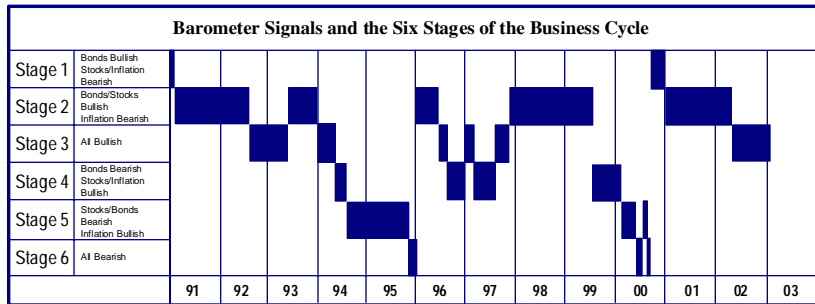


January 2003

2002 IN REVIEW

The economy moved out of a shallow recession early in the year. The Federal Reserve used all its bag of tricks to lower interest rates (positive for bonds) and grow money supply (positive for stocks). Our business cycle stage work moved to Stage 3, historically a very favorable and friendly environment for common stocks. And still the stock market turned in a miserable performance. History books will reflect back on 2002 as the third straight year

of stock market declines. The last three year down swing was back in 1939-1941. So, you can note what a rare experience 2002 was. It is quite unusual for the stock market not



to respond to favorable business conditions and a very accommodating Federal Reserve. So, why did the stock market go down in face of a favorable backdrop?

Possible answers for the past year’s decline were corporate scandals, Iraq war worries, and Korean nuclear concerns. Another answer is that the stock market is still making adjustments to the speculative mania that gripped the markets from the mid 90s until early 2000. Stocks by the end of the mania were overvalued, overbelieved, and overowned. Three years later, and we are still correcting the excesses built during the mania. This has been a normal correction to those speculative excesses.

2003 OUTLOOK

After we are three years into a declining stock market, we are closer to the beginning of the next bull market. However, there

Outlook for 2003: Perils & Opportunities	
“Unfinished Business”	(Peril)
Stock Market Volatility	(Peril/Opportunity)
Record Cash Balances	(Opportunity)

appears to be some “unfinished business” in the stock market: stocks are more reasonably priced, but still not cheap; speculators have become

optimistic too quickly; and speculators continue to jump aboard the same technology stocks that destroyed fortunes. These remain caution lights for us.

After the market's "irrational exuberance" mania of the late 90s and the subsequent three year market decline, we see a return to more normal cyclical moves based on economic activity. These are the types of markets we are most comfortable with and best equipped to adopt to market changes. We will use active asset allocation and tactical shifts to reposition portfolios to best take advantage of these cyclical moves.

The most awesome positive situation for all investors is the huge mountain of cash (see chart) building up on the sidelines! Some point in 2003 we expect to see this "mountain" start to move back into common stocks, and when it does, stocks will begin the next big cyclical bull market move up. Money moving back into stocks could start with a trickle, become a landslide, and end in an all-powerful avalanche into the stock market, driving stock prices higher over the next few years as the longer term trend moves from negative to positive.

Bottom line, we are excited by the prospects and challenges facing investors in the new year. Pring Turner is armed with many years of investment experience and array of tools, models, and disciplines to help us evaluate and navigate the perils and opportunities that lie ahead. *We are optimistic and confident that we can successfully traverse the challenges and deliver the two most important things our clients are seeking – security and profits.* We cannot promise that we will be able to do this in each and every instance, but we can promise that we will be unwavering in our resolve to do so. Thank you, and we wish you a healthy and prosperous new year.

