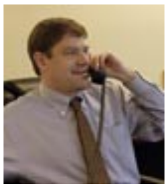
ALLEN TRUST COMPANY

Monthly Newsletter — July 15, 2005



William A. Harris, CFA
Portfolio Manager

Mid-Year Investment Review

Despite headwinds from record-high oil prices and rising short-term interest rates, stocks for the most part found their footing again in the second quarter of 2005. Even so, two of the three big indices remained significantly down for the year. Meanwhile, bonds snapped back, more than making up for their first quarter losses. Altogether, Allen Trust's equity portfolios have risen, with Core stocks performing especially well, up 4.48% on an equal-weighted basis vs. 0.65% for the equal-weighted S&P 500 (a note for the keen-eyed: equal-weighting removes the big-company bias present in the S&P 500's traditional value-weighting, whereby the index lost 0.81% as you see in the box above). Our bond portfolios' performance came in halfway between the short and intermediate benchmarks, unsurprising given our conservative fixed income positioning of late.

First Half Performance, 2005	
Allen Trust Core Equities	**4.48%**
Allen Trust Total Equities	**0.86%**
Allen Trust Bonds	**1.39%**
Dow Jones Industrial Avg	-3.64%
S&P 500	-0.81%
Nasdaq Composite	-5.45%
Lehman Agg Int Bond	1.84%
Lehman Gov't 1-3 year	0.93%

As for sub-asset class shifts we made during the period, we have been moving away from high-yield bonds and small cap stocks. Our watchword for 2005 remains "Quality."

Leaders

The only thing that can match the frenzy of buying in real estate these days is the media's hair-pulling consternation as to whether we're in a housing "bubble." To some extent, the performance of Core Equity holding **KB Homes (+46.7%)** over the last six months may be symptomatic of a bubble (or, in my opinion, multiple mini-bubbles), but it's also a reflection of the company's fundamental strength. Though we have eased back a few overly concentrated positions, the company remains operationally and strategically sound, and we're holding on. **ConocoPhilips (+35.0%)** and **Royal Dutch Petroleum (+15.6%)** likewise reflect the ongoing good fortunes of their sector, Energy , as you see portrayed in the first line below:

S&P 500 Sector	First Half	Weight
Energy	18.84%	8.8%
Materials	-8.83%	3.0%
Industrials	-5.75%	11.2%
Consumer Discretionary	-7.03%	11.4%
Consumer Staples	-1.02%	10.1%
Health Care	2.69%	13.4%
Financials	-3.57%	20.3%
Information Technology	-5.99%	15.1%
Telecommunications	-6.20%	3.2%
Utilities	13.16%	3.5%

This box describes the apportionment of joy and pain across different industries as measured by stock price performance within the S&P 500. Two sectors — Energy and the relatively tiny (3.5% weight) Utilities sector — have had a banner year; Health Care has nosed up after sitting still through 2004; and all the rest have lost ground.

Laggards

Allen Trust Core retailers **Costco (-7.2%)** and **Home Depot (-8.5%)** shared the woes of the Consumer Discretionary sector, as investors recoiled in fear that the US consumer's willingness to keep spending in the face of rising gas prices and slowing economic growth might falter (it didn't). I still share that fear, but both of these are superb companies and well-positioned to grab market share from weaker competitors if consumer spending breaks after having risen for 52 consecutive quarters (good golly, that's 13 years). We are looking to buy more Home Depot, in particular, if its share price drops back into the mid $30s.

Core telecom holding **Verizon (-12.8%)** takes the bottom spot, hampered by ongoing landline erosion, a broadband pricing war, and an ill-considered takeover of long distance carrier MCI. Here's why we are buying more: it controls the premier US cellular company, management has a track record of making takeovers pay off, and they are plowing billions into infrastructure in a long-sighted bid to bundle wireless, voice, data and video. Wireless is Verizon's key competitive advantage, and it's one that no cable company or internet scheme can emulate. I remain confident that time, not to mention a 4.5% dividend yield, will reward patience.

Bill Harris