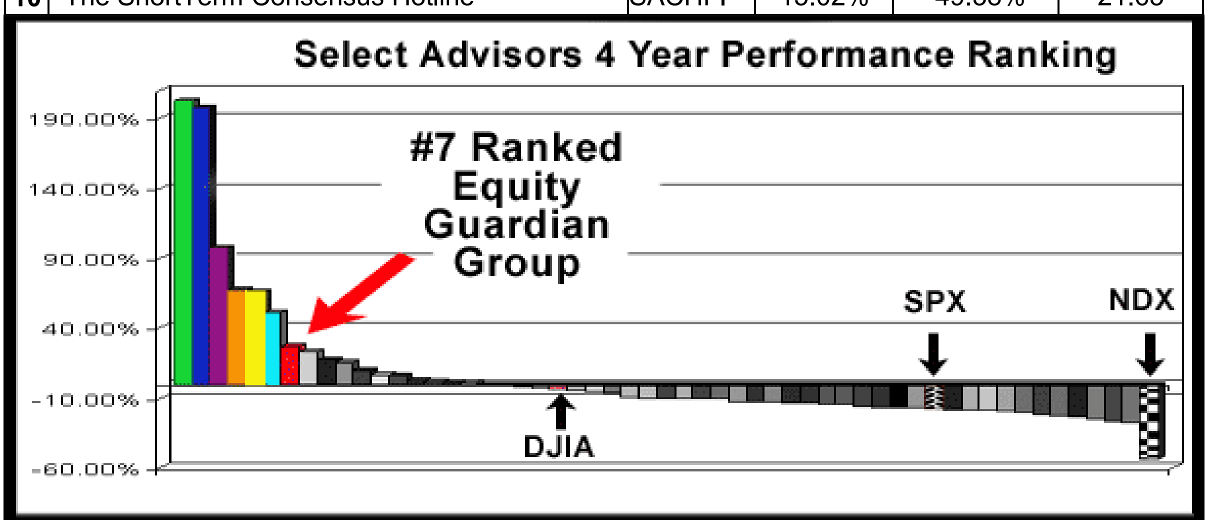
Looking at the next page, you can see that the second aspect is that that large (if not huge) drawdowns were not the exception, but the rule. In order to outperform Equity Guardian Group's Managed Account performance, those few had to sustain drawdowns of 200% (*and up to 600%*) the size of our largest drawdown. The end result: we outperformed every single advisory tracked for controlling loss.

Thirdly, and perhaps the most important to clients is the Ulcer Index ranking. Equity Guardian Group came in second lowest, only to an advisory that had lower performance, and 60% higher drawdowns.

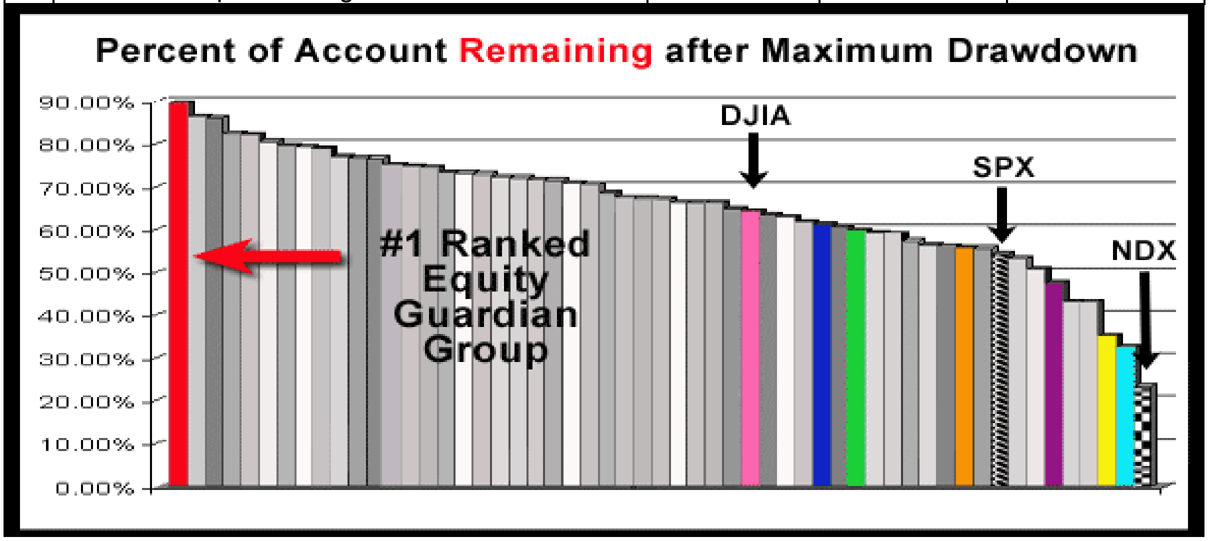
Caution and informed decision making are the keys to good investing, especially when the right approach provides solid returns with a fraction of the risk, like the STAMP approach has for the last 4 years.

We feel it is just as important to achieve profits, as it is to be able to *sleep at night while gaining those profits*. At Equity Guardian Group, we just aren't willing to take outrageous risks in the careless pursuit of daredevil returns.

	Advisor	Symbol	4 yr. Return	Drawdown	Ulcer Index
1	Montgomery Capital Management, LLC	SACIBJ	202.22%	-40.22%	17.14
2	Dynamic Investment Strategies, Inc.	SAAACG	197.44%	-38.82%	19.72
3	Greenwich Capital Management, LLC	SACIBF	97.12%	-52.55%	24.55
4	Greenwich Capital Management, LLC	SACIBE	67.23%	-44.20%	19.53
5	Greenwich Capital Management, LLC	SACIBG	66.01%	-64.87%	38.05
6	Bearing Asset Management, LLC	SACFHA	51.10%	-20.76%	11.19
#7	**Equity Guardian Group, LLC**	**SAFFIJ**	**26.67%**	**-10.54%**	**5.44**
8	Mark Leibovit / Flexible Plan Investments, Ltd.	SACEIC	22.99%	-17.82%	3.5
9	Strategis Financial Group	SACFJD	17.06%	-39.41%	24.59
10	The ShortTerm Consensus Hotline	SACHFI	15.02%	-49.38%	21.63



	Advisor	4 yr. Return	Drawdown	Ulcer Index
1	**Equity Guardian Group, LLC**	**26.67%**	**-10.54%**	**5.44**
2	Cascade Capital Management	-9.83%	-13.59%	5.54
3	Berg Capital Group	-8.90%	-13.83%	8.5
4	Welsh Money Management	-10.36%	-17.46%	13.59
5	Mark Leibovit / Flexible Plan Investments, Ltd.	22.99%	-17.82%	3.5
6	Solomon Financial Services	-4.79%	-19.37%	10.17
7	Strategis Financial Group	9.68%	-20.39%	8.91
8	Bearing Asset Management, LLC	51.10%	-20.76%	11.19
9	Tactical Allocation Service	1.88%	-21.10%	9.14
10	Cascade Capital Management	-13.18%	-22.94%	10.45



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3	Cascade Capital Management	-9.83%	-13.59%	5.54
4	Berg Capital Group	-8.90%	-13.83%	8.5
5	Strategis Financial Group	9.68%	-20.39%	8.91
6	Tactical Allocation Service	1.88%	-21.10%	9.14
7	Solomon Financial Services	-4.79%	-19.37%	10.17
8	Cascade Capital Management	-13.18%	-22.94%	10.45
9	Global Investment Solutions, LLC	6.43%	-25.29%	10.65
10	Bearing Asset Management, LLC	51.10%	-20.76%	11.19