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## Asia (ex-Japan): No Longer Just Export Economies

by Walter S. Frank, Chief Investment Officer

We recently recommended that Moderate investors put their 10% international allocation into Asia funds, ex-Japan. (We prefer to use the less precise term, Southeast Asia funds.) We recommended the switch from perfectly good, mainly Europe-oriented funds to Southeast Asia for a variety of reasons. The No. 1 reason, as it usually is for any switch, is that the Southeast Asia funds have been dominating our fund list, and they have done so for some weeks now. Moreover, they, and the Emerging Market funds (many of which have substantial weightings in Southeast Asia), are virtually the only funds on our international list that show positive returns for the last six months, a period that encompasses almost all the time since September 11.

Still, it's notable that we don't automatically change our recommendations according to the latest Fund Scorecard. Judgement also enters. For example, the Latin American funds have ranked high on our international list for many months, but we have not recommended their purchase, and maintained their rating as Hold. We simply believed that the Latin American surge was too speculatively-based and that the funds would lose their rankings sooner or later. (They have held up better than we expected, but our opinion has not changed.)

In the case of the Southeast Asian funds we believe their rise in the rankings is of a different order. Something positive and important is going on in Asia, although not in every country in the region. But a different regional economy is developing especially in North Asia led by the growth of China. Additionally, we are seeing economic growth occurring in the region not tied solely to the fortunes of the

export industries. Do not misunderstand. Growth here in the U.S. is still critical for a Taiwan or a Singapore. It is just not as critical for South Korea and even less critical for China.

None of this means that the Southeast Asian markets have totally changed their spots. We see no reason to believe that they are not volatile as before. For that reason, we have not recommended the region's funds for Conservative investors. These are still regional funds, albeit a huge region when China is included, as we do.

Having said all that, the prime fact about the region is that it contains two economies that managed to grow while the rest of the world sank into recession. China and South Korea stood out among the world's economies last year. Their growth was no fluke, but is based on forces that should maintain growth for some time ahead. Parts of Asia are enjoying their own growth dynamic.

### The pull of China

It's remarkable that China maintained its exports last year. The reason, of course, is that China is the world's low-cost producer of manufactured products. The very fact of being a low-cost producer has attracted a wave of foreign direct investment in China, especially from Japan. A very powerful trend in this day of fierce competition and rapid communication is outsourcing. That is, world-class companies having manufacturing production and assembly—even of sophisticated products—performed at the lowest cost sites. For many reasons, China is attractive to companies seeking to outsource production. As a result a “flood of Japanese money is pouring into China for outsourcing purposes,” said Mark Headley, co-portfolio manager of Matthews Pacific Tiger Fund. This is one, powerful but only one, explanation for China's growth.

Add to exports and business investment another ingredient...strong consumer confidence. The Chinese consumer has continued to show confidence in the economy and has maintained consumption, despite massive layoffs as reform continues.

Growth presents investment opportunities. Matthew's Pacific Tiger (MAPTX) finds those opportunities both in the Chinese markets themselves and in the Hong Kong market where many firms whose fortunes are tied to China are listed.

### South Korea

The South Korean market was one of the wonder markets of the world last year, with the index, the Kospi, up 30.7%. Korea offered plenty of opportunity for experienced stockpickers, and the Matthews Korea Fund was up 71.1% for the year.

(continued on page 2)

### Market Trends

	Trailing 12-Mo Trend	Forward 6-Mo Estimate
Economy	Flat/Lower	Higher
Interest Rates	Lower	Flat/Higher
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)

Behind these gains was evidence that the Korean economy was entering a new stage of development. Korea has gone through extensive restructuring. The payoff is that the Korean economy gave impressive evidence that its growth was not simply a reflection of growth abroad. Korean automobile exports (think Hyundai) grew despite weak economies elsewhere. Korea also saw the emergence of Samsung as a world-class company.

Finally, and perhaps more important, in Korea we saw the development of a domestic economy. As Simon Rudolph, Portfolio Manager, Templeton Investments Asia, said in Barron's Asian Forum (February 18, 2002), "Asia is restructuring. We are creating more-balanced economies. Korea, even in this downturn, was able to live off domestic demand." This time when the U.S. sneezed (with some force) not all the Asian countries came down with the flu.

#### *A matter of value*

After the year that some Asian markets had last year, the natural question to ask is what's left? Certainly some of the cream has been skimmed, which is obviously the case after a market soars. As Simon Rudolph remarked in the Asia Forum, "There is quite a bit further to go in non-Japan Asia." He went on, "...it's a shame we didn't have this conversation in the third quarter because we found an awful lot of stocks that were very cheap. There aren't as many now." Rudolph's statement is just a fact of investment life.

William Kennedy, the Tokyo-based portfolio manager of Fidelity Pacific Basin, a member of the Forum, put the valuation issue in context. He stated, "...in Asia, in general I find companies are cheap relative to their historical trading ranges and to global peers. There has been a risk premium attached to Asia because it's a volatile market...A technology company in Taiwan or Singapore or Korea tends to be cheaper than their global peers. Given the low cost base and the outsourcing story that predominates here, they're growing faster as well and tend to have better returns on capital."

#### *Regional businesses a key*

Pacific Tiger's Headley spotlighted one further consideration recently, the growth of regional companies. "In the past, he writes, "there were generally only two types of Asian companies, small local operators and a handful of global players. Today we are watching the rise of a select group of true regional businesses that have the potential to develop into large players in a very large pond." We assume that it is these growing regional companies that will provide the core holdings of tomorrow's Southeast Asia funds.

As recovery begins for the Western economies, the more export-oriented economies of the region in turn will see a pick-up in their activity. In anticipation, the Matthews

managers are beginning to look south, to Singapore, Thailand and the Phillipines for possible new additions to their portfolios. These are markets which have generally been avoided, for good cyclical reasons, but where good stockpicking could provide above average returns.

#### *Back on the screen*

As we said earlier, the Southeast Asia funds are not for everyone. The underlying markets are still relatively small and volatile. As the Asian flu crisis of '97-'98 demonstrated, the markets of the entire region can sometimes act as one and come crashing down together. Subsequent developments make this less likely now, but who knows?

Even though the outlook for the Southeast Asia funds appears clearer and more positive than for many other funds, we are restricting our recommendation of the funds to Moderate investors. The risk involved is no obstacle for Venturesome investors, but we prefer to keep the 100% allocation to domestic funds for those investors. We do not see any incremental advantage from an international allocation for Venturesome investors at this point of the U.S. business cycle.

We believe that after a long period of neglect the Asian funds will once more find their place on investors' computer screens. Asia ex-Japan is showing that the region is developing a sound economic base. \$

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## A Frustrating Market

This year's market continues to frustrate us. Just when it appeared that the stock market was regaining momentum along comes Enron and the bears take over. What causes the frustration, of course, is that the economy is performing as expected, moving toward recovery, if it is not already here.

We have had one piece of good economic news after another. No one notices except the Wall Street economists and the analysts. The institutional investors just hang back. The result is a field day for the bears.

In time, the better fundamentals will be noticed and will take over. But until then the worry du jour will carry the day. That is what is happening now. The one positive is that the selling does not appear to have much steam behind it. It may soon run out of gas. We continue to see higher prices ahead.

### Earnings brighten

Yes, in the midst of all the gloom about Enron and the reliability of earnings statements, the earnings forecasts are beginning to perk up. The First Call consensus estimates are now showing an upturn in earnings starting next quarter. The numbers show a substantial increase in earnings in the last half of the year. First Call's research head, the ever-skeptical Chuck Hill, did acknowledge that, "We finally have an answer to when [earnings] will turn up." He is agnostic about the strong last half numbers. We don't know about the accuracy of the absolute numbers, but we do believe (and have believed) that we will see robust earnings increases as the recovery develops this year. We are pleased to see Wall Street coming around.

As the earnings forecasts show Wall Street is finally beginning to acknowledge the message from the recent economic numbers. As an example, the latest retail sales numbers, including upward revisions to recent months' sales, imply positive GDP growth this quarter. Industrial production also showed an increase in business equipment production. The economy is definitely perking up.

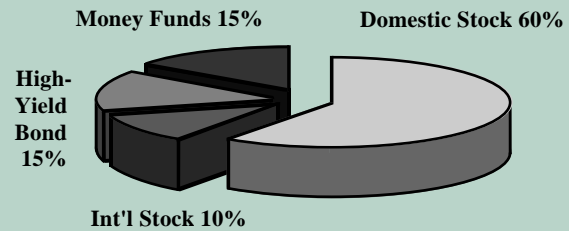
### Portfolio changes

The Hotline of February 19th recommended the sale of Fidelity Dividend Growth. The fund is in all three Fidelity portfolios. In the Fidelity Venturesome Portfolio we will switch the fund into Fidelity Fifty. In the Fidelity Moderate Portfolio we will switch \$5,000 of the proceeds from the sale into Small Cap Independence and the rest into Fidelity Fifty. As for the Fidelity Conservative Portfolio we will switch all of Dividend Growth into Low Priced Stock.

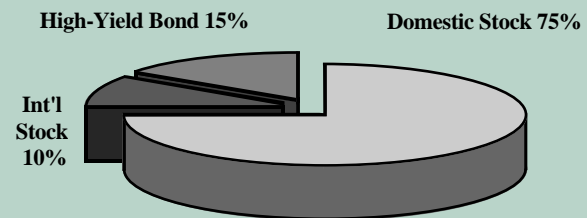
The Hotline of Tuesday, February 5 recommended that the international allocation of all Moderate portfolios be switched into Southeast Asian funds. Here the details as of Wednesday, February 6. MONEYLETTER Moderate: Sell 470 shares of Tweedy, Browne Global Value @ \$18.27 per share. Buy 971 shares of Matthews Pacific Tiger @ \$8.84 per share. Fidelity Moderate: Sell 414 shares of Diversified International @ \$18.08. Buy 659 shares of Southeast Asia @ \$11.35. Vanguard Moderate: Sell 415 shares of Vanguard Europe @ \$18.75. Buy 905 shares of Emerging Market @ \$8.59.

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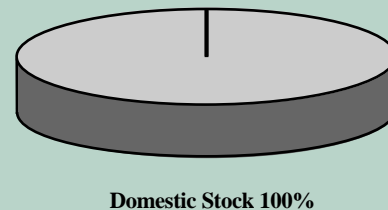
### CONSERVATIVE



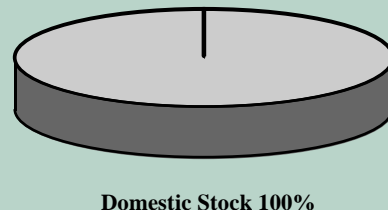
### MODERATE



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## Domestic Stock Funds

RANK	2/15 2002	1Mo Ago	6Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative Moderate Venturesome			TOTAL RETURN			PRICE	RISK		NTF/ w/f
							B	B	B	1 mo.	6 mo.	12 mo.	PER SHARE	Std. Dev.	Beta	
1	2	-	9	BUFSX	Buffalo Small Cap (closed)	SCGro	B	B	B	0.6%	11.2%	24.2%	\$20.03	-	0.69	FSW
2	3	-	9	YACKX	Yacktman Fund	MC	B	B	B	3.5	9.6	15.0	11.30	18.20	0.55	FSW
3	1	-	10	AVALX	Aegis Value Fund	SCVal	B	B	B	-0.4	7.8	22.0	13.16	18.20	0.31	fw
4	10	10	6	PRSVX	T. Rowe Price Small-Cap Value	SCVal	B	B	B	2.6	6.5	19.1	23.13	16.40	0.44	fsW
5	6	6	3	FLPSX	Fidelity Low Priced Stock (3%)	SCVal	B	B	B	1.3	8.0	17.1	27.63	16.60	0.57	fsW
6	-	-	12	CAAPX	Ariel Appreciation	MCVal	(B)	(B)	(B)	3.8	7.1	15.7	37.72	18.00	0.50	FSW
7	12	-	15	TRMCX	T. Rowe Price Mid Cap Value	MCVal	B	B	B	2.6	8.2	13.6	16.71	15.90	0.60	fsW
8	-	-	18	OAKSX	Oakmark Small Cap	SCVal	(H)	(H)	(H)	2.3	6.0	17.6	17.73	18.10	0.54	FSW
9	18	57	3	FDSCX	Fidelity Small Cap Ind. (1.5%r<90d)	SC	*	B	B	0.1	10.3	8.0	16.16	22.80	0.83	fsW
10	11	3	8	BERWX	Berwyn Fund	SCVal	B	B	B	1.3	4.6	20.0	20.13	18.70	0.41	fsW
11	8	8	13	TGVOX	TCW Galileo Value Opportunity	MCVal	B	B	B	-0.9	6.5	17.0	17.84	31.30	0.97	
12	13	15	24	CFIMX	Clipper Fund	LCVal	B	B	B	1.6	7.2	10.6	84.36	15.70	0.30	sw
13	24	29	14	NBGNX	Neuberger Berman Genesis (closed)	SC	B	B	B	3.8	6.2	9.7	20.51	19.60	0.62	fSW
14	-	-	19	ARGFX	Ariel Fund	SCVal	(B)	(B)	(B)	1.2	7.3	10.2	37.78	18.90	0.40	FSW
15	14	1	20	WMCVX	Wasatch Small Cap Value(closed)	SCVal	B	B	B	0.2	1.7	22.2	4.13	27.50	0.71	FSW
16	20	19	7	VUSVX	Vontobel U.S. Value	LCVal	B	B	B	2.7	4.7	10.3	20.47	22.00	0.44	FsW
17	5	-	15	BPSCX	Boston Ptnrs Smicap Val (closed,1%<1yr)	SCVal	B	B	B	-2.0	1.2	25.2	17.00	-	0.52	FSW
18	7	5	15	HRTVX	Heartland Value	SCVal	B	B	B	-1.8	4.0	17.6	36.85	22.50	0.63	FsW
19	15	20	11	WAAEX	Wasatch Small Cap Growth+ (closed)	SCGro	B	B	B	-2.5	6.8	11.4	31.29	37.80	1.15	FSW
20	16	11	12	PENN	Pennsylvania Mutual+ (1%)	SCVal	B	B	B	1.0	4.5	11.0	7.45	16.70	0.51	fsW
21	26	12	13	PRWCX	T. Rowe Price Cap Appreciation	LCVal	(B)	(B)	(B)	2.3	4.0	9.9	14.94	10.70	0.24	fsW
22	9	25	14	RYLPX	Royce Low Priced Stock	SCVal	B	B	B	-1.6	6.1	10.1	11.61	24.80	0.69	FSW
23	23	14	17	RYTRX	Royce Total Return	SCVal	B	B	B	1.5	3.9	10.4	8.68	13.60	0.41	FSW
24	17	-	21	BEMVX	Berger Mid Cap Value	MCVal	B	B	B	0.5	4.2	9.9	16.74	23.30	0.80	FSW
25	22	21	4	LSSCX	Loomis Sayles Small Cap Value	SC	B	B	B	0.6	3.7	9.8	20.61	19.40	0.69	sW
26	4	-	25	THPGX	Thompson Plumb Growth	LC	B	B	B	-2.7	4.9	10.0	42.25	19.60	0.69	FSW
27	25	-	37	TWEIX	American Century Equity Income	MCVal	B	B	B	1.3	2.6	8.9	7.09	15.10	0.44	FSW
28	27	37	13	EEQFX	Eclipse Small Cap Value	SCVal	(B)	(B)	(B)	1.9	2.5	7.7	12.19	18.60	0.75	sW
29	21	13	31	MERDX	Meridian Fund	SCGro	B	B	B	-1.6	4.0	9.1	27.95	21.40	0.77	fsW
30	31	45	35	OTCFX	T. Rowe Price Small Cap Stock Fund+	SC	H	H	H	0.2	4.1	6.1	24.85	22.00	0.73	fsW
31	35	2	29	WGROX	Wasatch Core Growth+ (closed)	SCGro	H	H	H	0.1	-1.5	19.4	33.41	29.20	0.95	FSW
32	29	16	19	TWVLX	American Century Value	MCVal	B	B	B	1.3	2.3	7.4	6.89	20.40	0.59	FSW
33	19	4	26	OAKLX	Oakmark Select (closed)	MCVal	B	B	B	-0.7	-0.5	11.7	26.60	26.20	0.83	FSW
34	41	26	37	DODGX	Dodge & Cox Stock	LCVal	*	H	H	2.4	-0.4	5.4	99.53	19.80	0.64	sw
35	37	23	33	FDVLX	Fidelity Value	MCVal	H	H	H	2.3	-0.9	5.4	51.30	22.80	0.64	Fsw
36	33	24	101	VISVX	Vanguard Small-Cap Value Index	SCVal	H	H	H	0.6	1.1	2.4	10.28	-	0.70	fsW
37	101	89	36	FFTYX	Fidelity Fifty+	LC	H	H	H	4.9	1.9	-6.2	16.61	28.20	0.87	Fsw
38	36	33	40	RYPRX	Royce Premier	SC	H	H	H	-0.1	1.6	1.7	10.23	18.70	0.62	fs
39	40	-	49	BOGLX	Bogle Small Cap Growth	SCGro	H	H	H	0.7	0.6	3.1	19.94	-	-	
40	49	39	39	HOVLX	Homestead Value	MCVal	H	H	H	2.3	-0.1	1.8	25.04	18.10	0.59	
41	39	-	34	WPSRX	Westport Small Cap R	SCVal	H	H	H	-0.3	1.7	0.4	18.97	-	-	
42	34	17	45	RSPFX	RS Partners	SC	*	H	H	-1.5	0.2	3.6	17.56	-	0.59	FSW
43	45	55	116	VIMSX	Vanguard Mid-Cap Index+	MC	H	H	H	1.0	0.9	-2.7	11.64	26.20	1.02	fsW
44	116	62	30	PRNEX	T. Rowe Price New Era	LC	H	H	H	5.8	-1.0	-5.9	22.14	26.70	0.72	fsW
45	30	31	51	RYPNX	Royce Opportunity+	SCVal	(H)	(H)	(H)	-1.3	-0.2	2.6	8.87	27.30	0.77	fsW
46	51	56	32	PESPX	Dreyfus Mid Cap Index	MCGro	H	H	H	0.9	0.6	-3.3	20.72	25.80	1.02	FSW
47	32	7	38	OAKMX	Oakmark Fund	MCVal	H	H	H	-0.7	-2.8	6.2	34.47	20.60	0.59	FSW
48	38	18	48	LLPFX	Longleaf Partners	MCVal	H	H	H	-0.4	-2.9	5.3	24.15	20.10	0.58	fsW
49	48	34	61	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	H	H	H	2.7	-2.8	0.2	22.27	17.00	0.45	fsW
50	61	40	80	PRFDX	T. Rowe Price Equity-Income	LCVal	H	H	H	1.4	-2.0	-0.9	23.45	16.70	0.53	fsW
51	80	41	57	BVALX	Babson Value	LCVal	H	H	H	3.5	-3.5	-1.6	42.62	20.60	0.70	FSW
52	57	61	66	NAESX	Vanguard SmallCap Index+	SC	H	H	H	-1.4	-0.8	-3.6	19.07	26.70	0.87	fsW
53	66	47	71	VEIPX	Vanguard Equity-Income	LCVal	H	H	H	0.7	-2.7	-2.8	22.36	16.00	0.55	fsW
54	71	81	58	RPMGX	T. Rowe Price Mid Cap Growth	MCGro	H	H	H	-1.1	-0.6	-6.0	37.33	24.50	1.12	fsW
55	58	73	44	SAOPX	Salomon Brothers Opportunity	LCVal	H	H	H	0.8	-2.6	-4.7	45.68	16.50	0.58	sw
56	44	68	100	STDIX	Strong Discovery+	MCGro	H	H	H	-1.1	-1.7	-5.4	16.34	25.10	0.83	FSW
57	100	92	63	FCNTX	Fidelity Contrafund (3%)	LCGro	H	H	H	1.2	-1.8	-9.1	42.29	20.10	0.84	fsW
58	63	72	42	VEXPX	Vanguard Explorer+	SCGro	H	H	H	-3.0	-0.1	-7.7	56.62	34.00	1.03	fsW
59	42	48	53	KAUFX	Federated Kaufmann Fund+ (0.2%)	MCGro	H	H	H	-3.8	-2.8	0.1	4.10	33.50	0.86	FSW
60	53	35	55	MUHLX	Muhlenkamp Fund	MCVal	S	S	S	-0.8	-4.2	-1.0	51.15	26.40	0.91	FSW
61	55	22	86	MQIFX	Mutual Qualified (1%) CIZ	MCVal	H	H	H	-0.3	-5.6	1.5	16.26	16.90	0.61	sw
62	86	27	54	MPVLX	MSI Value Portfolio	MCVal	S	S	S	0.9	-5.0	-1.8	14.81	22.50	0.70	fsW
63	54	59	73	PRDGX	T. Rowe Price Dividend Growth	LCVal	H	H	H	-0.8	-2.6	-5.5	20.24	14.00	0.57	fsW
64	73	104	67	UMBSX	UMB Scout Stock	LCVal	S	S	S	0.5	-1.9	-9.3	14.96	15.00	0.68	f
65	67	32	50	SSHFX	Sound Shore	MCVal	S	S	S	-0.6	-4.2	-2.5	29.65	18.40	0.60	sW
66	50	42	143	HAVLX	Harbor Value	LCVal	S	S	S	-1.0	-4.5	-1.3	13.95	20.00	0.76	sw
67	143	166	68	ACBGX	Bonnel Growth Fund	MCGro	S	S	S	1.6	1.9	-21.8	13.74	43.90	1.10	fsW
68	68	28	80	BEGRX	Mutual Beacon (1%) CIZ	MCVal	S	S	S	0.2	-5.7	-1.0	12.89	15.90	0.58	sw

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

**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.

**Advice:** B=Buy, S=Sell, H=Hold, (B), (S), (H)= advice new this issue,

\*=not for this portfolio. +=Appropriate for Signal Investors.

**NTF/w/f:** NO TRANSACTION FEE/with transaction fee (F/f) for

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

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

# FUND SCORECARD & RECOMMENDATIONS

5

## Domestic Stock Funds (cont.)

RANK	2/15 2002	1Mo Ago	6Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative			TOTAL RETURN			PRICE PER SHARE	RISK		
							Moderate	Venturesome	1 mo.	6 mo.	12 mo.	Std. Dev.		Beta	NTF/wtf	
69	69	30	MUTHX	Mutual Shares (1%) CIZ	MCVal	S	S	S	-0.1	-5.6	-1.0	19.10	16.60	0.62	sw	
<b>70</b>	<b>65</b>	<b>44</b>	<b>VWVNDX</b>	<b>Vanguard Windsor</b>	<b>LCVal</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>-1.6</b>	<b>-4.1</b>	<b>-2.7</b>	<b>14.90</b>	<b>23.30</b>	<b>0.86</b>	<b>fsw</b>	
<b>71</b>	<b>28</b>	<b>38</b>	<b>SAFGX</b>	<b>Safeco Growth Opportunities+</b>	<b>SC</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>-10.5</b>	<b>0.0</b>	<b>0.5</b>	<b>24.02</b>	<b>26.00</b>	<b>1.12</b>	<b>fsw</b>	
72	52	43	TWEBX	Tweedy, Browne American Value	MCVal	H	H	H	-1.0	-5.1	-2.3	22.95	15.20	0.51	fsw	
73	148	82	DNLDX	Dreyfus New Leaders	MCGro	S	S	S	2.7	-4.6	-9.1	39.07	25.20	0.92	FSW	
74	75	77	FCVXS	Fidelity Convertible Securities	Convrt	S	S	S	-1.8	-2.9	-7.0	18.87	27.40	0.89	Fsw	
75	102	60	MPSCX	MSI Small Cap Value(closed)	SCVal	S	S	S	-0.2	-4.4	-6.7	17.12	25.50	0.77	fsw	
76	74	85	NPRTX	Neuberger Berman Partners	LCVal	S	S	S	-0.6	-3.2	-9.2	20.05	18.20	0.84	FSW	
77	93	54	SMTVX	Strong Multicap Value	MCVal	S	S	S	0.4	-4.8	-6.9	50.23	19.90	0.83	Fs	
78	99	96	NCTWX	Nicholas II	MCVal	S	S	S	-2.1	-1.5	-11.4	18.86	21.30	1.00	w	
79	47	87	NEEGX	Needham Growth Fund	MCGro	S	S	S	-3.3	-2.5	-7.6	26.61	50.60	1.11	FSW	
80	141	154	MFOCX	Marsico Focus	LCGro	S	S	S	0.5	-2.2	-14.6	13.56	31.50	1.12	FSW	
81	89	139	VIGRX	Vanguard Growth Index +	LCGro	S	S	S	-1.3	-2.1	-12.3	25.85	24.20	1.14	fsw	
82	92	164	FMILX	Fidelity New Millennium (3%) (closed)	MCGro	S	S	S	-1.4	0.6	-18.9	26.86	59.00	1.67	fsw	
83	146	152	MGRIX	Marsico Growth & Income	G&I	S	S	S	1.2	-2.7	-14.7	14.10	29.70	1.08	FSW	
84	72	95	STCSX	Strong Advisor Common Stock (closed)	MC	S	S	S	-2.1	-2.7	-9.8	18.74	23.20	0.95	FSW	
85	85	88	FGRIX	Fidelity Growth & Income (3%)	G&I	S	S	S	-0.9	-4.0	-8.8	36.57	16.70	0.80	fsw	
<b>86</b>	<b>79</b>	<b>66</b>	<b>FDGFX</b>	<b>Fidelity Dividend Growth</b>	<b>LC</b>	<b>(S)</b>	<b>(S)</b>	<b>(S)</b>	<b>-1.4</b>	<b>-4.0</b>	<b>-7.8</b>	<b>27.54</b>	<b>19.20</b>	<b>0.84</b>	<b>Fsw</b>	
87	84	67	FEQTX	Fidelity Equity-Income II	G&I	S	S	S	-0.2	-4.4	-8.9	20.42	17.20	0.74	Fsw	
88	70	98	DGAGX	Dreyfus Appreciation	LC	S	S	S	-0.7	-3.5	-10.5	37.66	17.60	0.80	FSW	
89	81	99	PRNHX	T. Rowe Price New Horizons (closed)	SCGro	*	S	S	-3.5	-1.5	-12.0	20.85	37.80	1.24	fsw	
90	76	46	IZZYX	ICM/Isabelle Small Cap Value	SCVal	S	S	S	-2.0	-6.1	-3.0	11.46	26.50	0.67	FSW	
91	105	53	GABAX	Gabelli Asset	MC	S	S	S	0.0	-5.9	-6.6	31.98	17.20	0.76	FSW	
92	77	70	SRFBX	Liberty-SteinRoe Balanced	G&I	S	S	S	-1.4	-4.2	-9.4	24.09	12.30	0.61	FSW	
93	43	52	SACPX	Salomon Brothers Capital (closed)	MCVal	S	S	S	-1.6	-5.3	-6.7	24.49	22.00	0.85	sw	
94	103	51	RBEGX	CS Warburg Pincus Value	LCVal	S	S	S	0.7	-6.4	-7.4	12.96	19.40	0.70	FSW	
95	104	127	DREVS	Dreyfus Fund	LC	S	S	S	-0.7	-3.5	-12.7	9.76	21.10	1.06	FSW	
<b>96</b>	<b>98</b>	<b>64</b>	<b>FEQIX</b>	<b>Fidelity Equity-Income</b>	<b>LCVal</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>-0.1</b>	<b>-5.6</b>	<b>-8.3</b>	<b>47.46</b>	<b>18.40</b>	<b>0.74</b>	<b>Fsw</b>	
97	59	50	PBSVX	PBHG Small Cap Value	SC	S	S	S	-3.9	-4.0	-6.7	19.01	28.50	0.87	FSW	
98	94	74	FSEQX	INVESCO Value Equity	LCVal	S	S	S	-0.2	-5.3	-9.1	19.13	16.60	0.80	FSW	
152	46	-	RSDGX	RS Diversified Growth	SCGro	*	(S)	(S)	-10.1	-3.2	-15.6	20.41	56.10	1.55	FSW	
<b>162</b>	<b>154</b>	<b>112</b>	<b>VHCOX</b>	<b>Vanguard Capital Opport (\$25,000)</b>	<b>MCGro</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>-2.9</b>	<b>-8.6</b>	<b>-18.9</b>	<b>22.42</b>	<b>38.10</b>	<b>1.06</b>	<b>fsw</b>	

Dow Jones  
NASDAQ  
S&P 500

2.0% -4.9% -9.5%  
-7.2 -8.9 -27.5  
-2.1 -7.3 -17.0

indexes do not  
include dividends

## International Stock Funds

1	4	45	FSEAX	Fidelity SE Asia (3%&1.5%r<90d)	Pacific	B	B	B	6.1%	16.1%	-5.3%	\$11.76	38.50	-	FSW
2	8	50	PRASX	T. Rowe Price New Asia	Pacific	B	B	B	7.8	16.4	-10.0	6.67	33.60	-	fsw
<b>3</b>	<b>2</b>	<b>24</b>	<b>MAPTX</b>	<b>Matthews Pacific Tiger</b>	<b>Pacific</b>	<b>B</b>	<b>B</b>	<b>B</b>	<b>4.3</b>	<b>12.2</b>	<b>-1.6</b>	<b>9.08</b>	<b>47.10</b>	-	<b>FSW</b>
4	5	46	SCOPX	Scudder Pacific Opportunity	Pacific	B	B	B	6.3	13.5	-8.2	9.42	33.50	-	FSW
5	3	29	FEMKX	Fidelity Emerg Mkts (3%&1.5%r<90d)	Int'l	B	B	B	5.1	12.5	-5.4	8.30	32.90	-	fsw
<b>6</b>	<b>9</b>	<b>15</b>	<b>VEIEX</b>	<b>Vanguard Emerg Mkts Stock Index</b>	<b>Int'l</b>	<b>B</b>	<b>B</b>	<b>B</b>	<b>6.1</b>	<b>10.8</b>	<b>-4.6</b>	<b>8.89</b>	<b>32.30</b>	-	<b>fsw</b>
7	6	35	MNEMX	Montgomery Emerging Mkts	Int'l	B	B	B	5.0	12.5	-8.6	9.12	31.60	-	FSW
8	-	-	OAKGX	Oakmark Global (2%r)	Global	(H)	(H)	(H)	-0.2	7.4	11.5	13.36	-	-	Fsw
9	1	2	OAKEX	Oakmark Intl Small Cap	Int'l	B	B	B	1.2	6.3	6.7	11.67	25.60	-	FSW
10	12	1	LLINX	Longleaf Partners International	Int'l	B	B	B	1.2	-4.7	0.7	12.27	-	-	fsw
11	13	5	OAKIX	Oakmark International	Int'l	B	B	B	0.8	-1.9	-6.1	14.56	24.30	-	FSW
12	18	8	HAINX	Harbor International	Int'l	(B)	(B)	(B)	2.7	-0.7	-12.2	29.74	17.80	-	sw
13	7	12	PRLAX	T. Rowe Price Latin America	LatinA	*	H	H	1.6	-2.6	-8.3	9.30	43.50	-	fsw
<b>14</b>	<b>14</b>	<b>4</b>	<b>TBGVX</b>	<b>Tweedy, Browne Global Value</b>	<b>Global</b>	<b>B</b>	<b>B</b>	<b>B</b>	<b>0.5</b>	<b>-3.6</b>	<b>-4.8</b>	<b>18.60</b>	<b>14.60</b>	-	<b>fsw</b>
15	10	17	FLATX	Fidelity Latin Amer. (3%&1.5%r<90d)	LatinA	*	H	H	2.5	-2.2	-12.3	12.11	40.40	-	fs
16	11	13	SLAFX	Scudder Latin America	LatinA	*	H	H	1.1	-3.7	-10.0	19.62	37.70	-	FSW
17	16	6	FWWFX	Fidelity Worldwide	Global	(H)	(H)	(H)	-1.2	-3.4	-8.7	14.21	18.50	-	FSW
18	17	20	BJBIX	Julius Baer Intl. Equity A	Int'l	H	H	H	0.7	-2.2	-15.6	20.50	28.80	-	FS
<b>19</b>	<b>20</b>	<b>7</b>	<b>FDIVX</b>	<b>Fidelity Diversified International</b>	<b>Int'l</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>0.5</b>	<b>-5.0</b>	<b>-12.2</b>	<b>18.61</b>	<b>20.40</b>	-	<b>Fsw</b>
20	15	36	FIEUX	Fidelity Europe (3%&1%r<90d)	Europe	H	H	H	-1.5	-1.3	-18.6	23.99	20.60	-	fsw
21	19	10	USIFX	USAA International	Int'l	H	H	H	1.4	-4.5	-16.2	16.42	18.10	-	fw
22	23	14	FIGRX	Fidelity International G & I	Int'l	H	H	H	0.4	-4.3	-17.6	18.36	22.00	-	Fsw
23	21	3	PFIFX	Preferred International	Int'l	H	H	H	0.7	-7.5	-11.9	11.32	17.40	-	w
24	28	9	SCOBX	Scudder Global	Global	H	H	H	-0.8	-6.7	-16.2	21.04	16.70	-	FSW
25	36	31	FPBFX	Fidelity Pacific Basin (3%&1.5%r<90d)	Pacific	S	S	S	1.9	-7.4	-18.6	13.81	30.00	-	Fsw
26	27	25	VWIGX	Vanguard International Growth	Int'l	S	S	S	-0.1	-5.9	-19.5	14.47	17.60	-	fsw
27	24	26	USAWX	USAA World Growth	Int'l	H	H	H	-0.4	-5.7	-20.0	14.06	20.00	-	f
28	50	-	ICHKX	Investec China & Hong Kong	Pacific	S	S	S	1.6	-4.4	-26.4	11.58	39.20	-	FSW
29	25	21	PRESX	T. Rowe Price European	Europe	S	S	S	-0.4	-5.7	-20.2	15.32	17.70	-	fsw
30	22	11	ARTIX	Artisan International	Int'l	H	H	H	0.3	-7.5	-17.4	17.81	32.60	-	FSW
31	26	32	CUIEX	CS Warburg, Pincus Intl Equity	Int'l	S	S	S	0.3	-5.9	-21.4	11.74	22.10	-	FSW
<b>32</b>	<b>29</b>	<b>19</b>	<b>VEURX</b>	<b>Vanguard European Stock Index</b>	<b>Europe</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>-0.3</b>	<b>-8.2</b>	<b>-19.7</b>	<b>19.33</b>	<b>17.30</b>	-	<b>fsw</b>
33	32	34	PRITX	T. Rowe Price Intl Stock	Int'l	S	S	S	-0.3	-7.0	-23.0	10.57	19.70	-	fsw
34	30	16	CMISX	Columbia International Stock	Int'l	S	S	S	-0.3	-8.8	-18.9	11.58	22.20	-	fsw
35	35	30	FOSFX	Fidelity Overseas	Int'l	S	S	S	0.0	-8.1	-21.8	26.42	20.70	-	Fsw

## 6

## FUND SCORECARD &amp; RECOMMENDATIONS

## Specialty Funds

RANK 2/15 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	5	-	USERX	United Services Gold Shares	Gold	*	*	*	21.9%	50.8%	56.1%	\$3.95	36.40	0.69	sw
2	2	-	BGEIX	American Century Global Gold	Gold	*	*	*	15.4	39.8	83.5	6.89	45.30	0.69	FSW
3	1	-	USAGX	USAA Precious Metals & Minerals	Gold	*	*	*	15.1	41.6	74.6	8.41	46.80	0.87	w
4	3	-	FSAGX	Fidelity Sel Gold (3%)	Gold	*	*	*	13.3	37.6	62.5	18.49	49.20	0.89	fsw
5	4	-	VGPMX	Vanguard Sp Gold/Pr Metals (1%r)	Gold	*	*	*	10.7	35.9	42.0	10.22	43.10	0.87	fsw
6	6	-	FGLDX	INVESCO Gold (3%)	Gold	*	*	*	12.2	32.7	47.6	2.11	39.20	0.72	FSW
7	7	-	SCGDG	Scudder Gold	Gold	*	*	*	10.3	23.6	36.8	8.22	36.70	0.74	FSW
8	10	-	CGMRX	CGM Realty	RealEs	*	*	*	8.0	8.4	18.5	14.36	15.80	0.26	fsw
9	8	-	STMDX	Stratton Monthly Dividend REIT	RealEs	*	*	*	2.8	4.6	24.9	27.26	14.50	0.21	fsw
10	9	-	VGSIX	Vanguard Special REIT Index	RealEs	*	*	*	1.2	1.9	15.7	12.27	14.40	0.17	fsw
11	11	-	FRESX	Fidelity Real Est Investment	RealEs	*	*	*	1.2	1.2	13.4	18.75	15.10	0.21	Fsw
12	18	-	VGEXX	Vanguard Sp Energy (1%r)	Energy	*	*	*	6.5	2.5	-4.9	25.10	32.00	0.70	fsw
13	12	-	CSRSX	Cohen & Steers Realty Shares	RealEs	*	*	*	1.2	-0.6	10.1	44.97	16.20	0.25	FSW
14	14	-	VGHCX	Vanguard Sp Health Care (1%r)	Health	*	*	*	0.5	0.2	-1.9	115.80	19.10	0.47	fsw
15	16	-	GATEX	Gateway Fund	Altern	*	*	*	-0.6	-2.1	-5.6	21.81	7.00	0.32	FSW
16	23	-	FHLSX	INVESCO Strategic Health Science	Health	*	*	*	-1.1	-0.5	-9.7	47.75	36.50	0.43	FSW
17	15	-	RYHIX	Rydex Health Care	Health	*	*	*	-0.1	-2.1	-8.0	11.29	19.60	0.41	fsw
18	22	-	POSCX	<b>Potomac Small Cap Plus</b>	<b>Levrgrd</b>	*	*	*	<b>-1.1</b>	<b>-1.3</b>	<b>-10.3</b>	<b>10.44</b>	-	-	<b>FSW</b>
19	13	-	MERFX	Merger Fund	Altern	*	*	*	-2.4	-4.3	-1.4	14.49	5.42	0.13	FSW
20	19	-	FSPHX	Fidelity Sel Health Care (3%)	Health	*	*	*	-0.7	-3.1	-10.3	122.50	20.00	0.40	fsw
21	24	-	FSENX	Fidelity Sel Energy (3%)	Energy	*	*	*	3.7	-5.1	-16.8	22.66	33.40	0.78	fsw
22	17	-	FIDSX	Fidelity Sel Financial Serv (3%)	FinServ	*	*	*	-2.3	-5.4	-9.2	98.71	27.40	0.94	fsw
23	20	-	FSFSX	INVESCO Financial Serv	FinServ	*	*	*	-1.7	-5.8	-9.6	26.56	26.90	0.93	FSW
24	29	-	UMPIX	ProFunds Ultra Mid-Cap	Levrgrd	*	*	*	1.1	-4.6	-22.4	26.24	-	-	FSW
25	21	-	RYFIX	Rydex Financial Services	FinServ	*	*	*	-2.1	-6.9	-13.3	9.46	28.80	1.05	fsw
26	28	-	FSTEX	INVESCO Energy	Energy	*	*	*	1.6	-5.9	-22.5	16.37	46.20	0.90	FSW
27	27	-	RSCOX	RS Contrarian	Altern	*	*	*	0.9	-9.5	-15.6	9.75	23.50	0.72	FSW
28	25	-	RYEIX	Rydex Energy	Energy	*	*	*	1.2	-8.9	-17.7	9.97	27.50	0.64	fsw
29	26	-	VSUX	Vanguard Utilities Income	Utility	*	*	*	-3.2	-8.1	-19.9	11.38	14.30	0.26	fsw
30	30	-	PSPXX	Potomac U.S. Plus	Levrgrd	*	*	*	-2.9	-11.9	-25.8	9.88	29.00	1.46	FSW
31	31	-	RYNVX	Rydex Nova	Levrgrd	*	*	*	-3.3	-11.2	-27.3	24.14	29.60	1.49	fsw
32	34	-	FSPTX	Fidelity Sel Technology (3%)	Tech	*	*	*	-7.0	-12.7	-32.2	55.79	72.30	2.02	fsw

## Bond Funds

RANK 2/15 2002	Ticker Symbol	FUND NAME (Max. Load)	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE	Standard Deviation	Sec 30-Day Yield	Average Maturity	Modified Duration <sup>1</sup>	NTF/ wtf
						1 mo.	6 mo.	12 mo.	PER SHARE					
<b>Short Term</b>														
1	SCSTX	Scudder Short Term Bond	*	*	*	-0.1%	2.0%	5.0%	\$10.66	0.76	3.92%	2.6	2.0	FSW
2	VFSTX	Vanguard Short Term Corporate	*	*	*	-0.6	1.4	5.4	10.82	0.73	4.83	2.8	2.3	fsw
3	FSHBX	Fidelity Short Term Bond	*	*	*	-0.5	1.2	4.8	8.80	0.83	4.19	2.3	1.8	Fsw
<b>Intermediate Term</b>														
1	VFITX	Vanguard Fix-Inc Intm. Treas.	*	*	*	-0.2	2.9	6.3	11.12	1.40	4.30	7.8	5.3	fsw
2	FBNDX	Fidelity Investment Grade	*	*	*	0.0	2.3	6.1	7.39	1.40	4.63	6.3	4.8	Fsw
3	VBMFX	Vanguard Total Bond Market Index	*	*	*	-0.3	2.0	6.7	10.21	1.24	5.62	8.5	4.6	fsw
<b>High Yield ("Junk")</b>														
1	CMHYX	Columbia High Yield	B	B	*	-1.0	1.2	2.5	8.79	-	7.31	6.0	3.8	<b>FSW</b>
2	BUFHX	Buffalo High-Yield	B	B	*	0.3	-1.9	5.4	9.94	6.95	8.17	7.8	4.7	<b>fsw</b>
3	VWEHX	Vanguard High Yield Corporate	B	B	*	-1.3	-0.5	-1.7	6.22	1.52	8.86	6.6	4.6	<b>fsw</b>
4	NTHSX	Northeast Investors Trust	*	B	*	0.1	-3.9	-4.1	7.44	7.34	10.26	6.6	-	fsw
5	PRHYX	T. Rowe Price High Yield	B	B	*	-1.0	-2.6	-5.8	6.59	1.72	9.47	7.2	4.4	fsw
6	SPHIX	Fidelity High Income	B	B	*	-1.9	-2.9	-13.7	7.93	1.28	9.88	5.4	-	<b>Fsw</b>
7	STHYX	Strong High Yield Bond(1%r)	*	B	*	-1.2	-7.4	-15.6	7.86	8.06	11.34	5.2	3.8	FSW
8	FHYPX	INVESCO High Yield	*	*	*	-4.5	-19.9	-33.0	3.36	1.49	13.89	5.1	3.4	FSW
<b>Zero Coupon</b>														
	BTTRX	Benham 2025	*	*	*	-0.2	1.2	2.6	33.08	-	-	-	-	FSW
<b>Tax-Free Alternative</b>														
1	FLTMX	Fidelity Spartan Intermed Muni	*	*	*	-0.4	1.1	3.9	10.00	1.50	3.53	7.7	5.1	Fsw
2	VWITX	Vanguard Muni Bond-Intermed	*	*	*	-0.5	0.7	3.4	13.44	1.37	3.83	5.9	4.7	fsw
3	SRIMX	Liberty-SteinRoe Inter. Muni	*	*	*	-0.2	0.1	1.9	11.35	1.32	3.76	8.6	6.6	FSW
<b>International</b>														
1	PYGFX	Payden Global Fixed Income	*	*	*	-0.4	1.9	4.8	9.96	3.34	3.45	7.9	5.7	fsw
2	BEGBX	American Century Intl Bond	*	*	*	-1.5	-1.0	-2.1	9.96	2.57	3.25	-	-	FSW
3	RPIBX	T. Rowe Price Intl Bond	*	*	*	-1.3	-3.7	-5.9	7.74	2.29	3.22	8.5	5.7	fsw
<b>Strategic Income</b>														
1	FNMX	Fidelity New Markets Income	*	*	*	2.2	2.2	-0.1	11.28	7.15	7.96	-	-	Fsw
2	JAFIX	Janus Flexible Income	*	*	*	-0.6	0.5	1.8	9.26	1.42	5.46	8.0	5.7	FSW
3	RPSIX	T. Rowe Price Spectrum Income	*	*	*	-0.1	-0.9	-0.4	10.59	1.16	-	-	-	fsw

<sup>1</sup>Modified Duration—Average time individual bonds within a fund are actually held.

## Wasatch Sheds Light on Closures

On January 31st the Wasatch Funds closed four of their six funds: Core Growth (WGROX), Small Cap Growth (WAAEX) and Small Cap Value (WMCVX) were closed to new investors; Micro Cap (WMICX) was closed to both new and existing shareholders. Wasatch Ultra Growth (WAMCX) and Wasatch Global Technology (WAGTX) will remain open.

With fund closures occurring with increasing frequency at many fund families, investors want to know, beyond the standard rhetoric, why these funds are no longer available. Wasatch's Vice President Tim Bryan provided an excellent explanation, which follows.

"We felt that closing funds is an important part of Wasatch's investment discipline," said Bryan. "There is a physical limit to how much money a fund manager can invest in small company stocks. Exceeding the limit creates a dilemma that leaves a fund manager with four choices. One is to invest a higher percentage of assets in companies already held by the fund. Wasatch feels this choice is problematic. To illustrate why, assume the typical stock in a small cap fund has a market capitalization of \$500 million and that the fund has \$500 million in assets. If the manager invests 2% of the fund's assets in a stock with a market capitalization of \$500 million, the fund would hold 2% of the company's shares. The liquidity risk of investing in a small company increases with the number of shares a fund holds.

"Another choice is to invest in more companies. Wasatch believes this approach dilutes a fund's portfolio because it means less money is invested in the manager's best ideas," continued Bryan. "A third choice is to invest in larger companies. Choosing this option would mean departing from a fund's strategy of investing in small company stocks. For shareholders, it would mean the assets they committed to small company stocks would no longer be invested that way. The fourth is to control the asset level of a fund by closing it to new money. Wasatch chooses to control the asset level by closing funds because we believe this is the best way to protect the interests of existing shareholders and ensure that their assets are invested the way they expect—in small company stocks."

### MONEYLETTER on the Road

As we go to press, MONEYLETTER's Chief Economist and Chief Investment Officer, Walter Frank, is preparing for his sessions at the 24th Annual Florida Money Show. However, for those of you looking for a slightly different atmosphere, it is not too early to begin thinking about the 14th Annual Las Vegas Money Show. The show is scheduled for May 5-8, 2002 at the Paris Resort. This year's theme is investing online.

MONEYLETTER will provide all the details in an insert in the March 8th issue. Or, for more information, call Intershow at 800-970-4355. Make sure you identify yourself as a MONEYLETTER subscriber to get free admission. \$

#### 100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	1.64%	1.79%	3.64%
Fidelity Spartan US Treas MMF	1.58	1.66	3.52
Dreyfus 100% US Treas MMF	1.52	1.60	3.38
Amer Century Capital Presv Fund/Inv	1.50	1.56	3.41
T Rowe Price US Treasury MF	1.49	1.60	3.44
Gabelli US Treasury MMF	1.47	1.47	3.45
HighMark 100% US Treas MMF/Retail	1.45	1.44	3.11
CMA Treasury Fund	1.34	1.33	3.13
Schwab US Treasury Money Fund	1.33	1.46	3.28
Prudential Govt Sec Tr/US Treas/CI A	1.28	1.26	3.19

#### GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
Touchstone Money Market Fund	2.08%	2.08%	3.64%
Dreyfus Worldwide Dollar MMF	2.00	1.94	3.51
Fremont Money Market Fund	1.91	1.98	3.62
PayPal Money Market Fund	1.91	1.97	0.00
Dreyfus BASIC MMF	1.90	2.08	3.84
Transamerica Premier Cash Res/Inv	1.89	1.94	3.75
Dreyfus Liquid Assets	1.84	1.89	3.63
Northern Money Market Fund	1.84	1.93	3.65
Wilmington Prime MMP/Investor	1.84	1.85	3.57
HSBC Investor MMF/CI Y	1.83	1.89	3.75

#### TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Strong Municipal MMF	1.43%	1.46%	2.74%
Vanguard Tax-Exempt MMF	1.38	1.41	2.56
USAA Tax Exempt MMF	1.27	1.28	2.41
T Rowe Price Summit Muni MMF	1.25	1.27	2.44
Zurich YieldWise Muni MF	1.20	1.25	2.72
Dreyfus BASIC Muni MM Portfolio	1.17	1.14	2.33
Fidelity Municipal MMF	1.17	1.24	2.38
Northern Municipal MMF	1.17	1.21	2.28
Zurich Tax-Free Money Fund	1.15	1.19	2.39
Prudential/Command T-F Fund	1.14	1.10	2.27

#### TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	1.39%	1.40%	2.62%
Vanguard CA Tax-Exempt MMF	1.34	1.35	2.27
Vanguard NJ Tax-Exempt MMF	1.32	1.34	2.43
Vanguard PA Tax-Exempt MMF	1.30	1.33	2.51
Vanguard NY Tax-Exempt MMF	1.29	1.34	2.42
USAA Tax Exempt CA MMF	1.21	1.21	2.27
Amer Century CA T-F MMF/Inv Class	1.16	1.14	2.08
Fidelity OH Municipal MMF	1.15	1.20	2.36
Northern CA Municipal MMF	1.08	1.08	1.96
Touchstone OH Tax-Free MF/Retail	1.08	1.10	2.26

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 2/12/02. 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.
02/05/02	2.17%	1.44%	56 days
02/12/02	2.11%	1.40%	56 days

Signal Portfolio Status = 100% in Domestic Stock Funds

## Adding Two Oakmark Funds

Anyone who is familiar with the Oakmark family of mutual funds knows that the group is renowned for its dedication to value investing. In today's environment, when momentum investing is dead (at least for now), and investors are paying attention to stock fundamentals and valuation, the group's philosophy is serving it well. We're adding two Oakmark funds to our coverage—one in the global arena, the other a domestic small cap.

### *Oakmark Global Fund (OAKGX)*

The value techniques that are characteristic of Oakmark are most certainly present here, but fund manager Greg Jackson told *MONEYLETTER* that he and co-manager Michael Welsh put more emphasis on growth than do most of their fellow managers. Welsh, who handles the fund's international investments, and Jackson, who invests domestically, are free to choose stocks from the entire approved-stock list at Harris Associates, advisor to Oakmark funds. They have no restrictions as to market capitalization, but tend to have the largest portion of assets in smaller firms. Similarly, they are not tied to any benchmarks in regard to geographic or industry selection. Still, the managers make sure the fund is diversified across geographic and (most) industry sectors.

Unlike some value managers, Jackson and Welsh don't put much stock in P/E or price-to-book value ratios. Rather, they concentrate on the fundamentals of a company's business—how it generates its returns, how it generates cash, and what kind of return is it getting on capital reinvested in the company. They scrutinize the balance sheet and look for shareholder-oriented management. Finally, they calculate the intrinsic value of the company—and aim to buy stocks when they are selling at 60% or less of that appraised value. This approach also leads to a disciplined selling process. They will jettison a stock if it reaches its sell target (which is flexible to make room for a more attractive investment), or if there is a negative change in management, or company or industry position.

Although they do not target industry sectors—being fundamental bottom-up analysts—their research has led to a fairly hefty allocation in information services. One notable investment there is ITT Educational Services. The stock, a top holding in 2001, appreciated substantially, hit its target price,

and was sold in mid-2001. Subsequently, the shares fell by nearly half by mid-September, prompting the managers to again purchase it for the portfolio, and again make it a top holding.

Oakmark Global returned 20.1% in 2001, making it the top performer in Lipper's global category for the year. That return, added to a 15.8% gain the previous year also make it the top fund for the trailing two-year period. The fund has a 2% redemption fee.

### *Oakmark Small Cap Fund (OAKSX)*

Jim Benson and Clyde McGregor go through much of the same analysis in selecting stocks for the Small Cap Fund, as do their fellow managers, above. They focus on small companies they believe are undervalued and offer strong upside potential. Management is key—they like those that are focused on boosting share price and have significant personal stakes in their firms. Turnaround stories are often part of the portfolio; Benson and McGregor must be convinced the firm has solid business prospects that can be revitalized.

During the second half of 2000, the pair shifted the fund's focus to financially strong companies—those that would be able to best weather an economic downturn. That aided results last year, when the fund posted a total return of 26.3%. Now, the portfolio is positioned with both relatively defensive issues and those positioned to benefit when economic growth resumes. In both cases, however, the managers continue to emphasize companies with strong balance sheets for new purchases. Many of these firms, they assert, are trading in line with more highly leveraged companies.

The managers remain quite positive on small-cap stocks, even after what was a very strong fourth quarter performance for the sector. They recently stated they are still finding quality small caps to buy at price-to-cash flow multiples that are about a third lower than their large-cap counterparts. To Benson and McGregor, that means the small-cap rebound is likely to continue into the foreseeable future. \$

#### *Oakmark Funds*

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*Minimum investment: \$1,000/\$1,000 IRA*

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