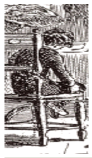
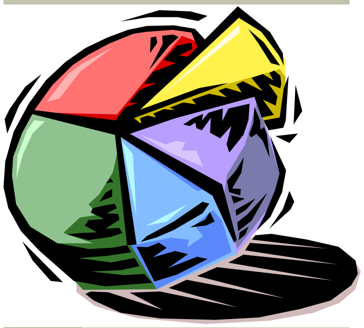
November 2004



Mr. Micawber’s Rule of Finance



TD Capital Management LLC

“...EFFICIENT PORTFOLIOS FOR RATIONAL INVESTORS.”

Dear Clients and Friends:

Last Thursday was the most difficult day of my tenure with TD Capital Management. I spent the day agonizing over letters I felt compelled to write to several of our clients. The subject of these letters: You’re spending more than history suggests is appropriate and we’re not comfortable with the long-term outlook for your financial situation.

Charles Dickens expressed a sort of financial ratio in his classic David Copperfield, when Mr. Micawber explained, “Annual income twenty pounds, annual expenditures nineteen nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought six, result misery.”

It is our ongoing position that expenditures from our clients’ permanent portfolios should average something less than 5% of the total portfolio per year. In a portfolio of $800,000, we suggest limiting annual withdrawals from the holdings to $40,000 or less.

I did not just predict average annual returns of 5% for the foreseeable or unforeseeable future. Instead, I just articulated the results of a boatload of study, calculation and contemplation of historical financial precedence. A withdrawal rate of more than 5% suggests risks that are not appropriate for most folks. In order for a portfolio to maintain its spending power and usefulness for the family or institution in question, it must be prepared to increase its dollar withdrawals through growth, and it must be prepared to deal with some unexpected or unplanned expenditures (aka bumps in the road).

Here’s the way we like to see our clients’ portfolios from the 35,000-foot view:

Total Portfolio		$ 800,000
Annual Cash-flow expected	$40,000	
Funding of five year cash-flow projection	5 * 40,000	(200,000)
Resulting portfolio available for growth		$ 600,000

It’s pretty simple really. If we don’t keep our withdrawals and expenditures in-line with our holdings, we are subjecting ourselves to uncontrollable risk.

I can’t tell you how I agonized over those letters. Who are we to tell rich folks how much they should spend? Well, we’re the folks who have spent considerable time and effort developing the models and expectations for the portfolios; we’re the folks responsible for overseeing the management of the portfolio(s); we’re the folks who get paid for the work, and we’re the folks who promise the truth, the whole truth, and nothing but the truth in these monthly communications.

Beginning next month (or December at the latest) your quarterly portfolio report will look considerably different. The reason for the change is our ongoing desire and responsibility to report the nature and status of your portfolio directly to you. On the left side of the report in the clearest language and format we can design will be a section devoted to presenting the state of the state of your portfolio. It will go something like this: “Beginning by recognizing 5-year cash needs and risk adjustments… Funding those needs through cash, near-cash and bond maturities… and giving opportunity for growth through an allocated or residual portfolio… results in a total portfolio allocation of…” If the result of the total allocation suggests less than 60% of the total portfolio in equities, we think caution is in order. If the result of the total allocation suggests less than 50% of the total portfolio in equities, we think action is necessary.

At the end of my day last Thursday I was comforted by the simple fact that all our portfolios are intentionally structured to provide time to react to issues and situations as they arise. We did not write these letters to scare or embarrass, only to suggest attention and a movement toward long-term comfort. Appropriate portfolio management and financial comfort do not require knee-jerk reactions.

Call or come see us any time.
God Bless.

Doug

TD Capital Management LLC

5100 Poplar Ave., Thirtieth Floor, Memphis, TN 38137 ph 901-681-0021

Douglas Smith, CPA/PFS, Chief Investment Officer *Sally K. Landham, Portfolio Manager*

N. Gordon Thompson CPA/PFS, CFP, CLU, CVA