Investment Report and Market Commentary

BRAGG FINANCIAL ADVISORS

1st Quarter 2004

April 2004

The following Market Summary and Investment Review is for the First Quarter of 2004. We hope you find this information useful as you make investment decisions. As always, we appreciate your feedback as we strive to provide you with pertinent information and valuable insight.

Market Index Total Returns and Commentary

Market Index	1st Quarter 1/01/04 - 3/31/04	1 Year Ending 3/31/04	3 Year Annualized Ending 3/31/04	5 Year Annualized Ending 3/31/04
Standard and Poors 500 (Large Cap)	1.70%	35.13%	0.63%	-1.20%
Standard and Poors 400 (Mid Cap)	5.07%	49.13%	10.72%	11.76%
Russell 2000 (Small Cap)	6.26%	63.82%	10.90%	9.66%
MSCI EAFE (Foreign)	4.40%	58.15%	3.80%	0.83%
Lehman Brothers Aggregate Bond	2.65%	5.40%	7.44%	7.29%
Lehman Brothers 3 Year Muni Bond	0.93%	2.77%	4.80%	4.82%

Stocks added slightly to the gains of 2003 during the first quarter of 2004. After charging out of the starting gate early in the year, the market retreated somewhat during the month of March. Large Cap stocks, as measured by the S&P 500, finished the quarter with a return of 1.70%. As shown in the table above, Mid Cap, Small Cap and Foreign stocks maintained their margin of out-performance over Large Caps for another quarter. While not a record-breaking quarter for stocks, they did manage to hold onto the ground gained in the previous three quarters. Small Cap stocks in particular have shone in the past 12 months, with the Russell 2000 registering an impressive surge of 63.82% since March 31, 2003. Though the large cap stocks of the S&P 500 have not matched that pace, the index has advanced a healthy 35.13% over the past 12 months, a welcome performance after the dramatic declines of 2000 through 2002.

The story for bonds sounds like a broken record. Once again bonds confounded the pundits who have been calling for rising interest rates and falling bond prices. Bonds had a fantastic quarter, with the Lehman Aggregate Bond index posting a return of 2.65%. Weaker than expected job creation kept the lid on inflation during the quarter and bond prices rose as yields fell across the board. The benchmark ten-year US Treasury Bond returned 4.69% for the quarter while corporate bonds (the big winners over the past twelve months) posted a return of 3.34%.

Media stories and other commentary have prompted some to ask us about the risk in bond ownership. Since bonds are supposed to be the "safe" part of my portfolio, how much money can I lose? How risky are bonds? Our short answer is that the short-term risk in bonds does not compare to the short-term risk in stocks. Single year losses for stocks include a loss of 26% in 1974 and more recently, a loss of 22% in 2002. In contrast, the worst year for bonds in the last fifty years was 1994 when bonds lost 5.14% on a total return basis. During 1994, the Federal Reserve Board raised rates five times for a total of 2.50% and this drove bond prices down. This can certainly happen again but the notion that rates are going to rise to levels seen in the early 1980's may well be unfounded.

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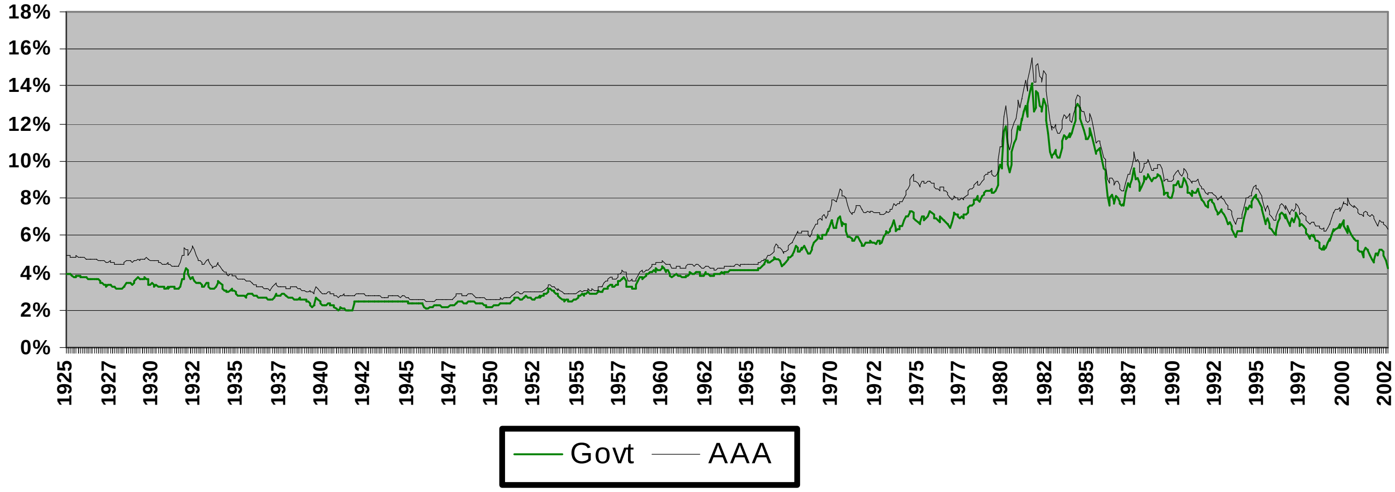
The chart below shows the history of long-term interest rates from 1925 through 2002. You can see that from 1925 through 1968 (a period of 43 years) bond yields never rose above 6%. The period from 1968 through 1981 when yields peaked at 14% was a much shorter period and one could argue that the current low-rate environment is more normal than the high-rate environment which plagued economic growth during the seventies. This is especially true given the globalization of the economy and the more developed monetary policy we now have in place. So while we may see higher rates, we are not worried that we will return to the days of double-digit inflation and 14% interest on bank CDs.

A History of Long-Term Interest Rates
1925-2002



Long-Term US Govt. Yield Monthly Data Series 1/1925- 8/2002 Source: H.15 Release – Fed. Board of Governors
Seasoned AAA Corporate Bond Yield Monthly Data Series Source: Moody's Investors Service

The bond portfolio we normally recommend is one of short to intermediate maturity and is designed to provide income, low default risk and low volatility. We may endure negative periods of return in the years ahead but trying to avoid that means trying to time the market. Had we moved from bonds to cash 30 months ago when many projected higher rates and losses for bonds, we would have given up a lot of return for a 1% yield in a money market account. Just like timing the stock market, we think timing the bond market has a low probability of success in the long term.

The economy: The case of the missing jobs. Through the quarter, the jobless recovery continued to baffle and frustrate. Though GDP had bounded forward with annualized increases of 8.2% in the third quarter of 2003 and 4.1% in the fourth quarter, job creation was lackluster. Good news came after the close of the quarter when the Government announced that 308,000 new jobs had been created in March – well ahead of the 125,000 or so generally predicted.

Is this the anticipated turnaround or another anomaly in a slow recovery? The positive indicators include rising confidence among CEOs, productivity gains, corporate profit growth, low interest rates, low unemployment (current rate of 5.7% is normally considered desirable), low inflation and a weak dollar, which enhances demand for exports.

Other factors could continue to hamper job growth and economic expansion. Increases in productivity don't necessarily bode well for job creation. In durable goods manufacturing, for example, productivity has increased by a phenomenal 7.7% in each of the last two years. While this is great for businesses and investors, it reduces the need to hire new workers. In addition, health care costs are increasingly contributing to companies' reluctance to add workers. Finally, the turmoil in Iraq and the worldwide challenge of terrorism continue to create uncertainty for global economies.

In short, we don't know when the economy will begin consistently firing on all cylinders, including that of job creation. But in times of uncertainty and mixed economic signals it's good to recall the underlying strength and resiliency of our diverse economy. And it's perhaps also a good time to reflect on the virtues of maintaining a disciplined, broad-based investment strategy tailored to your own goals and risk tolerance. We would be happy to review your investment goals and portfolio with you at any time. Thank you for letting us help you with your planning and investing.

Benton S. Bragg, CFP, CFA
President, Bragg Financial Advisors, Inc.