



2929 Campus Drive  
Suite 145  
San Mateo, CA 94403  
Phone: (650) 212-2240  
Fax: (650) 212-2249  
[www.golubgroup.com](http://www.golubgroup.com)

## Quarterly Commentary: July 5, 2005

We trust your summer season is off to a warm and pleasant start. For many of us, summertime means an afternoon relaxing at the swimming pool. So as we sit by our figurative pools and reflect on the quarter just ended, we're reminded of one particular aquarian activity: treading water. Above the surface at poolside, we watch as our water treader stays in one spot, but we know this relative calm belies the fervent activity taking place just below the water line. Investors acted in a similar manner during the second quarter, fervently searching for some direction to the overall market but ultimately laboring just to stay afloat. For the second quarter, the DJIA slipped 2.2% and is off 4.7% for the year; the NASDAQ gained 2.9% but is still off 5.4% year-to-date. The S&P 500, our primary benchmark, gained 0.9%, but is still down 1.7% for the year. As self-styled steady swimmers, we are pleased to note that most of your portfolios outperformed these broader market indices this quarter.

It is easy in times like these to be attracted to the market pundits and other talking heads who promote frequent trading activity as a way to realize superior investment returns. If nothing else, many of us feel that we must always be doing *something* with our investments. But as we always have at the Golub Group, we believe that investments are best viewed over the long-run (5 years or more), and that this long-term focus requires both patience and an ability to ignore the "noise" of the market. We believe that *inaction* is often the best action, and that we are usually best served by making fewer, but smarter, decisions. As Berkshire Hathaway Vice Chairman Charlie Munger reminds us, there are frequently "huge mathematical advantages to doing nothing."

Our singular focus on the long-term translates into several considerations we make for the portfolios we manage on your behalf, and we'll note two here. First, we do not try to "time the market" when investing your assets. Instead, we build our portfolios from the bottom up, by identifying great businesses that sell for less than their intrinsic value. Market volatility frequently presents us with new investment opportunities, but more often, it gives us the ability to add to positions in securities we've already identified as safely undervalued. Second, our primary concern when investing is preservation of your capital. We believe that if we can clearly identify a security's downside risk through careful valuation analysis, then any upside potential will take care of itself. It may not be easy to do, but we sure like the wisdom of this approach.

The results of this past quarter were fairly reflective of our long-term thinking. Your portfolios continue to benefit from elevated energy prices, which we believe will persist for the foreseeable future. Although certain factors may cause oil and gas prices to decline from time to time, we

are comfortable knowing that even much lower prices will continue to translate to strong economic profits for these companies. On a separate note, your REIT holdings staged something of a rally during the quarter, as long-term interest rates remained low, and investors increasingly realized that residential and commercial real estate markets are truly distinct. Despite some evidence of a “bubble” in certain residential real estate markets, we see little data to suggest anything similar in the commercial properties held by your REIT investments.

Our belief in long-term investments also translates to portfolios that primarily comprise securities of large capitalization, blue chip companies. We are often asked why our portfolios do not feature small-cap companies. The answer is simple: the economic environment in which we live favors companies with the resources, scale, and competitive advantages not typically enjoyed by small companies. As a corollary to this, we continue to believe in the power of high income-paying securities, including those companies which have the track record and capacity to increase the dividends they pay to shareholders. Our large-cap, blue chip holdings are best suited to deliver on that potential.

In a true reflection that we practice what we preach, the Golub Group continues to invest in itself for the long run. This quarter, we moved down the hall to a larger (and very pleasant) new office. Please feel free to come in for a visit. We were also fortunate to bring on two new team members to help maintain our commitment to superior client service. *Cynthia Duncan* joins us as a Senior Relationship Manager and will be involved in business development, client support and investment operations. Prior to joining us, she managed local branch offices for Charles Schwab and Citibank. For over a decade, she has been building her career in financial services based upon her genuine passion for serving the financial needs of individuals and families. Cynthia earned her BS in Accounting from Santa Clara University, where she stays actively involved as a part-time lecturer at the Leavey School of Business. *Maricor Abao Brown* joins us as a Client Relationship Manager and will be a primary liaison with our clients while supporting business development and investment operations. Maricor brings over 11 years of investment management experience to the Golub Group; she previously led the client relations and marketing efforts for BayStar Capital Management as their Director of Client Services. She has also worked in client relations for Husic Capital, Finaplex, Dresdner RCM, and Montgomery Asset Management. Maricor earned her MBA in Finance from Golden Gate University and her BS in Business Administration with an emphasis in Finance from San Diego State University. Please feel free to introduce yourself to Cynthia and Maricor at any time!

Included with this commentary are your quarterly performance figures, management fee invoice(s), and a copy of your portfolio allocation as of 6/30/05. As always, you are welcome to visit us online and access your account(s) at [www.golubgroup.com](http://www.golubgroup.com). Please don't hesitate to contact us if you need assistance with your login and/or password – or with any other questions, concerns, or compliments. In closing, whether you spend the season by the pool, near a lake, or swimming in the ocean, all of us wish you a safe and enjoyable summer!

With Best Wishes,  
The Golub Group

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