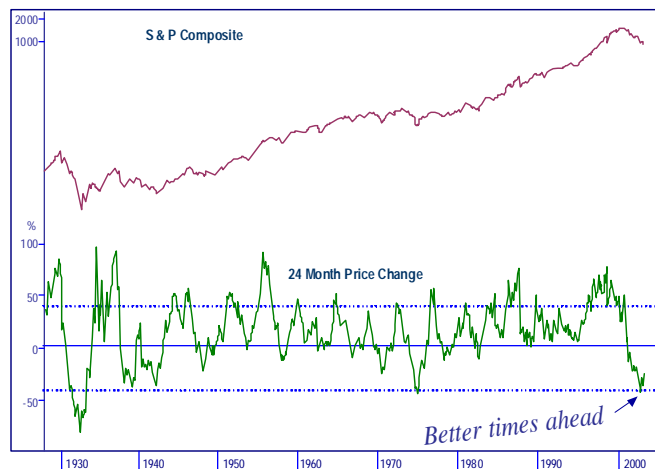


April 2003

**A TIME FOR ‘SPRING’ HOUSE CLEANING**

War and uncertainty combined to knock the stock market down this past quarter, only to come charging back the past few weeks. Your portfolio rode out the decline in much better shape and has recovered most of the lost ground. What next? While we see some improvement in the

**One of Three Worst 2 Year Stock Market Returns in the Past 75 Years**



**What Happens 2 to 3 Years After the “Rough” Years?**

behavior of common stocks, our primary discipline, the Stock Barometer, has recently flashed a ‘sell’ signal. Our models and disciplines call for us to use this market advance to pare back and to become more defensive. However, it is very important to keep in mind that stocks have been correcting the late 90’s excesses for several years now. A glance at the chart show that *you have survived one of the three worst multi-year market declines of the past 75 years!* Bottom line, most of the damage is behind us. The news will get better.

**SHORT TERM: CAUTION**

It is important to analyze the differences between Gulf War I (1990) and Gulf War II (2003), and historical benchmarks. Prior to Gulf War I, fear was rampant, but the stock market was reasonably valued and the market exploded up out of the pessimism that abounded. In Gulf War II, many are afraid of a replay and have invested so as not to be left behind. The fear today is one of being left behind (greed) and the stock market is not inexpensive. The markets are not in as favorable a position today as they were when Gulf War I broke out. So we would advise caution and still look to the primary mission of protecting capital.

	<b>Historical Average</b>	<b>Gulf War I</b>	<b>Gulf War II</b>
S&P 500 P/E Ratio	14	16	28
S&P Dividend Yield	3.8%	3.8%	1.9%

***Conclusion: Still Important to Protect Capital***

## LONG TERM: POSITIVE OUTLOOK

Even though short term we are proceeding defensively and cautiously, we see many positives on the horizon for financial markets. First, the economy will soon see businesses starting to spend money again for big-ticket capital expenditures. Second, with competition from certificates of deposit, money market funds, and treasury bills and notes practically nonexistent, common stocks that pay dividends two to three times what one can get from money instruments make some common stocks very compelling income generators. Third, corporate inventories are the lowest they have ever been since record keeping started more than 40 years ago. It will take very little increase in orders to start the factories humming in order to keep up with even the slightest pickup in demand. A small improvement in consumer confidence, especially with the war winding down, should result in an improving economy. Fourth, our Stock Barometer is on a 'sell' signal but just barely. It will take very little improvement in any one of monetary, economic, or trend conditions to flip this barometer over to the positive side. This will give us the green light for increasing equities in your portfolio. Finally, despite worsening news and the uncertainty of war, the stock market has been building a base (marking time by moving up and down in place) for roughly nine months, ever since last July. The lower boundary of this base may be revisited one more time. It does appear to us that the market attracts value investors on each decline and one of these days it will start the next long running bull market where profits and portfolio growth abound. The key has been to protect as much of one's capital as possible until the low risk opportunity comes around and then fully participate in the next bull market. Every day you get a day closer to the next bull market. Patience will be rewarded. Stay tuned!

**You Are A Survivor!**

**Every Day You Are One Day Closer  
To The Next Bull Market**

**Standard & Poors 500  
12 Bull Markets Since  
World War II**

**Average Gain =  $\frac{142\%}{44 \text{ months}}$  = 3.2%/month**  
**Average Length = 44 months**

*This is an historical representation of the past and  
may or may not be representative of the future.*