

ELF CAPITAL MANAGEMENT, LLC
(ENDOWMENT LIKE FUND MANAGEMENT)

April 11, 2006

This is the ELF Capital Management, LLC Market Letter for the month of April 2006. If you do not wish to be included in our circulation, please reply indicating your desire to be removed and we will be happy to oblige. Alternatively, any of your friends or colleagues may receive this on a regular basis by entering their email address on our list-server via this [link](#). Feel free to forward this to any of your friends! Thanks for your interest and we hope you enjoy the letter.

Why is Time Management Critical to Family Wealth?

Today's life styles have most of us pressed for time. We are constantly on the run, multi-tasking, trying to get more done in a day. Yet, at the same time, we can often be seen by an observer, wasting time or, at the least, using it inefficiently. We get caught up in momentary distractions. We operate on a transaction-by-transaction basis, often responding to the loudest demands even if they aren't the most critical ones in the long run. Wealth building and wealth preservation activities often fall into a long-run perspective.

The pursuit of building family wealth requires a strategy. It doesn't just happen one day out of the blue. A good strategy requires the wise allocation of assets. One of the most important resource allocations one can make in this pursuit is the investment of time.

There are 1440 minutes in a day. It can be enlightening and somewhat edifying to spend a week tracking how you spend those minutes every day. That investment of time, almost totally at your discretion, is ultimately the most important investment decision you will make. The amount of time you have to spend is finite, we can all agree on that. The total amount of time that we have to spend, however, is unknown to each of us.

Time wisely spent seldom produces immediate impact. Its positive effects generally emerge over an extended period. By the same token, wasting time, killing time, or passing time often doesn't result in immediate negative consequences. Wasted time often slips by unnoticed. How well are you investing your time? How effective is your wealth building strategy?

As readers of our newsletter well know, wealth management is the ultimate goal of all that we do at ELF Capital Management. Yes, we also promote our services; yet, you will find that we always seek to present thought provoking topics that are relevant to our wide audience.

This month's letter, authored by our own Dr. Dan Elash, will provoke you to assess a critical element of your wealth building plan: how you invest your time. His approach is to challenge some of the basic assumptions that can steal precious time away from your very important long-range goals and offer a fresh look at what you are doing to build your family's human, intellectual and financial capital. Once you've read his enlightening piece, please be sure to spend some time looking over our market comment and performance for the month past. It will be well worth the investment.

Time Spent Managing Your Money

Most investors spend a good deal of their time managing their investments, tracking their returns, and looking for hot new tips or strategies. The magazines related to money are full of tips and advice about where you should be moving your money. The problem is that this

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advice is given piecemeal to a broad popular audience without regard for your current circumstances, including your ability to withstand risk. We often know in the back of our minds that by the time these tips hit the newsstands the information is already passé to the smart money. Still, we read and are influenced by the proffered advice.

A second consideration here is that the average investor, indeed, even many seasoned investors spend a good deal of time trying to study the markets, time the markets and uncover undiscovered nuggets of wisdom. We forget, or we don't really appreciate, that our competition comes in the form of professional money managers using sophisticated analysis to do what we're trying to do with the latest issue of *Worth and Money* magazines. What are the odds that you'll wind up a step ahead of your competition? The odds aren't good, yet we invest our time in these pursuits. The successes of these magazines attest to it.

Another erroneous assumption is that if you are making money, over time, by managing the specifics of your portfolio, then you are doing very well. Stop for a moment and consider this. You are doing better than if you are losing money and diminishing your assets, I'll grant you that. However, what never gets into the equation is how much you are leaving on the table. What is available that you aren't capturing? If you understand that the value of a dollar today is greater than that of a dollar tomorrow, then it stands to reason that every dollar you don't capture costs you a great deal in terms of growth and opportunity over time. What could your portfolio look like if a professional, an expert, managed it? Do you think that there is the likelihood that its long-term performance would be substantially better? I'd say that the odds are very good that you are losing money today and tomorrow with your do-it-yourself strategy. This doesn't even consider the return on the time you invest in these activities as opposed to investing it elsewhere.

Our simple prescription is to spend some of that time finding a money manager whose philosophy fits your needs and then put your assets under management. You'll optimize your returns and you'll reap an immediate return of time that you can invest elsewhere.

Time Spent Growing Your Family's Intellectual Capital

Building on my advice about finding a money manager whom you can trust, invest your time in building a network of allies and advisors, partners in the success of your family. This is about more than picking a good school or jockeying to get your child in the best teachers' classes. It involves developing a plan to find the right subject matter experts whom you can use to anticipate and solve the knotty issues that confront your family.

Again, what is involved is research, investing the time in doing the digging to identify the best help that you can gather. When it comes to spiritual matters, many people pick the closest church, rather than the one with the wisest spiritual advisor. Our selection of an accountant, a doctor, family coach or mentor often comes from the recommendation of a friend. While this is better than a random walk through the yellow pages, the results are often as uncomfortable as wearing someone else's shoes. Do you interview your advisors? Do you dig into their philosophies as well as their educational credentials? Do you make a choice based on their superficial social skills, looks, or charisma and from there assume that their advice must be good?

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There are no shortcuts in gathering a group of subject matter experts dedicated to ensuring that your family has the right help in times of growth or crisis. You have to invest the time. But to do that, you have to make the time to do that work well.

Our prescription is simple but not easy. When looking for expert help, interview multiple providers. Be assertive; the good ones will understand and respect you for it. Prepare a list of questions and probe. Use the Internet to understand what the providers offer, their promises and their philosophies. Understand your own needs and preferences and keep looking until you find a fit. Invest the time to communicate and introduce yourself (and your family) to give these experts an understanding of the goals you want to accomplish through these relationships.

Time Spent on Building Your Family's Human Capital

When I talk about the human capital in your family, in addition to caring for the health and welfare of the family, I'm talking about the character, skills and capabilities of the people in the family to navigate life successfully. On a routine basis, however, we are so caught up in the rush of our daily lives that we have little time for those who matter most to us.

Building human capital within the family over time requires that family leaders focus upon the growth of human and intellectual capabilities in the next generation. During their working years, most family leaders are so busy tending to making money that they will often delegate responsibility for the human and intellectual needs of the family to others. Sometimes, they ignore it all together, as if it is something beyond their control and so not worthy of an investment of their time. Then, when this family's leader is ready for retirement, the next generation is well entrenched in their ways.

Do you know families where someone's intelligence and hard work have produced great financial wealth? Have you seen children in these families who have weak characters, lack of focus or a lack of discipline or motivation? Perhaps they feel a sense of entitlement. Perhaps they harbor fears and expectations that they can't compete with the success of their parents. Whatever the cause of these deficits in these children, observers have little confidence that these children will be able to continue the upward trajectory of their parents' success. They will become spenders and consumers rather than builders.

Do you know of families of great financial wealth whose members are not happy? Is their attention so focused on making money that their relationships decay into bankruptcy? Do people yearn for each other's time? Is love and caring expressed materially to the exclusion of psychological and emotional needs? More often than not, hard working parents feel that they are showing their love of family through the personal sacrifices that they make by working so hard. They expect that their spouse or their children should recognize that gift and be satisfied with it. I'm sorry to say that this is a spurious assumption. People don't work that way. When your family hungers for your love and attention, material offerings will never satisfy this desire.

Unhappiness, poor self-esteem, loneliness, and behavioral problems are merely symptoms that the family's investment of its time is not producing what the family needs. Our prescription is simple; invest more of your time in the stewardship of the human capital of

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your family. Pass on the life lessons you've learned the hard way. Take the time to observe, to talk, to teach and to guide. Take the time to express your caring in direct and personal ways. It's an investment that will pay big returns.

Some Concluding Thoughts

In almost every aspect of one's life, success requires an investment of time, hard work, and effort in addressing the elements required for success that you currently lack. Sustained success requires a concentrated investment of effort over a prolonged period of time. Are you up to the challenge of doing that for your family? Sure, it's hard. The question is, is it an investment that you see as worth making? The answers lie in how you are willing to restructure your investments of time and how shrewd those investments pay out. You can do this. Your family is worth the investment.

We're At Your Service

With a thirty plus year career helping business executives and their families realize the human and intellectual capabilities that they possess, our VP of Client Relations, Dr. Dan Elash, brings a wealth of capabilities to clients of our firm. We're proud and happy to benefit from his experience.

If it would be helpful send us an e-mail and we'll send you a copy of our Well Family Check-Up questionnaire to help you get started. Remember, it's all a matter of where you choose to invest your time. Get it done!

ELF Capital Management Investment Performance Update

The new Fed chairman, Ben Bernanke spoke in front of the Economic Club of New York in March and had much praise or the Federal Reserve and the Federal Open Market Committee. So, should we listen?

In his speech, Bernanke did acknowledge that the recent behavior long-term interest rates is less than "clear-cut" and that concerns about the inversion of the yield curve may not be indicative of a significant economic slowdown. This seemed more of a rebuttal as, in recent weeks, several analysts have jumped to the conclusion that, since inverted yield curves have preceded recessions in the past, a downturn is around the corner. However, what made me admire his view was a recognition that, because of major structural changes over the past couple of decades in both the global economy and global financial markets, there is less than meets the eye in this upside-down world.

After ruminating over the transcripts of his speech, I can't say that I'm convinced that a high long-term interest-rate scenario is likely to result in the next couple of years. Strong economic growth, high oil and commodity prices have been in place for a couple of years, with only minimal impact on core inflation. What's more, the US Federal Reserve and other central banks are likely to maintain their high level of vigilance against inflation. Lastly, it

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seems that while supply-demand conditions in global capital markets could become less favorable, such changes are likely to occur slowly.

This is not to say that the markets could not become temporarily roiled by some rogue trader starting a rumor that the US is readying to go to war with Iran (thankfully, this was a recent false alarm). There's always a joker out there trying to stir things up!

Our hard work continues to reward us. For the month ended March 31, 2006, our one-month performance is up 1.71%, our three-month return is up 4.09% and our one-year return is up 12.55%.

For disclosure purposes, past performance is not necessarily indicative of future results and ELF Capital Management LLC (ELF), formerly Hoffman White & Kaelber Financial Services LLC, cannot guarantee the success of its services. There is a chance that investments managed by ELF may lose a substantial amount of their initial value.

ELF is an independent discretionary investment management firm established in February 2003. ELF manages a strategic allocation of primarily exchange-traded index funds (ETFs), and may invest in other carefully selected securities. ELF may also employ hedging techniques, through the use of short positions and options. ELF manages individual portfolio accounts for both individual and business clients.

The ELF ETF Strategy returns presented herein represents a composite of actual results from all client portfolios managed by ELF. Currently, it is the only composite presented by ELF and separate client account portfolio positions are substantially similar, except as may be modified for retirement plan accounts and accounts with net equity of \$60,000 or less. There is no minimum account size for inclusion into ELF's ETF Strategy composite and accounts with net equity of \$60,000 or less have a tendency to downwardly skew the combined results.

The performance data presented herein includes the reinvestment of dividends and capital gains; as well, ELF's ETF Strategy composite returns are presented after deducting actual management fees, transaction costs or other expenses, if any. ELF charges an annual investment management fee as follows: 1.25% on the first \$250,000; 1.00% on the next \$750,000; 0.95% on the next \$4,000,000; and, 0.75% thereafter.