

April 2000

Dear Client,

The volatile events of last few weeks have been quite dramatic, and forecast an important shift. We believe the recent action signals the end of the technology and internet mania and the beginning of a return to common sense and 'old fashion' value investing.

For nearly two years we have been keeping the storm warning flag raised and for much of that time we felt like Peter who yelled "Wolf". The stock market averages made our message of concern look out of synch with what appeared to be going on. However, the reality is there has been a stealth bear market underway. It just did not look like a bear market. Our concern has been well placed and now it is becoming more evident that playing investment defense has been the proper tactic. The stealth bear market is becoming much more visible with observations like the Dow Jones Industrials 16.4% decline, the fourth biggest since the 1982 bottom; the Dow Jones Transportation's which dropped more than 40% from its 1999 high to its 2000 first quarter low; the NASDAQ, home of the most intense speculation, fell a whopping 34% in just four weeks. And, the Wilshire 5000 Index gave up in one week what it gained the prior twelve months!

But that is all history. Now we want to update the big picture and lay out our tactics for the next move in placing the offense back in the game. The next major portfolio move will be toward building wealth instead of protecting wealth. It is still a little early but we want to share our checklist so you better understand the how and why of our plan to grow your portfolio.

First, the stock market masquerade is over. We mean that the real stock market is starting to reveal itself. We have discussed the weak underpinnings or breadth of this market for a long time now. What exactly is breadth? Breadth of the market is the result of the daily battle that takes place between bulls and bears. It is the net at the end of the day of all advancing and declining stocks. Many times this daily struggle is different than the message from the stock market "averages", such as the Dow Jones Industrials, S&P 500, or the New York Stock Exchange Composite. The "averages" are price weighted or capitalization weighted and can give and have given distorted pictures of what the average portfolio is doing. Breadth is a truer representation of the real market and typical portfolios. Breadth has been in a decline since **April 1998**; in fact, a rout would best describe its action as the advance-decline line last week breached a 4-year low! A look at Chart 1 (see insert) shows the two year collapse in breadth and reveals a much different picture for the average portfolio than the S&P 500 Index represents. This breadth collapse has a rainbow and pot of gold which we will explain.

Here is the great irony and opportunity. There are two markets. One has been very wild and speculative and this is the one that concerns Mr. Greenspan, who warned of "irrational exuberance". The other market has been declining for two years and represents true value. This is best illustrated in Chart 2, which highlights price earnings (P/E) ratios of these different markets. Generally, the lower the P/E the lower the risk and greater the appreciation potential. Bottom line, the conclusion is the average stock (ValueLine's 1700 stock universe) is a

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wonderful bargain. The average stock today is selling at a bit under 13 times expected earning, and we are finding many stocks selling at 9, 8 or even 7 times earnings. These bargains are the result of the two year stealth bear market in stock prices even as these same firms continue on a prosperous business track, increasing sales and earnings.

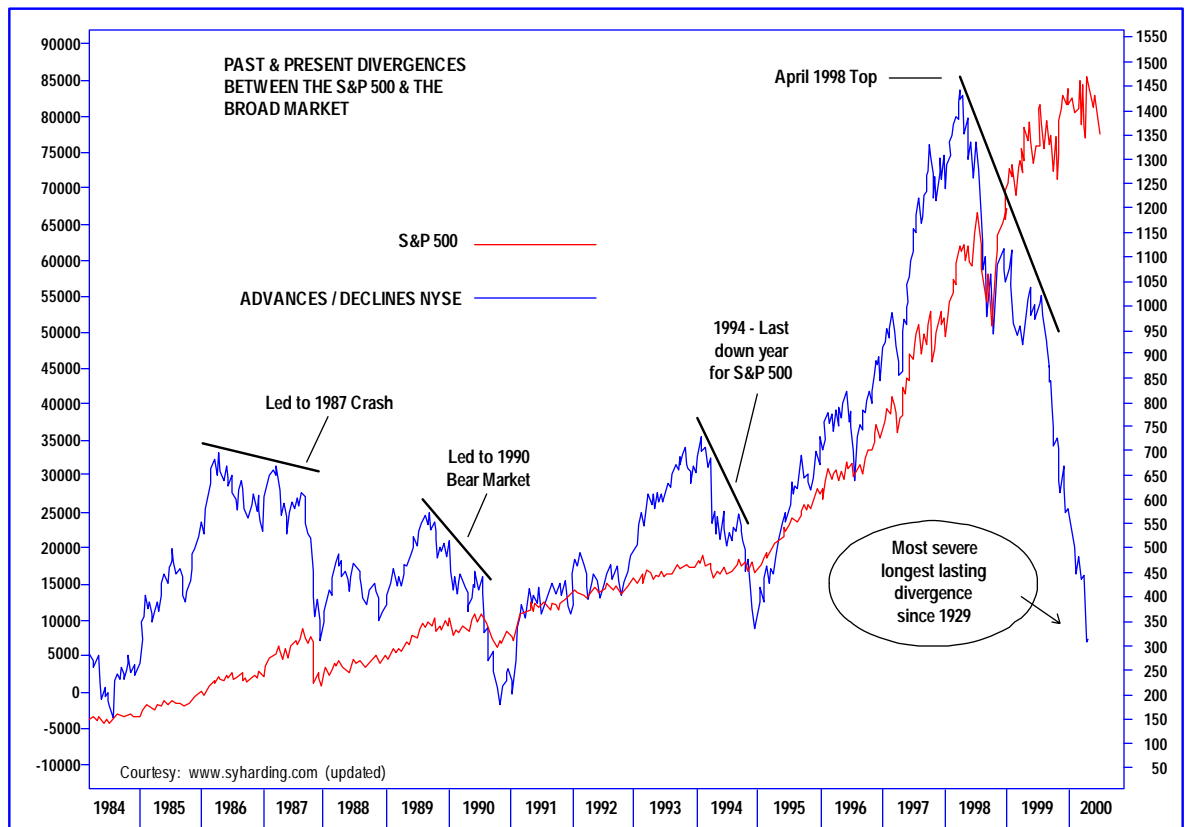
Even though many stocks are sitting on the bargain shelf, we don't want to jump the gun if they continue to decline or are dragged down with a collapse in the speculation driven sectors. We would still like to avoid the fate of famous value investor Warren Buffet who recently apologized to his investors for being down nearly 50% over the past year in his flagship investment company, Berkshire-Hathaway. So the best thing to do is to set out a checklist of conditions necessary to get us to send the offense wealth building team on the field. This includes a backup plan that considers that the average beaten down stock doesn't wait for a correction but rather moves up from the past two year decline and plays catchup. Either way, we want to be prepared with the tactics that will take us from the past into the future with good ideas and a sound strategy.

We feel we have done an excellent job protecting conservative portfolios during this deceptive period and now look forward to growing portfolios again once we get the all clear signal. The problem will be not that there is a shortage of great companies available at good prices, but rather there are so many opportunities available for conservative investors! The temptation is just to back up the truck and fill it up with today's wonderful bargains, but we have come this far, let's be a little bit more patient. A nibble here and there is okay and begin building partial positions is okay, but we do believe an excellent time to be bolder is shaping up. So as the weeks unfold, we will keep you updated on our checklist.

A Checklist for Moving Defense to Offense	
Intermediate Model Positive	No
Fed Monetary Neutral/Positive	No
Breadth Turning Positive	?
Tech-Chips-Net Correction <small>(Speculation)</small>	✓
Valuations Positive	✓
Valuations Indicate Bargains Galore	
Watch the Checklist for Conservative Investors Green Light	

We look forward to the rest of the year. We are looking for a return to value this year as money shifts from the overhyped, overvalued growth and technology stocks to the underpriced value stocks. The good news is by braking the speculation in the technology and Internet mania, money will actually go in search of real value. The pendulum is swinging back. This year should see a return to fundamental and basic investing when stocks with good earnings, dividends, and real value go up. A steady course of proven time-tested investment principles will serve conservative investors well.

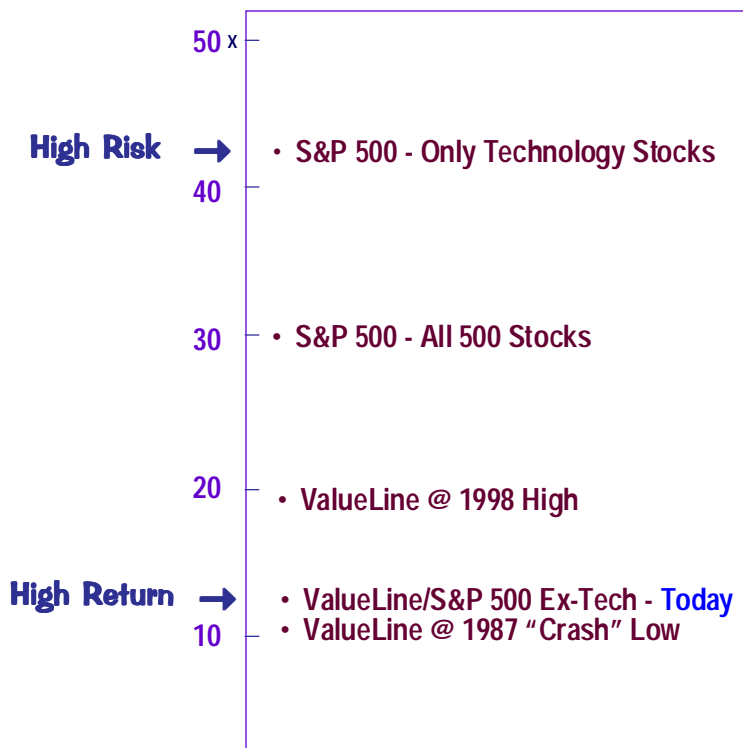
Chart 1



The collapse in the advance/decline has been devastating. This is also creating a great opportunity for conservative investors to buy good companies at very attractive prices.

Chart 2

Price/Earnings Ratio
- A measure of risk and potential return -



As a result of this two year decline, most stocks (1700 ValueLine and S&P 500 without technology) are truly on the bargain shelf. A low P/E suggests good value. For comparison, the P/E for the average stock at the 1987 'crash' low was only 11 times earnings versus today's 13 times. Most stocks have limited downside risk and great upside potential.