



# KAVILCO NEWS

August 2005

## 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.



## IRS Policy Shift Targets Native Corporate Dividends

**A POLICY CHANGE** at the Internal Revenue Service June 1 could mean that thousands of Alaska Natives' shareholder dividends are no longer exempt from federal taxes.

**For 20-plus years**, the IRS honored a moratorium on imposing tax levies on the dividends of Alaska Native corporations and who owed government taxes. The moratorium was intended to allow roughly

200 Native corporations, created as part of a land claims settlement, time to develop financial stability.

**With the tax levy**, the IRS could begin to attach liens to shareholders' dividends for past-due federal income tax. However, the agency has not started enforcing the new policy in an effort to give shareholders time to be notified.

Source: *Native American Law Report*, June 2005.

Visit Our Website at:

[www.kavilco.com](http://www.kavilco.com)

Visit Kavilco's website. You can see recent photographs of Chief Son-I-Hat's Whale House and Totem Park when you click on "Joint Project." You can print out the following forms: Direct Deposit, Gifting, Change of Address and Voluntary IRS Withholding by going to Shareholder Information/Affidavits & Forms.

There is also a section dedicated to the **Kasaan Haida Heritage Foundation**. Click on "Kasaan Haida Heritage Foundation" at the top 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. Click on "Projects/Gáasaáan Xaadas Guusuu" and listen to our Haida elders speak! You can even donate to KHHF online with PayPal! Enjoy your tour of our website. We welcome any comments or suggestions you might have.

## What's New

KHHF is proud to announce its **online donation page** – “**How to Give.**” Now you can donate online using your credit card!

**Earmarking Funds:** You may direct your funds to a specific activity. Include mention of your intent in a letter to the foundation or write in the memo section of your check. For example, writing “Media Specialist” will go to our Haida language project and other projects overseen by our Media Specialist.

When donating by credit card via PayPal, you can earmark funds by mentioning your intent in the space provided for messages.

## 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 eliminates 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. The completed form MUST be returned to Kavilco no later than October 1, 2005 for the Fall dividend. This means that Kavilco must have the form 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 Kavilco IN WRITING if there is any change to your account.

## Portfolio

### THE GREAT CONUNDRUM



Over the past couple of years, the global financial community has debated why long-term U.S. interest rates have been so low. This has led to the vast majority of economists being so wrong with their interest rate forecasts. Adding to the confusion, we have had Alan Greenspan, chairman of the Federal Reserve Board, famously describe the question of the long-term rates as a “**conundrum**” in congressional testimony earlier this year.

It is stunning for the head of our central bank to describe himself as mystified by the behavior of overall rates. Indeed, as of mid-year, yields on the 10-year and the 30-year U.S. Treasury securities have fallen to the astonishingly low levels of 3.9% and 4.2% respectively. These low rates persist even in the face of powerful factors, which, in historical terms, should drive them up, including monetary policy itself, a strong U.S. economic growth outlook and the increasingly large size of our current account deficit. This contradiction is, in essence, the conundrum.

**There are many economic theories** set forth to address the conundrum, but the one that appears to be gathering traction is excess global liquidity (foreign currency). Foreign investors are in a ferocious hunt for yields and, for the moment, have nowhere else to go but into dollar-denominated, fixed-income assets like U.S. Treasury securities. Believe it or not, comparable interest rates outside the U.S. are even lower than ours. Accordingly, as demand increases Treasuries’ interest rates decrease.



### PORTFOLIO STRATEGY

**We have over \$20 million** that has not been committed to long-term bond investments. We are acutely aware that the easy availability of credit has created the bubble twins: stocks and real estate. The real estate mania is global in nature, and we are actively monitoring the international housing markets to get an understanding of how a country's economy will be impacted when their bubble starts to deflate. Our analysis has pointed out that an end to our housing boom will remove a huge prop to our economy and will result in a major deflationary shock. Such is the nature of bubbles.

**Once the housing market mania** starts to cool we will start investing in long-term bonds because deflation will be accompanied by a steady decline in yields. In the interim, we have developed a two-prong strategy. The first part of the strategy is to capture yield. You will note on the Schedule of Investments a number of variable agency bonds. Interest rates on these short-term securities reset on a periodic basis (monthly, quarterly or annually) and have a substantially higher yield than money market funds. The second part of the strategy requires nimble trading with the goal of attaining capital gains. This strategy uses technical analysis to actively trade long-date Treasury bonds. We received our first buy signal in July so it is too early to say how this strategy will work out.

We have looked at stocks and setting up a separate company (SEC and IRS diversification issues limit owning a company) in order to increase our net income. According to our analysis, there is no quick fix for the decline in our earnings. We have to come to grips with the low interest rate environment and the negative impact this will have on future dividends.

## In Kasaaan

### MINING AGREEMENT

I have been meeting with a minerals firm, Full Metal Minerals of Vancouver, British Columbia, on an agreement to do exploration work on the Copper Queen and the Skookum mining claims that Kavilco purchased from Rayonier when they completed their timber harvest contract with Kavilco. This agreement will be three separate documents: 1) A preliminary exploration agreement; 2) An exploration agreement with an option to lease; 3) A lease agreement. Kavilco will receive an agreed amount of compensation for doing this on completion of negotiations. In the long term, this could mean a road-use agreement or other property leases for a mining operation.

### STATUS OF THE SAWMILL

The sawmill owned by Jim Ensley under a land lease, has been sold to Icy Bay Lumber and will be removed. The land will be cleaned up and the current lease will be terminated by the end of December 2005.

### SEALASKA ANNUAL MEETING & BUSINESS RECEPTION

Sealaska conducted a business reception on June 17, 2005 in Ketchikan. Invited were village corporation representatives, as well as vendors, businesses that worked for Sealaska, and Directors of their corporation and management. The purpose was to introduce and discuss issues of common interest, and to become acquainted with each other.

Sealaska's Annual Meeting was held on June 18, 2005. It was very well organized to address shareholder issues about Sealaska's operations. Several Native dance groups performed and a sit-down lunch was served. Sealaska sponsored Native craft tables in the Cape Fox Lodge Commons.

There were approximately 20 large tables occupied by Native craftsmen.

During the question and answer period, only a handful of shareholders asked questions. One question that created an issue was about the high salary of the CEO/President and how it was calculated. Another question addressed the landless issue for the villages of Haines, Wrangell, Tenakee, Petersburg and Ketchikan. Sealaska stated that they were supporting a bill in Congress addressing this issue and monitoring its progress.

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As always, please feel free to call me at the Field Office in Kasaan: 907-542-2214, or toll free at our Seattle office: 800-786-9574.

Sincerely,



Louis A. Thompson  
President/CEO



Chief Skowal's Mask (permission of the Fowler Museum, University of California Los Angeles)