

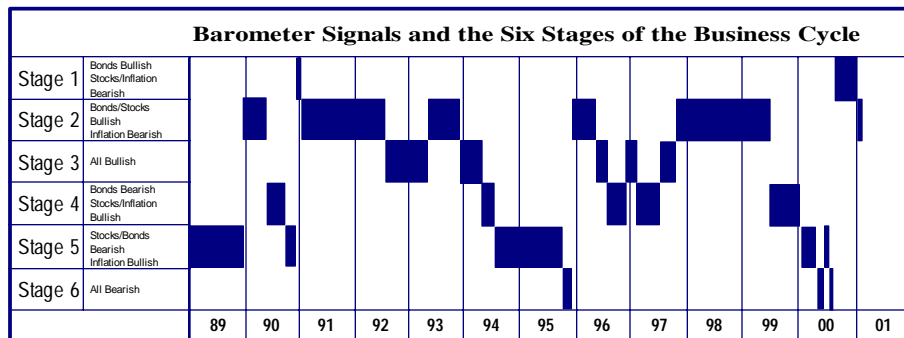
January 2001

A CHANGE IN TACTICS: FROM DEFENSE TO OFFENSE

We were extremely pleased to have profitably managed your portfolio through a very volatile and rough 2000. While many investors and speculators will take years to make up their recent losses, *you are at new benchmark levels of wealth.* And the news gets even better!

It was a great year for conservative investors and for those who had a good defense.

There have been important and positive changes in our proprietary business cycle research. The sudden weakness in the economy caught the Federal Reserve by surprise, and we now



The Barometer changes give us the "green light".

expect a series of interest rate cuts by the Federal Reserve. This has also triggered changes in our

Barometers, as they have signaled a Stage 2 environment (see chapter 8 in Martin's *All Season Investor*). This is very exciting and presents us with the best investment opportunity since 1990. *We have shifted tactics from playing defense and are now sending the offense back in.*

You can now expect to see more bargains purchased in your portfolio. We are reducing cash and shifting out of last years' star performers, such as utilities, in order to put funds to work in the new year's anticipated winners.

We are the most hopeful and excited we have been in years. The Barometer change give us the "green light". Value investing, the keystone of conservative investors, is back! We expect a long-running superior performance from "Value". The average stock, as a result of nearly three years of price decline, is inexpensive and gives the conservative investor a big opportunity to profit. We have many candidates and continue researching themes that will benefit from the major political, demographic, and financial changes now taking place.

Themes that are working for you are based on solid fundamental concepts. The mania phase of momentum speculation in the “new” economy has burned out and a return to basic concepts such as earnings, cash flow, revenue, and quality are coming back to favor. Recent and coming adjustments to your portfolio include themes we like for 2001 and beyond.

You had a great year in 2000, especially considering all the potential pitfalls. Your portfolio earned solid gains and, even more importantly, you were afforded a good night’s sleep throughout a drastic stock market decline. We anticipate a profitable 2001, as according to our models, the best is yet to come for conservative value investors. We wish you a happy, healthy, and a profitable 2001.

2001 Profit Themes

Small vs Large

Value vs Growth

Old vs New

Stock Picking vs. Indexing