



KAVILCO NEWS

August 2003



Annual Meeting of Shareholders

The 2003 Annual Shareholders meeting is scheduled for **Saturday, November 15th**. The

meeting will be held at



the **Cape Fox Lodge** 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. 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 Louis Jones, Sr., John Campbell and Kenneth Gordon.

The banquet after the meeting will also be held in the Cape Fox Lodge. Doors will open at 5:30 p.m.

Direct Deposit

Just a reminder that you can have your dividends deposited directly into your bank account. With Direct Deposit your money is credited to your bank account on the distribution date. This will eliminate the risk of lost or stolen checks, and it will also eliminate delays caused by relying on the



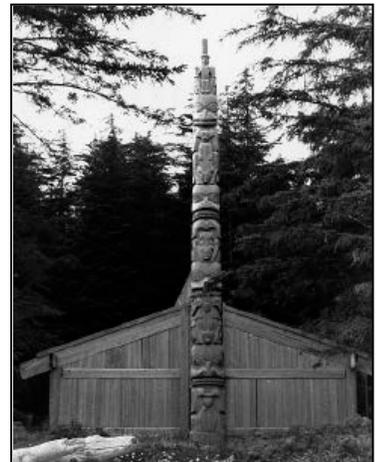
mail. There is no cost to sign up or receive direct deposit.

You may request an "Authorization for Direct Deposit of Dividends" form by calling Kavilco at 1-800-786-9574. You **MUST** return the completed form to Kavilco no later than October 1, 2003 for the Fall dividend. That means Kavilco must have it in their business office by that date, it does not mean post marked by that date.

Kavilco's custodial bank will charge a \$35.00 handling fee if a Direct Deposit is ever rejected, and Kavilco will pass that fee on to the shareholder. Therefore it is important that you notify Kavilco **IN WRITING** if there is any change to your account.

APPROPRIATION REQUEST FOR RESTORATION ARRIVES IN WASHINGTON, D. C.

Through the efforts of our Corporate Secretary Charisse Dwyer and her family, we are much further along than we thought we would be with the appropriation request. The Kasaan Haida Heritage Foundation and Kavilco had mailed letters of request to Senators Lisa Murkowski and Ted Stevens and Representative Don Young for the appropriation in late May, not realizing there



was a deadline in the near future. Charisse's sister-in-law Jennifer, who is Senator Murkowski's cousin, had let the Senator know that the request was coming. The deadline arrived but our paperwork had not, so Jennifer came to our rescue by having the Senator's aid Nathan contact us to request a brief email explaining what we wanted. Charisse, Louis and Scott quickly worked to reduce the two letters down to a couple of paragraphs and emailed it to Nathan. He promptly responded that that was all he needed and we made it in under the June deadline! If it hadn't been for Jennifer's kind intervention we would probably be waiting until next year for our request to be reviewed.

In July Charisse vacationed in Washington, D.C. and (thanks again to Jennifer) had lunch with Senator Murkowski. The Senator asked about our little project and Charisse had the opportunity to explain in further detail about our plans. We might know by the Annual meeting if our request was granted

On a side note, since Charisse knew she was going to be in D. C. for an extended period of time, she arranged to visit the Smithsonian's National Anthropological Archives. There she obtained paper copies of over 40 photographs taken of Old and New Kasaan around the late 1800s and early 1900s. Kavilco will be purchasing photographic prints of many of the photos so that we can use them in the future.



PORTFOLIO



A MID-YEAR REVIEW

There continues to be a powerful tug-of-war between massive policy reflation and the lingering after-effects of the various shocks that have hit the economy during the past

three years. The sharp drop in interest rates and tax cuts have been successful in sustaining consumer spending, but have not yet managed to trigger a rebound in business spending. Corporate executives remain extremely cautious, focused more on cost cutting and balance sheet restructuring than on expanding.

Since the beginning of the year the Dow Jones Industrials, S&P 500 composite index and the NASDAQ 100 had increases of 7.7%, 11%, and 22%, respectively. Everything looks great about this stock market advance except for one item—VALUES. Every bull market in history has started from a base of stocks at great values. Great values, historically, have been characterized by two phenomena—low price/earnings ratios (P/E) and high dividend yields. The S&P 500 stock index is the best indicator of the overall market sentiment. The average S&P dividend yield over the last 13 bear market lows was 4.7% with a P/E of 11.0. The June 30th dividend yield was 1.7% with a P/E of 31.6. Before the recent stock market bubble, P/E's in the 22 range was indicative of an overvalued stock market. Rallies in a bear market can be violent and spectacular, often better than "the real thing." A few pundits from the value school of investing have made the case that the bear market has not even started. One thing for sure, we have not seen anything even suggesting a bear market bottom.

Turning our attention to the portfolio, you will note that Kavilco had a net unrealized gain of \$691,784. The gain is courtesy of Fed Chairman Alan Greenspan's statements in May that deflation was a major concern of the Federal Reserve Board. The bond market rallied on these statements only to sober up in mid June when bond investors realized that the fed policy is inflationary. By

the end of July, bond investors drove up interest rates, which vaporized Kavalco's unrealized gain.

As far as our fallen angels (companies in our portfolio that are under financial stress) are concerned, Qwest Communication has sold their directory business, which has provided much needed cash flow. According to analytical reports, this will buy Qwest more time to get their financial house in order. In September, Ford Motor Company and General Motors will be actively involved in union contract negotiations. Plant closures and pension liabilities are the main issues that must be addressed if these companies are going to survive in the highly competitive automobile market. Selling any of these positions will result in losses that will be offset by selling bonds that have capital gains potential. The problem with this strategy is that we have the perennial re-investment risk. That is, giving up yields in the 7% range only to re-invest at a substantial decrease in yield.

Last year, we had bonds that were sold or matured that carried a +7% yield. Currently, interest rates are at a 40-year low with money market funds yielding a whopping .6% and Treasury bonds in the 2%-3 ½% range. This translates into lost revenue in the neighborhood of \$250,000. To make up for this deficit, we have employed a strategy where we actively trade the 10-year Treasury bond. We had some success with this strategy, however, it is too early to tell if we can make up the deficit in earnings.

Possible Reduction In Fall Dividend

Last year three unique financial events occurred that played a major role in your dividend. First, due to a computer glitch, interest income was overstated by \$103,000. This was discovered after the November

dividend payment. The Second event was a rent for land swap deal with Rayonier Timber. Rayonier owed us \$120,000 for back rent on our log storage site. In lieu of payment we obtained property and a mining claim that was contiguous to our property. The last issue is a major decline in interest rates which has severely crimped our interest earnings. So the combined effect of these issues is in the neighborhood of \$370,000. We have employed a strategy that is designed to try and offset interest income issues. However, there is no way we can make up for the lost rental income. There are four months left until dividend payments and we are trying diligently to make up some of the short fall in earnings.



MEMORIAL *Rosemarie Trambitas* **1939 – 2003**

On May 17, 2003 Rosemarie Trambitas passed away at her home in Ketchikan. Rosemarie was born in Hydaburg on October 22, 1939 to Edward Young and Pearl Scrivens and was raised in Kasaan. She was a member of the Eagle Frog Clan and enjoyed gathering and processing Native foods, earning the nickname "Swifty" for her fish cutting skills. Rosemarie was one of the 5 people that signed Kavalco's articles of incorporation back in 1973 and served on our Board of Directors from 1978 until her death. She asked that her ashes be spread in Kasaan.



IN KASAAN

The Alaska Native Tribal Health Consortium (ANTHC) is conducting a Phase II Feasibility Study on the development of a water and sewer project in the Kavalco Shareholder's Subdivision. The Subdivision lots were distributed to shareholders in 1986. This project will be accomplished in five phases and will also benefit the existing city water system through the installation of a new water treatment plant and a larger water holding tank, away from the stream source, where the present system is. The plan is to be able to gravity feed water to all 120 lots. ANTHC will contact those land owners whose lots will be impacted by a need to obtain an easement in order to run a water main across a small portion of their land. An easement is also needed from Kavalco to relocate the facility. Kavalco, the City of Kasaan and ANTHC will be working together on this project and it will take quite some time because of its size.

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

Louis A. Thompson

President/CEO

