



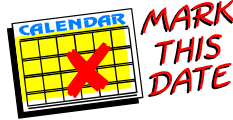
KAVILCO NEWS

August 2004



Annual Meeting of Shareholders

The 2005 Annual Shareholders meeting is scheduled for **Saturday, November 5**. The meeting will be held 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. The 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 Jeane Breinig, Ramona Hamar and Marie K. Miller.

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

Visit Our Website at:

www.kavilco.com

Come and see Kavilco's website. You can see recent photographs of Chief Son-I-Hat's Whale House and Totem Park when you click on that link. You can print out Direct Deposit forms, Gifting forms, Change of Address forms and Voluntary IRS Withholding forms by going to Shareholder Information/Forms.

There is also a section dedicated to the Kasaan Haida Heritage Foundation. Click on that link at the bottom of Kavilco's Home Page, click on Projects/Photo Gallery and you can see historic photographs of Chief Son-I-Hat and his family, Old Kasaan and several others. KHHF's last newsletter is in there too, complete with photos.

We hope you enjoy your tour of our website and we welcome any comments or suggestions you might have.

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 or visit our website. You MUST return the completed form to Kavilco no later than October 1, 2004 for the Fall dividend. That means Kavilco must have it in their business office 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 Kavalco IN WRITING if there is any change to your account.



PORTFOLIO



A MID-YEAR REVIEW

Low interest rates are still taking a toll on our portfolio. Consider an article entitled "The Frustrating Hunt for Decent Returns" in the July 19, 2004 edition of the *Barron's* magazine. It discusses the lack of volatility and limited earnings in the bond market. The following is a quote from a portfolio manager; "The bond market is craving volatility. It is challenging to make money in a stagnant market." Last year we made \$235,174 in active trading of Treasury Bonds in a very volatile bond market. Accordingly, we have not been able to institute our bond trading strategy this year

What about the general level of interest rates? From the June 19, 2004 edition of *The Economist* we have "average interest rates in the big economies [are] at their lowest in recorded history." So what is Kavalco's plan of attack for dealing with the credit market?

Before answering that let's take a look at the current economic environment. The Federal Reserve Board (Fed) was concerned about deflation when the stock market bubble burst in March 2000. The Fed started a reflationary policy (first time ever that the Fed's policy was to create inflation) by flooding the economy with liquidity which drove interest rates to an historical low while creating financial bubbles in housing and in bonds and other credit instruments. The Fed has been successful in creating inflation and now

has changed course and become an inflation fighter. In June, the Fed launched its first salvo to stem inflation by increasing short-term interest rates by .25%. The Fed stated that we can anticipate measured increases in interest rates in the months ahead. The Fed can handle inflation, but what about the financial bubbles? A look back at 1994 may hold the key to the unwinding of the speculative excess in the credit markets.

When the Fed started increasing interest rates in 1994, investors were unaware of the speculative excess in the credit markets. The bond market reacted violently and we had the biggest crash in the history of the bond market (the value of bonds pummeled because interest rates were soaring).

In summary, short term interest rates are starting to rise courtesy of the Fed and long term interest rates may spike when all the credit market bubbles burst. Our investment strategy encompasses three major areas. For the near term, we will invest in commercial paper, which has a higher yield than our money market account. Second, to offset the decline in our interest income, we will sell some of our high yielding bond investments that currently have unrealized gains. Last but not most important, when interest rates spike due to the previously discussed inflation and financial bubbles bursting we will lock in higher yielding bonds with long term maturities. However, if our prognostication is incorrect about an interest rate spike we could be in for some terrible earnings in 2005 and beyond.

What is our view on stocks? If our current economic situation is healthy, why is the S&P 500 stock index selling below its price of June 1998 and the Dow Jones Industrial Average gone nowhere since the first day of the year? The stock market is a discounting mechanism that looks out six to nine months

on the economic horizon. There is something “out there” that’s weighing the market down, dragging the markets slowly and persistently lower. We don’t know what it is but we do know that increases in interest rates will eventually drive stock prices down.

As a point of reference, it has been our contention over the past three years that the primary trend in stocks is down because the excesses from the stock market mania of the 1990’s have not been completely wrung out of the market (stock market valuations are exceptionally high). However, we have invested in companies that mine precious metals. This is a long-term investment and we feel it is appropriate given the inflationary pressures and the bear market in the U.S. dollar.

Possible Reduction In Fall Dividend

You can see from the previous discussion that we are still fighting an uphill battle looking for yield. So far this year we have had over \$3,000,000 in bonds that have either matured or were sold. Another \$5,000,000 in U.S. Treasury Bonds will mature in August. Once again we are confronted with our old economic nemesis—reinvestment risk. Here is the situation; high yielding bonds (+7%) are replaced by commercial paper with an average yield of 1.31%. This disparity has a major impact on our earnings.

In the current economic environment, there is no way we can make up for the lost revenue due to the aforementioned reinvestment issues. However, the board has decided to sell some bonds to boost earnings from the current low level. In no way will the bond sales bring us up to last year’s income figures. This strategy assumes that we will be able to invest in bonds that have a higher yield than what we are witnessing today. If

our analysis is incorrect and interest rates do not rise above today’s rate, then our dividends will be reduced even more in the years ahead.



MEMORIAL ***Pauline E. Blackstad*** **1903 – 2004**

On January 8, 2004 Pauline E. Blackstad died at the age of 100 in Ketchikan.

She was born Pauline Jones on November 16, 1903 in Kasaan where she grew up and lived all of her life before moving with her husband, William Blackstad, to Ketchikan.

She is survived by her nephews John Olsen of Seattle, Fred Olsen of Salem, Oregon, nieces Mae Leask of Seattle and Inga Olsen of Ketchikan and many great and great-great nieces and nephews.

Please see the Kasaan Haida Heritage Foundation's newsletter on the website for photos and information about the party that was held last fall for Pauline and Bill at the Pioneer's Home.

Ernest T. Jones **1931 – 2004**

On June 18, 2004 Ernest T. Jones passed away at Harborview Hospital in Seattle at the age of 73. Mr. Jones was born February 5, 1931 in Kasaan, Alaska to Healy and Sophie Jones and grew up to be a pharmacist. Mr. Jones is survived by several nieces and nephews.



IN KASAAN

EASEMENT FOR KASAAN

The City of Kasaan has requested an easement from Kavilco for a roadway to access a 1 1/2 acre lot they purchased from a shareholder. This access will also be used as part of the new proposed upgraded water system. The road will also give access to other shareholder owned lots. The City's plan is to place a large metal maintenance shop on their lot.

CULTURE CAMP

The Organized Village of Kasaan has requested the right to use Chief Son-I-Hat's Whale House and Totem Park to use as part of an annual Culture Camp they are hosting this month. Kavilco granted their request, providing that they exclude overnight camping and any open fires and give Kavilco a liability waiver and proof of insurance to cover the event scheduled August 5-7th.



WATER MAIN REPLACEMENT

Restoration of Kasaan's water main from the dam to the water treatment plant will be taking place shortly. The access road covering the water main was washed away last winter due to a small land slide and a very high creek level. Emergency funds from the State of Alaska has been granted for this restoration project. Local labor will be used.

CEMETERY & TRAIL CLEAN-UP

The cemetery and the trail from Kasaan was cleared of all brush and other obstructions last week by Walter Young of Kasaan. Walter was hired by Kavilco to do this job two years ago, and the interval worked out just fine. Everyone that has walked the Totem Park Trail has commented on how nice the trail is. The brush around the totems as well as the little circular foot path leading to each totem has also been removed. Good job Walter!

GRANT APPLICATION

On March 15, 2004 Kavilco applied for an Historic Preservation Fund Grant specifically for Indian Tribes, Alaska Natives and Native Hawaiian Organizations. The grant was written for a total of \$34,824, with Kavilco and Kasaan Haida Heritage Foundation contributing \$16,415 in matching funds and cost sharing and \$18,409 requested in actual grant funds. The funds would be used to pay for 3 different architectural firms from Southeast Alaska to travel to Kasaan and examine the Whale House. After each firm completed their inspections they would provide Kavilco with their restoration recommendations, complete with drawings and bids. From the 3 Kavilco's Board of Directors would select the best based on the feasibility of their recommendations, their qualifications and cost.

Our application was one of 101 applications that were received by the National Parks Service (NPS) for this grant. They totaled \$3.92 million in requested funds and NPS only had \$666,747 to distribute this year. Our request was declined. We were told that we would be notified next year if funding was appropriated again so that we can re-apply.

We are not discouraged and will continue to seek funding for the Whale House restoration.

Charisse Dwyer traveled to Kasaan in June of this year to take pictures of the damage the Whale House and Totem Park has sustained over the years. These pictures can be viewed on our website at www.kavilco.com/pages/khhfdamage

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

