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Beating The Indexes The 2001 Report

by Walter S. Frank, Chief Investment Officer

As the financial pages keep reminding us, last year was a very tough year for the stock market. Indeed it was. In the face of this tough year we are pleased to report that all of our asset allocation portfolios outperformed the S&P 500 (with dividends reinvested). Even more, all three of our *MONEYLETTER* all-family portfolios were in the black for the year, with the *MONEYLETTER* Conservative Portfolio leading the way with a return of 13.5%. Two of the Fidelity family portfolios were also in the black (the Venturesome and Moderate portfolios). See the Performance Table on page two, which also provides comparisons.

Go small, go value

There is no big mystery about how we managed to achieve these results. In a word (or two), we went small and we went value. We have to qualify that statement slightly. We went mostly small, but we also went slightly mid-cap. The value part remains unqualified. The funds that produced for us were either value by prospectus, or, if not, followed a value strategy last year.

An added factor behind last year's performance is that we shifted our allocation to emphasize domestic funds. We started the year with a decided overseas tilt. We had tilted overseas the year before, in 2000, as the Fed raised interest rates, looking for foreign shelter from the Fed's effects. Once the Fed began lowering rates starting in January, the situation changed radically. We then reduced our overseas exposure as last year progressed and moved the portfolios either totally (Venturesome) or almost totally into domestic funds.

While we ended up last year with a small- and mid-cap value orientation, that is not how we started. After the bubble year of 1999 we went into 2000 with a growth portfolio

domestically. By the end of 2000 we had already begun moves to value, though not comfortably we must confess.

Our first move to value came late in 2000 when we purchased Yacktman Fund for all the *MONEYLETTER* portfolios. It may be difficult to remember now, considering Yacktman's 19.5% performance last year, but the fund had performed miserably for some years before 2000. However, as 2000 developed our fund selection system kept telling us that value was the way to go, and we decided it was time to pay attention and move in that direction. We knew Yacktman's history only too well, but the system said it was the fund to buy and we did. It turned out to be one of our best performing funds last year.

The real push to small-cap and value, though, came as the Fed began cutting rates, starting in January of last year. As we switched allocations from international to domestic, our fund selection system was pointing to Wasatch Core Growth in February and Wasatch Small Cap Value in May. Aside from the system, our own work had inclined us favorably to the Wasatch funds and the Wasatch approach.

For the very same reasons, TCW Galileo Value Opportunity was put into the *MONEYLETTER* portfolios in May. This was a fund we added to our fund list only shortly before it was added to our portfolios.

The same scenario played out in the Fidelity and Vanguard portfolios. The fund that played the role of Yacktman for Fidelity was Low Priced Stock. It was first put into the Fidelity Venturesome Portfolio in November, 2000. We added Fidelity Value in all Fidelity portfolios in February.

As for the Vanguard family, Windsor went into the portfolios in February and Small Cap Value in March and May (Conservative). Our reworking of the Vanguard portfolios was not as thorough as elsewhere, partly because of the more limited menu of equity funds available.

A blemish or two

We don't want to give the impression that everything worked well. Like every one else we have our misses as well as hits, and ours are no exception. Pin Oak in the *MONEYLETTER* Venturesome and Moderate portfolios is a clear miss. We fretted over the fund for almost a year. We overrode the system (as we have done successfully before) and held on, misjudging the willingness of the fund's managers to maneuver in a treacherous period for technology. We finally sold the fund in June, well after the system said sell.

Another such fund is Vanguard Capital Opportunities. Here the error was not so much in sticking with the fund, as not cutting back on its weight in the portfolios. We have great respect for the managers of Capital Opportunity. They also

(continued on page 2)

Market Trends

	Trailing 12-Mo Trend	Forward 6-Mo Estimate
Economy	Higher	Flat/Lower
Interest Rates	Lower	Flat/Lower
Dollar	Higher	Flat/Lower
Inflation	Lower	Flat/Lower
Dow	Lower	Higher
NASDAQ	Lower	Higher
Europe	Lower	Higher
Japan (Nikkei)	Lower	Flat/Higher
Hong Kong (Hang Seng)	Lower	Higher

(continued from page 1)

manage Vanguard Primecap, and have an enviable record with both funds. Over time we are convinced they will well reward their investors. But our system kept telling us that this essentially growth-oriented fund was not in tune with the times. Still, we did not cut back on the fund in the expectation that the fund would shine in an economic recovery. Of course, whatever recovery may have been developing was aborted by September 11th.

Another fund miss occurred in our high yield bond choice. For some years our favorite no-load junk bond manager was Jerry Paul of Invesco High Yield Bond Fund. He had compiled a fine record. We knew he took a few more risks than others did, but his fund thrived anyhow, risks and all.

Last year, the risks took their revenge. The one area of the high yield bond market to avoid last year was telecom. The funds that did so turned in quite positive results. The Invesco fund was full of telecom bonds. The result was that this fund had a terrible year. We finally sold the fund in June. Here was a case where the allocation was correct, but the fund chosen for the allocation performed poorly.

Fortunately, there were enough hits to more than offset the misses.

Following the Fed

The major thrust behind our allocation advice last year came from two considerations. First, the Fed was lowering rates, and rates could well go lower than anyone believed. This meant that high price-earnings ratios could be tolerated, since the lower rates go the higher the justifiable price-earnings ratio.

Second, we expected an economic recovery to develop in the last half of last year, mainly because of Fed policy. We also expected the recovery to develop here in the U.S. first before recovery occurred abroad. As the Fed eased we cut back drastically on the international allocation with a corresponding increase the domestic equity allocation.

Alan Greenspan keeps reminding us, by September it did look as if a recovery was developing. September 11th took care of that for 2001. We did not get the recovery then but we are getting it now.

Lessons learned and relearned

No matter how long we have been investing, we come away every year with a new lesson learned or an old lesson revitalized. This year was no different.

One new lesson is to pay close attention to the total message of the fund selection system. Of course, we always pay close attention to the movement of the individual funds in our fund list. But the system at times can tell us more than just advice on individual funds. It can also spot when broad categories such as growth or value, small-cap or large-cap are moving in or out of favor. We believe that getting these broad category movements correct is important for superior

performance. The fund selection system can be a strong aid in spotting the movements early.

An ancillary lesson is that any suspension of the selection system should have a time limit. We have learned over the years that secondary corrections throw the system off course. It is best to suspend the system during a secondary. But corrections last only so long. Any prolonged delay in changing the advice on a fund when called for by the system is best avoided.

The story of 2001 is that it was a year when fund selection dominated. A 100% domestic equity fund allocation, as was our advice for Venturesome investors for over half the year, could have led you anywhere in terms of performance. It turns out we had positive results in the *MONEYLETTER* and Fidelity portfolios. Had we invested in the Vanguard 500 Index over the last half of the year, however, we would have lost 5.6%. It was a year when our fund selection system shone. \$

Portfolio Performance (12/29/00-12/31/01)

<i>MONEYLETTER</i> Venturesome	3.1%
<i>MONEYLETTER</i> Moderate	0.1
<i>MONEYLETTER</i> Conservative	13.5
Fidelity Venturesome	6.9
Fidelity Moderate	0.1
Fidelity Conservative	-4.7
Vanguard Venturesome	-5.0
Vanguard Moderate	-5.7
Vanguard Conservative	-4.8
Signal	-18.9
Vanguard 500 Index	-12.0
Lipper Gen'l. Equity Fund	-10.9

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The Correction Continues

Yes, that's right. We consider the selling that has been occurring this year to be a correction after the sharp rally following the September 11th selling. We do not see it as the beginning of another downleg for the market. We certainly do not see the rally we have just had as a bull market correction in an ongoing bear market as some are now suggesting.

That old valuation rag

The year may have changed but the themes running through Wall Street have not. The major theme is that stocks are simply too expensive. Put another way, stock prices have run ahead of earnings and, at best, the market is going nowhere until earnings catch up. And that will take time.

We agree that the market is expensive even looking at prospective earnings estimates. But we can't leave it at that. First, we suspect that Wall Street's current earnings estimates for this year are low-ball. After being burned with too high estimates over the last two years, we're certain the Street's analysts are protecting themselves by erring on the other side.

Second, we doubt that Wall Street and the analysts have caught up to the economic recovery developing. Here is an example of what we mean. Only a few weeks ago the Goldman Sachs economic team was forecasting a 1.0% decline for the economy this quarter. Just the other day, they changed their forecast to call for 2.0% growth for the economy this quarter. This 3% swing, if it turns out to be correct, will make a big difference in profit results for the quarter.

Right now, unlike the Goldman Sachs economists, most of Wall Street remains extremely reserved about the economy. Comments from IBM and Microsoft about any recovery have not helped. But these technology firms do not speak for all of manufacturing let alone the entire economy.

Look at the numbers

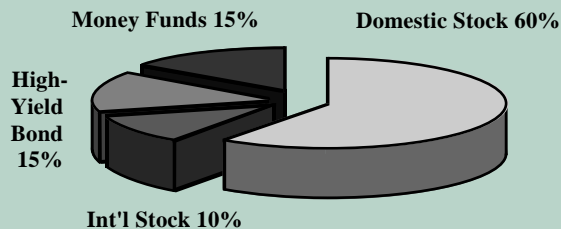
The economic numbers keep coming in telling us that things are improving, despite what Microsoft is saying. The Philadelphia Fed does a monthly survey that we find is a fairly good indicator of the direction of manufacturing. This month their index jumped to the highest level since August of 2000, more than 16 months ago. The mid-month Michigan Consumer Sentiment Index also moved up sharply. All the while, the weekly unemployment claims have been trending down, staying below 400,000. We could go on.

What we have is a very low inflationary economy that is the making the turn from recession to recovery. As it does we expect we will all be surprised by the speed of the recovery later this year, and the profit results that will ensue.

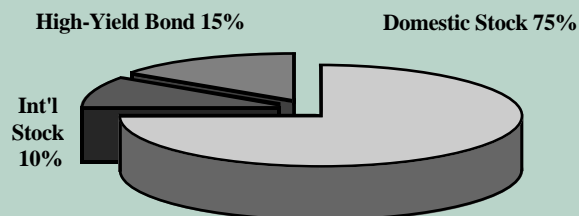
Portfolio rebalancing

We have just completed the semiannual rebalancing of our portfolios. All the portfolios were close to the recommended allocations. However, some of the better performing funds had a larger weight in their portfolios than is prudent. We aim for a 15% weight plus or minus 5% because of appreciation for an individual fund. We're flexible, but not overly so. The biggest changes involve Fidelity Low Priced Stock and Vanguard Capital Opportunity. Both were reduced. \$

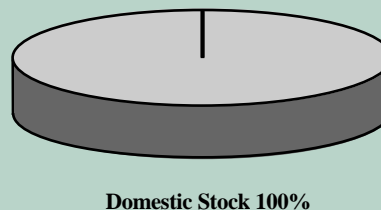
CONSERVATIVE



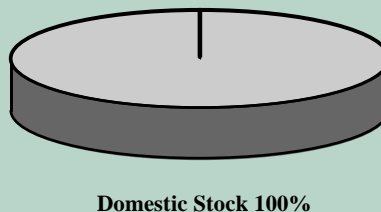
MODERATE



VENTURESOME



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Domestic Stock Funds

RANK	1/18 2002	1Mo Ago	6Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative Moderate Venturesome			TOTAL RETURN			PRICE	RISK		NTF/ wtf
										1 mo.	6 mo.	12 mo.	PER SHARE	Std. Dev.	Beta	
1	-	-	-	AVALX	Aegis Value Fund	SCVal	(B)	(B)	(B)	3.8%	10.3%	37.8%	\$13.19	18.20	0.31	FW
2	3	-	-	BUFSX	Buffalo Small Cap (closed)	SCGro	B	B	B	2.1	11.0	32.6	19.98	-	-	FSW
3	5	14	-	YACKX	Yacktman Fund	MC	B	B	B	-0.6	12.8	17.5	11.02	18.20	0.55	FSW
4	-	-	-	THPGX	Thompson Plumb Growth	LC	(H)	(H)	(H)	1.7	9.2	18.8	43.78	19.60	0.69	FSW
5	1	-	-	BPSCX	Boston Ptrns Smlcap Val (closed,1%<1yr)	SCVal	B	B	B	-0.6	3.9	35.4	17.21	-	-	FSW
6	6	8	-	FLPSX	Fidelity Low Priced Stock (3%)	SCVal	B	B	B	1.4	7.0	24.6	27.37	16.60	0.57	fsw
7	8	6	-	HRTVX	Heartland Value	SCVal	B	B	B	3.4	4.7	27.2	37.55	22.50	0.63	FsW
8	2	5	-	TGVOX	TCW Galileo Value Opportunity	MCVal	B	B	B	-3.4	8.9	23.3	18.02	31.30	0.97	FSW
9	7	30	-	RYLPX	Royce Low Priced Stock	SCVal	B	B	B	1.3	6.6	20.7	11.71	24.80	0.69	FSW
10	20	9	-	PRSVX	T. Rowe Price Small-Cap Value	SCVal	B	B	B	2.8	3.5	22.9	22.72	16.40	0.44	fsw
11	14	2	-	BERWX	Berwyn Fund	SCVal	B	B	B	0.4	2.3	28.1	19.79	18.70	0.41	fsw
12	21	-	-	TRMCX	T. Rowe Price Mid Cap Value	MCVal	B	B	B	1.1	6.8	15.7	16.26	15.90	0.60	fsw
13	27	24	-	CFIMX	Clipper Fund	LCVal	B	B	B	1.4	7.5	13.2	83.44	15.70	0.30	sw
14	10	3	-	WMCVX	Wasatch Small Cap Value (closed)	SCVal	B	B	B	2.3	0.0	26.9	4.09	27.50	0.71	FSW
15	4	36	-	WAAEX	Wasatch Small Cap Growth+ (closed)	SCGro	B	B	B	-3.5	7.5	16.0	31.95	37.80	1.15	FSW
16	15	18	-	PENN	Pennsylvania Mutual+ (1%)	SCVal	B	B	B	1.0	3.4	16.3	7.37	16.70	0.51	fsw
17	16	-	-	BEMVX	Berger Mid Cap Value	MCVal	B	B	B	0.5	4.5	14.0	16.64	23.30	0.80	FSW
18	12	70	-	FDCSX	Fidelity Small Cap Ind. (1.5%r<90d)	SC	*	B	B	-1.5	8.1	8.0	16.09	22.80	0.83	fsw
19	17	4	-	OAKLX	Oakmark Select (closed)	MCVal	B	B	B	1.4	1.0	20.7	26.84	26.20	0.83	FSW
20	55	11	-	VUSVX	Vontobel U.S. Value	LCVal	H	H	H	4.0	2.0	12.3	20.05	22.00	0.44	FsW
21	11	25	-	MERDX	Meridian Fund	SCGro	B	B	B	-0.3	4.1	12.6	28.42	21.40	0.77	fsw
22	19	21	-	LSSCX	Loomis Sayles Small Cap Value	SC	B	B	B	0.2	3.6	12.4	20.42	19.40	0.69	sW
23	23	19	-	RYTRX	Royce Total Return	SCVal	B	B	B	0.7	2.4	14.4	8.54	13.60	0.41	FSW
24	22	27	-	NBGNX	Neuberger Berman Genesis (closed)	SC	B	B	B	-1.1	3.7	11.8	19.80	19.60	0.62	FSW
25	25	-	-	TWEIX	American Century Equity Income	MCVal	B	B	B	-0.6	3.7	9.8	7.00	15.10	0.44	FWS
26	44	26	-	PRWCX	T. Rowe Price Cap Appreciation	LCVal	H	H	H	0.3	2.3	11.1	14.58	10.70	0.24	fsw
27	32	37	-	EEQFX	Eclipse Small Cap Value	SCVal	H	H	H	1.7	1.1	12.0	12.01	18.60	0.75	sW
28	18	42	-	SAFGX	Safeco Growth Opportunities+	SC	B	B	B	1.4	-0.5	13.5	26.85	26.00	1.12	fsw
29	26	13	-	TWVLX	American Century Value	MCVal	B	B	B	-1.3	2.3	10.5	6.80	20.40	0.59	FSW
30	29	34	-	RYPNX	Royce Opportunity+	SCVal	(B)	(B)	(B)	1.5	1.2	9.0	8.97	27.30	0.77	fsw
31	28	46	-	OTCFX	T. Rowe Price Small Cap Stock Fund+	SC	H	H	H	-0.4	2.8	7.5	24.73	22.00	0.73	fsw
32	30	7	-	OAKMX	Oakmark Fund	MCVal	B	B	B	1.6	-0.7	12.8	34.78	20.60	0.59	FSW
33	9	28	-	VISVX	Vanguard Small-Cap Value Index	SCVal	H	H	H	-0.2	1.7	8.1	10.18	-	-	fsw
34	42	17	-	RSPFX	RS Partners	SC	*	H	H	1.2	0.2	8.0	17.68	-	-	FSW
35	13	1	-	WGROX	Wasatch Core Growth+ (closed)	SCGro	B	B	B	-1.2	-4.8	21.7	33.06	29.20	0.95	FSW
36	24	43	-	RYPRX	Royce Premier	SC	B	B	B	-2.6	0.9	6.2	10.19	18.70	0.62	fs
37	34	10	-	FDVLX	Fidelity Value	MCVal	H	H	H	-1.4	-2.2	11.8	50.24	22.80	0.64	Fsw
38	36	12	-	LLPFX	Longleaf Partners	MCVal	H	H	H	2.1	-2.8	7.8	24.36	20.10	0.58	fsw
39	37	-	-	WPSRX	Westport Samll Cap R	SCVal	H	H	H	-0.7	-0.2	3.8	19.00	-	-	-
40	35	-	-	BOGLX	Bogle Small Cap Growth	SCGro	H	H	H	-1.8	-0.7	5.8	19.79	-	-	-
41	38	23	-	DODGX	Dodge & Cox Stock	LCVal	*	H	H	-1.6	-2.2	8.5	97.42	19.80	0.64	sw
42	43	47	-	KAUFX	Federated Kaufmann Fund+ (0.2%)	MCGro	H	H	H	-0.7	-1.4	5.1	4.24	33.50	0.86	FSW
43	75	49	-	SACPX	Salomon Brothers Capital (closed)	MCVal	H	H	H	1.6	-0.9	-1.8	24.98	22.00	0.85	sw
44	68	87	-	STDIX	Strong Discovery+	MCGro	H	H	H	-0.3	-0.7	-0.5	16.54	25.10	0.83	FSW
45	51	60	-	VIMSX	Vanguard Mid-Cap Index+	MC	H	H	H	-1.0	-0.2	-1.0	11.56	26.20	1.02	fsw
46	31	-	-	RSDGX	RS Diversified Growth	SCGro	*	H	H	1.9	0.0	-6.3	22.57	56.10	1.55	FSW
47	52	68	-	NEEGX	Needham Growth Fund	MCGro	H	H	H	-0.5	-0.2	-2.5	27.41	50.60	1.11	FSW
48	57	16	-	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	H	H	H	0.9	-3.7	3.8	21.67	17.00	0.45	fsw
49	47	35	-	HOVLX	Homestead Value	MCVal	H	H	H	-2.4	-1.7	3.6	24.48	18.10	0.59	FSW
50	59	33	-	HAVLX	Harbor Value	LCVal	H	H	H	-0.5	-2.3	1.9	14.10	20.00	0.76	sw
51	53	61	-	PESPX	Dreyfus Mid Cap Index	MCGro	H	H	H	-1.1	-0.6	-1.5	20.59	25.80	1.02	FSW
52	80	44	-	TWEBX	Tweedy, Browne American Value	MCVal	H	H	H	1.0	-3.8	2.8	23.24	15.20	0.51	fsw
53	40	15	-	MUHLX	Muhlenkamp Fund	MCVal	H	H	H	0.8	-4.0	3.6	51.95	26.40	0.91	FSW
54	76	71	-	PRDGX	T. Rowe Price Dividend Growth	LCVal	S	S	S	-0.4	-0.8	-3.4	20.44	14.00	0.57	fsw
55	65	22	-	MQIFX	Mutual Qualified (1%) CIZ	MCVal	S	S	S	1.2	-5.3	5.4	16.33	16.90	0.61	sw
56	62	79	-	LMASX	Legg Mason Special Investment Trust	MC	H	H	H	-0.7	-3.1	2.6	33.60	30.60	1.18	w
57	41	69	-	NAESX	Vanguard SmallCap Index+	SC	H	H	H	-2.2	-1.4	-0.3	19.26	26.70	0.87	fsw
58	106	85	-	SAOPX	Salomon Brothers Opportunity	LCVal	S	S	S	0.7	-2.3	-2.7	45.36	16.50	0.58	sw
59	33	48	-	PBSVX	PBHG Small Cap Value	SC	H	H	H	-3.3	-1.0	-0.4	19.66	28.50	0.87	FSW
60	54	52	-	GALEX	Galaxy Equity Value (3.75%)	LCVal	H	H	H	-0.5	-2.3	-1.2	13.40	23.70	1.05	FSW
61	64	40	-	PRFDX	T. Rowe Price Equity-Income	LCVal	S	S	S	-1.0	-2.7	0.6	23.13	16.70	0.53	fsw
62	78	-	-	WVALX	Weitz Value Fund	MCVal	S	S	S	3.2	-5.2	-0.1	34.19	16.60	0.52	SW
63	39	89	-	VEXPX	Vanguard Explorer+	SCGro	H	H	H	-2.1	-0.6	-3.9	58.09	34.00	1.03	fsw
64	71	84	-	PRGIX	T. Rowe Price Growth & Income	G&I	S	S	S	-1.7	-0.6	-5.5	22.17	17.50	0.75	fsw
65	46	38	-	VWNDX	Vanguard Windsor	LCVal	H	H	H	-2.0	-3.4	1.9	15.10	23.30	0.86	fsw
66	77	51	-	VEIPX	Vanguard Equity-Income	LCVal	S	S	S	-0.8	-3.2	-0.6	22.20	16.00	0.55	fsw
67	70	32	-	SSHFX	Sound Shore	MCVal	S	S	S	-1.1	-5.1	4.3	29.61	18.40	0.60	sW
68	72	29	-	BEGRX	Mutual Beacon (1%) CIZ	MCVal	S	S	S	0.9	-5.6	2.1	12.89	15.90	0.58	sw

Bold funds are currently held in *MONEYLETTER* model portfolios.

Advice: B=Buy, S=Sell, H=Hold, (B), (S), (H) advice new this issue,
*=not for this portfolio. +=Appropriate for Signal Investors.

Std. Dev.: monthly standard deviation based on two-year returns.

Beta: fund's correlation to the market (S&P 500 = 1.0). A fund with a beta greater than 1.0 is more volatile than the S&P 500.

NTF/wtf: NO TRANSACTION FEE/with transaction fee

(F/f) for Fidelity, (S/s) for Schwab and (W/w) for TD Waterhouse

FUND SCORECARD & RECOMMENDATIONS

5

Domestic Stock Funds (cont.)

RANK	1/18 2002	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	RISK		NTF/wtf
										1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
69	69	31	MUTHX	Mutual Shares (1%) CIZ	MCVal	S	S	S	0.7	-5.9	2.6	19.13	16.60	0.62	sw	
70	123	100	DGAGX	Dreyfus Appreciation	LC	S	S	S	0.6	-1.8	-7.9	38.01	17.60	0.80	FSW	
71	48	75	RPMGX	T. Rowe Price Mid Cap Growth	MCGro	H	H	H	-3.3	-1.8	-3.7	37.55	24.50	1.12	fsw	
72	60	88	STCSX	Strong Advisor Common Stock (closed)	MC	S	S	S	-1.7	-1.4	-8.1	19.15	23.20	0.95	FSW	
73	88	97	UMBSX	UMB Scout Stock	LCVal	S	S	S	-1.2	-1.5	-8.7	14.88	15.00	0.68	f	
74	83	80	NPRTX	Neuberger Berman Partners	LCVal	S	S	S	-0.6	-3.4	-5.0	20.22	18.20	0.84	FSW	
75	74	76	FCVSX	Fidelity Convertible Securities	Convrt	S	S	S	-2.3	-2.2	-5.6	19.17	27.40	0.89	Fsw	
76	67	41	IZZYX	ICM/Isabelle Small Cap Value	SCVal	S	S	S	2.2	-9.5	5.6	11.78	26.50	0.67	FSW	
77	111	91	SRFBX	Liberty-SteinRoe Balanced	G&I	S	S	S	0.0	-3.5	-6.4	24.54	12.30	0.61	FSW	
78	84	92	VCVFX	Vanguard Convertible Securities	Convrt	S	S	S	-1.9	-2.7	-6.5	11.61	20.40	0.69	fsw	
79	82	65	FDGFX	Fidelity Dividend Growth	LC	H	H	H	-0.5	-3.5	-6.6	27.92	19.20	0.84	Fsw	
80	98	39	BVALX	Babson Value	LCVal	S	S	S	0.7	-6.8	-0.2	41.19	20.60	0.70	FSW	
81	45	104	PRNHX	T. Rowe Price New Horizons (closed)	SCGro	*	H	H	-3.7	-1.3	-7.5	21.44	37.80	1.24	fsw	
82	91	64	SAIFX	Salomon Brothers Investors	LCVal	S	S	S	0.2	-3.7	-8.0	18.61	19.70	0.83	fsw	
83	105	58	LSGIX	Loomis Sayles Value	LCVal	S	S	S	0.8	-5.2	-5.6	14.42	17.50	0.72	fsW	
84	89	66	FEQTX	Fidelity Equity-Income II	G&I	S	S	S	-0.5	-3.7	-7.3	20.50	17.20	0.74	Fsw	
85	103	96	FGRIX	Fidelity Growth & Income (3%)	G&I	S	S	S	-0.6	-3.5	-7.8	36.90	16.70	0.80	fsw	
86	50	20	MPVLX	MSI Value Portfolio	MCVal	Ⓢ	Ⓢ	Ⓢ	-2.6	-5.3	-0.5	14.71	22.50	0.70	fsw	
87	49	78	GASEX	Galaxy Small Co. Equity (3.75%)	SCGro	*	H	H	-2.4	-3.7	-4.9	16.60	28.10	1.13		
88	102	45	VWNFX	Vanguard Windsor II	LCVal	S	S	S	0.1	-6.4	-1.9	25.07	18.50	0.65	fsw	
89	101	143	VIGRX	Vanguard Growth Index +	LCGro	S	S	S	-1.5	-1.3	-12.5	26.18	24.20	1.14	fsw	
90	85	83	NGUAX	Neuberger Berman Guardian	LCVal	S	S	S	-0.8	-4.2	-6.3	14.14	24.30	1.13	FSW	
91	95	120	PRGFX	T. Rowe Price Growth Stock	LC	S	S	S	-1.2	-1.8	-11.9	23.61	22.90	1.06	fsw	
92	96	156	FMLX	Fidelity New Millennium (3%) (closed)	MCGro	S	S	S	-1.6	0.9	-18.1	27.40	59.00	1.67	fsw	
93	61	54	SMTVX	Strong Multicap Value	MCVal	S	S	S	-2.7	-4.4	-3.5	49.55	19.90	0.83	Fs	
94	97	74	FSEQX	INVESCO Value Equity	LCVal	S	S	S	-1.0	-4.6	-6.4	19.27	16.60	0.80	FSW	
95	81	55	MPMVX	MSI Mid Cap Value	MCVal	S	S	S	-1.7	-5.2	-4.1	19.48	24.20	0.92	fsw	
96	114	93	NBSSX	Neuberger Berman Focus+	LCVal	S	S	S	2.1	-4.7	-11.5	35.07	38.50	1.52	FSW	
97	110	99	BIGRX	American Century Income & Growth	LCVal	S	S	S	-0.5	-4.1	-9.2	26.94	20.00	0.99	FSW	
98	100	62	FEQIX	Fidelity Equity-Income	LCVal	H	H	H	-0.8	-5.6	-5.3	47.63	18.40	0.74	Fsw	
99	56	103	NCTWX	Nicholas II	MCVal	S	S	S	-3.4	-2.6	-9.5	19.19	21.30	1.00	w	
154	90	106	VHCOX	Vanguard Capital Opport (\$25,000)	MCGro	H	H	H	-1.7	-7.6	-15.3	23.08	38.10	1.06	fsw	

Dow Jones
NASDAQ
S&P 500

-2.3%
-3.7
-1.3

-7.9%
-6.6
-7.2

-8.3
-26.3
-15.0

indexes do not
include dividends

International Stock Funds

1	1	2	OAKEX	Oakmark Intl Small Cap	Int'l	B	B	B	1.5%	6.8%	9.9%	\$11.54	25.60	-	FSW
2	7	24	MAPTX	Matthews Pacific Tiger	Pacific	B	B	B	3.4	6.5	0.8	8.76	47.10	-	fsw
3	6	36	FEMKX	Fidelity Emerging Mkts (3%&1.5%r<90d)	Int'l	B	B	B	4.9	7.9	-5.4	7.95	32.90	-	fsw
4	8	45	FSEAX	Fidelity SE Asia (3%&1.5%r<90d)	Pacific	B	B	B	4.0	7.5	-8.4	11.06	38.50	-	FSW
5	13	49	SCOPX	Scudder Pacific Opportunity	Pacific	B	B	B	3.7	6.0	-11.7	8.88	33.50	-	FSW
6	12	43	MNEMX	Montgomery Emerging Mkts	Int'l	B	B	B	3.9	4.8	-10.3	8.75	31.60	-	FSW
7	4	7	PRLAX	T. Rowe Price Latin America	LatinA	*	H	H	3.4	2.5	-5.5	9.22	43.50	-	fsw
8	18	54	PRASX	T. Rowe Price New Asia	Pacific	B	B	B	2.3	4.9	-13.2	6.20	33.60	-	fsw
9	10	25	VEIEX	Vanguard Emerging Mkts Stock Index	Int'l	B	B	B	3.8	0.9	-7.7	8.42	32.30	-	fsw
10	2	15	FLATX	Fidelity Latin Amer. (3%&1.5%r<90d)	LatinA	*	H	H	1.1	3.1	-10.7	11.97	40.40	-	fs
11	3	8	SLAFX	Scudder Latin America	LatinA	*	H	H	0.9	1.2	-6.0	19.60	37.70	-	FSW
12	5	1	LLINX	Longleaf Partners International	Int'l	B	B	B	1.0	-5.9	6.7	12.19	-	-	fsw
13	11	4	OAKIX	Oakmark International	Int'l	B	B	B	2.9	-3.0	-5.4	14.56	24.30	-	FSW
14	14	3	TBGVX	Tweedy, Browne Global Value	Global	H	H	H	2.0	-5.1	-2.2	18.53	14.60	-	fsw
15	16	27	FIEUX	Fidelity Europe (3%&1%r<90d)	Europe	Ⓢ	Ⓢ	Ⓢ	-0.8	1.9	-16.9	24.56	20.60	-	fsw
16	9	6	FWWFX	Fidelity Worldwide	Global	B	B	B	-1.4	-1.8	-7.0	14.37	18.50	-	Fsw
17	21	20	BJBIX	Julius Baer Intl. Equity A	Int'l	H	H	H	0.4	-1.2	-17.6	20.60	28.80	-	FS
18	15	11	HAINX	Harbor International	Int'l	H	H	H	-0.5	-2.8	-14.1	29.13	17.80	-	sw
19	20	13	USIFX	USAA International	Int'l	H	H	H	-1.0	-2.9	-15.1	16.40	18.10	-	fw
20	17	9	FDIVX	Fidelity Diversified International	Int'l	H	H	H	-1.0	-3.5	-13.9	18.66	20.40	-	Fsw
21	23	5	PFIFX	Preferred International	Int'l	H	H	H	0.4	-5.8	-11.6	11.32	17.40	-	w
22	19	12	ARTIX	Artisan International	Int'l	H	H	H	0.1	-4.4	-17.2	17.96	32.60	-	FSW
23	28	18	FIGRX	Fidelity International G & I	Int'l	H	H	H	-0.9	-4.0	-17.8	18.43	22.00	-	Fsw
24	24	26	USAWX	USAA World Growth	Int'l	H	H	H	-1.4	-5.0	-18.3	14.20	20.00	-	f
25	22	17	PRESX	T. Rowe Price European	Europe	H	H	H	-1.7	-3.3	-22.8	15.52	17.70	-	fsw
26	29	34	CUIEX	CS Warburg, Pincus Intl Equity	Int'l	S	S	S	0.4	-5.9	-19.7	11.78	22.10	-	FSW
27	27	19	VWIGX	Vanguard International Growth	Int'l	H	H	H	-0.5	-5.3	-20.8	14.63	17.60	-	fsw
28	26	10	SCOBX	Scudder Global	Global	S	S	S	-1.4	-7.8	-14.9	21.17	16.70	-	FSW
29	25	16	VEURX	Vanguard European Stock Index	Europe	H	H	H	-2.2	-4.9	-22.4	19.54	17.30	-	fsw
30	30	14	CMISX	Columbia International Stock	Int'l	S	S	S	-1.6	-7.9	-18.6	11.69	22.20	-	fsw
31	34	48	SGSCX	Scudder Global Discovery (closed)	Int'l	S	S	S	-0.9	-7.6	-21.4	22.77	34.40	-	FSW
32	31	33	PRITX	T. Rowe Price Intl Stock	Int'l	S	S	S	-1.4	-6.4	-23.7	10.68	19.70	-	fsw
33	33	52	JAOSX	Janus Overseas (closed)	Int'l	S	S	S	-1.3	-6.9	-27.0	19.49	34.80	-	FSW
34	32	40	TWGGX	American Century Global Growth	Global	S	S	S	-1.4	-8.1	-24.1	6.17	-	-	FSW
35	38	22	FOSFX	Fidelity Overseas	Int'l	S	S	S	-3.0	-8.6	-22.4	26.52	20.70	-	Fsw

6

FUND SCORECARD & RECOMMENDATIONS

Specialty Funds

RANK	1/18 2002	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE	RISK		NTF/ wtf
										1 mo.	6 mo.	12 mo.	PER SHARE	Std. Dev.	Beta	
1	-	-	-	USAGX	USAA Precious Metals & Minerals	Gold	*	*	*	8.8%	23.9%	48.6%	\$7.06	46.80	0.87	w
2	-	-	-	BGEIX	American Century Global Gold	Gold	*	*	*	7.6	23.4	51.3	5.73	45.30	0.69	FSW
3	-	-	-	FSAGX	Fidelity Sel Gold (3%)	Gold	*	*	*	8.2	21.0	40.7	15.77	49.20	0.89	fsw
4	-	-	-	VGPMX	Vanguard Sp Gold/Pr Metals (1%r)	Gold	*	*	*	6.2	19.0	30.8	9.07	43.10	0.87	fsw
5	-	-	-	USERX	United Services Gold Shares	Gold	*	*	*	10.1	14.1	25.4	3.10	36.40	0.69	sw
6	-	-	-	FGLDX	INVESCO Gold (3%)	Gold	*	*	*	5.8	13.6	28.7	1.83	39.20	0.72	FSW
7	-	-	-	SCGDG	Scudder Gold	Gold	*	*	*	5.4	10.7	24.8	7.28	36.70	0.74	FSW
8	-	-	-	STMDX	Stratton Monthly Dividend REIT	RealEs	*	*	*	1.6	5.3	24.4	26.73	14.50	0.21	fsw
9	-	-	-	VGSIX	Vanguard Special REIT Index	RealEs	*	*	*	0.3	3.3	13.3	12.11	14.40	0.17	fsw
10	-	-	-	CGMRX	CGM Realty	RealEs	*	*	*	1.2	3.8	8.3	13.23	15.80	0.26	fsw
11	-	-	-	FRESX	Fidelity Real Est Investment	RealEs	*	*	*	0.1	1.5	10.0	18.47	15.10	0.21	Fsw
12	-	-	-	CSRSX	Cohen & Steers Realty Shares	RealEs	*	*	*	1.1	0.3	7.9	44.37	16.20	0.25	FSW
13	-	-	-	MERFX	Merger Fund	Altern	*	*	*	0.9	-0.3	1.2	14.86	5.42	0.13	FSW
14	-	-	-	VGHCX	Vanguard Sp Health Care (1%r)	Health	*	*	*	-1.1	0.9	-0.5	115.90	19.10	0.47	fsw
15	-	-	-	RYHIX	Rydex Health Care	Health	*	*	*	-1.8	0.8	-5.5	11.37	19.60	0.41	fsw
16	-	-	-	GATEX	Gateway Fund	Altern	*	*	*	0.6	-1.3	-4.0	22.03	7.00	0.32	FSW
17	-	-	-	FIDSX	Fidelity Sel Financial Serv (3%)	FinServ	*	*	*	2.3	-3.1	-4.3	100.80	27.40	0.94	fsw
18	-	-	-	VGEXX	Vanguard Sp Energy (1%r)	Energy	*	*	*	-1.8	-0.9	-5.9	24.00	32.00	0.70	fsw
19	-	-	-	FSPHX	Fidelity Sel Health Care (3%)	Health	*	*	*	-3.8	0.3	-9.4	124.70	20.00	0.40	fsw
20	-	-	-	FSFSX	INVESCO Financial Serv	FinServ	*	*	*	1.4	-5.2	-5.4	27.16	26.90	0.93	FSW
21	-	-	-	RYFIX	Rydex Financial Services	FinServ	*	*	*	1.9	-4.8	-9.7	9.66	28.80	1.05	fsw
22	-	-	-	POSCX	Potomac Small Cap Plus	Levrgrd	*	*	*	-3.4	-2.7	-7.5	10.97	-	-	FSW
23	-	-	-	FHLSX	INVESCO Strategic Health Science	Health	*	*	*	-5.6	-1.9	-8.2	49.09	36.50	0.43	FSW
24	-	-	-	FSENX	Fidelity Sel Energy (3%)	Energy	*	*	*	-1.5	-7.3	-14.3	22.18	33.40	0.78	fsw
25	-	-	-	RYEIX	Rydex Energy	Energy	*	*	*	-0.8	-9.8	-14.0	9.99	27.50	0.64	fsw
26	-	-	-	VGSUX	Vanguard Utilities Income	Utility	*	*	*	1.9	-12.4	-14.5	11.72	14.30	0.26	fsw
27	-	-	-	RSCOX	RS Contrarian	Altern	*	*	*	-2.1	-11.0	-13.0	9.75	23.50	0.72	FSW
28	-	-	-	FSTEX	INVESCO Energy	Energy	*	*	*	-1.7	-10.1	-19.2	16.42	46.20	0.90	FSW
29	-	-	-	UMPIX	ProFunds Ultra Mid-Cap	Levrgrd	*	*	*	-3.1	-10.5	-19.9	27.32	-	-	FSW
30	-	-	-	PSPLX	Potomac U.S. Plus	Levrgrd	*	*	*	-2.2	-10.7	-23.6	10.47	29.00	1.46	FSW
31	-	-	-	RYNVX	Rydex Nova	Levrgrd	*	*	*	-2.3	-12.1	-24.7	25.55	29.60	1.49	fsw
32	-	-	-	FIUIX	Fidelity Utilities	Utility	*	*	*	-0.8	-14.4	-22.6	13.48	20.40	0.83	Fsw

Bond Funds

RANK	1/18 2002	Ticker Symbol	FUND NAME (Max. Load)	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE	Standard Deviation	Sec 30-Day Yield	Average Maturity	Modified Duration ¹	NTF/ wtf
							1 mo.	6 mo.	12 mo.	PER SHARE					
Short Term															
1		VFSTX	Vanguard Short Term Corporate	*	*	*	1.1%	3.1%	7.2%	\$10.89	0.73	4.98%	2.8	2.3	fsw
2		SCSTX	Scudder Short Term Bond	*	*	*	0.8	3.0	5.6	10.72	0.76	4.06	2.6	2.0	FSW
3		FSHBX	Fidelity Short Term Bond	*	*	*	1.0	2.6	6.3	8.85	0.83	4.29	2.4	1.8	Fsw
Intermediate Term															
1		VFITX	Vanguard Fix-Inc Intm. Treas.	*	*	*	1.8	4.4	6.8	11.14	1.40	4.53	7.8	5.3	fsw
2		VBMFX	Vanguard Total Bond Market Index	*	*	*	1.8	3.7	8.5	10.26	1.24	5.56	8.8	4.6	fsw
3		FBNDX	Fidelity Investment Grade	*	*	*	1.5	3.8	7.7	7.40	1.40	5.46	7.2	4.9	Fsw
High Yield ("Junk")															
1		CMHYX	Columbia High Yield	B	B	*	1.3	3.7	5.0	8.91	-	7.33	4.7	4.2	FSW
2		VWEHX	Vanguard High Yield Corporate	B	B	*	2.7	3.0	0.6	6.34	1.52	8.85	6.7	4.6	fsw
3		BUFHX	Buffalo High-Yield	B	B	*	0.1	-0.9	6.6	9.90	6.95	8.47	6.8	4.3	fsw
4		PRHYX	T. Rowe Price High Yield	B	B	*	0.5	0.0	-2.1	6.69	1.72	9.52	7.1	4.4	fsw
5		SPHIX	Fidelity High Income	B	B	*	2.4	0.5	-8.6	8.11	1.28	9.89	5.3	-	Fsw
6		NTHSX	Northeast Investors Trust	*	B	*	0.0	-3.5	-0.6	7.43	7.34	11.59	6.3	-	fsw
7		STHYX	Strong High Yield Bond (1%r)	*	B	*	1.5	-4.2	-9.3	8.03	8.06	11.64	6.3	3.7	FSW
8		FHYPX	INVESCO High Yield	*	*	*	-1.3	-14.9	-27.8	3.54	1.49	14.43	5.1	3.4	FSW
		BTTRX	Benham 2025	*	*	*	4.0	2.0	3.5	32.67	-	-	-	-	FSW
Tax-Free Alternative															
1		FLTMX	Fidelity Spartan Intermed Muni	*	*	*	2.0	2.7	4.3	10.02	1.50	3.91	7.7	5.2	Fsw
2		VWITX	Vanguard Muni Bond-Intermed	*	*	*	2.2	2.6	4.0	13.48	1.37	3.98	5.8	4.7	fsw
3		SRIMX	Liberty-SteinRoe Inter. Muni	*	*	*	2.9	1.3	1.9	11.38	1.32	3.58	8.6	6.6	FSW
International															
1		BEGBX	American Century Intl Bond	*	*	*	-1.8	5.7	-2.2	10.08	2.57	3.34	-	-	FSW
2		FGBDX	Fidelity International Bond	*	*	*	-1.2	4.3	-1.5	7.98	2.37	4.14	-	-	Fsw
3		RPIBX	T. Rowe Price Intl Bond	*	*	*	-2.4	1.9	-5.6	7.83	2.29	3.41	8.3	5.9	fsw
Strategic Income															
1		FNMIX	Fidelity New Markets Income	*	*	*	2.2	6.2	0.8	11.06	7.15	9.02	-	-	Fsw
2		JAFIX	Janus Flexible Income	*	*	*	1.5	2.3	3.8	9.31	1.42	5.26	8.0	5.5	FSW
3		RPSIX	T. Rowe Price Spectrum Income	*	*	*	0.3	1.1	1.2	10.68	1.16	5.50	-	-	fsw

¹Modified Duration—Average time individual bonds within a fund are actually held.

Go Navy!

Q *I am the Commanding Officer of a U. S. Navy FA-18 Hornet squadron based on the USS Kitty Hawk. One of my responsibilities is to help my personnel with their personal and professional growth. Being an investor, I believe one of the best ways I can help them do this is by helping each person in my command understand investments and encourage them to invest responsibly.*

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— D.T. USS Kitty Hawk

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* * *

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100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	1.94%	2.00%	3.99%
Fidelity Spartan US Treas MMF	1.73	1.85	3.86
T. Rowe Price US Treasury MF	1.71	1.83	3.77
Dreyfus 100% US Treas MMF	1.68	1.72	3.72
Schwab US Treasury Money Fund	1.63	1.64	3.61
Amer Century Capital Presv Fund/Inv	1.60	1.81	3.75
Gabelli US Treasury MMF	1.47	1.51	3.80
HighMark 100% US Treas MMF/Retail	1.46	1.53	3.45
CMA Treasury Fund	1.33	1.36	3.50
US Treasury MF of America	1.24	1.26	3.33

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
Dreyfus BASIC MMF	2.39%	2.43%	4.19%
Touchstone Money Market Fund	2.13	2.19	3.96
T. Rowe Price Summit Cash Reserves	2.08	2.16	4.10
PayPal Money Market Reserve	2.06	2.02	0.00
Fremont Money Market Fund	2.05	2.09	3.96
Vanguard Prime MMF/Retail	2.05	2.12	4.16
HSBC Investor MMF/CI Y	2.01	2.11	4.11
Northern Money Market Fund	2.01	2.09	4.00
Transamerica Premier Cash Res/Inv	2.01	2.05	4.12
Dreyfus Liquid Assets	1.98	1.98	3.99
Flex-fund Money Market Fund	1.98	2.08	4.10

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Strong Municipal MMF	1.45%	1.60%	2.92%
Vanguard Tax-Exempt MMF	1.40	1.50	2.72
Zurich YieldWise Muni MF	1.31	1.59	2.92
Fidelity Municipal MMF	1.29	1.39	2.53
Zurich Tax-Free Money Fund	1.29	1.39	2.56
T. Rowe Price Summit Muni MMF	1.27	1.39	2.59
Northern Municipal MMF	1.24	1.34	2.43
USAA Tax Exempt MMF	1.24	1.36	2.58
Excelsior T-E Money Fund	1.22	1.31	2.42
Tax-Exempt Cash Managed Shares	1.18	1.28	2.44

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	1.36%	1.49%	2.79%
Vanguard NY Tax-Exempt MMF	1.34	1.44	2.57
Vanguard NJ Tax-Exempt MMF	1.32	1.42	2.59
Vanguard PA Tax-Exempt MMF	1.29	1.41	2.66
Vanguard CA Tax-Exempt MMF	1.27	1.37	2.38
Fidelity OH Municipal MMF	1.21	1.34	2.52
USAA Tax Exempt CA MMF	1.19	1.30	2.39
Fidelity PA Municipal MMF	1.15	1.28	2.50
Excelsior NY Tax-Exempt MF	1.13	1.22	2.28
Fidelity MA Municipal MMF	1.12	1.22	2.36

Taxable equivalent yield = yield / (1—total effective tax bracket). Funds are ranked by 7-day yields; 7-day and 30-day yields are compound yields as of 1/15/02. Third column refers to 1-year total return. Criteria for inclusion include: top-yielding unrestricted retail funds only, with minimum initial investment <\$25,000 and assets >\$100 million.

MONEYLETTER SIGNAL

iMoneyNet's Money Fund Report Averages (MFA) 7-day yield vs. The Signal

Date	Signal	MFA	Avg. Mat.
01/08/02	2.43%	1.54%	54 days
01/15/02	2.36%	1.51%	55 days

Signal Portfolio Status = 100% in Domestic Stock Funds

Thompson Plumb: Growth Via Value

Chances are you have not heard of the Thompson Plumb family of no-load mutual funds. It's a small group—only four equity or bond funds plus a money market fund—and located far from Wall Street, in Madison, Wisconsin. But two of the funds—Thompson Plumb Growth (THPGX) and Thompson Plumb Balanced (THPBX)—have quietly amassed very strong performance records. Last year, for example, the Growth fund returned 19.1% during a period when the major market indices were in the red. Its three- and five-year average annual compound returns are equally impressive, at 16.8% and 20.1%, respectively. The Balanced fund's results are also notable, especially for a fund that normally keeps a good chunk of its assets in bonds. In 2001, its total return was 11.1%, in line with its historical returns. Trailing three-, five-, and ten-year average annualized results were as follows: 10.0%, 13.8%, and 11.8%. Moreover, in its 13-year history, Balanced Fund has never experienced a losing 12-month period.

No fancy gimmicks

Equity selection at the Thompson Plumb family does not rely on computer models or sophisticated screening techniques. In fact, not only is the firm physically distant from Wall Street, the staff try to keep themselves mentally distant as well. That allows managers to focus on the fundamentals without getting caught up in the hype. They employ both top down and bottom up strategies. They try to anticipate short- and long-term economic developments, and how those will affect various industries. Then they allocate assets among industry sectors, using bottom-up fundamental analysis to select individual stocks.

For example, in early 2001, holdings in technology and industrial firms were significantly reduced in favor of less economically sensitive companies. And after the terrorist attacks of September 11, the managers bought shares of firms that had been hammered the most—especially economically sensitive stocks (economically insensitive stocks were reduced). The managers believe in seeking the right balance between risk and reward by holding quality stocks for the long term. Derivatives, exotic securities, or speculative stocks will not find their way into these portfolios.

Growth Fund

Thompson Plumb Growth may invest in any market capitalization range—it focuses wherever it finds the most

attractively priced opportunities. According to co-manager Clint Oppermann, a couple of years ago, it was obvious that small- and mid-cap companies were the most attractive. About 40% of assets were in the mid-cap range last year. But recently, Oppermann and co-manager John Thompson have been finding values in large company stocks. What do they look for? Basically, good growth companies selling at lower prices. Firms must also have leading market positions, strong management, high returns on equity and assets, and relatively low debt. Return on equity must be 15%-20% a year on average, over five or ten years. Gross profit margins must also be high—at least 50%. Finally, a stock must be selling at the low end of its historical valuation—but a catalyst for improvement must be evident. Should a stock's underlying fundamentals deteriorate, it is sold. Stocks are also sold for valuation reasons.

Balanced Fund

Stocks for the Balanced Fund are chosen in basically the same way as for the Growth fund above. However, holdings tend to be more diversified, in keeping with the lower risk profile of a balanced fund. Currently, Balanced shares three of its top ten equity holdings with its sibling: Viacom, Microsoft, and Merck. About 65% of assets are in common stocks, with the bulk of the remainder in bonds (at least 25% of assets will be in bonds at all times). Thomas Plumb, fund manager, has this philosophy on the fixed-income portion of the portfolio: if the bulk of your returns are going to derive from stocks, don't take risks with the bond investments. Thus, Plumb does not make large interest rate bets. He invests in high-quality, intermediate-term corporate obligations, along with some Treasuries.

Outlook

The managers have a cautious outlook on the market, both short- and long-term. Plumb recently predicted that the markets will have a difficult year in 2002. Though the economy should rebound by the end of the year, he said, the stock market is still expensive by historical standards. Oppermann went further and predicted mid-single-digit returns on the S&P 500 in the long run. Therefore, he asserted, money will be made by buying undervalued sectors and selling overvalued ones, and taking a three- or more year investment horizon. It will be a stock-pickers market, and the more disciplined the investor, the better he will perform. \$

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