

October 2002

No ifs, ands, or buts, this last quarter was brutal. The question is, when will the pain stop? And our simple answer is: We do not know. But, our experience that spans some 5 decades of bull and bear markets tells us to expect a powerful upmove very soon. Why? First, because the Federal Reserve is pulling out all stops to get this economy back on a healthy path. Second, valuations due to much lower prices have recycled to extremely attractive levels. Third, investor psychology has exceeded all “fear” thresholds we monitor. In other words, most everyone who was going to panic has already panicked and sold their stocks. Stocks have moved from weak hands to strong hands. Fourth, the amount of money sitting on the sidelines today is staggering, which means the potential to fuel a major advance is in place. And lastly, all our proprietary barometers argue that the environment is favorable and friendly for stocks and bonds. So, no we cannot say for sure that all the bad stuff is behind us, but we feel confident that a powerful advance can and will start quite soon.

DAMAGE CONTROL

The various stock market indices have plunged some 40, 50, 60, even 75%! We have been bruised, but not slaughtered! We have sidestepped a big portion of this nearly three year savage bear market decline. Why? We adhered to a conservative, balanced approach to investing. We stayed with quality income producing common stocks. We diversified by

You have a superior advantage to capitalize on the dynamic rebound that always follows a significant stock market decline.

owning different asset classes: REITs, bonds, preferred securities, and cash. The bulk of your capital is intact. So you have survived and are still in the game. You have a superior advantage to capitalize on the dynamic

rebound that always follows a significant stock market decline.

BE A CONTRARIAN

The easiest way to be a contrarian is to think like the legendary investors who accumulated so much wealth by buying when everyone else was selling. Sir John Templeton, Ben Graham, Warren Buffet, and others look to buy good businesses that are selling cheap (like today). Baron Rothchild’s famous advice comes to mind: “Buy when blood is running in the streets”. If you were one of these famous legends, would you be selling or buying today?

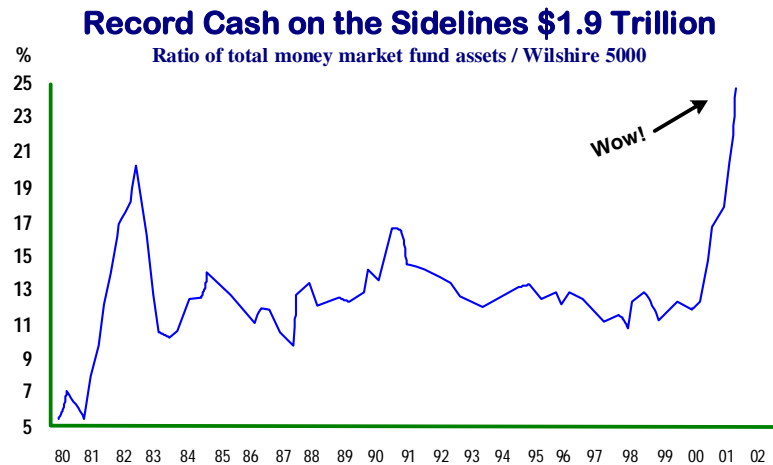
Knowledge that financial markets alternate between bull and bear, up and down, love and hate, greed and fear, suggests a profitable course is one that takes a view or approach that is opposite to the prevailing attitude or crowd psychology. The ‘crowd’ is almost always

1600 S. Main Street, #375
Walnut Creek, CA 94596-5397
Tel: (925) 287-8527
Fax: (925) 287-8653

Registered Investment Advisors

wrong. The correct action is to buy or own stocks when everyone else panics and sells stocks. Today the 'crowd' is sitting in the bomb shelters. By the time they acknowledge the 'all clear' siren, the stock market will be 20 or 30% higher. An obvious contrarian move is to buy and own stocks.

Swings from bull to bear and back and forth are not new. Expect these swings in the future. The good news is bad markets are followed by good markets. This bear market is very old and exhausted. A new young bull market is ready to start at any time. The fuel for this next bull market is the \$1.9 *trillion* sitting in money market funds. This dollar amount represents ¼ of the entire Wilshire 5000 stock market universe! So much money ... so little common stock.



Lots of Fuel for Next Bull Market!

This has been a long punishing decline. We are excited that this decline will soon be replaced by a vigorous young bull market advance. Stay tuned. History is on our side. Bear markets are followed by bull markets (see chart). We are ready!

HISTORICAL LOOK AT BEAR/BULL STOCK MARKET CYCLES

<u>Bear Markets Since 1960</u>			<u>News Events of the Day</u>		<u>Bull Markets Since 1960</u>		
Began Year	Length (Months)	Dow Average Decline	<i>As Bear Markets Give Way to New Bull Markets</i>		Began Year	Length (Months)	Dow Average Gain
1961	6	-27%	Cuban Missile Crisis, Cold War Tensions High		1962	42	+86%
1965	8	-25%	Escalation of Vietnam War, Riots in Watts		1966	26	+32%
1968	18	-36%	Auto Strikes, Violent War Protests, Soviets Invade Czechoslovakia		1970	32	+66%
1973	23	-45%	Arab Oil Embargo, New York Near Bankruptcy, Watergate Scandal, Egypt & Syria Attack Israel		1974	19	+75%
1976	17	-27%	Rising Inflation, Economic Malaise, "Stagflation"		1978	38	+38%
1981	15	-24%	Worst Recession Since 1930s, Mexico Bailout, Interest Rates Rise to 20%		1982	60	+250%
1987	2	-36%	Greenspan Raises Rates Sharply, "Program Trading" leads to Stock Market Meltdown		1987	33	+72%
1990	2	-23%	Iraq Invades Kuwait, Savings & Loan Scandals		1990	45	+74%
1994	9	-12%	Greenspan Fears Inflation, T-Bill Rates Double in 10 months		1994	60	+158%
1998	4	-21%	Asian Economic Crisis, Russia Defaults on Debt, Long Term Capital Bailout by Fed Reserve		1998	15	+61%
2000	33	-37%	Tech Bubble Bursts, Recession, 9/11 Attack, Corporate Accounting Scandals, Iraqi Confrontation		2002	?	?
Average (10 Bear Markets)	12	-28%			Average (10 Bull Markets)	37	91.2%