PRING TURNER
CAPITAL GROUP

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Economic Recovery Begins

Just nine months ago, shortly after the September 11th tragedy, fear, anxiety, uncertainty, and concerns about a recession were foremost in investors' minds. The unpleasant news drove stock prices lower and bond prices temporarily higher as investors sold stocks and purchased bonds for the perceived 'safety'. In my newsletter to clients at that time I highlighted some reasons for optimism looking forward including:

Historical evidence for dramatic stock market recoveries after tragic events.

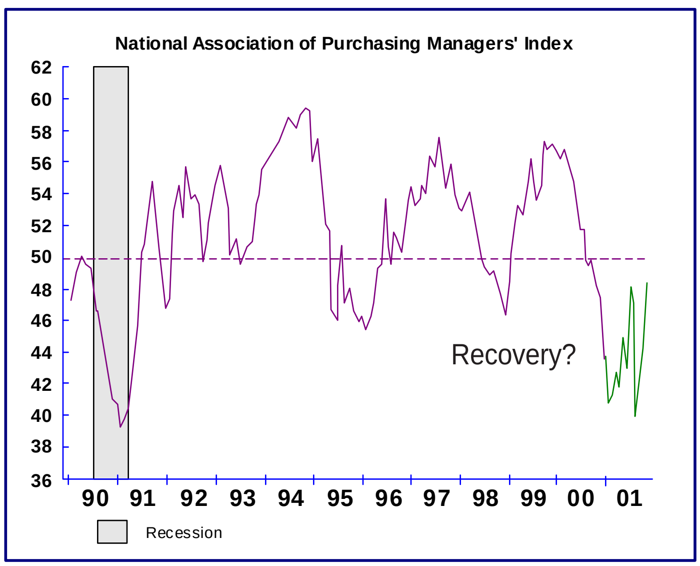
The unprecedented actions of the Federal Reserve to continuously cut interest rates during the entire year of 2001.

Potential for strong economic recovery due to the interest rate cuts, additional government spending, and income tax cuts.

The observation that good stock market opportunities begin amidst the worst news and high levels of uncertainty.

Nine months later, your portfolio has recovered, as the stock market appears to be forecasting an economic recovery. The economic indicator shown in the first graph is another piece of evidence pointing to growth ahead. In addition, interest rates have started to move higher during this period, a sign of better economic activity. I am looking forward to the opportunity to add bonds and other higher income securities to your portfolio as the year progresses.

Recovery Ahead



Federal Reserve Acted to Move Out of Recession

One area that I am interested in for higher income are utility stocks. Utilities have been driven down in price in reaction to the California energy crisis, the largest utility bankruptcy in the country (PG&E), and the Enron/Anderson mess casting a

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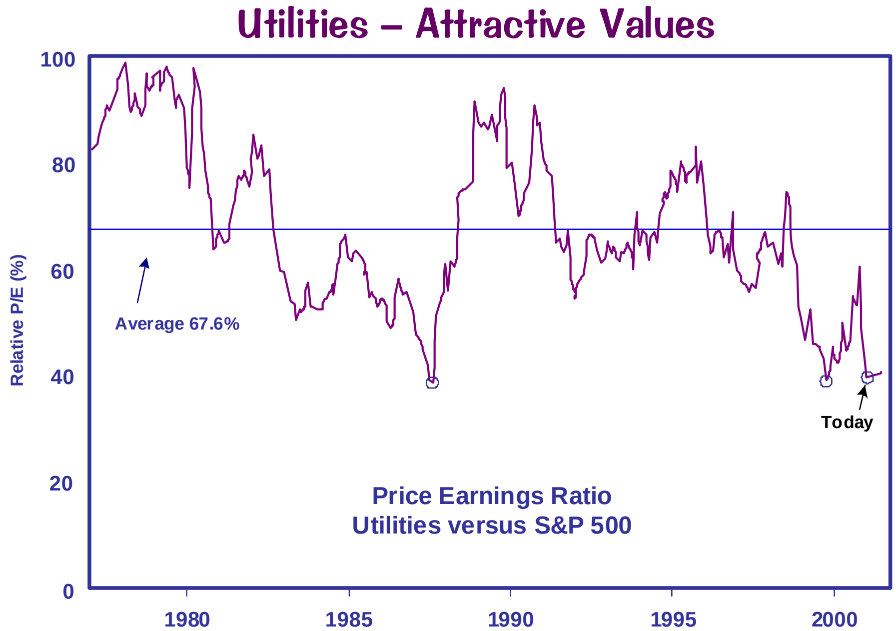
shadow over the entire gas and pipeline utility sector. This combination of events questioning utility operations has created value and a buying opportunity for conservative investors. Utility valuations are at the most attractive levels in years. I have a number of quality utilities with good dividend income on my shopping list.



Since April 2000, investors have witnessed the bursting of an incredible and historic stock market bubble in technology stocks, economic recession, September 11th, a new war against terrorism, along with questions arising from financial accounting practices of corporations. This has led to the two worst years back to back for stocks since 1973-1974, a period which included recession and an oil embargo. Your conservative portfolio has grown during this tough period.

With the last two difficult years behind us and global economic news improving, we are in a position to see a much better stock market environment for the next two years. While much of the last two years has been spent on defense, protecting your portfolio from significant declines, the next two years will be spent on offense adding to your portfolio value as opportunities arise.

Additionally, there is a theory called the "presidential cycle". Generally, a president will take any unpopular or tough economic medicine early in their term which adds some misery in the first two years. The last two years can experience better news as more spending, and measures to improve the economy kick in when reelection nears in year four. (At least that is how I would do it if I were president!) Curiously, this theory has had an above average track record through the last five decades. For investors this means we should see better news, a stronger economy, and generally favorable financial markets. Sometime this year we should see the turning point for investors. Let the good times roll!