



HURLEY CAPITAL

Fourth Quarter 2004 Letter To Investors

Fourth quarter was another solid quarter for Hurley Capital clients with average returns of 5.6% for accounts open for the entire quarter, exceeding our quarterly minimum target of 2-2.5%, but short of S&P 500 returns of 8.7%. Client returns are even more impressive when considering that many clients had 30-60% cash positions. Put another way, return on client *invested assets* during the quarter averaged 13.5% for accounts open the entire quarter. Though cash balances remain higher than desirable, we remain prudent when investing client capital and continue to adhere to our conservative principles, including the restriction that no single investment be more than 5% of a portfolio.

Fourth quarter's market performance came amid rising interest rates, trade and budget deficits and a falling dollar. Entering 2005, much has changed since a year ago and we're not sure it all bodes well for continued strong market performance. We wonder what will keep the domestic economy going strong considering:

- 1) Short-term interest rates at 2.25% and as compared to 1% last year, and rising
- 2) Oil prices up 25% compared to a year ago,
- 3) Beneficial effects of tax cuts subsiding
- 4) Mortgage refinancing wave and mortgage refinance stimulus further behind us
- 5) A falling US dollar making US stocks less attractive to foreigners, and boosting costs of imported goods and services

We believe that many companies recognize these concerns and are reacting in one or more of the following ways:

- 1) Giving more money back to shareholders through dividends or stock repurchases
- 2) Building economies of scale through acquisition or sale of company, and,
- 3) Growing through offering new products to existing clients or entering new geographies with existing products.

We are investing in companies that can benefit from these trends. Recent investments include:

- **Telecom De Chile (CTC):** To benefit from a falling dollar we've added CTC, the leading wireline telecom service provider in Chile. After selling their wireless telecommunications business in 2004, CTC is concentrating on increasing return to shareholders in 2005. We expect dividends to rise from 5% now to over 8%, which ought to increase the share price as well. Should the U.S. Dollar continue to fall versus other currencies, the dividend return will be even larger.
- **IAC/Interactive Corporation (IACI):** To benefit from decelerating economic growth in a company with a rapidly growing international franchise we've added (IACI). IACI is a conglomerate owning properties such as Expedia, Hotels.com, Home Shopping Network, LendingTree and Ticketmaster. We were attracted to IACI for its counter-cyclical online travel business. In good economic times, hotels and airlines give IACI fewer rooms/seats to sell at slimmer margins. Despite 2004's strong economy IACI's revenue grew 13% in the September quarter thanks mainly to increased European sales where online penetration of the travel industry is years behind the U.S. We think investors can win whatever the economy does in 2005. If the economy does well, international growth will continue; if the economy slumps, IACI will do even better as they should receive more rooms/seats to sell at better margins.

A quick update on some of the investments mentioned in our third quarter report:

- Though we remain confident that gold prices will continue going up over the coming years, we sold our investment in Newmont Mining (NEM) in favor of a direct investment in gold through the newly created StreetTracks Gold Trust ETF (GLD). We believed that NEM's valuation expected a gold price of over \$500/oz. when gold was trading at just \$450/oz. Also, since we expect gold prices to remain volatile, GLD is a more conservative way of gaining exposure with greatly reduced volatility. See relative performance of NEM and GLD below.
- A third quarter investment in **Meta Group** has paid off beyond even our expectations. We thought Meta Group would announce a sale of the company at a 20% premium to September's price of \$4.73 per share. Instead, investors received a \$10/share bid, which should more than double client investment.



In closing, Hurley Capital will continue to pursue value-oriented and conservative investments for our clients while targeting a full year return of 8-10%.

Please call/email with any questions or comments. Thanks for your interest and patronage.

Chuck Goldblum

January 2005

Performance Of All Hurley Capital Investments During Quarter

<u>Initial Investment Date</u>	<u>Action</u>	<u>Name</u>	<u>Ticker</u>	<u>Price</u>	<u>Price at 31-Dec-04</u>	<u>Return to Date</u>	<u>Comments</u>
12-Aug-04	Buy	Pfizer	PFE	31.82	26.98	-15.2%	
17-Aug-04	Buy	Managed Muni Portfolio	MMP	11.02	10.87	-1.3%	
18-Aug-04	Buy	Meta Group	METG	4.25	9.82	131.1%	Sold on December 27, 2004
20-Aug-04	Buy	BP Plc ADR	BP	53.45	58.85	10.1%	Sold on December 9, 2004
20-Aug-04	Buy	Blackrock Muni Trust	BMN	10.66	10.61	-0.4%	
03-Sep-04	Buy	Petrofund Energy Trust	PTF	11.74	13.47	14.7%	
24-Sep-04	Buy	Newmont Mining	NEM	42.40	46.06	8.6%	Sold on December 6, 2004
06-Oct-04	Buy	Enbridge Energy Mgt LLC	EEQ	44.95	50.30	11.9%	
28-Oct-04	Buy	Vanguard Heath Care VIPERS	VHT	46.56	50.28	8.0%	
29-Oct-04	Buy	Axs-One	AXO	2.24	2.57	14.5%	
03-Nov-04	Buy	Descartes Systems	DSGX	1.37	1.89	38.0%	Sold on December 1, 2004
05-Nov-04	Short	Whirlpool	WHR	(62.34)	(68.81)	-9.4%	Closed on December 28, 2004
07-Dec-04	Buy	IAC/Interactive Corp.	IACI	24.65	27.62	12.0%	
08-Dec-04	Buy	Compania de Telecom de Chile	CTC	10.50	11.24	7.0%	
21-Dec-04	Buy	Streettracks Gold Trust	GLD	44.09	43.80	-0.7%	
28-Dec-04	Short	Maytag	MYG	(21.01)	(21.10)	-0.4%	

Price/return includes benefit of dividend reinvestment