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Taking No Prisoners The Third Quarter Review

by Walter S. Frank, Chief Investment Officer

We all know that the quarter just ended (June 29-September 30) was a brutal one for the stock market. But it is hard to realize, following the market on a daily or weekly basis as most of us do, just how devastating the cumulative effects of the bear market were over those last three months. The effects bit very deeply and left their mark. Much of today's thinking about stocks, bonds and other investments was basically formed over those three months.

It is hard to realize now that before those awful three months six of our nine portfolios were showing gains, and the three losing portfolios were showing losses of less than 2.0%. But then came the toboggan slide sweeping all before it. In fact, one characteristic of this phase of the bear market was that there was no place to hide. Everything was swept away by the bear market tide, except the traditional bear market funds and gold. Even real estate was unable to counter the tide.

A few facts will illustrate what we have just gone through. As The New York Times reported, "To find a worse period for domestic equity mutual funds, you need to go back ... to the third quarter of 1981." (Just to remind you, that was the period when the T-bill rate went to 14.0%.) "Of the more than 8,000 domestic stock funds tracked by Morningstar, only 86 posted positive returns and the vast majority were so-called bear market funds." Only one three-month period was worse, again the infamous third quarter of 1981.

So much for the tale of woe. More important is why it happened. There was not one big cause as in 1981 (the Fed), but a number of things coming together. Most important, in our eyes, is that the recovery which looked so promising earlier this year (hard to remember now), hit the wall in July.

And as the second quarter earnings were released in July, business had little good to say about the outlook. We had been writing earlier about the disconnect between the better economic news and the skeptical market. It turned out the skeptics had it right. In this instance, better listen to business than to the economic reports.

Of course, there was more than just the economy to worry about. The accounting scandals were in the air. Iraq moved front and center during the summer. Everything took its toll after a long two-year bear market had already depressed spirits.

MONEYLETTER's portfolios

As we implied earlier, the plunging market did not spare the *MONEYLETTER* portfolios. As Table 1 (on page 2) shows our portfolios were down over the quarter anywhere from 8.5% to 13.2%, ugly numbers without a doubt. The losses came despite the fact that we took defensive action by cutting our domestic equity allocation sharply in mid-June.

However the losses have to be put into context. During the quarter, the Vanguard 500 Index lost 17.2%, while the Lipper Small Cap Core Funds Index lost 19.4% and the Mid-Cap Core Index lost 16.6%. For most of our portfolios the performance was considerably better. We recognize that doing better than the indexes, while still losing, is cold comfort. But one goal of our approach is to do better in down markets.

Looking at the individual portfolios, a pattern clearly emerges. The *MONEYLETTER* all-family portfolios outperformed the individual family portfolios, and this pattern has been true all year. At the same time, the Vanguard family portfolios were the worst performers, and this pattern too has been true all year.

Another pattern that emerges is that the Conservative portfolios lost less than the other portfolios in their grouping, while the Venturesome lost more. This is as it should be. In a losing period, the higher risk portfolios should lose more than the lower risk portfolios. However, the differences were not as great as we would expect them to be, and that is explained by the peculiar nature of the market's behavior last quarter.

The "reverse" effect

Here is what we mean by peculiar. Prudential Securities performed an autopsy on the Russell 2000 Index, taking the Russell 2000 Growth Index and the Russell 2000 Value Indexes and slicing them into four segments based on forecasted long-term earnings growth rates.

What did they find? During the last quarter, stocks in the indexes with forecasted growth rates better than 20% had the greatest rate of decline. Stocks with the lowest rate of forecasted earnings growth, 10% or less, had the smallest losses. This was

(continued on page 2)

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)

true for value as well as for growth, and the differences in performance between high and low growth were substantial.

This turns everything we believe about investing on its head. Why should fast growers in the same asset class lose more than slow growers. The only conclusion we can come to is that there was a great deal of indiscriminate dumping of what appeared to be the more attractive issues when the year began. As doubts about the economy grew, so too did doubts about forecasted growth rates, and out went the stocks as the market slid.

We saw this "reverse" effect working on our portfolios. Our domestic equity funds were basically small- and mid-cap funds. The funds had provided the gains that put the majority of our portfolios in the black even as late as June 30. When the selling came that hit the small caps so hard between June and September we chalked it up to profit-taking. It was that all right, and more.

Vanguard

One fact that stands out is the trailing performance of the Vanguard family portfolios compared to the other portfolios. We've commented on this in other quarterly reviews. The difficulty is with the lineup of Vanguard funds.

The financial press has commented on the relative poor performance of the family's actively managed funds, and that has presented a problem for us. We are perfectly prepared to go into the index funds, but they too present a problem in a declining market. Earlier in the year, when small-cap stocks were doing well, Vanguard Small-Cap Index was a standout. But when the dumping of better performing small-cap stocks began, that index fund headed south. As an index fund it was fully invested and could not take defensive action.

Vanguard is clearly aware of the lineup problem and has been adding new funds, rather actively this year. This will help. Also, when the market turns around for a solid run, and it will, some Vanguard funds (both active and index) will shine, as they have in the past.

The earnings rally

Since the end of the quarter we have had the powerful rally that started on October 10. Table 2 shows the results for the *MONEYLETTER* portfolios through October 19. Since the end of the quarter, performance has improved by about 1.5 percentage points for all three portfolios. In our opinion, all three are within striking distance of ending the year in the black given any decent market performance between now and year-end.

It is difficult looking at the third quarter devastation not to be carried away by the risk presented by stock investments. Risk there certainly is. But at the same time, we should not forget how historically unusual the quarter was. In our eyes, we have more than compensated for the excesses of the bubble. Many on Wall Street have yet to be convinced. We think they will be before too long. \$

Table 1
2002 Third Quarter Performance

	June 28 to Sept. 30	YTD to Sept. 30
<i>MONEYLETTER</i> (all family)		
Venturesome	-10.1%	-8.3%
Moderate	-8.8	-6.8
Conservative	-8.5	-7.0
Fidelity		
Venturesome	-11.2	-10.1
Moderate	-9.8	-8.0
Conservative	-9.6	-9.7
Vanguard		
Venturesome	-13.2	-18.9
Moderate	-11.6	-18.4
Conservative	-11.1	-15.9
Vanguard 500	-17.2	-28.2

Table 2
Year-To-Date Performance

	9/30/02	10/19/02
<i>MONEYLETTER</i>		
Venturesome	-8.3%	-6.5%
Moderate	-6.8	-5.4
Conservative	-7.0	-5.7
Vanguard 500	-28.2	-20.7

MANAGED ACCOUNTS

Principal Resource Inc. (PRI) is the provider of the "*MONEYLETTER* Managed Account Program."¹ If you lack the time, discipline or patience to successfully manage your mutual fund investments, PRI can execute the strategies you see in *MONEYLETTER* for you.

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- * **E-MAIL:** info@priadvisors.com
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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*.

Keep Your Powder Dry

The powerful stock market rally since October 10th raises the issue of whether it is time to recommit some of the reserves we raised in June back into the market. We believe the answer is no, it is still too early.

At the time we recommended cutting our domestic equity allocation we laid down a few markers as guides for recommitment. One of them was that business commentary on the outlook needs to turn more positive. Commentary has improved in that it is not as negative as it was during the second quarter earnings season, but it has not yet turned positive.

Our sense along these lines has been reinforced by what we have heard from portfolio managers recently. As one portfolio manager put it, when asked what the companies he talks to are saying, "The companies are saying that business has bottomed, and more are saying business is better than the opposite." Other portfolio managers are saying something similar. This is an improvement, but we need more.

A cheap market

When these same managers (and they are all in the small-cap and mid-cap sectors) talk about valuation they stress the values that are now present in the market after last quarter's plunge. One manager said that his portfolio was trading at 11.9 times this year's earnings and 9.9 times next year's projected earnings, with prospective growth greater than that of the S&P 500. (The S&P 500 is selling at 16 times this year's earnings and 14.1 times projected earnings over the next 12 months.) Other portfolio managers had similar numbers for their portfolios.

It is because of numbers such as these that we keep repeating that the market is clearly undervalued. But as we learned during the bubble, markets can remain over- or undervalued for some period of time. What this undervalued market needs to get going is some sturdier economic numbers.

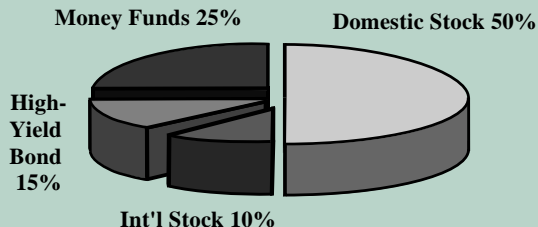
We don't think we will see such numbers before the beginning of next year. There is nothing mysterious about this. The surge in car buying we saw during the summer won't be repeated. Business spending is picking up, but slowly. An improving market will certainly bolster business confidence, but that will take time. The pickup we need is still 3-4 months away.

Portfolio changes

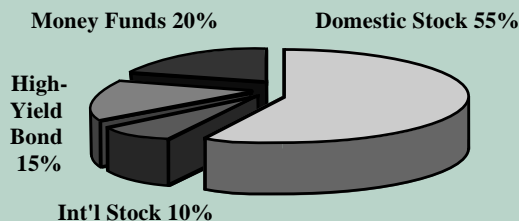
In the last issue when recommending a switch for Vanguard investors, we erroneously misnamed the fund to be purchased by the sale of Vanguard Windsor II. The fund we intended to recommend was Vanguard Strategic Equity (VSEQX) not Vanguard Select Equity (which doesn't exist). We apologize for the error.

Here are the details of the changes we made in the Vanguard family portfolios pursuant to the Hotline advice of October 8. All trades are as of Wednesday, October 9. **Vanguard Venturesome** – Sold 593 shares of Windsor II (VWNFX) @ \$18.42 per share, purchased 942 shares of Strategic Equity @ \$11.60 per share. **Vanguard Moderate** – Sold 604 shares of Windsor II, purchased 959 shares of Strategic Equity. **Vanguard Conservative** – Sold 598 shares of Windsor II, purchased 950 shares of Strategic Equity. \$

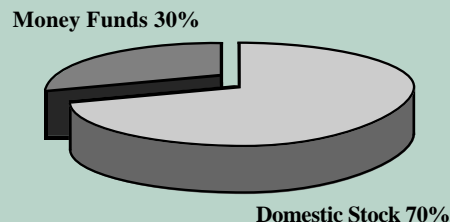
CONSERVATIVE



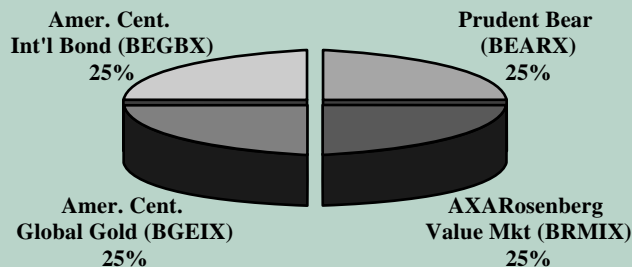
MODERATE



VENTURESOME



SELECT



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Domestic Stock Funds

RANK	10/18 2002	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE	RISK		NTF/ w/f
										1 mo.	6 mo.	12 mo.	PER SHARE	Std. Dev.	Beta	
1	-	-		BRMIX	AXA Rosenberg Value L/S (2%r<30d)	Value	(H)	(H)	(H)	-1.6%	19.3%	23.1%	\$10.89	-	-	FSW
2	1	-		HSGFX	Hussman Strategic Growth (1.5%r<180d)	MCGro	(B)	(B)	(B)	-2.1	1.7	19.4	13.46	-	-	fsw
3	2	19		YACKX	Yacktman Fund	MC	B	B	B	-3.6	-4.4	18.2	11.42	18.2	0.55	FSW
4	7	45		VUSVX	Vontobel U.S. Value (2%r<90d)	LCVal	B	B	B	2.4	-7.4	4.1	20.03	22.0	0.44	FsW
5	3	40		AVALX	Aegis Value Fund	SCVal	B	B	B	-2.0	-9.4	7.1	12.48	18.2	0.31	fw
6	20	64		TWEIX	American Century Equity Income	MCVal	B	B	B	1.8	-10.6	0.8	6.49	15.1	0.44	FSW
7	15	82		FCNTX	Fidelity Contrafund (3%)	LCGro	B	B	B	1.8	-9.7	-1.8	39.96	20.1	0.84	fsw
8	22	75		MFOCX	Marsico Focus	LCGro	B	B	B	3.9	-12.1	0.2	12.58	31.5	1.12	FSW
9	11	26		NBGNX	Neuberger Berman Genesis (closed)	SC	B	B	B	1.4	-13.8	7.9	19.52	19.6	0.62	FSW
10	28	84		MGRIX	Marsico Growth & Income	G&I	(B)	(B)	(B)	4.4	-12.9	-1.0	12.80	29.7	1.08	FSW
11	9	61		PRWCX	T. Rowe Price Cap Appreciation	LCVal	B	B	B	-1.7	-10.9	-0.2	14.11	10.7	0.24	fsw
12	13	135		VCVSX	Vanguard Convertible Securities	Convrt	B	B	B	0.8	-9.9	-7.1	10.15	20.4	0.69	fsw
13	57	46		LMASX	Legg Mason Special Investment Trust	MC	H	H	H	2.0	-18.6	8.4	28.27	30.6	1.18	w
14	38	55		DNLDX	Dreyfus New Leaders	MCGro	H	H	H	2.7	-16.4	1.0	35.33	25.2	0.92	FSW
15	39	96		STDIX	Strong Discovery	MCGro	H	H	H	2.5	-15.3	-3.6	14.43	25.1	0.83	FSW
16	10	16		RYTRX	Royce Total Return (1%r<180d)	SCVal	B	B	B	-2.4	-16.0	5.1	8.02	13.6	0.41	FSW
17	26	36		LLPFX	Longleaf Partners	MCVal	H	H	H	0.0	-16.5	1.7	22.00	20.1	0.58	fsw
18	5	7		EEQFX	Eclipse Small Cap Value	SCVal	B	B	B	-4.0	-16.4	7.5	11.49	18.6	0.75	FSW
19	12	5		BSCFX	Baron Small Cap	SCGro	B	B	B	-1.3	-18.9	8.7	13.82	28.0	1.07	FSW
20	86	219		JAVLX	Janus Twenty (closed)	LCGro	H	H	H	3.1	-12.8	-14.8	30.56	38.1	1.43	FSW
21	31	48		FITYX	Fidelity Fifty (.75%r<30d)	LC	H	H	H	-2.0	-15.2	-1.7	15.33	28.2	0.87	Fsw
22	36	52		PRNEX	T. Rowe Price New Era	LC	B	B	B	0.7	-16.7	-2.2	20.33	26.7	0.72	fsw
23	4	21		ARGFX	Ariel Fund	SCVal	B	B	B	-4.2	-15.9	2.0	34.90	18.9	0.40	FSW
24	89	148		FGRIX	Fidelity Growth & Income (3%)	G&I	H	H	H	2.4	-14.6	-11.6	31.34	16.7	0.80	fsw
25	18	14		FLPSX	Fidelity L P Stock (closed,3%&1.5%r<90)	SCVal	B	B	B	-2.5	-17.4	2.5	24.34	16.6	0.57	fsw
26	46	146		SRFBX	Liberty-SteinRoe Balanced	G&I	H	H	H	0.8	-13.7	-11.8	20.86	12.3	0.61	FSW
27	99	151		DGAGX	Dreyfus Appreciation	LC	H	H	H	3.3	-15.1	-12.0	32.41	17.6	0.80	FSW
28	75	129		FDEQX	Fidelity Disciplined Equity	LC	H	H	H	2.3	-15.8	-9.3	18.67	19.7	0.94	Fsw
29	49	114		TWCVX	American Century Vista	MCGro	*	H	H	1.2	-14.5	-11.2	9.52	52.3	1.17	FSW
30	62	81		SRFCX	Liberty-SteinRoe Capital Opp	MCGro	H	H	H	2.9	-19.1	-2.8	17.95	35.2	1.26	FSW
31	6	33		RSPFX	RS Partners	SC	*	B	B	-2.8	-18.0	2.8	16.47	-	0.59	FSW
32	52	70		TWVLX	American Century Value	MCVal	H	H	H	-0.2	-16.7	-5.0	5.91	20.4	0.59	FSW
33	14	23		BGRFX	Baron Growth	SCGro	B	B	B	-3.5	-17.2	0.5	26.70	25.4	1.06	FSW
34	23	79		MUTHX	Mutual Shares (1%) CIZ	MCVal	(B)	(B)	(B)	-1.6	-15.8	-7.1	16.78	16.6	0.62	sw
35	97	131		PFVLX	Preferred Value	LCVal	(H)	(H)	(H)	3.1	-17.0	-12.5	15.43	19.5	0.79	w
36	21	15		NBFSX	Neuberger Berman Fasciano Inv	SCGro	B	B	B	-1.9	-19.7	1.6	30.30	15.7	0.67	FSW
37	94	108		FEQTX	Fidelity Equity-Income II	G&I	H	H	H	2.6	-17.9	-9.9	17.19	17.2	0.74	Fsw
38	30	31		CAAPX	Ariel Appreciation	MCVal	H	H	H	-3.0	-18.6	-0.5	32.61	18.0	0.50	FSW
39	91	175		USAUX	USAA Aggressive Growth	MCGro	*	H	H	4.8	-18.6	-12.7	21.83	57.2	1.68	w
40	25	77		BEGRX	Mutual Beacon (1%) CIZ	MCVal	(H)	(H)	(H)	-1.7	-16.7	-8.0	11.28	15.9	0.58	sw
41	41	58		HOVLX	Homestead Value	MCVal	H	H	H	-0.5	-18.3	-6.3	21.94	18.1	0.59	fsw
42	16	6		PRSVX	T. Rowe Price S-C Value (closed,1%r<1yr)	SCVal	(H)	(H)	(H)	-2.4	-20.2	1.2	20.71	16.4	0.44	fsw
43	95	198		SGRTX	Strong Growth 20	LCGro	*	H	H	3.2	-16.8	-15.8	11.12	47.6	1.23	FSW
44	37	69		DODGX	Dodge & Cox Stock	LCVal	H	H	H	-2.2	-17.7	-5.9	84.82	19.8	0.64	sw
45	8	1		CGMFX	CGM Focus	SCVal	*	H	H	-2.5	-26.2	15.6	19.33	55.1	0.02	fsw
46	51	25		LLSCX	Longleaf Partners Smallcap (closed)	SCVal	H	H	H	-1.9	-19.7	-1.7	19.81	17.0	0.45	fsw
47	33	22		TRMCX	T.Rowe Price Mid Cap Value	MCVal	H	H	H	-1.7	-20.6	0.2	14.45	15.9	0.60	fsw
48	138	170		FDSSX	Fidelity Stock Selector	LC	H	H	H	3.4	-18.1	-13.8	16.81	20.9	0.97	Fsw
49	47	-		VSEQX	Vanguard Strategic Equity	MCGro	H	H	H	-1.1	-19.7	-3.5	12.94	17.2	0.82	fsw
50	44	88		SAOPX	Salomon Brothers Opportunity	LCVal	H	H	H	-1.7	-17.3	-8.8	39.26	16.5	0.58	sw
51	107	180		FOCPX	Fidelity OTC Portfolio	LCGro	*	H	H	5.1	-21.4	-8.7	24.11	29.1	1.57	fsw
52	81	59		OAKLX	Oakmark Select (closed) (2%r<90d)	MCVal	H	H	H	-3.1	-17.0	-7.8	23.20	26.2	0.83	FSW
53	134	183		VIGRX	Vanguard Growth Index	LCGro	H	H	H	3.1	-18.2	-14.7	20.61	24.2	1.14	fsw
54	32	92		FCVX	Fidelity Convertible Securities	Convrt	H	H	H	-1.7	-18.3	-7.5	15.76	27.4	0.89	Fsw
55	141	162		NTHFX	Northeast Investors Growth	LCGro	*	H	H	3.3	-19.2	-12.9	12.33	25.7	1.20	fsw
56	83	90		TWHIX	American Century Heritage	MCGro	H	H	H	1.6	-19.3	-10.0	9.16	32.1	0.98	FSW
57	69	98		FMILX	Fidelity New Millennium (3%) (closed)	MCGro	H	H	H	1.9	-20.9	-6.6	21.86	59.0	1.67	fsw
58	151	169		SCDGX	Scudder Growth & Income	G&I	S	S	S	3.2	-18.6	-14.5	16.61	15.8	0.75	FSW
59	149	167		FFIDX	Fidelity Fund	LC	S	S	S	3.3	-18.5	-14.9	22.63	23.2	1.05	Fsw
60	58	32		MERDX	Meridian Fund	SCGro	H	H	H	0.2	-21.4	-3.5	22.87	21.4	0.77	fsw
61	72	103		NCTWX	Nicholas II	MCVal	H	H	H	0.3	-18.7	-10.2	15.95	21.3	1.00	w
62	111	187		SGROX	Strong Growth	LCGro	H	H	H	3.7	-18.8	-15.3	13.75	43.9	1.16	FSW
63	35	66		MQIFX	Mutual Qualified (1%) CIZ	MCVal	H	H	H	-2.1	-18.3	-8.5	13.96	16.9	0.61	sw
64	82	106		SLASX	Selected American Shares	LCVal	S	S	S	0.6	-18.4	-12.4	25.32	20.5	0.92	sW
65	102	107		DRLEX	Dreyfus Premier Aggressive Growth (C1%)	MCGro	S	S	S	3.6	-21.3	-10.1	5.72	33.8	1.32	FSW
66	54	68		KAUFX	Federated Kaufmann Fund (0.2%)	MCGro	H	H	H	-0.3	-19.8	-8.0	3.56	33.5	0.86	FSW
67	29	53		CFIMX	Clipper Fund	LCVal	H	H	H	-7.1	-17.2	-4.6	74.22	15.7	0.30	sw
68	129	163		PRGFX	T. Rowe Price Growth Stock	LC	S	S	S	3.1	-19.5	-14.2	18.95	22.9	1.06	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.

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/wf: 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	10/18 2002	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative			TOTAL RETURN			PRICE PER SHARE	RISK		NTF/wtf
							Moderate	Venturesome	1 mo.	6 mo.	12 mo.	Std. Dev.		Beta		
69	126	161	FTRNX	Fidelity Trend	LC	S	S	S	2.3	-19.0	-14.2	38.67	27.3	1.16	Fsw	
70	84	141	CLSPX	Columbia Special	MCGro	*	H	H	1.1	-19.6	-11.1	15.43	37.1	0.97	FSW	
71	17	39	RYPRX	Royce Premier (1%r<180d)	SC	(H)	(H)	(H)	-4.6	-20.0	-1.8	9.12	18.7	0.62	fs	
72	135	156	DREQX	Dreyfus Growth Opp (2%r<60d)	LC	S	S	S	2.2	-19.4	-14.0	6.40	21.1	1.06	FSW	
73	90	133	TWCUX	American Century Ultra	LCGro	S	S	S	0.7	-18.9	-13.2	21.93	28.7	1.28	FSW	
74	87	83	PRFDX	T. Rowe Price Equity-Income	LCVal	S	S	S	-0.1	-19.4	-10.6	19.56	16.7	0.53	fsw	
75	106	112	PRDGX	T. Rowe Price Dividend Growth	LCVal	S	S	S	1.3	-19.6	-12.5	16.86	14.0	0.57	fsw	
76	130	157	DSEFX	Domini Social Equity Fund	LC	S	S	S	2.4	-19.6	-14.0	21.74	21.4	1.05	w	
77	109	159	BEQGX	American Century Equity Growth	LCVal	S	S	S	0.7	-18.7	-13.8	15.19	20.8	1.03	FSW	
78	56	34	SMCDX	Strong Mid Cap Disciplined	MCVal	S	S	S	-1.6	-22.7	-0.7	14.48	23.4	0.92	FSW	
79	66	-	WBSNX	WmBlair S-C Growth N (1%r<60d)	SCGro	S	S	S	0.2	-22.8	-3.3	12.87	-	0.95	FSW	
80	59	50	WPSRX	Westport Small Cap R	SCVal	H	H	H	-1.6	-20.9	-5.6	15.92	-	-	FSW	
81	157	174	FMAGX	Fidelity Magellan (3%)	LC	S	S	S	2.7	-19.3	-16.2	81.00	22.3	1.06	fsw	
82	152	150	FDGFX	Fidelity Dividend Growth	LC	S	S	S	2.1	-19.5	-14.9	22.24	19.2	0.84	Fsw	
83	71	47	VIMSX	Vanguard Mid-Cap Index	MC	H	H	H	-0.6	-22.5	-3.7	9.84	26.2	1.02	fsw	
84	114	168	VMRGX	Vanguard/Morgan Growth	LC	S	S	S	2.1	-20.0	-13.9	11.33	26.7	1.22	fsw	
85	140	176	TWCIX	American Century Select	LCGro	S	S	S	2.9	-19.2	-17.1	29.19	21.1	1.00	FSW	
86	48	43	BEMVX	Berger Mid Cap Value	MCVal	(S)	(S)	(S)	-2.2	-21.5	-4.0	14.09	23.3	0.80	FSW	
87	115	158	JAGIX	Janus Growth & Income	G&I	S	S	S	2.3	-19.9	-15.2	23.75	25.7	1.02	FSW	
88	116	160	VQNPX	Vanguard Growth & Income	G&I	S	S	S	1.2	-19.6	-14.4	22.23	20.9	1.02	fsw	
89	73	49	PESPX	Dreyfus Mid Cap Index	MCGro	S	S	S	-0.6	-22.6	-4.1	17.59	25.8	1.02	FSW	
90	67	113	NICSX	Nicholas Fund	LC	H	H	H	-1.6	-18.8	-12.2	43.56	18.4	0.90	w	
91	101	100	VEIPX	Vanguard Equity-Income	LCVal	S	S	S	0.5	-19.8	-12.9	18.50	16.0	0.55	fsw	
92	159	138	FSEQX	INVESCO Value Equity	LCVal	S	S	S	2.4	-20.6	-13.9	15.68	16.6	0.80	FSW	
93	136	110	SCDUX	Scudder Large Co Value	LCVal	*	S	S	1.4	-20.3	-13.0	18.33	18.2	0.70	FSW	
94	55	30	LSSCX	Loomis Sayles Small Cap Value	SC	(S)	(S)	(S)	-2.1	-22.0	-3.6	17.53	19.4	0.69	sW	
95	50	57	BVALX	Babson Value	LCVal	(S)	(S)	(S)	-2.7	-20.2	-7.6	36.33	20.6	0.70	FSW	
98	19	12	BERWX	Berwyn Fund (1%r<180d)	SCVal	(S)	(S)	(S)	-4.2	-22.7	-0.4	17.85	18.7	0.41	fsw	
100	63	35	FDVLX	Fidelity Value	MCVal	S	S	S	-2.4	-22.2	-4.6	44.07	22.8	0.64	Fsw	
114	27	29	FDSCX	Fidelity Small Cap Ind. (1.5%r<90d)	SC	*	H	H	-3.5	-22.6	-4.8	13.66	22.8	0.83	fsw	
193	40	11	BPSCX	Boston Ptnrs Smlcap Val (closed,1%r<1yr)	SCVal	(S)	(S)	(S)	-6.7	-28.8	-6.9	14.11	-	0.52	FSW	
204	217	177	VHCOX	Vanguard Cap Opp (\$25,000&1%r<5yr)	MCGro	S	S	S	1.1	-29.6	-22.6	16.02	38.1	1.06	fsw	

Dow Jones
NASDAQ
S&P 500

1.8% -18.5% -9.2%
2.9 -28.6 -22.1
1.7 -21.4 -17.2

indexes do not
include dividends

International Stock Funds

1	1	-	MACSX	Matthews Asia Growth&Income (2%r<90d)	Pacific	B	B	B	-1.4%	-4.8%	21.9%	\$10.46	14.4	-	FSW
2	6	19	BJBIX	Julius Baer Intl. Equity A	Intl	B	B	B	0.1	-12.7	-2.9	19.40	28.8	-	FS
3	13	11	ICHKX	Investec China & Hong Kong	Pacific	B	B	B	0.5	-15.6	3.1	10.25	39.2	-	FSW
4	5	28	VNEPX	Vontobel International Equity (2%r<90d)	Intl	B	B	B	-1.0	-10.9	-8.1	11.61	21.1	-	fsw
5	24	24	USIFX	USAA International	Intl	(B)	(B)	(B)	3.2	-14.9	-4.8	15.10	18.1	-	fw
6	2	5	PRASX	T. Rowe Price New Asia	Pacific	*	B	B	-3.2	-20.5	13.4	5.68	33.6	-	fsw
7	7	7	SCOPX	Scudder Pacific Opportunity (2%r<1yr)	Pacific	*	(H)	(H)	-2.6	-20.8	10.5	8.02	33.5	-	FSW
8	26	17	HAINX	Harbor International	Intl	(H)	(H)	(H)	1.0	-17.2	-4.2	26.41	17.8	-	sw
9	9	2	MAPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	(H)	(H)	(H)	-3.2	-20.8	11.1	7.90	47.1	-	FSW
10	16	16	PFIFX	Preferred International	Intl	H	H	H	-1.0	-17.2	-2.8	10.29	17.4	-	w
11	22	22	FDIVX	Fidelity Diversified Inter'l (1%r<30d)	Intl	(B)	(B)	(B)	-0.9	-15.8	-7.7	16.75	20.4	-	Fsw
12	25	21	FIGRX	Fidelity International G & I	Intl	H	H	H	-0.5	-17.3	-5.8	16.59	22.0	-	Fsw
13	19	6	OAKGX	Oakmark Global (2%r<90d)	Global	H	H	H	-1.3	-22.1	6.9	11.83	-	-	FSW
14	3	-	DRFMX	Dreyfus Emerging Market (1%r)	Intl	*	B	B	-4.3	-21.6	9.4	10.45	21.8	-	FSW
15	34	42	USAWX	USAA World Growth	Intl	H	H	H	2.4	-17.9	-10.6	12.17	20.0	-	f
16	27	12	FIVFX	Fidelity Aggressive Intl. (1%r<30d)	Intl	H	H	H	0.4	-20.8	-0.2	10.68	25.6	-	Fsw
17	8	1	FSEAX	Fidelity SE Asia (3%&1.5%r<90d)	Pacific	*	H	H	-4.3	-24.6	12.4	9.99	38.5	-	fsw
18	12	20	FPBFX	Fidelity Pacific Basin (3%&1.5%r<90d)	Pacific	*	(H)	(H)	-6.0	-17.0	-4.1	12.72	30.0	-	Fsw
19	4	53	MJFOX	Matthews Japan Fund (2%r<90d)	Japan	*	H	H	-6.3	-11.5	-17.7	8.76	-	-	FSW
20	40	38	SWINX	Schwab International Index (1.5%r<180d)	Intl	H	H	H	2.5	-18.2	-14.4	10.47	18.0	-	S
21	15	4	FEMKX	Fidelity Emerging Mkts (3%&1.5%r<90d)	Intl	(H)	(H)	(H)	-3.2	-24.2	7.6	6.92	32.9	-	fsw
22	51	35	VEURX	Vanguard European Stock Index	Europe	H	H	H	4.4	-20.1	-14.9	16.29	17.3	-	fsw
23	33	-	VTRIX	Vanguard Intl. Value	Intl	H	H	H	-0.6	-20.4	-7.4	18.79	15.9	-	fsw
24	14	3	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Intl	H	H	H	-4.2	-22.1	1.8	10.28	25.6	-	FSW
25	31	30	CMISX	Columbia International Stock	Intl	H	H	H	-0.9	-18.4	-12.8	10.04	22.2	-	fsw
26	39	46	SCINX	Scudder International (2%r<180d)	Intl	H	H	H	1.3	-18.6	-15.7	30.57	21.4	-	FSW
27	32	29	TWGGX	American Century Global Growth	Global	H	H	H	-0.6	-18.9	-12.2	5.24	-	-	FSW
28	18	10	VEIEX	Vanguard Emerg Mkts Stk Index (0.5%r)	Intl	*	H	H	-2.7	-23.9	3.4	7.29	32.3	-	fsw
29	11	49	FJPNX	Fidelity Japan (3%&1.5%r<90d)	Japan	*	H	H	-7.6	-13.4	-15.5	8.32	34.8	-	Fsw
30	10	41	VPACX	Vanguard Pacific Stock Index	Pacific	*	(H)	(H)	-7.2	-14.8	-13.8	5.95	24.7	-	fsw
31	38	27	VWIGX	Vanguard International Growth	Intl	H	H	H	1.1	-20.7	-12.2	12.19	17.6	-	fsw
32	35	23	ARTIX	Artisan International	Intl	S	S	S	0.8	-20.4	-12.9	15.02	32.6	-	FSW
33	20	52	SJPNX	Japan Fund (Scudder) (2%r<180d)	Japan	*	H	H	-4.3	-16.0	-16.9	6.04	31.4	-	FSW
34	53	37	PRESX	T. Rowe Price European	Europe	S	S	S	3.8	-21.5	-15.6	12.67	17.7	-	fsw
40	23	8	OAKIX	Oakmark International (2%r<90d)	Intl	(S)	(S)	(S)	-3.2	-23.8	-1.8	12.57	24.3	-	FSW

6

FUND SCORECARD & RECOMMENDATIONS

Specialty Funds

RANK	10/18 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	-	-	-	BEARX	Prudent Bear	Altern	*	*	*	-3.6%	45.0%	35.2%	\$7.70	-	-	FSW
2	3	-	-	USAGX	USAA Precious Metals & Minerals	Gold	*	*	*	-13.6	-3.9	44.8	8.90	46.80	0.87	w
3	4	-	-	FSAGX	Fidelity Sel Gold (3%&.75%r<30d)	Gold	*	*	*	-15.1	-5.8	41.2	19.08	49.20	0.89	fsw
4	6	-	-	FGLDX	INVESCO Gold (3%)	Gold	*	*	*	-14.0	-3.9	33.7	2.22	39.20	0.72	FSW
5	5	-	-	SCGDG	Scudder Gold	Gold	*	*	*	-13.9	-3.6	31.6	8.95	36.70	0.74	FSW
6	1	-	-	BGEIX	Amer. Cent. Global Gold (1%r<60d)	Gold	*	*	*	-18.1	-5.8	36.7	7.01	45.30	0.69	FSW
7	13	-	-	RSCOX	RS Contrarian	Altern	*	*	*	0.0	-8.0	6.8	9.95	23.50	0.72	FSW
8	7	-	-	VGPMX	Vanguard Precious Metals (closed,1%r<1yr)	Gold	*	*	*	-8.5	-10.1	23.3	9.66	43.10	0.87	fsw
9	8	-	-	STMDX	Stratton Mthly Div REIT (1.5%r<120d)	RealEs	*	*	*	-5.6	-8.4	13.9	25.74	14.50	0.21	fsw
10	15	-	-	GATEX	Gateway Fund	Altern	*	*	*	2.7	-8.0	-2.8	20.46	7.00	0.32	FSW
11	2	-	-	USERX	U.S.Global Gold Shares (.25%r<30d)	Gold	*	*	*	-19.3	-14.8	42.0	3.92	36.40	0.69	sw
12	12	-	-	CGMRX	CGM Realty	RealEs	*	*	*	-4.5	-12.9	14.8	13.97	15.80	0.26	fsw
13	11	-	-	FRESX	Fidelity Real Est Investment (.75%r<90d)	RealEs	*	*	*	-5.8	-8.9	6.0	17.83	15.10	0.21	Fsw
14	18	-	-	FHLSX	INVESCO Strategic Health Science	Health	*	*	*	6.1	-9.8	-14.9	42.20	36.50	0.43	FSW
15	16	-	-	VGEXX	Vanguard Sp Energy (1%r<1yr)	Energy	*	*	*	1.6	-14.5	3.3	24.01	32.00	0.70	fsw
16	10	-	-	VGSIX	Vanguard Special REIT Index (1%r<1yr)	RealEs	*	*	*	-6.4	-10.5	5.1	11.53	14.40	0.17	fsw
17	14	-	-	MERFX	Merger Fund	Altern	*	*	*	-0.8	-8.4	-9.5	13.45	5.42	0.13	FSW
18	9	-	-	CSRSX	Cohen & Steers Realty Shares (1%r<180d)	RealEs	*	*	*	-7.1	-10.5	4.6	41.93	16.20	0.25	FSW
19	21	-	-	FIDSX	Fidelity Sel Fin'l Serv (3%&.75%r<30d)	FinServ	*	*	*	4.0	-14.4	-3.0	90.56	27.40	0.94	fsw
20	20	-	-	FSPHX	Fidelity Sel Health Care (3%&.75%r<30d)	Health	*	*	*	5.4	-11.6	-14.9	105.80	20.00	0.40	fsw
21	19	-	-	VGHCX	Vanguard Sp Health Care (\$25k&1%r<5yr)	Health	*	*	*	3.8	-13.5	-9.2	104.30	19.10	0.47	fsw
22	17	-	-	FSTEX	INVESCO Energy	Energy	*	*	*	3.1	-17.3	0.3	16.23	46.20	0.90	FSW
23	22	-	-	FSFSX	INVESCO Financial Serv	FinServ	*	*	*	3.6	-16.3	-5.6	23.64	26.90	0.93	FSW
24	24	-	-	RYHIX	Rydex Health Care	Health	*	*	*	4.9	-14.2	-16.6	9.59	19.60	0.41	fsw
25	23	-	-	FSENX	Fidelity Sel Energy (3%&.75%r<30d)	Energy	*	*	*	3.7	-17.3	-7.6	20.60	33.40	0.78	fsw
26	26	-	-	RYEIX	Rydex Energy	Energy	*	*	*	5.2	-19.8	-13.2	8.92	27.50	0.64	fsw
27	25	-	-	RYFIX	Rydex Financial Services	FinServ	*	*	*	1.2	-20.8	-7.5	8.24	28.80	1.05	fsw
28	27	-	-	FSTUX	INVESCO Utilities	Utility	*	*	*	-3.8	-25.4	-30.5	7.85	17.60	0.57	FSW
29	31	-	-	PSPLX	Potomac U.S. Plus	Levrqd	*	*	*	1.6	-31.2	-27.2	6.92	29.00	1.46	FSW
30	32	-	-	RYNVX	Rydex Nova	Levrqd	*	*	*	1.9	-32.0	-28.1	16.81	29.60	1.49	fsw
31	28	-	-	VGSUX	Vanguard Utilities Income	Utility	*	*	*	-7.0	-28.5	-25.5	8.50	14.30	0.26	fsw
32	34	-	-	FSPTX	Fidelity Sel Technology (3%&.75&r<30d)	Tech	*	*	*	2.7	-34.3	-31.6	35.28	72.30	2.02	fsw

Bond Funds

RANK	10/18 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	SCSTX		Scudder Short Term Bond	*	*	*	-0.3%	2.4%	2.9%	\$10.60	0.76	3.11%	2.4	1.7	FSW
2	FSHBX		Fidelity Short Term Bond	*	*	*	-0.9	0.8	0.3	8.82	0.83	3.94	2.4	1.8	Fsw
3	VFSTX		Vanguard Short Term Corporate	*	*	*	-1.5	0.7	1.0	10.59	0.73	4.27	2.7	2.2	fsw
Intermediate Term															
1	VFITX		Vanguard Fix-Inc Intm. Treas.	*	*	*	-1.4	9.4	8.1	11.73	1.40	3.12	5.9	4.6	fsw
2	FGOVX		Fidelity Government Income	*	*	*	-1.7	5.2	2.8	10.41	1.50	3.96	6.7	3.7	Fsw
3	PTTDX		PIMCO Total Return CID	*	*	*	-1.8	2.9	4.8	10.69	4.11	2.88	7.0	4.1	FSW
4	VBMFX		Vanguard Total Bond Market Index	*	*	*	-1.8	2.4	2.4	10.14	1.24	4.98	7.0	3.8	fsw
High Yield ("Junk")															
1	BUFHX		Buffalo High-Yield (2%<180days)	B	B	*	-2.1	-3.5	1.2	9.33	6.95	7.60	6.4	4.2	fsw
2	CMHYX		Columbia High Yield	B	B	*	-2.7	-4.3	-1.4	8.11	-	8.16	5.1	3.6	FSW
3	PRHYX		T. Rowe Price High Yield	B	B	*	-3.0	-6.6	-0.3	6.01	1.72	9.88	6.4	4.3	fsw
4	NTHFX		Northeast Investors Trust	*	B	*	-3.2	-7.9	2.8	6.92	7.34	9.44	6.1	-	fsw
5	SPHIX		Fidelity High Income	B	B	*	-3.4	-8.4	-2.5	7.15	1.28	10.23	5.3	-	Fsw
6	FHYPX		INVESCO High Yield	*	*	*	-3.0	-6.7	-7.7	3.03	1.49	10.36	5.9	3.8	FSW
7	VWEHX		Vanguard High Yield Corporate	B	B	*	-4.0	-8.1	-3.6	5.53	1.52	9.72	6.5	4.4	fsw
Zero Coupon															
	BTTRX		Benham 2025	*	*	*	-8.1	14.0	4.8	35.47	-	-	-	-	FSW
Tax-Free Alternative															
1	SRIMX		Liberty-SteinRoe Inter. Muni	*	*	*	-2.4	3.4	1.6	11.42	1.32	3.67	8.4	5.7	FSW
2	FLTMX		Fidelity Spartan Intermed Muni	*	*	*	-2.1	2.7	1.3	10.10	1.50	2.98	7.6	5.2	Fsw
3	VWITX		Vanguard Muni Bond-Intermed	*	*	*	-2.7	2.4	2.3	13.45	1.37	3.14	5.4	4.5	fsw
International															
1	BEGBX		American Century Intl Bond	*	*	*	-2.0	12.3	9.6	11.29	2.57	2.98	-	-	FSW
2	RPIBX		T. Rowe Price Intl Bond	*	*	*	-2.0	10.0	5.5	8.55	2.29	2.50	8.4	5.1	fsw
3	PYGFX		Payden Global Fixed Income	*	*	*	-1.0	4.7	4.0	10.12	3.34	3.02	8.6	6.4	fsw
Strategic Income															
1	JAFIX		Janus Flexible Income	*	*	*	-1.7	3.4	1.3	9.38	1.42	4.14	8.3	5.6	FSW
2	RPSIX		T. Rowe Price Spectrum Income	*	*	*	-1.6	-1.9	-0.9	10.34	1.16	4.98	-	-	fsw
3	FNMIX		Fidelity New Markets Income	*	*	*	-0.5	-10.1	-2.3	10.46	7.15	8.26	-	-	Fsw

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

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Fidelity Spartan US Treas MMF	1.37	1.38	1.74
Vanguard Treasury MMF	1.35	1.39	1.83
Amer Century Capital Presv Fund/Inv	1.26	1.28	1.66
T Rowe Price US Treasury MF	1.21	1.23	1.65
CMA Treasury Fund	1.19	1.26	1.50
Dreyfus 100% US Treas MMF	1.13	1.15	1.56
Prudential Govt Sec Tr/US Treas/CI A	1.13	1.14	1.44
US Treasury MF of America/CI A	1.10	1.11	1.29
Schwab US Treasury Money Fund	1.05	1.08	1.44

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	1.81%	1.81%	-
Touchstone Money Market Fund	1.77	1.77	2.05%
Scudder YieldWise Money Fund	1.58	1.58	1.80
TIAA-CREF Money Market Fund	1.55	1.56	1.89
Transamerica Premier Cash Res/Inv	1.55	1.55	1.89
Aon Funds/Money Market Fund	1.54	1.56	1.72
RBB MMP/Sansom Street Class	1.54	1.54	1.96
Strong Heritage MF/Inv Class	1.53	1.54	1.80
McMorgan Principal Preservation Fund	1.52	1.53	1.84
Scudder Premium Money Mkt Shrs/CI S	1.52	1.55	1.76
Scudder Premium Money Mkt Shrs/AARP	1.52	1.55	1.76

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Strong Tax-Free Money Fund	1.49%	1.54%	1.47%
Vanguard Tax-Exempt MMF	1.44	1.48	1.51
Evergreen Municipal MMF/CI I	1.43	1.47	1.34
Strong Municipal MMF	1.40	1.41	1.47
Scudder YieldWise Muni MF	1.29	1.31	1.41
Amer Century T-F MMF/Inv Class	1.28	1.34	1.28
USAA Tax Exempt MMF	1.27	1.30	1.34
Fidelity Municipal MMF	1.23	1.24	1.31
Dreyfus BASIC Muni MM Portfolio	1.19	1.24	1.29
T Rowe Price Summit Muni MMF	1.19	1.23	1.34

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	1.41%	1.45%	1.50%
Vanguard NY Tax-Exempt MMF	1.33	1.34	1.40
Vanguard PA Tax-Exempt MMF	1.33	1.37	1.42
Vanguard CA Tax-Exempt MMF	1.30	1.32	1.40
USAA Tax Exempt CA MMF	1.28	1.30	1.31
Vanguard NJ Tax-Exempt MMF	1.25	1.29	1.39
Fidelity FL Municipal MMF	1.19	1.21	1.24
Fidelity OH Municipal MMF	1.18	1.18	1.26
Fidelity PA Municipal MMF	1.17	1.20	1.23
Fidelity MI Municipal MMF	1.11	1.13	1.12

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 10/15/02. 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.

NEXT ISSUE

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AXA Rosenberg U.S. Value Long/Short Equity

The AXA Rosenberg U.S. Value Long/Short Equity Fund is one of few funds well into positive return territory this year. The fund's literature explains that its "expert systems" try to "replicate the decisions financial experts might make in a perfect world." This is achieved through a "rigorous and unbiased economic and fundamental analysis of data." Yet, that explanation leaves much unsaid. The fund does concentrate on small- and mid-cap stocks, and balances long positions in undervalued stocks with short positions in overvalued stocks. The strategy is working exceptionally well this year—the fund has chalked up a total return of 34.6% for the year-to-date through October 18. To find out the real scoop on how the fund operates, *MONEYLETTER* recently spoke with Kathryn McDonald, portfolio manager.

MONEYLETTER: Can you briefly explain the fund's strategy?

McDonald: There is a lot of historical information that shows a definite relationship between cumulative earnings yield and stock price performance, and that is the key driver of return in this fund's strategy. We take long positions in stocks we think ultimately will give us what we term superior earnings yields. That is, these are stocks with strong fundamentals that we think are going to create more earnings per dollar of cost than the stocks we short. So we look for strong fundamentals per dollar of cost on the long side and essentially weak fundamentals per dollar of cost on the short side. We hold a large number of stocks at any one time—we have about 1,000 total in the portfolio, with roughly half long and half short.

MONEYLETTER: How are stocks selected?

McDonald: We are fundamental managers at the core. We just happen to use a lot of technology in what we do. We are picking stocks based on strength or weakness of the balance sheet and income statement. We intake 150-plus items, including everything on the balance sheet or income statement. We do a breakdown analysis similar to what someone in mergers and acquisitions or investment banking might do if they were valuing pieces of a company. Then, we take the sum of those pieces to determine the fair market price, compare that to the current trading price, and look for big differences. We determine which stocks are undervalued or overvalued, and look at that difference vs. its peers and our stock universe. We take long positions in companies that are undervalued and we short companies we think are overvalued. At any time, we have an opinion on 5,000-plus stocks that we follow in the U.S.

Top Five Sector and Holdings (% of Assets)

Consumer Discretionary	19.5	Harris Corp.	2.1
Industrials	18.2	Rockwell International	2.1
Information Technology	17.0	Ross Stores	2.0
Health Care	16.5	iStar Financial	2.0
Financials	10.4	Deluxe Corp.	1.8

as of June 30, 2002

MONEYLETTER: I notice that your top holdings have fairly equal weightings—why is that?

McDonald: That is a function of two things. First, we hold a large number of stocks, so we are not going to take 10% or 20% positions in two or three stocks, and then 0.0002% in others. We also hold our stocks in a capitalization-weighted fashion. So we hold larger positions in the larger stocks and smaller stakes in the smaller stocks. We hold a large number of names and hope to make a few basis points on each, rather than hold 10 or 20 names and try to make 20% or so one each.

MONEYLETTER: Are your sector weightings a function of the stock picking process?

McDonald: Yes, but we do limit weightings in the fund. We are trying to add value by picking stocks, not by making industry bets. So in the optimization process (when the systems determine the best combination of mispriced stocks), we look at the long industry exposure vs. the short, and try to keep them within 5% of each other. Certainly there are going to be opportunities to be slightly long or slightly short in a certain industry, and we do allow that. But we are not going to be taking a lot of industry bets. We keep the fund very close to industry neutral.

MONEYLETTER: To what do you attribute the fund's recent strong performance?

McDonald: It's difficult to talk about individual positions because we hold so many. Instead, we point to characteristics of the portfolio that are being rewarded. During the year to date, and really for the past two years, there has been a massive flight to quality in equities. And recently, investors have been just exquisitely focused on earnings and on buying quality earnings per dollar of cost. That just happens to be the stocks that we are long, which means this is just a phenomenally cooperative environment for us. Our expectation for the fund is to provide a 6%-8% return over Treasury bills. Right now, that would be a 10%-11% total return. \$

AXA Rosenberg U.S. Value Long/Short Equity (BRMIX)

Barr Rosenberg Series Trust, 237 Park Avenue

New York, NY 10017; (800) 447-3332

Minimum investment: \$2,500; \$2,000 IRA

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