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Yes, Virginia, Stocks Do Go Up Too The Mid-Year 2002 Outlook

by Walter S. Frank, Chief Investment Officer

In the midst of the debris that is the American stock market at mid-year 2002, it is hard not to join the lately formed chorus and sing of the bleak outlook that lies ahead for American equities. Oh, yes, some of the refrain is correct, but the melody doesn't linger on. It's a new song and it is doubtful it will stand the test of time.

The new Puritans are telling us that we are paying for our great sin: the Sin of the Bubble. According to them, everything needs to be expunged. The temple of insane greed is being destroyed permanently. But the gloomsters are overdoing it. Yes, we needed to pay for the excesses of 1999. But we paid for most of that some time ago. What we are paying for now is a bear market that has lasted long enough to discourage investors and put the whole equity culture into question.

But momentary emotions are not a substitute for thought. We are paying for an economy that is taking its sweet time in getting into gear, thus allowing doubts to persist about the medium-term profits outlook. We are paying for a remnant of the bubble in the form of corporate shenanigans abetted by a wink and a nod from super-aggressive accounting practices. We have already paid a great deal. Enough is enough.

As we look back at our year-end 2001 outlook for 2002, only six months old, our positive outlook for this year was based on the view that the economy would be moving toward rapid growth by mid-year, with profits to follow. (By rapid growth we were thinking of growth about 4%.) We're on the verge of hitting that growth, but we are not there yet. Even if we are on the verge of such growth

no one now will believe it will occur. Wall Street has stopped looking forward.

Unfortunately for the subsequent market developments, the economy stalled in May, reviving all the Wall Street doubts about the strength of the economy. About that time, the accounting revelations hit harder. It was possible to make the case, however exaggerated, that profit expectations were much too high (the economy was about to stall) and, anyhow, profit expectations were a species of fiction and should be ignored. We have been suffering from that intensified skepticism ever since the May retreat began.

What lies ahead?

Connecting the dots

For us, there are two developments that marked these last six months of the bear market. One has been the disconnect between the economic and profit numbers, and the action of the market. It was because of this disconnect that we advised cutting back on U.S. equity funds as early as June 14th, despite our continued positive outlook on the economy. The other is the understandable growing anxiety on the part of the investing public about the wisdom of owning stock funds. The public's faith in stocks has been severely shaken by a crushing bear market.

Should these developments affect our view of the outlook for the market over the next year? Will the market continue to ignore the economy? The question seems to answer itself. As far as we are concerned what we are living through, in market behavior terms, is an anomaly. We firmly believe our friendly short-selling hedge funds were the cause of the anomaly, but that is another matter. In time, the market is going to pay attention to the drip, drip, drip of economic data. In time, the dots will be connected.

The Federal Reserve has already told us, in the form of Alan Greenspan, what it thinks the economy will be like the rest of this year and next. The Fed sees growth of 3¹/₂-4.0% over the rest of this year, and about the same next year. We think those are reasonable, middle-of-the-road expectations. We think growth will be somewhat higher, but we won't push it.

The Fed also thinks such growth will bring unemployment down some, while inflation remains low. The point is worth stressing. With all the fretting about consumer spending now, a falling unemployment rate is a tonic for consumer attitudes.

Does the market plunge affect this outlook? Yes, the market plunge is casting a shadow over the outlook. Once more we come back to the wealth effect. Will the public cut their spending, having lost so much stock market wealth? But wealth is not confined to stockholdings. While stocks

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Market Trends

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

(continued from page 1)

have been tumbling, home prices have been rising. The wealth effect has been working both ways.

Studies have shown that the wealth effect for housing is stronger than the wealth effect for stocks. The studies disagree about how much stronger. The point is there is an offset to the market's effect. We are sure the market will have some effect on consumer spending, but we don't think it will be overwhelming. Think back to the Crash of 1987. Consumer spending held up well then.

Reversing course

With the market in free fall, as we write, a positive outlook on U.S. stocks, looking out over the next twelve months seems unrealistic. Yet that is our position.

The year ahead needs to be divided into two parts. The first is the immediate one or two months ahead, the short-term. The other is the remainder of the period, the medium-term. In the short-run, we see the market as very close to a powerful oversold bounce. It may already be occurring as you receive this issue. But then there will be a period of testing and healing without any clear trend. It will leave investors still in doubt.

All the while, the economy will be improving as will the profits outlook. Coincidentally, much of the fear about earnings restatements will have subsided after August 14. At that point we should begin to see a reconnection being established between the fundamentals and the market. And the fundamentals will be extremely favorable for stocks. Its simple enough. Prices are down and earnings are up. The latest price-earnings for the S&P 500 using next year's estimated earnings is 15.7. Discount those earnings as you will, and the bears do, stocks are cheap.

We see U.S. stocks reasonably gaining 15%-20% from here over the next 9-12 months. If we are right about the economy, and stocks once more begin to discount the future, it could be more as we get into mid-year 2003. The U.S. market is a medium-term buy.

Other asset classes

Understandably, we have devoted most of this outlook to the U.S. stock market. It is that asset class that will determine the performance of our portfolios. Looking at the U.S. bond market, we are continuing to recommend a small allocation to high-yield bonds. As we have said more than once over the past six months the high-yield market has been disappointing. It is not that we look at it as a source of performance, but rather that we expected to earn at least a superior yield.

In fact, the high-yield bond funds are down, though not by much, so far this year. They have proved something of an anchor during the worst of the market decline. We have been living through a period when credit ratings have been downgraded, thanks to telecom. We believe ratings will begin to improve. As they do, high-yield funds should benefit. There

are better times ahead for the funds as the economy improves and high-grade bond interest rates remain low.

Looking abroad, we need to distinguish between Europe and Asia. The euro area's economic recovery, which was expected to lag our own, has run into snags. With the appreciation of the euro, a new obstacle to growth has appeared. For the short-run, at the very least, European equities do not look particularly attractive.

The weak dollar has created interest in international bonds as a way of profiting from currency movements and picking up some yield in addition. This is an asset class worth considering. But we would hesitate to make a commitment based on the dollar's weakness in recent months. Some of the weakness, maybe much of it, is caused by our bear market. When that ends, will the dollar slide continue? We doubt it.

That brings us to Asia, in particular non-Japan Asia. The stock markets there may turn out to be the most attractive of all over our outlook period. The Asian markets have performed well, and they have resisted the pull of our bear market.

Because those markets are small (including China) and volatile any allocation there should be limited. Asia and emerging market funds are already in our moderate portfolios. They may appear in others.

Overall, though, we see the twelve months ahead as belonging to the U.S. market. \$

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Deeply Oversold, Deeply Undervalued

As the market plunges, and semi-hysteria takes over, it is useful to look at the much-ignored, much-maligned fundamentals again. As one wise observer said recently, "In the short-run emotion and technicals run the market, in the long-run it is the fundamentals. Right now the long-run appears held up at a traffic jam and we only have the short-run.

In fact, the fundamentals don't matter in a world where mutual fund redemptions have taken over. And that seems to be the case now, and over the past few weeks. It is the public now that is unwittingly driving the market down.

But that will end, though we cannot pinpoint when. Meanwhile, we have a deeply oversold market. We know that is not news. However Tony Dwyer, chief strategist for Kirlin Securities and a contributor to Real Money.com has managed to tell us how oversold we are. The S&P 500, as of Friday, July 19 was 22.5% under its 200-day moving average. Since 1963, the index has been 15% or more below that average on only five other occasions. The average decline for those six episodes was 22.9%.

What happened thereafter? The average return for the S&P three months later was 17.7%, six months later, 19.9% and one year later, 30.9%. As Dwyer's work shows, the potential for a sharp snapback rally is huge.

As for the true fundamentals, as opposed to an indicator, we need only look at the price-earnings ratio for the S&P 500. That ratio is now at 15.7 times estimated earnings over the twelve months ahead. With the Treasury 10-year note yield at 4.5%, this market is cheap. We should also include the potential inflation rate at less than 2.0%.

Under those conditions, based on past relationships we can easily justify a ratio 25% higher. Right now, of course, as the market is being driven mainly by forced selling, this relationship is of no consequence. But that is temporary. Once emotions cool, the absolutely incredibly strong fundamentals will take over.

Current strategy

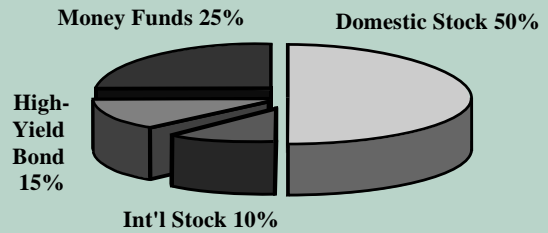
Right now, above all, is the time for patience. If you have followed our advice, you are 30% (Venturesome), 35% (Moderate) and 40% (Conservative) in money funds or relatively stable high-yield bond funds. This is a reasonable cushion. It obviously could not prevent our model portfolios from being affected by the huge decline this July, but it has cushioned the damage. It would not take much of a snapback rally to put the portfolios in the black again. Meanwhile, we intend to maintain the cushion at least until some normalcy returns.

Portfolio changes

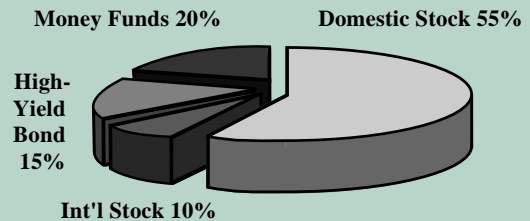
The Hotline of Friday, June 14th recommended that all asset allocation portfolios reduce their U.S. equity allocation, with the proceeds going to money funds. Because nine portfolios are involved space prohibits our presenting the details of the sales. However, we will gladly fax you the details. You can request a fax in any one of three ways—by telephone: call 800-890-9670, by fax: fax us at 508-429-0940, by e-mail: our address is service@moneyletter.com. \$

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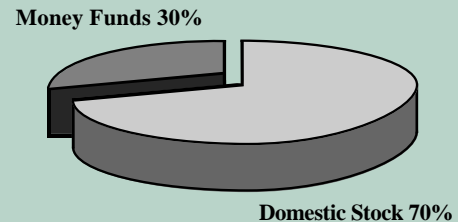
CONSERVATIVE



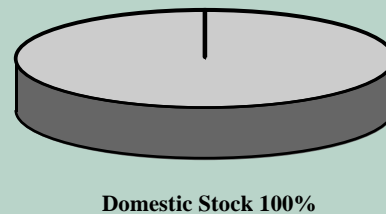
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Domestic Stock Funds

RANK	7/19 2002	1Mo Ago	6Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative Moderate Venturesome			TOTAL RETURN			PRICE	RISK		NTF/ wtf
							B	B	B	1 mo.	6 mo.	12 mo.	PER SHARE	Std. Dev.	Beta	
1	9	2	AVALX	Aegis Value Fund	SCVal	B	B	B	-4.1%	-1.4%	8.3%	\$13.00	18.2	0.31	fw	
2	15	44	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	B	B	B	-7.0	1.7	-3.4	22.03	17.0	0.45	fsw	
3	1	28	EEQFX	Eclipse Small Cap Value	SCVal	B	B	B	-12.1	-0.3	-0.8	11.98	18.6	0.75	FSW	
4	3	3	YACKX	Yacktman Fund	MC	B	B	B	-13.1	-2.9	7.2	10.70	18.2	0.55	FSW	
5	7	4	FLPSX	Fidelity L P Stock (closed,3%&1.5%r<90)	SCVal	B	B	B	-11.1	-4.5	2.3	26.15	16.6	0.57	fsw	
6	11	48	FFTYX	Fidelity Fifty+ (.75%r<30d)	LC	B	B	B	-12.7	-0.8	-5.5	15.49	28.2	0.87	Fsw	
7	6	5	BERWX	Berwyn Fund (1%r<180d)	SCVal	B	B	B	-11.8	-3.3	-1.6	19.14	18.7	0.41	fsw	
8	10	92	IZZYX	ICM/Isabelle Small Cap Value	SCVal	B	B	B	-9.9	-1.8	-9.9	11.57	26.5	0.67	FSW	
9	24	23	PRWCX	T. Rowe Price Cap Appreciation	LCVal	B	B	B	-9.4	-4.9	-3.2	13.86	10.7	0.24	fsw	
10	18	25	RYTRX	Royce Total Return (1%r<180d)	SCVal	B	B	B	-10.1	-5.1	-3.5	8.08	13.6	0.41	FSW	
11	5	8	PRSVX	T. Rowe Price S-C Value (closed,1%r<1yr)	SCVal	B	B	B	-12.0	-4.8	-1.7	21.63	16.4	0.44	fsw	
12	38	-	TASCX	Third Avenue Small-Cap Value	SCVal	H	H	H	-8.0	-5.7	-6.8	14.30	17.5	0.58	FSW	
13	20	73	PRNEF	T. Rowe Price New Era	LC	B	B	B	-14.8	-3.3	-9.2	20.11	26.7	0.72	fsw	
14	12	29	RSPFX	RS Partners	SC	*	B	B	-12.8	-5.9	-5.7	16.63	-	0.59	FSW	
15	45	41	LLPFX	Longleaf Partners	MCVal	H	H	H	-8.7	-7.1	-9.4	22.64	20.1	0.58	fsw	
16	51	40	RYPRX	Royce Premier (1%r<180d)	SC	H	H	H	-9.8	-8.1	-7.1	9.37	18.7	0.62	fs	
17	26	21	PENNK	Royce Penn Mutual+ (1%r<180d)	SCVal	B	B	B	-10.8	-8.1	-5.4	6.77	16.7	0.51	fsw	
18	36	12	CFIMX	Clipper Fund	LCVal	(B)	(B)	(B)	-12.1	-9.2	-2.9	75.76	15.7	0.30	sw	
19	13	14	ARGFX	Ariel Fund	SCVal	B	B	B	-14.2	-8.3	-2.9	34.18	18.9	0.40	FSW	
20	17	22	VUSVX	Vontobel U.S. Value (2%r<90d)	LCVal	B	B	B	-13.1	-9.0	-6.1	18.25	22.0	0.44	FSW	
21	21	17	NBGNX	Neuberger Berman Genesis (closed)	SC	B	B	B	-15.4	-8.2	-5.6	18.18	19.6	0.62	FSW	
22	33	-	OAKSX	Oakmark Small Cap (2%r<90d)	SCVal	B	B	B	-13.2	-9.3	-7.1	15.66	18.1	0.54	FSW	
23	14	-	NBFSX	Neuberger Berman Fasciano Inv	SCGro	B	B	B	-15.3	-7.6	-9.5	30.10	15.7	0.67	FSW	
24	56	-	TAVFX	Third Avenue Value	MCVal	H	H	H	-10.2	-10.1	-11.6	32.45	16.0	0.61	FSW	
25	22	9	TRMCX	T.Rowe Price Mid Cap Value	MCVal	B	B	B	-15.3	-10.0	-5.0	14.63	15.9	0.60	fsw	
26	39	30	TWEIX	American Century Equity Income	MCVal	H	H	H	-12.6	-11.0	-8.7	6.16	15.1	0.44	FSW	
27	62	61	BEGRX	Mutual Beacon (1%) CIZ	MCVal	H	H	H	-10.5	-9.8	-15.2	11.50	15.9	0.58	sw	
28	4	-	BSCFX	Baron Small Cap	SCGro	B	B	B	-18.6	-7.3	-9.4	13.79	28.0	1.07	FSW	
29	63	69	MUTHX	Mutual Shares (1%) CIZ	MCVal	H	H	H	-10.9	-10.1	-15.8	16.93	16.6	0.62	sw	
30	30	-	BGRFX	Baron Growth	SCGro	B	B	B	-14.7	-10.4	-10.7	26.52	25.4	1.06	FSW	
31	27	39	FDVLX	Fidelity Value	MCVal	B	B	B	-15.8	-9.5	-11.5	45.47	22.8	0.64	Fsw	
32	61	56	MQIFX	Mutual Qualified (1%) CIZ	MCVal	H	H	H	-11.3	-10.6	-15.5	14.35	16.9	0.61	sw	
33	19	6	HRTVX	Heartland Value (1%r<90d)	SCVal	B	B	B	-13.3	-12.2	-8.6	32.80	22.5	0.63	Fsw	
34	35	27	LSSCX	Loomis Sayles Small Cap Value	SC	B	B	B	-14.1	-11.6	-9.7	18.05	19.4	0.69	sW	
35	77	85	VCVSX	Vanguard Convertible Securities	Convrt	S	S	S	-9.4	-12.5	-15.2	9.97	20.4	0.69	fsw	
36	23	11	BPSCX	Boston Ptnrs Smicap Val (closed,1%r<1yr)	SCVal	B	B	B	-16.2	-11.5	-8.5	15.23	-	0.52	FSW	
37	16	35	VISVX	Vanguard Small-Cap Value Index	SCVal	B	B	B	-16.3	-11.7	-9.9	8.77	-	0.70	fsw	
38	47	72	FCNTX	Fidelity Contrafund (3%)	LCGro	H	H	H	-14.2	-11.1	-15.1	37.17	20.1	0.84	fsw	
39	60	62	SAOPX	Salomon Brothers Opportunity	LCVal	H	H	H	-12.6	-12.4	-14.9	39.76	16.5	0.58	sw	
40	34	34	RYPNX	Royce Opportunity+ (1%r<180d)	SCVal	H	H	H	-14.8	-12.3	-12.3	7.87	27.3	0.77	fsw	
41	32	50	BVALX	Babson Value	LCVal	H	H	H	-15.8	-10.2	-16.5	36.73	20.6	0.70	FSW	
42	49	20	BEMVX	Berger Mid Cap Value	MCVal	H	H	H	-14.3	-13.6	-10.6	14.38	23.3	0.80	FSW	
43	85	89	SRFBX	Liberty-SteinRoe Balanced	G&I	H	H	H	-9.8	-13.8	-16.9	20.95	12.3	0.61	FSW	
44	55	15	RYLPX	Royce Low Priced Stock (1%r<180d)	SCVal	H	H	H	-12.7	-15.2	-10.2	9.93	24.8	0.69	FSW	
45	52	36	DODGX	Dodge & Cox Stock	LCVal	H	H	H	-14.4	-12.3	-15.0	84.74	19.8	0.64	sw	
46	46	43	HOVLX	Homestead Value	MCVal	H	H	H	-16.1	-11.8	-14.3	21.46	18.1	0.59		
47	48	141	BARAX	Baron Asset	MCGro	H	H	H	-15.3	-11.2	-17.8	37.51	28.1	1.22	FSW	
48	40	7	FDSCX	Fidelity Small Cap Ind.(1.5%r<90d)	SC	*	H	H	-15.9	-14.5	-8.7	13.75	22.8	0.83	fsw	
49	8	16	WMCVX	Wasatch Small Cap Value (closed,2%r<60d)	SCVal	(H)	(H)	(H)	-19.2	-11.3	-12.1	3.63	27.5	0.71	FSW	
50	54	110	DNLDX	Dreyfus New Leaders	MCGro	H	H	H	-15.5	-11.4	-18.7	33.75	25.2	0.92	FSW	
51	66	58	TWEBX	Tweedy, Browne American Value	MCVal	H	H	H	-13.2	-13.8	-17.0	20.04	15.2	0.51	fsw	
52	28	13	CAAPX	Ariel Appreciation	MCVal	(H)	(H)	(H)	-17.7	-13.4	-11.4	31.59	18.0	0.50	FSW	
53	93	53	LMASX	Legg Mason Special Investment Trust	MC	H	H	H	-11.8	-14.8	-17.6	27.55	30.6	1.18	w	
54	31	-	SMCDX	Strong Mid Cap Disciplined	MCVal	H	H	H	-16.2	-15.2	-10.1	14.50	23.4	0.92	FSW	
55	72	51	STDIX	Strong Discovery+	MCGro	H	H	H	-14.2	-14.6	-15.9	13.77	25.1	0.83	FSW	
56	88	79	FCV SX	Fidelity Convertible Securities	Convrt	H	H	H	-12.0	-15.3	-17.6	15.94	27.4	0.89	Fsw	
57	25	-	CRMSX	CRM Small Cap Value Inv	SCVal	(H)	(H)	(H)	-17.8	-13.3	-13.8	17.57	-	-	FSW	
58	44	19	MERDX	Meridian Fund	SCGro	H	H	H	-15.8	-15.3	-12.4	24.07	21.4	0.77	fsw	
59	57	33	TWVLX	American Century Value	MCVal	H	H	H	-15.3	-15.1	-14.0	5.75	20.4	0.59	FSW	
60	42	32	BOGLX	Bogle Small Cap Growth (closed)	SCGro	H	H	H	-16.2	-14.3	-15.7	16.97	-	-		
61	75	-	SMTVX	Strong Multi-Cap Value	MCVal	H	H	H	-14.8	-14.0	-19.2	42.63	-	-	FS	
62	69	46	VIMSX	Vanguard Mid-Cap Index+	MC	H	H	H	-16.1	-14.8	-16.1	9.78	26.2	1.02	fsw	
63	59	31	OTCFX	T. Rowe Price Small Cap Stock Fund+	SC	S	S	S	-15.5	-16.0	-14.3	20.78	22.0	0.73	fsw	
64	50	106	MFOCX	Marsico Focus	LCGro	H	H	H	-17.1	-13.5	-18.7	11.71	31.5	1.12	FSW	
65	70	49	PESPX	Dreyfus Mid Cap Index	MCGro	S	S	S	-16.2	-15.0	-16.6	17.50	25.8	1.02	FSW	
66	37	-	CRIMX	CRM Mid Cap Value Ins	MCVal	H	H	H	-18.7	-15.9	-11.5	15.13	-	-		
67	64	37	WPSRX	Westport Small Cap R	SCVal	S	S	S	-16.0	-16.0	-15.3	15.96	-	-	FSW	
68	58	26	OAKLX	Oakmark Select (closed) (2%r<90d)	MCVal	S	S	S	-15.1	-16.0	-16.9	22.55	26.2	0.83	FSW	

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

Advice: B=Buy, H=Hold, S=Sell, (B), (H), (S)= 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	7/19 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	-	-	-	CRMMX	CRM Mid Cap Value Inv	MCVal	S	S	S	-18.7	-16.0	-11.7	15.06	-	-	FSW
70	68	102	-	MGRIX	Marsico Growth & Income	G&I	H	H	H	-15.8	-14.5	-20.3	11.98	29.7	1.08	FSW
71	-	-	-	WBSNX	WmBlair S-C Growth N (1%r<60d)	SCGro	S	S	S	-15.5	-16.8	-15.2	13.27	-	0.95	FSW
72	43	-	-	SSEAX	State Street Mid-Cap Value (5.75%)	MCVal	S	S	S	-19.1	-16.1	-14.4	13.82	21.3	0.71	fsw
73	53	99	-	ACBGX	Bonnel Growth Fund (.25%r<30d)	MCGro	S	S	S	-17.9	-15.0	-19.0	11.56	43.9	1.10	fsw
74	87	100	-	GABAX	Gabelli Asset	MC	S	S	S	-14.5	-16.1	-21.5	26.90	17.2	0.76	FSW
75	71	38	-	OAKMX	Oakmark Fund	MCVal	S	S	S	-16.1	-16.5	-18.5	29.04	20.6	0.59	FSW
76	150	162	-	LMOPX	Legg Mason Opportunity Trust	MC	S	S	S	-11.2	-16.0	-27.3	7.98	-	-	-
77	41	-	-	BPMCX	Boston Partners Mid Cap Value	MCVal	S	S	S	-18.7	-16.9	-14.0	9.02	18.3	0.76	FSW
78	65	45	-	PRFDX	T. Rowe Price Equity-Income	LCVal	S	S	S	-17.0	-16.0	-19.2	19.22	16.7	0.53	fsw
79	92	103	-	VEXMX	Vanguard Extended Market Index	MC	S	S	S	-14.4	-17.4	-20.7	18.51	31.4	1.17	fsw
80	102	134	-	SLASX	Selected American Shares	LCVal	S	S	S	-13.6	-17.9	-21.8	24.84	20.5	0.92	sW
81	74	47	-	NAESX	Vanguard SmallCap Index+	SC	H	H	H	-16.1	-17.6	-19.4	15.88	26.7	0.87	fsw
82	84	65	-	SSHFX	Sound Shore	MCVal	S	S	S	-16.4	-17.1	-21.4	24.55	18.4	0.60	sW
83	83	66	-	KAUFX	Federated Kaufmann Fund+ (0.2%)	MCGro	S	S	S	-16.2	-18.2	-19.3	3.47	33.5	0.86	FSW
84	78	74	-	MPSCX	MSI Small Cap Value (closed)	SCVal	S	S	S	-16.0	-17.1	-22.3	14.21	25.5	0.77	fsw
85	95	87	-	FEQTX	Fidelity Equity-Income II	G&I	S	S	S	-15.0	-17.9	-21.9	16.75	17.2	0.74	Fsw
86	104	140	-	PFLVLX	Preferred Value	LCVal	S	S	S	-14.5	-17.4	-24.3	14.87	19.5	0.79	w
87	29	42	-	WGROX	Wasatch Core Growth+ (closed,2%r<60d)	SCGro	(S)	(S)	(S)	-21.4	-15.0	-20.4	28.10	29.2	0.95	FSW
88	89	105	-	FEQIX	Fidelity Equity-Income	LCVal	S	S	S	-16.3	-17.9	-22.5	38.75	18.4	0.74	Fsw
89	79	68	-	VEIPX	Vanguard Equity-Income	LCVal	S	S	S	-16.9	-18.3	-21.3	17.95	16.0	0.55	fsw
90	172	213	-	GINLX	Gintel Fund (2%r<45d)	MC	S	S	S	-11.0	-15.6	-37.2	9.19	49.8	1.20	fsW
91	122	86	-	NCTWX	Nicholas II	MCVal	S	S	S	-14.9	-19.7	-22.0	15.42	21.3	1.00	w
92	110	107	-	FIHX	INVESCO Core Equity	LC	S	S	S	-14.5	-19.0	-24.2	9.53	15.3	0.72	FSW
93	81	115	-	FDFFX	Fidelity Independence (ret.only)	LCGro	S	S	S	-17.9	-18.5	-20.8	12.91	42.4	1.24	FSW
94	76	121	-	VWNFX	Vanguard Windsor II	LCVal	S	S	S	-17.4	-17.8	-23.5	20.40	18.5	0.65	fsw
95	2	-	-	CGMFX	CGM Focus	SCVal	*	(H)	(H)	-23.6	-19.4	-10.7	18.71	55.1	0.02	fsw
96	91	133	-	SCDUX	Scudder Large Co Value	LCVal	*	S	S	-16.5	-17.8	-25.4	18.08	18.2	0.70	FSW
97	101	77	-	RPMGX	T. Rowe Price Mid Cap Growth	MCGro	S	S	S	-17.3	-19.4	-21.3	30.27	24.5	1.12	fsw
98	133	126	-	FDCAX	Fidelity Capital Appreciation	MC	S	S	S	-13.9	-19.6	-25.9	16.26	31.5	1.26	fsw
120	117	70	-	VWNDX	Vanguard Windsor	LCVal	H	H	H	-15.9	-21.4	-24.5	11.80	23.3	0.86	fsw
183	201	158	-	VHCOX	Vanguard Cap Opp (\$25,000&1%r<5yr)	MCGro	H	S	S	-13.3	-28.6	-34.3	16.49	38.1	1.06	fsw

Dow Jones
NASDAQ
S&P 500

-15.5% -17.3% -23.8%
-11.9 -31.7 -35.5
-16.9 -24.8 -30.2

indexes do not
include dividends

International Stock Funds

1	2	-	MACSX	Matthews Asia Growth&Income (2%r<90d)	Pacific	B	B	B	-0.3%	11.2%	22.0%	\$10.72	14.4	-	FSW
2	5	1	FSEAX	Fidelity SE Asia (3%&1.5%r<90d)	Pacific	*	B	B	0.9	7.1	17.2	11.84	38.5	-	fsw
3	4	8	PRASX	T. Rowe Price New Asia	Pacific	*	B	B	0.9	7.7	15.4	6.68	33.6	-	fsw
4	1	2	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	B	B	B	-4.3	8.0	15.4	12.46	25.6	-	FSW
5	3	3	MAPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	*	B	B	-2.4	6.5	15.3	9.33	47.1	-	FSW
6	25	56	SJPNX	Japan Fund (Scudder) (2%r<180d)	Japan	*	H	H	4.4	12.7	-11.6	7.20	31.4	-	FSW
7	21	58	MJFOX	Matthews Japan Fund (2%r<90d)	Japan	*	H	H	3.1	13.4	-13.6	10.25	-	-	FSW
8	6	6	SCOPX	Scudder Pacific Opportunity (2%r<1yr)	Pacific	*	B	B	0.0	4.5	12.5	9.28	33.5	-	FSW
9	-	-	DRFMX	Dreyfus Emerging Market (1%r)	intl	*	(H)	(H)	-3.0	5.5	14.0	12.19	21.8	-	FSW
10	30	59	FJPNX	Fidelity Japan (3%&1.5%r<90d)	Japan	*	H	H	4.1	10.7	-15.7	9.71	34.8	-	Fsw
11	16	35	FPBFX	Fidelity Pacific Basin (3%&1.5%r<90d)	Pacific	*	B	B	1.2	7.3	-3.3	14.60	30.0	-	Fsw
12	9	4	FEMKX	Fidelity Emerg Mkts (3%&1.5%r<90d)	Int'l	*	B	B	-1.3	1.8	10.4	8.09	32.9	-	fsw
13	24	54	VPAEX	Vanguard Pacific Stock Index	Pacific	*	(B)	(B)	-0.2	6.1	-12.5	6.76	24.7	-	fsw
14	13	5	VEIEX	Vanguard Emerg Mkts Stk Index (0.5%r)	Int'l	*	H	H	-3.1	0.1	6.6	8.43	32.3	-	fsw
15	15	7	MNEMX	Montgomery Emerg Mkts (closed)	Int'l	*	H	H	-2.1	-0.6	6.0	8.70	31.6	-	FSW
16	12	18	BJBIX	Julius Baer Intl. Equity A	Int'l	B	B	B	-3.3	1.7	0.1	20.94	28.8	-	FS
17	28	57	PRJPX	T. Rowe Price Japan	Japan	*	H	H	0.3	5.0	-16.7	6.10	28.6	-	s
18	8	19	PFIFX	Preferred International	Int'l	B	B	B	-3.8	2.4	-4.0	11.59	17.4	-	w
19	7	11	OAKIX	Oakmark International (2%r<90d)	Int'l	(H)	(H)	(H)	-6.0	1.4	-0.9	14.77	24.3	-	FSW
20	11	-	FIVFX	Fidelity Aggressive Intl. (1%r<30d)	intl	(H)	(H)	(H)	-5.7	-1.2	1.9	11.85	25.6	-	Fsw
21	18	25	FIGRX	Fidelity International G & I	Int'l	H	H	H	-3.7	-0.3	-4.6	18.38	22.0	-	Fsw
22	17	22	FDIVX	Fidelity Diversified Inter'l (1%r<30d)	Int'l	H	H	H	-4.8	-1.8	-5.4	18.33	20.4	-	Fsw
23	22	50	VNEPX	Vontobel International Equity (2%r<90d)	Int'l	H	H	H	-3.6	-0.4	-10.6	12.39	21.1	-	FSW
24	29	30	CMISX	Columbia International Stock	Int'l	H	H	H	-1.9	-2.9	-10.4	11.35	22.2	-	fsw
25	10	-	OAKGX	Oakmark Global (2%r<90d)	Global	H	H	H	-8.8	-4.2	2.2	12.81	-	-	FSw
26	32	46	ICHKX	Investec China & Hong Kong	Pacific	*	H	H	-3.0	-2.3	-12.4	11.20	39.2	-	FSW
27	14	16	HAINX	Harbor International	Int'l	(H)	(H)	(H)	-8.3	-2.2	-5.1	28.48	17.8	-	sw
28	19	20	USIFX	USAA International	Int'l	H	H	H	-7.3	-5.6	-8.3	15.48	18.1	-	fw
29	47	39	FOSFX	Fidelity Overseas (1%r<30d)	Int'l	S	S	S	-4.5	-6.3	-14.1	24.84	20.7	-	Fsw
30	23	9	LLINX	Longleaf Partners International	Int'l	S	S	S	-8.0	-5.6	-11.0	11.51	-	-	fsw
31	27	-	GIGRX	Gabelli Intl. Growth	intl	S	S	S	-5.7	-5.4	-15.6	12.64	21.0	-	FSW
32	26	21	ARTIX	Artisan International	Int'l	H	H	H	-6.1	-6.9	-11.5	16.73	32.6	-	FSW
33	36	44	PRIDX	TR Price Intl Discovery (closed,2%r<1yr)	Int'l	S	S	S	-3.8	-6.4	-17.2	17.51	37.1	-	fsw
36	33	28	VWIGX	Vanguard International Growth	Int'l	H	H	H	-5.8	-8.7	-13.1	13.36	17.6	-	fsw
39	20	10	TBGVX	Tweedy, Browne Global Value	Global	H	H	H	-9.5	-7.9	-12.5	17.07	14.6	-	fsw

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FUND SCORECARD & RECOMMENDATIONS

Specialty Funds

RANK	7/19 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	-	4	USERX	United Services Gold Shares (.25%r<30d)	Gold	*	*	*	-12.4%	56.7%	78.1%	\$4.95	36.40	0.69	sw	
2	-	1	BGEIX	Amer. Cent. Global Gold (1%r<60d)	Gold	*	*	*	-5.1	41.2	69.2	8.17	45.30	0.69	fsw	
3	-	2	USAGX	USAA Precious Metals & Minerals	Gold	*	*	*	-4.6	39.2	69.5	9.98	46.80	0.87	w	
4	-	7	SCGDX	Scudder Gold	Gold	*	*	*	-4.1	41.1	53.1	10.20	36.70	0.74	FSW	
5	-	6	FGLDX	INVESCO Gold (3%)	Gold	*	*	*	-2.3	38.0	57.8	2.54	39.20	0.72	FSW	
6	-	3	FSAGX	Fidelity Sel Gold (3%&.75%r<30d)	Gold	*	*	*	-3.1	33.6	59.8	21.21	49.20	0.89	fsw	
7	-	5	VGPMX	Vanguard Precious Metals (closed,1%r<1yr)	Gold	*	*	*	-6.4	19.6	42.8	10.79	43.10	0.87	fsw	
8	-	9	STMDX	Stratton Mthly Div REIT (1.5%r<120d)	RealEs	*	*	*	-8.8	3.4	7.8	26.11	14.50	0.21	fsw	
9	-	11	FRESX	Fidelity Real Est Investment (.75%r<90d)	RealEs	*	*	*	-9.4	1.4	2.3	18.13	15.10	0.21	Fsw	
10	-	10	VGSIX	Vanguard Special REIT Index (1%r<1yr)	RealEs	*	*	*	-9.8	-0.1	2.4	11.83	14.40	0.17	fsw	
11	-	12	CSRSX	Cohen & Steers Realty Shares (1%r<180d)	RealEs	*	*	*	-9.6	0.2	0.1	43.37	16.20	0.25	FSW	
12	-	15	VGENX	Vanguard Sp Energy (1%r<1yr)	Energy	*	*	*	-12.5	0.7	-0.4	23.40	32.00	0.70	fsw	
13	-	8	CGMRX	CGM Realty	RealEs	*	*	*	-18.4	1.5	4.5	13.53	15.80	0.26	fsw	
14	-	26	RSCOX	RS Contrarian	Altern	*	*	*	-13.4	-0.1	-10.8	9.67	23.50	0.72	FSW	
15	-	13	MERFX	Merger Fund	Altern	*	*	*	-5.2	-9.4	-10.0	13.45	5.42	0.13	FSW	
16	-	29	FSTEX	INVESCO Energy	Energy	*	*	*	-16.7	-3.6	-10.7	15.39	46.20	0.90	FSW	
17	-	25	FSENX	Fidelity Sel Energy (3%&.75%r<30d)	Energy	*	*	*	-15.7	-9.0	-15.8	19.78	33.40	0.78	fsw	
18	-	16	GATEX	Gateway Fund	Altern	*	*	*	-10.5	-13.8	-15.6	18.92	7.00	0.32	FSW	
19	-	14	VGHGX	Vanguard Sp Health Care (\$25k&1%r<5yr)	Health	*	*	*	-14.4	-16.3	-17.3	95.60	19.10	0.47	fsw	
20	-	22	FIDSX	Fidelity Sel Fin'l Serv (3%&.75%r<30d)	FinServ	*	*	*	-15.3	-15.8	-18.5	85.31	27.40	0.94	fsw	
21	-	27	RYEIX	Rydex Energy	Energy	*	*	*	-16.2	-14.2	-22.5	8.40	27.50	0.64	fsw	
22	-	21	FSFSX	INVESCO Financial Serv	FinServ	*	*	*	-14.7	-16.7	-20.3	22.63	26.90	0.93	FSW	
23	-	23	RYFIX	Rydex Financial Services	FinServ	*	*	*	-17.1	-15.8	-20.2	8.16	28.80	1.05	fsw	
24	-	19	FHLSX	INVESCO Strategic Health Science	Health	*	*	*	-15.3	-20.4	-23.6	37.90	36.50	0.43	FSW	
25	-	18	POSCX	Potomac Small Cap Plus	Levrgd	*	*	*	-20.5	-21.9	-24.8	8.20	-	-	FSW	
26	-	28	VGSUX	Vanguard Utilities Income	Utility	*	*	*	-17.9	-21.5	-30.5	8.99	14.30	0.26	fsw	
27	-	20	FSPHX	Fidelity Sel Health Care (3%&.75%r<30d)	Health	*	*	*	-18.7	-25.8	-28.3	88.62	20.00	0.40	fsw	
28	-	17	RYHIX	Rydex Health Care	Health	*	*	*	-20.5	-28.6	-30.9	8.00	19.60	0.41	fsw	
29	-	37	FSTUX	INVESCO Utilities	Utility	*	*	*	-16.9	-26.0	-42.9	7.91	17.60	0.57	FSW	
30	-	33	FSPTX	Fidelity Sel Technology (3%&.75r<30d)	Tech	*	*	*	-9.0	-34.6	-40.5	39.15	72.30	2.02	fsw	
31	-	34	FIUIX	Fidelity Utilities	Utility	*	*	*	-17.2	-33.7	-43.2	8.66	20.40	0.83	Fsw	
32	-	32	RYTIX	Rydex Technology	Tech	*	*	*	-11.4	-38.6	-43.9	7.40	52.80	1.85	fsw	

Bond Funds

RANK	7/19 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	SCSTX	Scudder Short Term Bond	*	*	*	0.6%	1.7%	4.5%	\$10.63	0.76	3.59%	2.6	1.7	FSW	
2	VFSTX	Vanguard Short Term Corporate	*	*	*	-0.6	0.9	3.8	10.70	0.73	4.86	2.7	2.2	fsw	
3	FSHBX	Fidelity Short Term Bond	*	*	*	-0.2	0.1	2.5	8.81	0.83	4.32	2.6	1.8	Fsw	
Intermediate Term															
1	VFITX	Vanguard Fix-Inc Intm. Treas.	*	*	*	1.6	5.3	9.1	11.43	1.40	4.34	7.5	5.3	fsw	
2	FGOVX	Fidelity Government Income	*	*	*	0.9	2.5	5.2	10.27	1.50	4.09	8.9	5.0	Fsw	
3	VBMFX	Vanguard Total Bond Market Index	*	*	*	-0.5	1.7	4.9	10.18	1.24	5.58	8.0	4.3	fsw	
High Yield ("Junk")															
1	NTHSX	Northeast Investors Trust	*	B	*	-1.8	5.6	1.4	7.51	7.34	8.52	6.0	-	fsw	
2	PRHYX	T. Rowe Price High Yield	B	B	*	-2.5	-1.6	1.8	6.29	1.72	9.18	7.3	4.2	fsw	
3	BUFHX	Buffalo High-Yield	B	B	*	-1.4	-0.8	-2.4	9.49	6.95	7.78	6.8	4.3	fsw	
4	CMHYX	Columbia High Yield	B	B	*	-2.2	-3.1	0.4	8.35	-	7.80	6.0	4.1	FSW	
5	VVEHX	Vanguard High Yield Corporate	B	B	*	-3.7	-3.2	-1.0	5.89	1.52	9.31	6.6	4.4	fsw	
6	SPHIX	Fidelity High Income	B	B	*	-4.4	-6.1	-6.5	7.35	1.28	9.69	5.8	5.1	Fsw	
7	FHYPX	INVESCO High Yield	*	*	*	0.8	-6.3	-18.4	3.17	1.49	10.98	5.0	3.3	FSW	
8	STHYX	Strong High Yield Bond(1%r)	*	B	*	-6.2	-11.7	-11.1	6.73	8.06	10.82	5.7	3.9	FSW	
Zero Coupon															
	BTTRX	Benham 2025	*	*	*	0.0	2.3	3.3	33.43	-	-	-	-	FSW	
Tax-Free Alternative															
1	VWITX	Vanguard Muni Bond-Intermed	*	*	*	1.0	3.2	5.5	13.65	1.37	3.55	6.0	4.8	fsw	
2	SRIMX	Liberty-SteinRoe Inter. Muni	*	*	*	1.1	2.7	3.6	11.51	1.32	3.65	8.4	6.1	FSW	
3	FLTMX	Fidelity Spartan Intermed Muni	*	*	*	0.7	1.6	4.2	10.15	1.50	3.47	7.5	5.0	Fsw	
International															
1	BEGBX	American Century Intl Bond	*	*	*	6.4	15.0	19.1	11.56	2.57	3.05	-	-	FSW	
2	RPIBX	T. Rowe Price Intl Bond	*	*	*	7.0	14.5	15.1	8.92	2.29	3.04	9.2	6.3	fsw	
3	PYGFX	Payden Global Fixed Income	*	*	*	0.9	2.2	5.3	10.02	3.34	3.28	8.0	5.2	fsw	
Strategic Income															
1	JAFIX	Janus Flexible Income	*	*	*	-0.1	0.1	2.1	9.31	1.42	5.04	8.4	5.6	FSW	
2	RPSIX	T. Rowe Price Spectrum Income	*	*	*	-1.4	-0.3	0.2	10.50	1.16	5.23	-	-	fsw	
3	FNMIK	Fidelity New Markets Income	*	*	*	-0.7	-2.9	1.8	10.81	7.15	7.45	-	-	Fsw	

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

MONEY FUND UPDATE

Taxable Yields Flat During Second Quarter

With the stock markets continuing to test the mettle of investors, there has been a \$35 billion increase in money market fund assets over the last three weeks according to the Investment Company Institute. The increase has nothing to do with money fund yields, which dipped by three basis points (0.03 percent) during the Second Quarter, reflecting Federal Reserve policy that was articulated in March. The Fed, at that time, said that a "proper balance" had been achieved with the federal funds rate at 1.75%.

iMoneyNet's Money Fund Report Averages/All Taxable 7-day yield (MFA) stood at 1.33% as of the end of the quarter. On the tax-free side, the All Tax-Free 7-day yield dropped by 10 basis points and stood at 0.91%.

For investors in the two highest tax brackets (38.6% and 35% for 2002) it may make sense to consider a tax-free fund. For example, looking at the highest tax bracket the taxable equivalent yield for the average tax-free fund is 1.48% (versus the 1.33% Taxable MFA). For lower tax brackets (30%, 27%, 15% and 10% for 2002) you'd be better off in the average taxable fund. Two things to remember: 1) if you shop, you can find above average funds, but at this yield level the potential advantage is significantly diminished; 2) double and triple tax-free funds (i.e. exempt from state and/or local taxes) can also provide an edge for investors in certain states or municipalities.

To calculate whether taxable or tax-free funds make sense for you, use this formula:

$$\text{Taxable Equivalent Yield} = \frac{\text{Tax-Free Yield}}{1 - \text{tax bracket}}$$

MONEY FUND YIELDS

	1/1/02	3/26/02	7/2/02
7-Day All Taxable MFA	1.59%	1.36%	1.33%
7-Day All Tax-Free MFA	1.23%	1.01%	0.91%

Source: iMoneyNet's Money Fund Report, (800) 343-5413.

MANAGED ACCOUNTS

For information on the "MONEYLETTER Managed Account" Program¹, call Principal Resource Inc. toll-free at (800) 707-2060. Ask about PRI's free, no-obligation portfolio review.

Minimum investment is \$100,000.

¹As an independent Registered Investment Advisor, Principal Resource Inc. will exercise discretion with regard to asset allocation and fund selection and may make investment decisions for client accounts that differ from recommendations found in MONEYLETTER.

TOP-YIELDING MONEY FUNDS 7

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	1.50%	1.54%	2.34%
Fidelity Spartan US Treas MMF	1.48	1.47	2.23
Gabelli US Treasury MMF	1.47	1.49	2.23
CMA Treasury Fund	1.39	1.40	1.93
T Rowe Price US Treasury MF	1.37	1.37	2.17
Amer Century Capital Presv Fund/Inv	1.33	1.34	2.16
Prudential Govt Sec Tr/US Treas/CI A	1.31	1.32	1.95
Dreyfus 100% US Treas MMF	1.25	1.25	2.06
Schwab US Treasury Money Fund	1.17	1.17	1.96
DBAB Cash Reserve Treasury	1.13	1.18	1.89

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	1.92%	1.93%	-
RBB MMP/Sansom Street Class	1.82	1.93	2.44%
Touchstone Money Market Fund	1.78	1.81	2.49
Flex-fund Money Market Fund	1.68	1.66	2.37
TIAA-CREF Money Market Fund	1.66	1.66	2.39
SSgA Money Market Fund/CI A	1.64	1.65	2.33
Bunker Hill MMF	1.63	1.65	2.44
Dreyfus BASIC MMF	1.63	1.65	2.56
Aon Funds/Money Market Fund	1.60	1.60	2.19
McMorgan Principal Preservation Fund	1.59	1.59	2.41
Schwab Value Advantage MF/Inv	1.59	1.61	2.32
Vanguard Prime MMF/Retail	1.59	1.65	2.46

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Vanguard Tax-Exempt MMF	1.23%	1.30%	1.77%
Strong Tax-Free Money Fund	1.22	1.23	1.75
Scudder YieldWise Muni MF	1.16	1.18	1.77
Strong Municipal MMF	1.15	1.19	1.81
T Rowe Price Summit Muni MMF	1.10	1.17	1.65
USAA Tax Exempt MMF	1.07	1.13	1.60
Dreyfus BASIC Muni MM Portfolio	1.05	1.09	1.55
Fidelity Municipal MMF	1.05	1.10	1.59
Scudder Tax-Exempt Money Fund	1.02	1.07	1.55
Amer Century T-F MMF/Inv Class	0.98	1.12	1.51

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	1.28%	1.33%	1.81%
Vanguard NY Tax-Exempt MMF	1.15	1.20	1.65
Vanguard CA Tax-Exempt MMF	1.14	1.23	1.64
Vanguard PA Tax-Exempt MMF	1.11	1.18	1.73
Vanguard NJ Tax-Exempt MMF	1.10	1.17	1.68
USAA Tax Exempt CA MMF	1.05	1.10	1.57
Fidelity FL Municipal MMF	0.96	1.03	1.51
Fidelity OH Municipal MMF	0.96	1.02	1.55
Fidelity PA Municipal MMF	0.93	0.96	1.51
Touchstone OH Tax-Free MMF/Retail	0.92	0.98	1.48

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 7/16/02. 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.
07/09/02	1.49%	1.30%	54 days
07/16/02	1.47%	1.29%	55 days

Signal Portfolio Status = 100% in Domestic Stock Funds

Dreyfus Emerging Markets Finding Value in Risky Markets

India, Mexico, South Korea, South Africa, and Poland. Most investors would agree these are risky markets in which to invest. After all, a few years ago the devaluation of Asian currencies and the Russian debt crisis took a severe toll on these markets. But today, some managers see the worst as past, and cite significant opportunities in these emerging market nations.

D. Kirk Henry, manager of Dreyfus Emerging Markets since its inception in June 1996, asserted that a lot of the currency problems in emerging markets are a thing of the past. Most currencies today float freely, or are no longer pegged to the dollar. And many of these nations are very competitive globally, even running trade surpluses.

But that doesn't mean he'll buy just anything. Acknowledging the still very risky nature of these areas, Henry invests the fund using a value approach—by investing in stocks with relatively low price valuations, helping to dampen the volatility of the fund. Moreover, diversification is key. The fund will not invest more than 25% of assets into securities from any one emerging market.

Selection parameters

As stated above, valuation is one key parameter. A stock must be selling at a low price/earnings or price/book ratio. Specifically, a stock must be in the cheapest 40% of its market and be less expensive than the majority of its global competitors. The business must also be "healthy," i.e., financially strong when assessed by traditional measures such as return on assets and return on equity.

But we all know that sometimes, value stocks are value stocks for a good reason, and will remain value stocks. So the third prong in Henry's approach is to look for that catalyst for business momentum, whether it is a corporate restructuring, management change, spin-off, etc. The bottom line: he favors stocks that are inefficiently priced by the market.

Henry's approach is definitely bottom-up. He does not target either specific nations or industry sectors. Whatever stocks he finds determines the portfolio breakdown by nation and industry. However, as alluded to earlier, he is cognizant not to let the portfolio get too heavy in any one area.

Top Five Sector and Holdings (% of Assets)

Banking	14	Korea Electric Power	3.1%
Telecommunications	13	Telefonos De Mexico	2.5
Utilities	8	Petroleo Brasileiro	1.9
Metals	5	Kimberly-Clark De Mexico	1.7
Energy Equip. & Serv.	4	SK	1.7

as of May 31, 2002

Current attractions

Recently, Henry has been finding a lot of opportunities in India, which has been sporting very cheap valuations. He stated that a recent good farming season aided consumer spending, and hence the economy. South Korea leads the list in country exposure, and the fund's largest holding—Korea Electric Power—is the largest electric utility in that nation.

The fund also has a fair amount of exposure to Latin America, but that is concentrated in Brazil and Mexico. Brazil has offered opportunities as stocks there were dragged down with concerns about Argentina, but Henry does not see that as significant to Brazil in the long term. Otherwise, Henry said that he just has not been finding suitable investments elsewhere in the region.

Top Five Sector and Country Allocations (% of Assets)

South Korea	15.5%	South Africa	7.6%
India	11.3	China	3.5
Brazil	10.2	Thailand	3.4
Taiwan	10.2	Israel	3.1
Mexico	9.6	Poland	2.8

Henry's adherence to value techniques, willingness to lock in profits when stocks get ahead of themselves, and commitment to diversification has been a recipe for a winning fund. The fund has consistently outpaced its bogey, the MSCI-EMF (Morgan Stanley Capital International Emerging Markets Free Index) as well as its average peer. And it has bested its average peer, according to Morningstar, with far less volatility. We would expect more of the same. The fund has a 1% redemption charge. \$

Dreyfus Emerging Markets (DRFMX)

Dreyfus, 144 Glenn Curtiss Blvd.

Uniondale, NY 11556-0144

Minimum investment: \$2,500; \$750 IRA

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