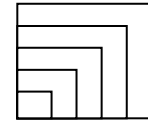


Looking Back, Looking Ahead



Wenzel
Analytics
Inc

Performance

I'm not satisfied with this year's performance, although we still look good when comparing to benchmarks. When I look at the Mairs and Power Growth rate for the year of 4% and the Star Tribune Bloomberg 100 return of 2.8%, our return of 8.9% doesn't look so bad. The high returns last year were in energy and utilities. While there are bears in the woods, particularly short-term, most forecasters that I respect such as James Paulson of Wells Cap Management (Wells Fargo) are very upbeat about the economic forecast, and the stock market as a consequence. Periods of rising interest rates such as we have been through are generally better for growth stocks, and that has been the pattern.

High returns for multi-year periods seem to rotate through different asset classes. In the 70's Dad did well with 5-year CD's paying 18%. In the 80's and again in recent years, real estate did very well. Large-cap tech stocks did very well in the late 90's. Low-priced stocks really exploded for a couple years after the markets went from fractional pricing to decimal pricing.

After reading the very compelling and readable book, Hot Commodities by Jim Rogers, I am convinced that the best returns for the next few years will probably be in raw materials. So I'm in the midst of figuring out how to participate without getting lured into excessive leverage or unknown risks. The easiest way would be to buy funds or ETFs. Generally, mutual funds are prohibited from dealing in commodities, but a couple funds thought they had found a way to do it until a recent IRS ruling has things up in the air (with prices falling). I recommend the book, and you will hear more about commodities or the stuff that feeds our factories, supermarkets and energy needs.

Performance Reporting

In four years, I have had three clients leave because of unsatisfactory performance. All three were primarily invested in the volatile Prudent Speculator strategy which I thought we mutually selected, and which has not done well recently. As much as I dislike seeing client accounts down in value, I dislike it even more when they leave at that point, locking in the real losses for them as well as book-of-business reporting losses.

No one has ever read my strategy performance reports and come to me asking to shift from one strategy to another. The original business model was that clients would choose strategies and I would choose the stocks to fill the strategies. It is obviously not working that way, as I assume more and more responsibility for strategy selection and clients make decisions to stay or leave based on my overall record for them rather than upon specific products or strategies that I offer. For now I will continue to mail general performance by strategy reports, but subject to your feedback, may change to merely referring you to my web site.

The Business

As a whole, my business is very stable. In addition to the three clients in the wrong strategy, one has left because he lost his job and needed the money, and another was a "high maintenance" client with too much anxiety and dependence for my comfort level. I've been wary of getting overwhelmed with too many clients and appreciate the stability, although growth of ten to twenty percent would be manageable.

The biggest challenge is to minimize the bookkeeping time to leave time for researching and finding stock strategies that will produce strong returns with minimal downward volatility.

An alternative to mutual funds.

Lee Wenzel

(952) 944-2699

Lee@WenzelAnalytics.com

www.WenzelAnalytics.com

Wenzel Analytics, Inc.

Registered Investment Advisor

8666 Westwind Circle

Eden Prairie, MN 55344

I attended national investment conferences this past year for the first time, making two trips to Las Vegas. The first in April was sponsored by the magazine Financial Advisor, and the second in November was sponsored by the American Association of Individual Investors (AAII). Both were very valuable.

I reconnected in November at our local AAI SIG meeting with a colleague who uses the same software tools and methodology as I do. Rob Jahnke teaches math and physics at St. Cloud State and previously had a career as a manager for IBM in Rochester. We spent a day together over my desk, and have been frequently exchanging e-mails and files. It is good to have the review and stimulation at a very detailed level. While he could some day be a private money manager, at this point he does his own investing and publishes a newsletter.

I see myself as a sole practitioner. At this point in life, I do not want the complexity of hiring a staff and growing a business. Consequently, my challenge is always to become more efficient with my time. Generally I invest readily in software and data. My data mining tool is dated, but I have been resisting the \$7,500 for the upgrade and then the \$2,000 annual fee. So I'm very excited that the new Microsoft SQL Server 2005 has nine different data mining systems built into the software, and has sophisticated capabilities for extracting, cleaning and transforming data (calculating rates of return for each row, etc.). The software was free to those attending the one-day convention center rollout!

Most of you are using either Scottrade or Ameritrade as custodians. Now that Scottrade has an Advisor service, I had anticipated working mostly with them. Their transaction fees are \$7 instead of \$10.99. The difference is significant when you multiply it by about 2,000 transactions a year. However, after nine months, the dividend transaction data from Scottrade still does not automatically download into my systems and requires time-consuming manual entry. On occasion I have the same limit orders at both Scottrade and Ameritrade accounts and the Ameritrade ones trade while the Scottrade ones do not. The Scottrade server is more often unavailable. I would be moving to Ameritrade except that with their acquisition of TD Waterhouse, the Advisor part of the business is going to TD Waterhouse and moving from Omaha to San Diego. So I'm waiting to see what the interface and service will look like under the new system.

I host an AAI group in my family room the third Tuesday evening of each month from 7-9pm. You are welcome to attend. Joe Ferens handles the e-mail announcements, and I could forward your name to him so that you would know the topic. The proposed topic for January 24 is "When to buy on price drops? How to play China?". The overview is:

"Caterpillar was trading in the \$57-59 dollar range when it missed an earnings expectation. It was purchased at \$49.05. Within a month it was back to the \$57-59 range where it has been trading for the past six weeks. Two main questions: 1. Are there criteria such as technical patterns, the nature of the news or fundamentals that indicate when if ever it makes a prudent strategy to buy stocks that plummet 10-20%? 2. Is Caterpillar a good China play with the expressways being built by their equipment? What are the best investments for taking advantage of the changes in China? Lee will present data to try and answer the first question. He will look to you for answers to the second question.

I continue to enjoy the work and analytical challenge. The continual uncertainties and entrepreneurial aspects requiring constant watchfulness and nurturance feel like my roots growing up farming. It is a good fit for me, particularly at this point in my life and grief. I'm doing some coaching for others interested in a similar business model.

Thanks for you business and your trust.

Lee