Investment Report and Market Commentary

BRAGG FINANCIAL ADVISORS

Third Quarter 2004 ***Bragg Financial Update - See Reverse***

We are pleased to enclose your Investment Report for the third quarter of 2004. This report provides you with a concise accounting of your investment with Bragg Financial Advisors. We hope you find the format to be informative and easy to read. As always, we appreciate your feedback as we strive to provide you with pertinent information and quality service.

Market Index Total Returns as of September 30, 2004

Market Index	Year To Date	1Year	3 Year Annualized	5 Year Annualized
Standard & Poors 500 (Large Cap)	1.51%	13.87%	4.05%	-1.31%
Standard & Poors 400 (Mid Cap)	3.86%	17.55%	12.42%	10.51%
Russell 2000 (Small Cap)	3.71%	18.77%	13.71%	7.41%
MSCI EAFE (Foreign)	4.27%	22.08%	9.12%	-0.85%
Lehman Brothers Aggregate Bond	3.35%	3.68%	5.88%	7.48%
Lehman Brothers Municipal Bond	1.60%	1.43%	5.79%	6.77%

Stocks gave up ground in the third quarter as investors reacted to continuing violence in Iraq, weaker than expected corporate profits and the price of a barrel of oil hitting $50 for the first time in history. Large cap stocks, as measured by the S&P 500, lost 1.87% for the quarter bringing the year-to-date return to 1.51%. Mid and small cap stocks lost more than large caps for the quarter with returns of –2.10% and –2.87% respectively, making this the second consecutive quarter of underperformance by these asset classes relative to their larger brethren. While large caps still trail for the year and while two quarters do not a trend make, perhaps we are witnessing a comeback for large caps, which have been the lagging asset class for the last five years. Foreign stocks fared the best among equity asset classes with a loss of just 0.28% for the quarter and a positive return of 4.27% year-to-date through September 30.

Surprise, surprise! Bonds came roaring back in the third quarter. "…Everybody knows interest rates are going to rise and bonds are going to get hurt..." We have all been hearing this for the last thirty months and the chorus reached a crescendo at the beginning of this summer. While the headlines called for bonds to get hit, they turned out to be a fantastic investment (relatively speaking) during the last three months. With the Lehman Aggregate Bond Index up 3.20% for the last three months alone, you would be hard pressed to find a better investment without taking a lot of risk. So the dramatic increase in bond yields (and decrease in bond prices) during the second quarter was completely erased by the decrease in bond yields (and increase in bond prices) during the third quarter. Wow! What if you had gotten out of your bond position after the decline of the second quarter only to miss the comeback during the third quarter? Ouch! We will never try to time it…we promise. While the Federal Reserve Board has signaled its intention to continue to gradually increase short-term interest rates, the market is telling us that the risk of an over-heated economy and rampant inflation is benign. That is good news as long as the market doesn't start telling us that growth is going to stall. It doesn't look like that is the case barring some outside shock to the economy.

The economy is plugging along despite the drag from higher oil prices. This recovery has not been as strong as recoveries in the past but economic data continue to point in the right direction. Job creation has been moderate but the unemployment rate remains low by historical standards. Interest rates have risen slightly but we remain in a very low-rate environment and this is stimulative for economic growth. Inflation remains in check despite the effect of higher oil prices. Furthermore, whenever we have seen large increases in the price of oil in the past, these large increases have been followed by large decreases in the price of oil. As we have said for a few quarters now, the backdrop for continued progress looks quite good and the outlook for stocks is certainly better than it was three years ago in terms of valuation. Corporate earnings have now reached historical highs while stock prices are still 26% lower than they were in March of 2000. Of course we never know what will happen in the short term but this more reasonable valuation of the broad market certainly makes us feel good about what we own.

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We know you want more of the exciting economic and market news that we talk about each quarter but we thought it would be a good idea to catch you up on some of the great things going on at Bragg Financial Advisors.

Additions to Our Team: The last few months have brought a few new faces to Bragg Financial. We are delighted to have Suzanne Wittebort join our team as a portfolio manager and member of our investment committee. Suzanne was previously with Mergent Inc. (formerly Moody's Investors Service) for ten years. Most recently at Mergent she was Assistant Vice President for Equity Analysis where she led a team of eight equity research analysts and four editors in compiling and publishing research reports and other publications for use by investors. Suzanne holds a B.A. from Yale University where she graduated magna cum laude with distinction in American Studies.

We also welcome Susan Dixson who joins our team as a client service specialist. Susan has over ten years of experience in the investment industry; her background includes client services, management and compliance. Susan will work closely with Benton and Phillips to help us continue to deliver the extremely high level of service that you have come to expect from us at Bragg Financial. Susan earned her B.A. from the University of Virginia in 1993.

We will all miss Eleanor Gow. Eleanor has recently retired to be with her husband who has been quite ill this year. Eleanor's tenure with Bragg goes back more than twenty-five years and we will have a hard time replacing her warmth, dignity and charm as our "Vice President of First Impressions." Finally, we are happy to announce that **Amy Henderson recently gave birth to a healthy baby girl, Sarah Kathryn,** and has decided to stay home to raise her two children.

Bragg in the news: You may be aware of the fact that Bragg started two mutual funds back in 2002, the Queens Road Value Fund and the Queens Road Small Cap Value Fund. The funds have done well. Both have been ranked in the Wall Street Journal's "Category Kings" monthly listing of the ten best performing funds by category. The small cap fund in particular has been listed in the Journal's ranking five times; most recently it ranked 4^{th} out of 238 small cap value funds for the year-to-date period ending August 31, 2004. We are very pleased with our results with these funds and have decided to open them to investors in November of this year. The Charlotte Business Journal also did a story on our firm this year. Let us know if you would like a copy of that article and we will send one to you.

The Chairman: If you have seen Frank Bragg lately, you will know that in addition to serving as Chairman of our firm and as a member of our Investment Committee, he has also been enjoying his twelve grandchildren and his John Deere tractor. When not involved with serving clients, Dad stays busy with his many charitable pursuits. In particular he has been busy preserving land as Board Chairman of Catawba Lands Conservancy, the land trust serving the Southern Piedmont. If you ask him why he doesn't retire, he'll tell you, "Why retire? It is more fun to go to the office every day to hang out with my kids." As his son, I will admit that working with him really is great…I think I speak for everyone at Bragg when I say that a day at work is more fun when he is in the office. You will probably agree that your visits to Bragg Financial are more interesting when you get to hear one of Dad's hilarious stories. Dad always reminds our team at Bragg that **"the mission of our company is to help our clients accumulate, preserve, share and enjoy their wealth."** He adds that **"quality of life is everything…for our clients' families and for the families of all of us at Bragg Financial."** We try to never lose sight of this.

Bragg Financial is thriving. Our firm is doing very well. We believe our success is important to our clients; not having to spend time marketing enables us to focus our time on planning, investment management and furthering our education. My grandfather used to say, **"If you work hard and are honest, you are ahead of 90% of the people in the world."** We think this advice has helped us attract and retain many wonderful client relationships over the years. We also believe our clients value our comprehensive approach to planning and portfolio management. We work hard to make sure our educated team (MBA, CFA, CFP, CPA, ChFC) is able to provide the very best advice. We focus on long-term relationships and structure our compensation so that our interests are aligned with yours. Finally, we know we owe a lot of our success to your referrals of friends and family and we are most appreciative of your confidence in us.

We hope this Bragg Financial update was a nice break from our usual sermon. Thank you for letting us help you with your planning and investing.

Benton S. Bragg

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