GREENWOOD CAPITAL

Insights

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The Stock Market

After trading in a narrow range for much of the year, the stock market broke out to the upside after the presidential election in November. The S&P 500 began the fourth quarter trading down nearly 2% for the first three weeks in October before rising 10.7% from October 25, 2004 through the end of the year. For the year, stocks, as measured by the S&P 500, were up 9.0% (10.9% including dividends).

While not as impressive as 2003, the breadth of the market was still good, with 388 issues ending in positive territory for the year and over half the companies outperforming the overall index. On the sector level, there was a greater divergence of performance among the ten economic sectors in the S&P 500. While all the sectors ended up for the year, Energy dominated (up 28.8%), outperforming the Utilities sector (up 19.6%) by over nine percentage points. After being the top performer in 2003, the Information Technology sector was the second worst performing sector in 2004, up only 2.1%. Healthcare was the worst performing sector in the index, up 0.2% for the year, as news of troubles at several large pharmaceutical companies dominated the headlines. In all, six out of ten sectors outperformed the overall index; however, these sectors represented only 40% of the market capitalization of the S&P 500. Similar to 2003, performance was skewed toward the smaller capitalization names in the index with the top 25 performers averaging approximately $15 billion in market capitalization, or about two-thirds of the unweighted average of the S&P 500.

After a strong run at the end of 2004, the equity market has cooled during the first several trading days of 2005. During the first quarter of 2005, people will start to refocus on the fundamentals of the market, and while earnings and economic growth should continue to be solid, they will be decelerating from the levels seen over the past several years. This factor, along with the potential of rising rates could provide some headwinds early in the year.

The Bond Market

In the face of rising Fed Funds Rates during 2004, and with further increases forecasted for 2005, the fixed income markets have behaved in a somewhat unexpected manner. Historically, there is a strong correlation between rising Fed Funds Rates and bond yields, leading to a more parallel, upward shift in rates. Instead the market has experienced a “flattening” of the yield curve with longer rates remaining stable and shorter rates moving higher.

We believe, absent any economic or financial shocks, the fixed income markets will remain range-bound as we enter 2005. The Federal Reserve will likely continue to raise rates through the first half of the year in an effort to stave off any inflationary pressures in what they have characterized as a “firmly entrenched” economic expansion. While we will continue to remain in a relatively defensive position, we may begin to extend out along the yield curve as we feel the risk is abating in intermediate term issues.

Market Indicators

(Total Return Through 12/31/04)

	52-Week Change	Changes Since 12/31/2003
S&P 500	10.88%	10.88%
DJIA	3.17%	3.17%
NASDAQ	9.15%	9.15%
RUSSELL 1000	8.09%	8.09%

Source: Bloomberg

Economic Outlook

The U.S. economy continued to grow during 2004 in spite of some tremendous headwinds. The war in Iraq; the "muddiest" presidential election in years; the hurricanes in Florida; rising interest rates; a weaker dollar; and a slowing of many of the world's economies presented some tremendous obstacles to growth during the year. Even with these headwinds, our economy continued to move forward with Gross Domestic Product (GDP) expanding by around 4% for the year.

The war in Iraq was and will continue to be a psychological and real barrier to growth. Psychologically, the war has affected consumer and business confidence both of which are needed for a sustained recovery. More apparently, the war has resulted in higher energy prices which serve as a tax on spending, absorbing dollars that could be used elsewhere.

During the year, the Federal Reserve (Fed) also began increasing interest rates, raising the Federal Funds rate from 1.00% to 2.25% by Christmas time. Higher rates may affect both business and consumer spending, but rates are still low by historical standards and should not be a disadvantage to consumer and business borrowing.

Even with the obstacles mentioned above, the U.S economy is strong and should continue to expand during 2005. Most analysts, including us, expect the economy to grow by around 3.5% to 4.0% this year. While this rate of expansion is not overly robust it is fast enough to allow for growth in employment which will serve as a strong catalyst for economic growth.

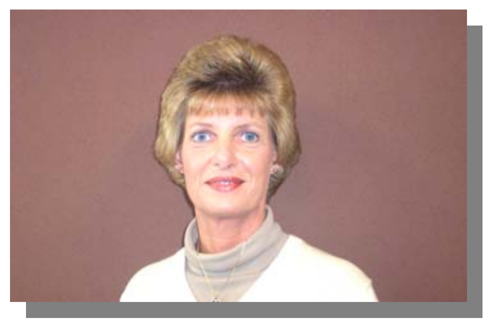
Even with concerns about Iraq, the improving employment outlook has kept consumer confidence strong, and due to this confidence, consumer spending which makes up two-thirds of our economy is expected to remain healthy during the year.

Inflation is also tame and this should prevent the Fed from becoming overly aggressive in raising interest rates and choking off the expansion. Finally, regardless of ones political views, the re-election of the Republican Congress and President should keep current tax policies, which are considered accommodative to economic growth, intact.

In summary, we anticipate that 2005 will be a good year for the economy and this should allow for a favorable environment for financial assets. The environment could be even better if we can find a reasonable solution to the situation in Iraq.

Management Team Profile

Lessa E. O'Dell



This quarter's management team spotlight is on Lessa E. O'Dell.

Lessa E. O'Dell has been promoted to Assistant Vice President – Operations. In this capacity Mrs. O'Dell will oversee and manage the operations department for Greenwood Capital including the trading function. Mrs. O'Dell joined Greenwood Capital in 1996. She has an Associate Degree in Accounting from Piedmont Technical College and has taken additional supporting courses at Lander University.

Editor's Note:

Please visit our newly revamped website at our usual address:

www.greenwoodcapital.com

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