

GREENWOOD

CAPITAL

Insights

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The Stock Market

Continued strong economic and earnings news led the equity market to another modest performance number in the second quarter. Stocks, as measured by the S&P 500, were up 1.3% (1.7% including dividends) for the quarter ended June 30, 2004. Year-to-date the market is up 2.6% (3.4% including dividends).

The second quarter witnessed a rotation away from more defensive sectors, such as Consumer Staples, to more economically sensitive areas of Technology and Industrials. Of the ten economic sectors in the S&P 500, six were up for the quarter, with five out of ten outperforming the index. The Industrials group was the best performing sector during the second quarter of 2004, up approximately 8% after underperforming the market during the first quarter. Energy, Technology, Healthcare and Materials rounded out the top five performing sectors. Utilities and Financials were the two worst performing sectors in the second quarter, down 2.3% and 2.9%, respectively. Year-to-date the Energy sector has outperformed by a wide margin on the heels of higher oil prices, up nearly 12%. Materials is the only sector in negative territory in the first half of the year, down 0.4% through June 30, 2004.

The equity market continued its rough ride in the second quarter, trading down over 3.5% from March 31, 2004 through the middle of May, before rebounding in June. Markets around the world responded to a variety of news items during the quarter, including events in Iraq, sharply higher oil prices, the first interest rate increase by the

Federal Reserve in four years, and prospects for the presidential election in November. Any uncertainty regarding these issues will most likely keep the market in a trading range over the near term.

The Bond Market

The bull market for bonds saw a reversal during the second quarter, as economic conditions continued to improve, and it became apparent that the Federal Open Market Committee (FOMC) was set to raise the Fed Funds target rate. Rates climbed to 4.58% on 10-year Treasuries vs. 3.83% at the end of the first quarter, and are likely to be range-bound during this quarter as the FOMC continues to increase the target rate to fend off inflationary pressures.

We remain relatively short with our fixed income maturities. This position provides us some safety from the volatility of longer maturities, as we believe the Fed Funds target rate increases and inflationary concerns will continue to pressure interest rates up.

Market Indicators		
TOTAL RETURN THROUGH 6/30/04		
	52-Week Change	Changes Since 12/31/03
S&P 500	19.11%	3.44%
DJIA	18.63%	0.80%
NASDAQ	26.79%	2.43%
RUSSELL 1000	19.49%	3.34%

Source: Bloomberg

Economic Outlook

During the second quarter of 2004, the economic recovery that began in late 2001 and has been referred to as a jobless recovery entered a new phase. Up until now the business sector has been satisfying a growing demand by increasing productivity. Finally, business owners are being forced to increase hiring in order to satisfy demand. For the first half of the year the economy has added over 1.2 million new payroll jobs. These jobs along with our current favorable tax and interest rate environment should provide the necessary foundation for positive growth for the foreseeable future.

On the last day of the second quarter, the Federal Reserve (Fed) puts its stamp of recognition on the recovery by raising interest rates. The expanding economy along with a return of rising prices, especially as related to energy, caused the Fed to increase the Federal Funds Rate to 1.25%. This is the first change since they lowered the rate to the historic low of 1.00% in June of 2003, and the first increase since May of 2000 when the rate reached 6.5%. This move is probably the first of a series of changes that will raise rates to a level that, hopefully, will allow for continued growth without inflation. Even with higher rates, monetary policy is still very accommodative, as evidenced by the strength in housing, and should allow for even more economic expansion in the future.

Economic growth as measured by Gross Domestic Product (GDP) is currently at an annual rate of around 4%. This is a very favorable environment given that it is fast enough to encourage hiring but not robust enough to ignite inflation. The Fed is, first and foremost, an inflation fighter, and with inflation at a nominal rate of around 2%, there is very little need for aggressive action by the Fed. They do not want to choke off the recovery that is

just beginning to add jobs, especially during an election year.

Looking forward, we remain positive on our outlook for the economy. The fundamentals are strong. Of course, the year will continue to have to contend with terrorist threats, higher energy costs and election year rhetoric, all of which can cause volatility in the economy and the markets.

Management Team Profile

CHEVES L. BOYCE



CHEVES L. BOYCE, a Vice President of **Greenwood Capital**, joined the firm in January 1992. Mr. Boyce serves as one of the firm's seven portfolio managers. Prior to joining Greenwood Capital, he was employed in the Trust Department of South Carolina National as Stock and Bond Fund Manager and as a Portfolio Manager for individuals. He was also a Portfolio Advisor and Bond Trader in the Trust Department of NationsBank of S.C. After graduating from Clemson University with a B.S. in Financial Management, Mr. Boyce earned his M.B.A. from the University of South Carolina. He is a member of the Greenwood Kiwanis Club.



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