

February 9, 2004

To: Investors in the Ansbacher Retail Program

From: Max G. Ansbacher, President, Ansbacher Investment Management, Inc.

Subject: Review of Year 2003

In my last report to you about a year ago, I somberly observed that the year 2002 had been a poor and disappointing year, with our retail accounts. The highly volatile stock market of 2002 began with a bear market that lurched downwards like a drunk driver doing 80 mph, only to give way to a rising market in the last three months of the year that went up like an express elevator in the Empire State Building. It is no wonder that we experienced losses on both our puts and our calls.

I pledged to you in that report that we would lower our risk threshold for 2003 in an effort to stop the losses. We were determined to be even more focused on prudent money management and risk reduction!

We did exactly what we had pledged to do. We reduced our risk of loss by writing options which were further out of the money, and therefore were less likely to be stopped out, meaning that they were less likely to produce a loss. We also tightened our money management by lowering the prices of our stops. This meant that when we were stopped out, the losses were considerably smaller. The use of stop loss or contingent orders may not limit losses to the amount intended. Certain market conditions may make it difficult or impossible to execute such orders.

The strategy worked, aided by a stock market which was less volatile than it was '02. Because of this and our modified strategy, we had fewer losses than normal, and when losses did occur, they were smaller. The result was that the losses of '02 were transformed into the profits of '03. We accomplished our principal goal of stopping the losses and making a profit. Past performance is not indicative of future results. The risk of loss in trading futures and options can be substantial.

Unfortunately, in option trading everything is a trade off, and there is a price to pay for every benefit. In 2003 the price that we paid for our risk adverse approach was that the amount of profit we made was less than you, our clients, have come to expect. By writing options which were further out of the money, we took in less money, so that when they expired or were bought back at a profit, the profit was less than normal. And by setting tight stop loss limits, we were stopped out more frequently than we would have been if they had been set at higher amounts. Both of these factors contributed to a profit which was below our goal.

Another factor which caused a decline in profits was a decline in option prices. This was caused by the less volatile stock market, and by the end of the anxiety that had preceded the Iraq War. By 2003's year end the options prices were less than half of what they had been in 2002.

Today we are poised to do our best in 2004. Now that we have successfully stopped the hemorrhaging of '02, and put a small profit under our belt in '03, we are ready to move on into '04 with a strategy which combines strict attention to risk management while at the same time offering the potential to make a profit consistent with our long term goals. To that end we are already starting to write options with larger premiums than we did last year. In the weeks to come you may notice that we have even added additional options to your normal positions when we believe it is prudent to do so. Futures and options trading entails substantial risk of loss.

We don't think that '04 will be easy. The stock market almost never is. We have seen a major bull market in the past few months which has brought stock valuations to a high level, and as Robert Boshnack, Vision's Chairman has warned, this could be a trap just waiting to be sprung. On the other hand this is an election year, which usually bodes well for the market. On the other hand, the Federal Reserve has signaled that it will continue its low interest rates for an indefinite period, and the economy appears to be on the rise, two important bullish factors. However, we have a huge Federal budget deficit and a very large balance of trade deficit, coupled with a major fall in the value of the U.S. dollar, all of which are bearish.

With all these conflicting factors at work, the stock market will probably be challenging. However, I believe the valuable trading lessons I have experienced over 25 plus years trading the markets will be to my advantage. We have confronted challenging markets before, and walked away with satisfactory profits, and we believe we have a good probability of doing so again. Bear in mind, however, that no one can predict the future; that there is a risk of loss in futures trading; and that past performance is no assurance of future profits.

Sincerely,

Max Ansbacher

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