



# KAVILCO NEWS

August 2000



## Annual Meeting of Shareholders

The 2000 Annual Shareholders meeting is scheduled for Saturday, November 11<sup>th</sup> at the Ted Ferry Civic Center in Ketchikan. Registration will begin at 11:00 a.m. and end at 12:00 noon. The meeting will begin at 1:00 p.m. and end at 3:00 p.m. Dinner will follow at the Westmark Cape Fox Lodge.

Primary items of business are the approval of the Corporation's independent public accountants and the election of directors. The directors whose terms expire this year are John Campbell, Kenneth Gordon & Louis Jones, Sr.



## 4<sup>th</sup> Annual Cemetery Cleanup

We held our 4<sup>th</sup> annual cemetery cleanup in Kasaan, Alaska on July 22<sup>nd</sup>. The cleanup was not as well attended as last year as many attended the Potlatch in honor of Robert Young, Sr., which was held on the same day. The following is a list



of those that attended the cemetery clean-up:

- Louis Jones, Sr. – Anchorage, Alaska\*
- Scott Burns - Bainbridge Island, Washington
- Ramona Hamar – Anchorage, Alaska\*
- Cory Wilson – Anchorage, Alaska
- Michael Jones – Anchorage, Alaska\*
- Mike Jones – Anchorage, Alaska
- Melanie Locklear – Ward Cove, Alaska\*
- Steve Locklear – Ward Cove, Alaska
- Sydney Locklear – Ward Cove, Alaska
- Mr. & Mrs. Locklear -
- Louis A. Thompson – Kasaan, Alaska\*
- Fred Olsen, Jr. – Brooklyn, New York\*

\*Kavilco shareholders.



## PORTFOLIO



Last year about this time the Federal Reserve Board (Fed) started increasing short-term interest rates. The Federal Fund Rate has gone from 4.75% to 6.5%. As a result of this action, interest rates on Treasury and, in particular, corporate bonds have increased. The Fed's goal is to slow down the economy to a point where perceived inflation is no longer a threat. Historically, when the Fed's strategy is to increase interest rates, it is a big negative for both stocks and bonds. A slow down in the economy eventually results from the Fed's adjustments. A company's earnings are reduced, so stock prices take a nosedive. Bond market values drop because interest rates are increasing. It

should be noted that since the inception of the Federal Reserve Board, the Fed is responsible for all recessions in the U.S. economy.

In April and extending into May, the Nasdaq plunge was similar in magnitude to the S&P 500's 1987 drop. Although this was a severe correction, the Nasdaq index of stocks are still overvalued. Of the 40 largest capitalized Nasdaq stocks that had earnings, the average price earnings was 230 (prior to the mania in the stock market the average price earnings were in the teens). The stock market correction can be traced in large part to earnings. Investors started to consider earnings as opposed to stock price momentum as criteria for their investment decisions. The spring correction completely wiped out the Internet sector (very few companies in this sector have earnings) and the technology sector suffered a major set back. Only time will tell if the spring retrenchment in the stock market is a mere correction or is the start of a bear market.

Kavilco sold the majority of its stock positions in March. The only stock that we held during the correction was Microsoft. Granted, the value of this blue chip stock was severely damaged, however, we did not sustain any stock losses during the correction. We have gone back to the time tested approach to value investing and have been looking at stocks with strong financial fundamentals.

As previously stated, interest rates have been increasing over the past 12 months. On the down side, this economic development has eroded the value of our bond portfolio. Although the negative changes in value do not impact your dividends it does reduce earnings in Statement of Operations. On the upside,

interest rates have substantially increased in the corporate bond arena. Last year and the beginning of this year we had \$7 million of Treasury bonds mature that had yields in the 7.5% range. So far this year, Treasury yields have not come close to the 7.5% range. The only investment vehicle available that generated income that approximated the matured Treasuries was corporate obligations. You will note that under the Schedule of Investments that 73% of our portfolio is made up of corporate bonds. It took 6 months to finally get this portfolio on line. For the most part, the names of the issuers should be familiar. It is the Board's concern that if the economy does fall into a recession, as previously discussed, that our investments in corporate debt be in companies that are financially sound and should be able to make their interest payments on their debt. These investments are being closely monitored and if they fall under financial stress the bonds will be sold.

## IN KASAAN

Rayonier is harvesting the remains of the marketable timber this year. They are using helicopters as well as surface methods to pull these salvageable logs out.

We have been renting the bunkhouse to a Japanese firm that has been here buying timber. This brings in additional revenue for Kavilco.

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## Semi-Annual Financial Statements

Enclosed are the financial statements for the six months ended June 30, 2000. The financial statements are presented in a format that all investment companies must

adhere to pursuant to Security and Exchange Commission requirements and generally accepted accounting principles. In an investment company, the primary objective of the financial statements is to show how the net asset value changed throughout the year (net asset value is defined as the value of securities owned, cash, receivables and other assets over liabilities). We realize that these statements are esoteric to say the least. However, in an effort to make the financial information more meaningful, we will discuss the purpose of each financial statement.

### **STATEMENT OF ASSETS AND LIABILITIES**

This statement reflects everything the corporation owns or is obligated to pay as of June 30, 2000. All assets and liabilities are stated in terms of current market value. When there is no readily available market value, the Board will set the value, as was the case with premises and equipment and real estate.

### **STATEMENT OF OPERATIONS**

The Statement of Operations is an analysis of all income and expense that the corporation incurred during for the period ending June 30, 2000. Unrealized gain/losses are accounting adjustments that relate to changes in market value of the portfolio. This account is not subject to Federal taxation and has no impact on the computation of dividend payments. For additional discussion see Notes to Financial Statement.

### **STATEMENT OF CHANGES IN NET ASSETS**

What happened to our assets during the year? This statement shows all increases

and decreases in our assets. With the exception of the dividends to shareholder account, it is identical to the Statement of Operations.

### **SCHEDULE OF INVESTMENTS**

With the exception of a small investment in stocks, Kavilco's portfolio is primarily made up of bonds. Bonds are debt instruments that carry a stated interest rate and maturity date. The Federal, State and Municipal governments along with corporations can issue bonds. Corporate obligation is another term for bonds. Changes in corporate bond valuations are not related to the stock in the underlying corporation, and have no impact on future dividend payments.

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As always, please feel free to call me at (907) 542-2214, or our Seattle office at 1-800-786-9574.

Sincerely,



Louis A. Thompson  
President/CEO

