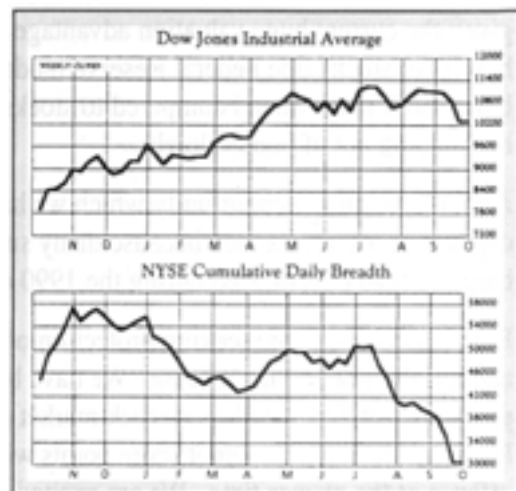


October 1999

Dear Client,

Pring Turner Capital Group has been flashing the stock market warning light, it seems like forever. In fact, the stock market has been in a slow tortuous decline, not really visible to most observers, for much of the past 18 months. However, common stocks are now picking up the pace and really starting to accelerate to the downside. This downside momentum is starting to bite and causing some investors real pain. In a perverse way, this is good news. This all means we are getting much closer to the end of this long drawn out decline and nearer to a low risk "buying" opportunity. Finally!

The stealth bear market we have been pointing out has just come out of the closet the past few weeks. The Dow Jones Industrial Average registered its worst weekly decline in ten years (-630 points). The advance-decline line breached a new 3 year low, averaging nearly 300 more losing issues *every trading day* for the past quarter. Last week over 800 stocks, nearly a quarter of all companies listed on the New York Stock Exchange, posted new 12 month lows! The unweighted ValueLine Index (1700 stocks) is down, so far, some 21% from its **April 1998** level.



The important point about the higher visibility and growing recognition of this bear market is that it is beginning to change investor behavior from complacency and greed to concern and eventually capitulation. Capitulation is that stage of investor behavior that interprets as "get me out now". It is the stage wherein stocks change from weak hands to strong hands. This will present great opportunity for the patient, conservative investor that has the ability to take advantage of bargain prices created by panicky sellers. We advise waiting for this opportunity and think we are getting quite close.

Our "safety first" allocation strategy that we have maintained is paying dividends and will allow us to take advantage of the capitulation stage and those bargain prices. The Intermediate Stock Barometer, featured last quarter, has yet to flash the "Buy 'em" signal, but there has been definite improvement. We expect to get the green light in the next few weeks ... if the stock market continues to move down and investor psychology turns more pessimistic.

The big news for Pring Turner investors is a change in the business cycle that now favors emphasis on investments that benefit from a stronger inflation picture. This change is triggered by our Inflation Barometer moving to a solid “buy” for the first time since September 1997, about the time the Asian crisis broke out. This shift is probably related to the ongoing strong U.S. economy now boosted by recovering Asian and European economies. The stronger global economy is creating even greater demand for raw and industrial materials. Inflation at the producer or wholesale level rose 1.1% last month, the biggest rise in 9 years.

Inflation beneficiaries include industries that are helped by stronger prices for raw, industrial, and basic materials. We are evaluating purchase candidates in these sectors. As we move into Stage 4 we will be reducing holdings in long-term bonds and other interest rate sensitive securities. However, given the current huge valuation advantage that bonds have over stocks (the Federal Reserve model shows bonds 36% undervalued compared to stocks), we will be stepping out of bonds slowly.

Another upcoming opportunity which we have discussed before and are monitoring is in the small and mid-cap arena. We are excited because many small value stocks are trading at lower valuations and better bargains than experienced during the 1990 recession.

Experienced investors seeking protection of their capital realize there is an appropriate time to play defense and a right time to play offense. We have been playing defense for quite a while. To your benefit, this protected you from the broad stock market decline of the past 18 months. A good defense keeps us from losing points, but we cannot score points with a good defense. The way to score points is to play good offense *at the proper time*. We are excited that the time is drawing near to put the offense back on the field and score points (profits) without taking a high degree of risk.

Thank you for your patience, confidence, and support. The rewards of patience and discipline will be watching your portfolio reach new heights soon after the next buying opportunity.