

July 2000

Dear Client,

Every major stock market index lost ground last quarter and for the first half of year 2000. Most investors that were heavily invested in stocks, especially technology stocks, incurred steep losses last quarter. Speculators that participated in the quarter's 37% crash in the NASDAQ Index are in pain and nursing their wounds. You, on the other hand, increased your portfolio value and did so with a very sturdy portfolio that resisted the stock market decline.

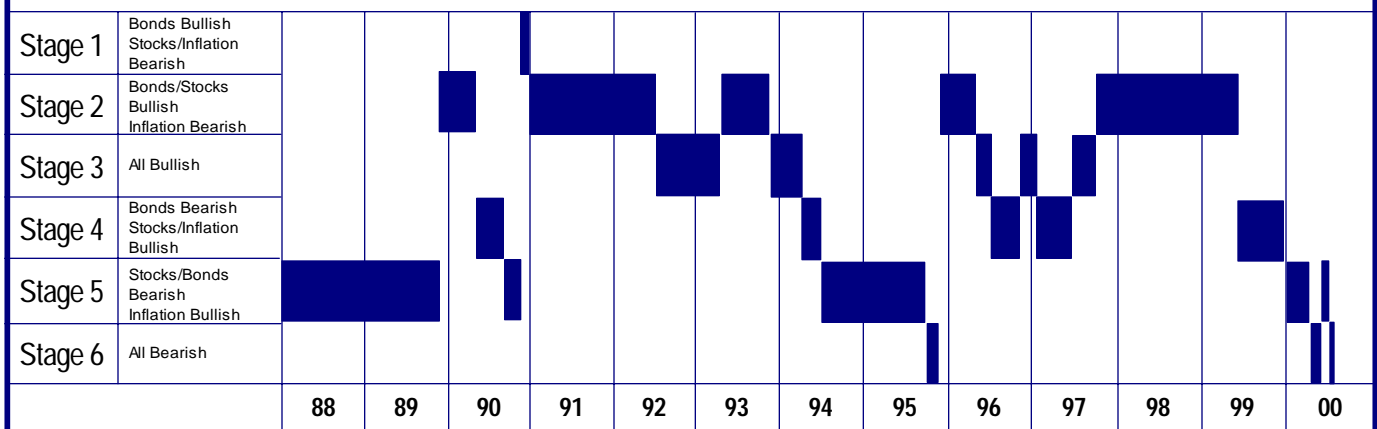
The first six months have put year 2000's stock market on target to be the most volatile in history. These stock market gyrations will likely continue for the remainder of the year. However, turmoil within the stock market also presents an opportunity. The opportunity today is a renewed interest and a return to *value* investing. Mania style speculation displayed for the past 2 years is beginning to unwind. Vast numbers of profitable, well managed companies that have been ignored during the recent speculation are starting to be recognized. We anticipate this broad list of stocks will be the performance leaders for 2000 and beyond. The drought for conservative investors is ending.

Our business cycle models and our checklist still dictate a cautious approach to the financial markets. Even though value is starting to shine through, we still believe an uncertain stock market road lies ahead. Last quarter we introduced our checklist for moving portfolios from defense to offense. As noted, there has been some little improvement but not sufficient to change tactics yet. There will likely be an outstanding opportunity later this quarter or next to become a more "aggressive" conservative investor. This is lining up as an ideal environment for quality value stocks and experienced value stock pickers. When our disciplines give us the all-clear signal, we look forward to filling up portfolios with loads of "bargain" value stocks.

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## Barometer Signals and the Six Stages of the Business Cycle



Stage 6 indicates a hazardous environment for equities and bonds. This is our primary tool for strategy and asset allocation. We will become more bullish when our stage work improves.

### A Checklist for Moving Defense to Offense

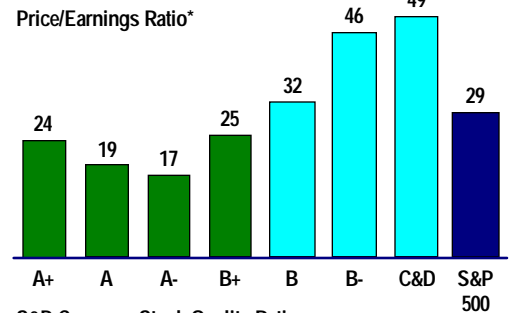
Intermediate Model Positive	No <small>(But Improving)</small>
Fed Monetary Neutral/Positive	No
Breadth Turning Positive	?
Tech-Chips-Net Correction <small>(Speculation)</small>	✓
Valuations Positive	✓

**Valuations Indicate Bargains Galore  
Watch the Checklist for Conservative Investors Green Light**

Our tactics checklist has shown some slight improvement, but not yet enough to give investors the green light. We expect to see this within the next few months.

### Quality At A Discount

► The group of stocks that carry the top rating of A+ from Standard & Poor's because of strong records of profit and dividend growth actually trade at a lower price/earnings ratio than the S&P 500 Index. Richard Bernstein, strategist at Merrill Lynch, says this group, which includes Abbott Labs, AIG, Freddie Mac, Gap, McDonald's and Merck, looks attractive.



■ Pring Turner Capital Group universe

\*P/E based on earnings in 12 months ended June 30

Source: Merrill Lynch Quantitative Strategy

This chart points out that the bargains (lowest P/Es) are in the high quality stocks. This is the Pring Turner universe. We relish buying high quality bargains. The best of all worlds is quality and value!