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“Serving Investors Since 1980”

## Random Musings for Year-End

by Walter S. Frank, Chief Investment Officer

As the year ends and we look back, we become more convinced that this was a very strange year indeed. Right now, we have tendency to think of the year as a twelve month continuation of the bear market which began in March 2000, just another losing year. Looking at all the minus signs in our fund tables, a loss year it will be for an overwhelming number of stock funds. Yet if you go back and take a look at a chart of the averages, you will see that through the first 5 1/2 months of the year, there was nothing inevitable about the year ending in the red. In fact, the *MONEYLETTER* portfolios during that same period were showing pretty good gains (6-8%).

But then came the July-September selling which, like an avalanche, swept everything along in its path. The groups that had done the best, such as our small-cap value funds, were hit the hardest. In the end it didn't matter what type of stock fund it was, every group and sector was hit hard.

In the middle of the carnage, we attempted to offer an explanation of why this savage and wholesale selling occurred. Our best explanation at the time was the unexpected slowing of the economy. We simply could not fathom why the economy “suddenly hit the wall” (as we wrote then), but once it did, the market tumbled.

The more we look back, and the more we reflect on what we wrote at the time, the more we are coming to the conclusion that it was not the economy which caused the market decline, but rather it was the market decline (which began in June) that caused the economy to stop dead in its tracks. Even when the economy was putting up reasonably good numbers in late May and June, the opening phase of the selling had begun. Why?

We're settling on two reasons. The first is the corporate accounting scandals. We now think that the accounting scandals bit deeper into the market psyche than we believed. (Only now are we freeing ourselves from that trauma.) The second is the disappoint-

ing showing of corporate profits. Activity was good earlier in the year, productivity was robust, but profits just didn't come through. Why they didn't is still a mystery, as far as we can see. The hedge funds didn't worry about the why. They just observed the fact, and short-selling became the flavor of the week.

The result was a market decline which we now believe induced extreme caution in an already cautious business sector. Business spending, which should have picked up, did not and the economy stalled. Only now is the economy coming out of that stall, with help from a very active Fed.

This gets us back to our “strange year” view. This is a case where the tail (the market) did wag the dog (the economy). We can't remember the last time anything like this happened. It certainly did not in 1987.

The performance of the high-yield (“junk”) bond funds this year should be a lesson to all of us about the virtue of patience. As we have said more than once, our allocation to the funds is not as a capital gains candidate (though we'll take them if they come) but as a substantially higher income competitor for money funds.

Of course, with higher yields comes higher risk. Naturally, we weigh the risk/reward tradeoff before deciding on an allocation. In the early part of this year, the high-yield funds in general just held their own. The return was less than expected, but it was acceptable. Then came the accounting scandals, and the funds plummeted. They became all risk and no reward. More than one subscriber wrote to ask why were in them at all. The reaction was perfectly understandable. Yet look at the funds now, after the market rally. As the year comes to a close, three of our four high-yield funds are in the black and the fourth is within a whisker of it.

We don't draw any great pleasure from this example, but once again we all need to be reminded that patience (up to a point) is a virtue in investing. Fed policy and the economic numbers all told us that the selling in the high-yield market was highly emotional, a sort of knee-jerk reaction. It made little economic sense. In this case, logic is winning out, as it usually does.

Speaking of bond investing, the rush to bond funds by the public has us shaking our heads. What are people thinking? There is nothing wrong in chasing performance—despite the tsk-tsking from the wise men of the financial press—as long you have reason to believe that the performance will continue. In the case of bond funds, the performance will only be duplicated in the unlikely event the economy crumbles from here, and long-term rates sink to near zero. Those rushing into bond funds are setting themselves up for a major disappointment.

(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)

The 30-month bear market has taken its toll on Wall Street. The Street is mired deep in pessimism. Virtually all of the commentary coming from the pros is negative, doubtful that the current rally is sustainable. It is generally accepted that we are bound to head down meaningfully again. In other words, to some extent or other, this is a rally in a bear market.

What will turn Wall Street's view around? Wall Street is looking for the classic signs of capitulation. The Street wants investment advisors to become deeply bearish as a group. Selling pressure has to become intense. The Iraq situation has to be settled.

The voices on the Street are paying no attention to the economy and they are completely agnostic on the profit outlook. Everything is discounted. It is assumed all estimates are too high. The pros are now being fed by the analysts, who are breathing the same pessimistic air. After having been too optimistic for too long, and having paid for it, the analysts are doing an about face. At one conference call we listened to recently, this was the view of an experienced senior portfolio manager.

What puzzles us is what do the Wall Street pros expect? A revisit to the October lows? Something worse? Does the improving profit outlook make no difference? Nor the prospect of substantial fiscal stimulus next year? For us this is a form of technical analysis being carried to the extreme.

The year has been a chastening experience for all the cheerleaders for indexing. We don't take a strong position on the issue of active versus passive management. For long-term buy-and-holders (and we mean long), it is true that a broad market index fund will outperform the majority of actively managed funds.

But that's because the market is going up most of the time, and index funds are always 100% invested. They capture the full benefit of a rising market. (There are other reasons too, but we'll ignore them here). But just as index funds capture all the upside gains, so they capture all the downside losses.

In a bear market, many of the advantages of an index fund are turned on their head. Active managers can change their sector weightings. They can become more defensive. They can increase their cash position somewhat. Index funds are frozen, and in a bear market the freeze hurts. We have always believed that the virtues of indexing were oversold. This is the year it became apparent. A long bear market has the useful attribute of subjecting untested assertions to very cold shower.

Returning to Wall Street's pessimism, we think that many of the Street's forecasts for the economy and earnings next year will turn out to be too low. Only time will tell if we are right, but we are almost certain this has to be the case. Well-known names on the Street have lost their jobs over the last year because they were too optimistic for too long. Consider, would you stick your neck out right now with an optimistic forecast, if that were your best expectation? Surely not. At the very least you would cut it back. You can always raise your outlook later. That is why we expect that next year will be the year of many upside surprises. \$

*We will have more to say about next year in the January 10, 2003 issue, which will be our Annual Outlook issue.*

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*Please note there is an extra week between issues!*

**Year-End Noise**

To rally or not to rally? That is the question facing the market at year-end. Clearly, like Hamlet, the market can't make up its mind. The hesitation is understandable. On the economic side, the news has leaned toward the positive – retail sales (November), price indexes (no inflation), consumer sentiment, housing starts, industrial production. They all came in on the right side. But none of the plus signs were very large.

Psychologically, at least, if not economically, the gains were offset by the surprisingly negative employment report for November, showing a large loss of jobs during the month. At the same time, the weekly employment numbers were suggesting that the picture was improving for December, until the numbers reversed one week and said the opposite. It turns out the late Thanksgiving was playing hob with the seasonal adjustments. On a weekly basis, we seem to be in the dark this month.

It's a little better in the markets, but not much. The turmoil in Venezuela is roiling the oil market and driving oil prices to highs. The dollar usually weakens at year-end, but it is particularly weak this year. Oil prices? Iraq? And as the dollar slides, gold takes off. How justifiable and sustainable is that move?

The stock market is finding it hard to mount the expected year-end rally given the noise. Rally or no, we still see the underlying trend as up for the market and the economy.

For those who follow the AXARosenberg Long/Short Fund, the fund has been moved to the Specialty Funds list. This is a simple reclassification.

**Portfolio changes**

In the last issue we recommended an increase in the stock fund allocation for all portfolios. (The original advice came first in the Hotline of Tuesday, November 26th). Listing all the transactions from the new allocation recommendation would take up a great deal of space, so we will not list them here. However, we will gladly fax, e-mail or mail the information to anyone requesting it. Simply call 800-890-9670 or email at [service@moneyletter.com](mailto:service@moneyletter.com).

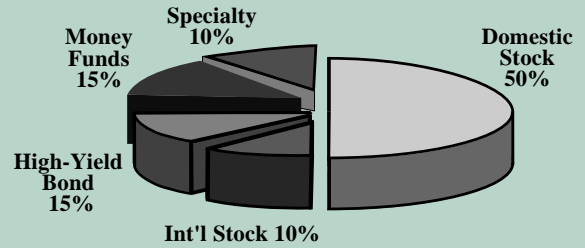
The Hotline of Tuesday, December 3rd recommended the sale of Baron Small Cap in all three *MONEYLETTER* portfolios to be replaced by Third Avenue Small Cap Value. The same Hotline also recommended the sale of Fidelity Contrafund in all three Fidelity family portfolios. For the Venturesome and Conservative Fidelity portfolios, Contrafund was to be switched into Fidelity Capital Appreciation. For the Fidelity Moderate Portfolio, the fund was to be switched into Fidelity Equity-Income II.

Here are the details: **MONEYLETTER Venturesome** – Sell 1,101 shares of Baron SmallCap @ \$13.73 per share, buy 1,084 shares of Third Avenue Small Cap Value @ \$13.94 per share. **MONEYLETTER Moderate** – Sell 1,162 shares of Baron Small Cap, buy 1,145 shares of Third Avenue Small Cap Value. **MONEYLETTER Conservative** – Sell 972 shares of Baron Small Cap, buy 958 shares of Third Avenue Small Cap Value.

**Fidelity Venturesome** – Sell 288 shares of Contrafund @ \$38.81 per share, buy 661 shares of Capital Appreciation @ \$16.90 per share. **Fidelity Conservative** – Sell 283 shares of Contrafund, buy 650 shares of Capital Appreciation. **Fidelity Moderate** – Sell 311 shares of Contrafund, buy 662 shares of Equity-Income II @ \$18.21 per share. \$

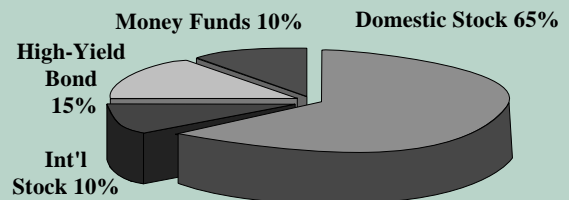
**CONSERVATIVE**

*Seeks steady long-term growth of capital with limited short-term volatility*



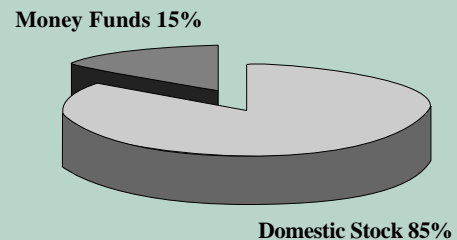
**MODERATE**

*Seeks greater long-term growth than the Conservative Portfolio by taking prudent risks*



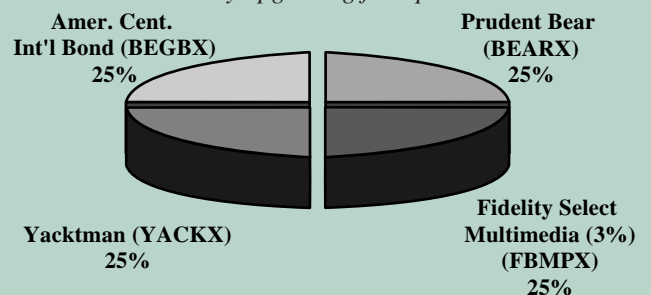
**VENTURESOME**

*Seeks maximum long-term growth by accepting greater short-term volatility*



**SELECT**

*Seeks maximum long-term growth by assertively upgrading fund positions*



## Domestic Stock Funds

RANK	12/13 2002	1 Mo Ago	6Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE	RISK		NTF/ wtf
										1 mo.	6 mo.	12 mo.	PER SHARE	Std. Dev.	Beta	
1	2	8	YACKX	Yacktman Fund	MC	B	B	B	4.2%	2.0%	13.6%	\$12.36	18.2	0.55	FSW	
2	-	-	RYSEX	Royce Special Equity (1%r<180d)	SCVal	(B)	(B)	(B)	3.1	-1.7	21.0	14.29	15.9	0.36	sw	
3	3	-	HSGFX	Hussman Strategic Growth (1.5%r<180d)	MCGro	B	B	B	1.8	0.1	13.1	12.57	-	-	Fsw	
4	5	6	AVALX	Aegis Value Fund	SCVal	B	B	B	3.8	-2.8	4.0	13.13	18.2	0.31	fw	
5	4	20	FFTYX	Fidelity Fifty (.75%r<30d)	LC	B	B	B	4.6	-5.8	7.6	16.50	28.2	0.87	Fsw	
6	8	25	PRWCX	T. Rowe Price Cap Appreciation	LCVal	B	B	B	3.4	-3.5	2.7	14.72	10.7	0.24	fsw	
7	11	40	RYPRX	Royce Premier (1%r<180d)	SC	B	B	B	4.1	-3.7	-2.5	9.57	18.7	0.62	FSW	
8	12	11	RYTRX	Royce Total Return (1%r<180d)	SCVal	B	B	B	3.4	-5.9	2.0	8.34	13.6	0.41	FSW	
9	13	29	NBGNX	Neuberger Berman Genesis (closed)	SC	B	B	B	2.6	-5.7	2.0	19.80	19.6	0.62	fsw	
10	10	35	TWEIX	American Century Equity Income	MCGro	B	B	B	2.9	-4.4	-2.0	6.54	15.1	0.44	FSW	
11	7	117	LMASX	Legg Mason Special Investment Trust	MC	B	B	B	2.6	-3.4	-5.2	29.78	30.6	1.18	w	
12	16	39	CFIMX	Clipper Fund	LCVal	B	B	B	5.3	-6.4	-1.8	79.50	15.7	0.30	Fsw	
13	14	79	VCVSX	Vanguard Convertible Securities	Convrt	B	B	B	2.2	-2.6	-8.1	10.50	20.4	0.69	fsw	
14	17	4	PRSVX	T. Rowe Price S-C Value (closed,1%r<1yr)	SCVal	B	B	B	4.6	-8.6	3.4	22.23	16.4	0.44	fsw	
15	6	13	RSPFX	RS Partners	SC	*	B	B	0.4	-7.0	0.7	17.52	23.9	0.63	FSW	
16	124	180	LMOPX	Legg Mason Opportunity Trust	MC	(B)	(B)	(B)	7.3	-5.6	-13.1	8.41	-	-	-	
17	71	15	PRNEX	T. Rowe Price New Era	LC	H	H	H	6.8	-10.9	0.1	20.82	26.7	0.72	fsw	
18	56	19	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	(B)	(B)	(B)	6.0	-10.4	-1.2	21.13	17.0	0.45	fsw	
19	76	73	OAKLX	Oakmark Select (closed) (2%r<90d)	MCVal	H	H	H	5.3	-8.9	-7.9	24.00	26.2	0.83	FSW	
20	30	16	ARGFX	Ariel Fund	SCVal	H	H	H	3.3	-10.8	-1.8	35.59	18.9	0.40	FSW	
21	44	194	LMVTX	Legg Mason Value	LCVal	H	H	H	2.5	-5.2	-15.1	41.07	28.1	1.16	w	
22	33	105	FCVSX	Fidelity Convertible Securities	Convrt	H	H	H	2.9	-6.9	-11.9	16.54	27.4	0.89	sw	
23	22	43	DODGX	Dodge & Cox Stock	LCVal	B	B	B	4.2	-9.5	-7.4	88.86	19.8	0.64	Fsw	
24	26	21	PENNX	Royce Penn Mutual(1%r<180d)	SCVal	H	H	H	3.5	-10.5	-4.7	6.64	16.7	0.51	Fsw	
25	28	50	LLPFX	Longleaf Partners	MCVal	H	H	H	2.0	-9.8	-4.8	22.11	20.1	0.58	fsw	
26	9	31	VUSVX	Vontobel U.S. Value (2%r<90d)	LCVal	H	H	H	-3.1	-8.3	-1.0	18.73	22.0	0.44	FSW	
27	37	1	EEQFX	Eclipse Small Cap Value	SCVal	H	H	H	2.3	-12.5	1.3	11.67	18.6	0.75	FSW	
28	43	22	TRMCX	T.Rowe Price Mid Cap Value	MCVal	H	H	H	3.9	-11.6	-3.8	15.13	15.9	0.60	fsw	
29	19	74	STDIX	Strong Discovery	MCGro	B	B	B	1.5	-8.2	-8.5	14.48	25.1	0.83	FSW	
30	-	-	GAATX	Liberty Asset Allocation CIZ	G&I	H	H	H	0.3	-5.7	-14.0	12.86	11.4	0.61	f	
31	41	36	SMCDX	Strong Mid Cap Disciplined	MCVal	H	H	H	3.1	-10.4	-6.3	14.73	23.4	0.92	FSW	
32	58	42	BEMVX	Berger Mid Cap Value	MCVal	H	H	H	4.7	-10.4	-8.6	14.84	23.3	0.80	FSW	
33	72	53	OTCFX	T. Rowe Price Small Cap Stock Fund	SC	H	H	H	4.2	-10.1	-9.3	21.85	22.0	0.73	fsw	
34	18	94	FEQTX	Fidelity Equity-Income II	G&I	B	B	B	2.7	-8.2	-12.0	17.70	17.2	0.74	Fsw	
35	46	54	TWVLX	American Century Value	MCVal	H	H	H	3.1	-9.5	-9.3	5.97	20.4	0.59	FSW	
36	35	78	MPSCX	MSI Small Cap Value (closed)	SCVal	H	H	H	2.9	-8.8	-10.9	15.12	25.5	0.77	fsw	
37	59	28	FDVLX	Fidelity Value	MCVal	H	H	H	5.2	-12.4	-5.8	46.43	22.8	0.64	Fsw	
38	15	7	FLPSX	Fidelity L P Stock (3%&1.5%r<90d)	SCVal	(H)	(H)	(H)	2.1	-11.9	-2.8	25.15	16.6	0.57	fsw	
39	113	3	BERWX	Berwyn Fund (1%r<180d)	SCVal	H	H	H	4.3	-13.1	-3.7	18.80	18.7	0.41	fsw	
40	40	37	HOVLX	Homestead Value	MCVal	H	H	H	3.5	-10.9	-8.1	22.51	18.1	0.59	-	
41	39	126	STCSX	Strong Advisor Common Stock (closed)	MC	H	H	H	3.4	-8.2	-15.0	16.25	23.2	0.95	FSW	
42	32	27	TASCX	Third Avenue Small-Cap Value	SCVal	H	H	H	4.4	-11.7	-7.9	13.75	17.5	0.58	FSW	
43	64	150	THPGX	Thompson Plumb Growth	LC	H	H	H	4.3	-9.7	-14.2	35.87	19.6	0.69	fsw	
44	-	-	VISGX	Vanguard Small Cap Growth Index	SCGro	H	H	H	1.5	-9.8	-10.4	9.25	28.2	0.85	w	
45	24	44	FCNTX	Fidelity Contrafund (3%)	LC	H	H	H	-0.1	-10.3	-7.0	38.43	20.1	0.84	fsw	
46	137	147	TUDRX	WPG Tudor	SC	H	H	H	5.9	-8.0	-22.0	11.44	38.9	1.20	Fsw	
47	62	63	PRFDX	T. Rowe Price Equity-Income	LCVal	H	H	H	3.2	-11.1	-10.4	20.29	16.7	0.53	fsw	
48	60	-	VSEQX	Vanguard Strategic Equity	MCGro	H	H	H	3.0	-11.3	-10.1	13.22	17.2	0.82	fsw	
49	42	71	MUTHX	Mutual Shares (1%) CIZ	MCVal	H	H	H	0.8	-10.8	-8.1	16.97	16.6	0.62	sw	
50	31	84	GABAX	Gabelli Asset	MC	H	H	H	1.3	-9.9	-11.1	28.16	17.2	0.76	FSW	
51	45	152	FDGFX	Fidelity Dividend Growth	LC	H	H	H	1.8	-8.1	-16.3	22.75	19.2	0.84	Fsw	
52	29	30	CAAPX	Ariel Appreciation	MCVal	H	H	H	1.5	-11.8	-6.9	33.40	18.0	0.50	FSW	
53	63	69	WPSRX	Westport Small Cap R	SCVal	H	H	H	3.6	-11.5	-10.7	16.64	-	-	FSW	
54	47	134	WVALX	Weitz Value Fund	MCVal	H	H	H	2.6	-9.5	-14.4	27.49	16.6	0.52	SW	
55	61	70	OAKMX	Oakmark Fund	MCVal	H	H	H	3.2	-11.6	-10.2	30.17	20.6	0.59	FSW	
56	27	149	OBEGX	Oberweis Emerging Growth	SCGro	*	(H)	(H)	3.7	-8.4	-19.4	16.30	48.7	1.49	FSW	
57	50	59	DNLDX	Dreyfus New Leaders	MCGro	H	H	H	1.5	-11.3	-9.0	34.80	25.2	0.92	FSW	
58	98	23	NBFSX	Neuberger Berman Fasciano Inv	SCGro	S	S	S	2.3	-13.3	-5.2	30.31	15.7	0.67	FSW	
59	73	112	SLASX	Selected American Shares	LCVal	S	S	S	2.4	-9.9	-13.9	25.54	20.5	0.92	sW	
60	91	38	BGRFX	Baron Growth	SCGro	H	H	H	3.2	-13.0	-8.1	26.92	25.4	1.06	FSW	
61	112	64	VIMSX	Vanguard Mid-Cap Index	MC	S	S	S	3.1	-11.9	-10.7	10.05	26.2	1.02	fsw	
62	20	17	HRTVX	Heartland Value (1%r<90d)	SCVal	H	H	H	2.1	-12.9	-7.5	32.77	22.5	0.63	Fsw	
63	48	104	PFLVX	Preferred Value	LCVal	H	H	H	1.2	-9.7	-13.9	15.60	19.5	0.79	w	
64	83	146	NCTWX	Nicholas II	MCVal	S	S	S	2.2	-9.5	-16.1	16.09	21.3	1.00	w	
65	103	72	VEIPX	Vanguard Equity-Income	LCVal	H	H	H	3.1	-11.5	-12.9	18.82	16.0	0.55	fsw	
66	121	66	PESPX	Dreyfus Mid Cap Index	MCGro	S	S	S	3.0	-12.2	-11.1	17.52	25.8	1.02	FSW	
67	171	157	SACPX	Salomon Brothers Capital (closed)	MCVal	S	S	S	8.6	-12.5	-18.8	19.50	22.0	0.85	sw	
68	86	101	VEXMX	Vanguard Extended Market Index	MC	H	H	H	2.8	-10.9	-14.0	19.02	31.4	1.17	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.:** Standard Deviation based on trailing 3-yr. 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

RANK	12/13	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	36	-	-	WBSNX	WmBlair S-C Growth N (1%r<60d)	SCGro	H	H	H	3.0	-11.6	-12.9	13.62	-	0.95	FSW
70	94	55	-	RYLPX	Royce Low Priced Stock (1%r<180d)	SCVal	S	S	S	5.1	-13.2	-12.3	9.79	24.8	0.69	FSW
71	54	67	-	BEGRX	Mutual Beacon (1%) CIZ	MCVal	S	S	S	0.8	-12.0	-8.8	11.39	15.9	0.58	sw
72	114	24	-	LSSCX	Loomis Sayles Small Cap Value	SC	S	S	S	3.1	-13.3	-9.2	18.05	19.4	0.69	sW
73	122	98	-	SSHFX	Sound Shore	MCVal	S	S	S	3.7	-12.7	-12.7	25.58	18.4	0.60	sW
74	135	-	-	VUVLX	Vanguard U.S. Value	LCVal	S	S	S	3.6	-12.8	-12.5	9.71	-	-	fsW
75	101	130	-	SAIFX	Salomon Brothers Investors	LCVal	S	S	S	3.9	-11.3	-17.2	14.98	19.7	0.83	fsW
76	180	10	-	VISVX	Vanguard Small-Cap Value Index	SCVal	S	S	S	5.1	-15.4	-8.9	8.72	-	0.70	fsW
77	85	107	-	BIGRX	American Century Income & Growth	G&I	S	S	S	2.2	-10.8	-16.3	22.02	20.0	0.99	FSW
78	107	83	-	FEQIX	Fidelity Equity-Income	LCVal	S	S	S	2.9	-12.1	-14.0	39.78	18.4	0.74	Fsw
79	55	133	-	FTRNX	Fidelity Trend	LC	S	S	S	0.9	-9.4	-17.7	39.23	27.3	1.16	Fsw
80	69	102	-	DGAGX	Dreyfus Appreciation	LC	S	S	S	0.0	-10.5	-14.1	31.81	17.6	0.80	FSW
81	242	-	-	CBMDX	C&B Mid Cap Value	MCVal	S	S	S	4.4	-16.1	-6.9	13.47	18.4	0.53	
82	110	49	-	BPMCX	Boston Partners Mid Cap Value	MCVal	S	S	S	3.6	-14.4	-10.0	9.39	18.3	0.76	FSW
83	117	206	-	VHCOX	Vanguard Cap Opp (\$25,000&1%r<5yr)	MCGro	H	H	H	3.6	-8.9	-23.7	17.46	38.1	1.06	fsW
84	51	142	-	FDSSX	Fidelity Stock Selector	LC	S	S	S	0.2	-9.1	-18.4	16.79	20.9	0.97	Fsw
85	115	87	-	LSGIX	Loomis Sayles Value	LCVal	S	S	S	2.4	-12.4	-13.6	12.07	17.5	0.72	fsW
86	84	65	-	MQIFX	Mutual Qualified (1%) CIZ	MCVal	S	S	S	1.1	-13.2	-10.1	14.08	16.9	0.61	sw
87	67	103	-	FGRIX	Fidelity Growth & Income (3%)	G&I	S	S	S	0.2	-10.6	-15.6	30.55	16.7	0.80	fsW
88	38	18	-	OAKSX	Oakmark Small Cap (2%r<90d)	SCVal	S	S	S	1.4	-15.0	-6.9	15.19	18.1	0.54	FSW
89	70	143	-	NTHFX	Northeast Investors Growth	LCGro	*	S	S	-0.4	-9.4	-18.5	12.17	25.7	1.20	fsW
90	81	113	-	BEQGX	American Century Equity Growth	LCVal	S	S	S	1.5	-10.9	-17.6	15.36	20.8	1.03	FSW
91	53	164	-	FOCPX	Fidelity OTC Portfolio	LCGro	*	H	H	-0.6	-8.2	-21.5	24.41	29.1	1.57	fsW
92	-	-	-	VALSX	Value Line Special Situations	MCGro	S	S	S	-0.6	-12.0	-12.3	16.08	28.6	0.88	FSW
93	75	92	-	PRDGX	T. Rowe Price Dividend Growth	LCVal	S	S	S	0.8	-11.6	-15.6	16.87	14.0	0.57	fsW
94	119	76	-	VWNFX	Vanguard Windsor II	LCVal	S	S	S	2.3	-13.2	-13.9	21.10	18.5	0.65	fsW
95	-	-	-	VTSMX	Vanguard Total Stk Mkt	LC	H	H	H	1.3	-11.1	-17.9	20.35	17.8	0.99	fsW
96	87	119	-	USGRX	USAA Growth & Income	G&I	S	S	S	1.2	-10.9	-18.4	13.95	18.0	0.82	w
97	66	122	-	DSEFX	Domini Social Equity Fund	LC	S	S	S	0.2	-10.3	-18.5	21.96	21.4	1.05	w
107	78	160	-	VIGRX	Vanguard Growth Index	LCGro	H	H	H	-0.4	-9.5	-20.6	20.38	24.2	1.14	fsW
109	25	132	-	WAAXE	Wasatch S-C Growth (closed,2%r<60d)	SCGro	(H)	(H)	(H)	-0.3	-10.4	-18.5	26.23	37.8	1.15	FSW
130	80	123	-	FDCAX	Fidelity Capital Appreciation	MC	H	H	H	0.6	-12.4	-18.9	16.39	31.5	1.26	fsW

Dow Jones  
NASDAQ  
S&P 500

0.4% -11.3% -13.6%  
0.1 -9.0 -30.0  
0.8 -11.9 -20.5

indexes do not  
include dividends

## International Stock Funds

1	2	2	MACSX	Matthews Asia Growth&Income (2%r<90d)	Pacific	B	B	B	2.3%	-3.8%	11.9%	\$10.47	14.4	-	FSW
2	2	13	OAKGX	Oakmark Global (2%r<90d)	Global	B	B	B	4.3	-9.2	0.1	12.75	-	-	FSW
3	6	-	DRFMX	Dreyfus Emerging Market (1%r)	Int'l	*	B	B	5.6	-12.2	2.1	11.34	21.8	-	FSW
4	5	10	BJBIX	Julius Baer International Equity A	Int'l	B	B	B	1.2	-10.0	-2.9	19.76	28.8	-	FS
5	7	23	VEIEX	Vanguard Emerging Mkts Stk Index (0.5%r)	Int'l	*	B	B	4.2	-11.6	-3.4	7.91	32.3	-	fsW
6	8	3	MAPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	B	B	B	7.2	-15.4	-1.7	8.47	47.1	-	FSW
7	3	11	SCOPX	Scudder Pacific Opportunity (2%r<1yr)	Pacific	*	B	B	3.8	-13.0	-3.8	8.40	33.5	-	FSW
8	13	9	HAINX	Harbor International	Int'l	B	B	B	3.0	-12.4	-4.9	27.47	17.8	-	sw
9	12	17	FEMKX	Fidelity Emerging Mkts (3%&1.5%r<90d)	Int'l	B	B	B	3.4	-13.5	-3.5	7.30	32.9	-	fsW
10	10	19	VNEPX	Vontobel International Equity (2%r<90d)	Int'l	B	B	B	-0.2	-10.3	-7.7	11.71	21.1	-	fsW
11	9	28	MNEMX	Montgomery Emerging Mkts (closed)	Int'l	*	B	B	3.1	-13.2	-5.9	7.97	31.6	-	FSW
12	14	18	USIFX	USAA International	Int'l	B	B	B	-0.8	-10.9	-8.1	14.89	18.1	-	w
13	4	5	PRASX	T. Rowe Price New Asia	Pacific	*	B	B	3.5	-15.3	-4.6	5.87	33.6	-	fsW
14	16	16	FDIVX	Fidelity Diversified Intl (1%r<30d)	Int'l	H	H	H	1.0	-12.5	-8.5	16.96	20.4	-	Fsw
15	19	34	ICHKX	Investec China & Hong Kong	Pacific	H	H	H	2.6	-13.5	-10.5	10.46	39.2	-	FSW
16	15	6	FSEAX	Fidelity SE Asia (3%&1.5%r<90d)	Pacific	*	B	B	3.1	-16.4	-4.7	10.25	38.5	-	fsW
17	17	8	PFIFX	Preferred International	Int'l	B	B	B	1.4	-15.2	-6.8	10.41	17.4	-	FSW
18	22	49	USAWX	USAA World Growth	Int'l	H	H	H	0.2	-11.5	-14.5	12.06	20.0	-	w
19	18	14	FIGRX	Fidelity International G & I	Int'l	H	H	H	0.9	-14.0	-9.7	16.65	22.0	-	FSW
20	31	4	OAKIX	Oakmark International (2%r<90d)	Int'l	H	H	H	3.6	-17.5	-5.8	13.11	24.3	-	FSW
21	21	7	FIVFX	Fidelity Aggressive Intl. (1%r<30d)	Int'l	H	H	H	1.6	-15.4	-9.2	10.81	25.6	-	Fsw
22	53	54	PRLAX	T ROWE Price Latin America (2%r<1yr)	LatinA	*	H	H	5.1	-15.7	-13.9	7.44	43.5	-	fsW
23	34	44	SCOBX	Scudder Global	Global	H	H	H	2.0	-13.5	-15.3	17.93	16.7	-	FSW
24	20	15	FPBFX	Fidelity Pacific Basin (3%&1.5%r<90d)	Pacific	*	H	H	0.9	-15.4	-9.5	12.71	30.0	-	Fsw
25	11	1	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	H	H	H	2.2	-18.4	-4.1	10.44	25.6	-	FSW
26	33	48	FVWFX	Fidelity Worldwide (1%r<30d)	Global	H	H	H	1.7	-13.5	-16.4	11.97	18.5	-	Fsw
27	32	39	PRESX	T. Rowe Price European	Europe	H	H	H	0.5	-12.9	-16.7	12.86	17.7	-	fsW
28	26	38	VWIGX	Vanguard International Growth	Int'l	H	H	H	1.0	-14.3	-15.1	12.15	17.6	-	fsW
29	28	22	FJPNX	Fidelity Japan (3%&1.5%r<90d)	Japan	*	S	S	0.7	-15.7	-11.7	8.32	34.8	-	Fsw
30	55	55	SLAFX	Scudder Latin America	LatinA	*	S	S	5.2	-16.3	-17.2	15.67	37.7	-	FSW
31	24	29	GIGRX	Gabelli Intl. Growth	intl	S	S	S	0.0	-14.2	-14.6	11.65	21.0	-	FSW
32	27	31	SWINX	Schwab International Index (1.5%r<180d)	Int'l	S	S	S	-0.1	-14.1	-14.7	10.22	18.0	-	S
33	42	47	PRIDX	TR Price Intl Discovery (closed,2%r<1yr)	Int'l	S	S	S	2.7	-15.2	-17.1	15.90	37.1	-	fsW
34	23	30	SCINX	Scudder International (2%r<180d)	Int'l	S	S	S	-0.7	-14.1	-15.1	30.48	21.4	-	FSW
35	29	32	VEURX	Vanguard European Stock Index	Europe	H	H	H	-0.6	-13.7	-16.4	15.97	17.3	-	fsW

## Bond Funds

RANK	12/13	1Mo	6Mo	Ticker	FUND NAME (Max. Load)	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE	Std. Dev.	Yield	NTF/wtf
										1 mo.	6 mo.	12 mo.	PER SHARE			
1	-	-	-	BEGBX	Amer. Cent. Int'l Bond	Int'l	*	*	*	1.8%	12.6%	18.2%	\$12.05	9.84	0.21	fSW
2	-	-	-	BTFTX	Amer. Cent. Target 2015	ZeroCpn	*	*	*	-1.9	12.9	19.5	62.57	12.60	4.96	fSW
3	-	-	-	BTTTX	Amer. Cent. Target 2020	ZeroCpn	*	*	*	-2.3	13.1	19.7	44.47	15.70	5.07	fSW
4	-	-	-	BTRTX	Amer. Cent. Target 2025	ZeroCpn	*	*	*	-3.1	13.6	18.8	37.05	18.60	6.14	fSW
5	-	-	-	RPIBX	T. Rowe Price Int'l Bond	Int'l	*	*	*	1.5	10.6	13.9	9.06	8.76	2.87	fsw
6	-	-	-	BTTNX	Amer. Cent. Target 2010	ZeroCpn	*	*	*	-1.3	10.5	16.7	79.22	14.90	4.68	fSW
7	-	-	-	VUSTX	Vanguard L-T Treasury	Lngterm	*	*	*	-1.7	8.9	14.0	11.67	8.88	5.10	fsw
8	-	-	-	VFIIX	Vanguard GNMA	IntTerm	*	*	*	-0.1	8.3	12.7	10.73	3.09	5.54	fsw
9	-	-	-	SSTGX	Scudder Global Bond S-T	Int'l	*	*	*	1.1	7.8	11.8	9.74	4.36	4.00	FSW
10	-	-	-	VIPSX	Vanguard Inflation Protected Sec	IntTerm	*	*	*	-0.4	7.1	14.6	11.78	-	3.29	sw
11	-	-	-	PRULX	T. Rowe Price U.S. Treas. L-T	Lngterm	*	*	*	-1.5	7.9	10.9	12.16	8.46	4.75	fsw
12	-	-	-	VFITX	Vanguard Intermediate Treas.	IntTerm	*	*	*	-1.1	7.2	11.8	11.81	5.31	4.99	fsw
13	-	-	-	ACITX	Amer. Cent. Inflation Adj	IntTerm	*	*	*	-0.5	6.2	12.8	10.47	4.78	3.41	fSW
14	-	-	-	CPTNX	American Government Bond	IntTerm	*	*	*	-0.4	6.0	10.0	11.09	4.82	3.73	f
15	-	-	-	NIIBX	Eclipse Indexed Bond	IntTerm	*	*	*	0.1	5.5	9.7	10.89	3.71	8.80	SW
16	-	-	-	MNTRX	Montgomery Total Return	IntTerm	*	*	*	0.2	5.3	9.4	12.22	3.67	5.21	FSW
17	-	-	-	DODIX	DodgeCox Income	IntTerm	*	*	*	0.8	4.8	9.7	12.79	3.28	5.34	fsw
18	-	-	-	FTRGX	Federated Total Return Govt	IntTerm	*	*	*	-1.0	5.6	10.4	11.02	4.86	5.06	sw
19	-	-	-	VALBX	Value Line U.S. Govt Sec	IntTerm	*	*	*	-0.3	5.5	9.6	12.05	3.91	3.99	FSW
20	-	-	-	STVSX	Strong Govt Securities	IntTerm	*	*	*	-0.7	5.6	9.6	11.07	3.86	4.12	FSW
21	-	-	-	MGFIX	Managers Bond	Lngterm	*	*	*	1.2	4.0	10.1	23.12	5.70	5.56	FSW
22	-	-	-	FBDGX	INVESCO U.S. Govt Sec	Lngterm	*	*	*	-0.5	5.3	9.3	7.54	4.83	3.60	FS
23	-	-	-	FSTGX	Fidelity Intermediate Govt	IntTerm	*	*	*	-0.5	5.2	9.3	10.28	3.25	4.21	Fsw
24	-	-	-	VWESX	Vanguard Long-Term Corporate	Lngterm	*	*	*	-0.8	4.8	10.7	9.04	7.31	6.26	fsw
25	-	-	-	WPGVX	WPG Core Bond	IntTerm	*	*	*	0.1	5.0	8.8	10.33	3.88	3.96	FsW
26	-	-	-	SFIUX	Safeco I-T U.S. Treasury	IntTerm	*	*	*	-1.0	5.5	9.1	10.83	4.20	4.71	FSW
27	-	-	-	FBDFX	Fremont Bond	IntTerm	*	*	*	0.1	4.7	8.8	10.58	4.13	4.40	fsw
28	-	-	-	PTMDX	PIMCO Total Return Mortgage	ShtTerm	*	*	*	0.1	4.3	9.3	10.66	3.03	2.55	SW
29	-	-	-	FHYPX	INVESCO High Yield	HighYld	*	*	*	4.1	6.6	-3.1	3.28	12.80	9.57	FS
30	-	-	-	MTOIX	Mercury Total Return	IntTerm	*	*	*	-0.2	4.4	8.9	13.19	3.64	4.65	FS
31	-	-	-	PYGFx	Payden Global Fixed Income	Int'l	*	*	*	0.2	5.1	6.3	10.22	3.20	5.08	fsW
32	-	-	-	KIFIX	FifthThird Bond	Lngterm	*	*	*	-0.1	4.4	8.3	10.11	4.65	4.67	w
33	-	-	-	USAIX	USAA Income	IntTerm	*	*	*	0.3	4.3	7.8	12.28	4.18	5.61	w
34	-	-	-	NIBDX	Eclipse Bond	Lngterm	*	*	*	0.6	4.7	6.1	9.77	3.76	8.34	SW
35	-	-	-	SFUSX	Safeco U.S. Government	IntTerm	*	*	*	-0.6	4.3	8.8	9.80	2.90	5.14	FSW
36	-	-	-	DRGMX	Dreyfus GNMA	IntTerm	*	*	*	0.4	3.8	8.4	15.11	3.03	5.00	FSW
37	-	-	-	MGIDX	Managers Int. Duration Govt	ShtTerm	*	*	*	0.3	3.8	8.6	10.58	3.15	3.51	FSW
38	-	-	-	SCSBX	Scudder Income	IntTerm	*	*	*	0.2	4.2	7.3	12.66	3.67	5.28	FSW
39	-	-	-	FBNDX	Fidelity Investment Grade	IntTerm	*	*	*	0.3	4.0	6.9	7.49	3.60	4.33	Fsw
40	-	-	-	PTTDX	PIMCO Total Return	IntTerm	*	*	*	0.2	3.3	8.4	10.57	4.17	4.02	SW
41	-	-	-	FGOVX	Fidelity Government Income	IntTerm	*	*	*	-0.9	4.6	6.6	10.50	4.40	4.17	Fsw
42	-	-	-	FNMIx	Fidelity New Markets Income	Int'l	*	*	*	3.9	2.7	4.1	11.30	13.80	8.42	Fsw
43	-	-	-	VFISX	Vanguard S-T Treasury	ShtTerm	*	*	*	-0.4	4.0	6.8	10.86	2.28	3.90	fsw
44	-	-	-	SRINX	Liberty Income CIZ	IntTerm	*	*	*	1.6	2.6	6.7	9.48	4.03	6.61	FSW
45	-	-	-	VSGBX	Vanguard S-T Federal	ShtTerm	*	*	*	-0.3	3.7	7.0	10.78	2.19	4.06	fsw
46	-	-	-	FBDSX	INVESCO Select Income	IntTerm	*	*	*	0.8	5.2	1.4	5.16	5.57	6.15	FS
47	-	-	-	BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	B	B	*	2.5	3.2	3.6	9.78	6.09	6.02	FSW
48	-	-	-	DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	0.8	2.9	6.5	13.76	4.28	5.50	FSW
49	-	-	-	JAFIX	Janus Flexible Income	Multi	*	*	*	-0.2	4.0	5.0	9.52	4.07	5.16	FSW
50	-	-	-	PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	-0.1	3.5	5.8	9.85	3.20	4.48	fsw
51	-	-	-	CFISX	Columbia Fixed Income Sec	IntTerm	*	*	*	-0.4	3.1	7.0	13.41	3.78	5.21	fSW
52	-	-	-	FTHRX	Fidelity Intermediate Bond	IntTerm	*	*	*	0.1	3.4	5.3	10.61	3.02	4.90	Fsw
53	-	-	-	SWBDX	Schwab S-T Bond Mkt Index	ShtTerm	*	*	*	-0.2	3.3	6.0	10.11	2.31	4.60	S
54	-	-	-	MNSGX	Montgomery Sht Duration Govt	ShtTerm	*	*	*	-0.1	3.1	5.8	10.28	1.96	2.54	FSW
55	-	-	-	PTLCX	PIMCO Low Duration	ShtTerm	*	*	*	0.2	2.8	6.0	10.22	2.11	3.11	f w
56	-	-	-	WTIBX	Westcore Plus Bond	IntTerm	*	*	*	0.2	2.5	6.2	10.21	3.34	6.64	FSW
57	-	-	-	FSHBX	Fidelity Short-Term Bond	ShtTerm	*	*	*	0.1	2.8	5.4	8.93	1.76	4.37	Fsw
58	-	-	-	SCSTX	Scudder Short-Term Bond	ShtTerm	*	*	*	0.2	3.1	4.5	10.62	1.69	4.62	FSW
59	-	-	-	SPHIX	Fidelity High Income (1%r<270d)	HighYld	B	B	*	3.0	2.4	1.5	7.63	10.50	9.01	Fsw
60	-	-	-	VBMFx	Vanguard Bond Market	IntTerm	*	*	*	-0.2	2.4	5.7	10.28	3.50	5.67	fsw
61	-	-	-	MLOIX	Mercury Low Duration	ShtTerm	*	*	*	0.3	2.4	4.7	9.95	1.62	3.85	FS
62	-	-	-	BGNMX	Amer. Cent. Ginnie Mae	IntTerm	*	*	*	0.2	2.4	4.6	10.84	2.76	5.41	fSW
63	-	-	-	FGMNx	Fidelity GNMA	IntTerm	*	*	*	0.0	2.3	4.5	11.19	2.73	4.99	Fsw
64	-	-	-	CUGGX	Columbia S-T Bond	ShtTerm	*	*	*	-0.1	2.1	5.1	8.62	1.96	4.22	f W
75	-	-	-	VVEHX	Vanguard High Yield Corporate	HighYld	B	B	*	2.6	-0.4	1.4	5.86	6.97	8.77	sw
76	-	-	-	CMHYX	Columbia High Yield	HighYld	B	B	*	1.6	0.5	0.7	8.35	5.47	7.21	FSW
79	-	-	-	PRHYX	T. Rowe Price High Yield	HighYld	B	B	*	1.8	-0.6	1.5	6.28	7.42	9.48	sw
82	-	-	-	JAHYX	Janus High Yield	HighYld	B	B	*	0.7	-0.7	1.9	8.97	6.44	7.06	FSW
86	-	-	-	NTHEx	Northeast Investors Trust	HighYld	*	B	*	1.1	-4.5	2.9	6.99	8.07	8.83	fsw
87	-	-	-	VAGIX	Value Line Aggressive Inc	HighYld	*	B	*	3.4	-4.0	-2.8	4.26	9.68	9.63	FSW

## Here, There and Everywhere

### Spate of Mergers, Re-openings, and Closings Among *MONEYLETTER* Funds

Year-end has brought on no shortage of change among the fund families, particularly regarding their fund rosters. Here's a partial list of comings and goings in the families that we track.

#### Wasatch Funds – (800) 551-1700; [www.wasatchfunds.com](http://www.wasatchfunds.com)

On December 16th Wasatch announced that their Small Cap Value Fund (WMCVX) would be closing to new investors as of December 31, 2002. The fund had reopened on November 13th, but co-manager Jim Larkins said the general rise in stock prices, and thus the assets, caused the closing. Two other Wasatch funds – Core Growth (WGROX) and Small Cap Growth (WAAEX) – are on our list and currently closed.

#### Janus Funds – (800) 525-3713; [www.janus.com](http://www.janus.com)

On December 13th Janus announced the reopening of four funds, including the Janus Fund (JANSX) and Janus Worldwide (JAWWX), which are on *MONEYLETTER*'s Domestic and International lists, respectively. These funds have been closed since 2000 and will re-open effective December 31, 2002. Additionally, Janus' Special Situations Fund (JASSX) closed to new investors as of December 13th. The fund will merge with Janus Strategic Value Fund (JSVAX) and the combined fund will be called Janus Special Equity effective February 28, 2003.

Also at Janus, CEO-elect Mark Whiston announced on December 12th that his firm would assume the day-to-day operations for three value funds, including Berger Mid Cap Value (BEMVX), pending shareholder approval. The fund is managed by Perkins, Wolf, McDonnell and Company, which will retain portfolio management responsibilities. "Adding the value funds to our lineup is an import step toward achieving our goal of offering investors best-of-breed products across complementary investment disciplines," said Whiston. Trustees also approved a proposal to merge Berger's growth funds into similar Janus funds, pending a March proxy vote. This would affect Berger Large Cap Growth (BEOOX, to become Janus Growth & Income JAGIX) and Berger Growth (BEONX, to become Janus Olympus JAOLX). \$

All of us at  
PRI Financial Publishing, Inc.  
wish you and yours  
a very happy holiday season,  
and a healthy  
and prosperous  
New Year!



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

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	1.24%	1.29%	1.58%
Gabelli US Treasury MMF	1.19	1.26	1.59
Fidelity Spartan US Treas MMF	1.15	1.20	1.52
Amer Century Capital Presv Fund/Inv	1.07	1.09	1.44
T Rowe Price US Treasury MF	1.03	1.06	1.42
Prudential Govt Sec Tr/US Treas/CI A	0.96	1.00	1.30
Schwab US Treasury Money Fund	0.91	0.94	1.23
CMA Treasury Fund	0.90	0.97	1.34
Dreyfus 100% US Treas MMF	0.86	0.99	1.32
DBAB Cash Reserve Treasury	0.80	0.85	1.21

#### GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	1.54%	1.60%	-
McMorgan Principal Preservation Fund	1.41	1.46	1.64%
Bunker Hill MMF	1.37	1.47	1.74
Vanguard Prime MMF/Retail	1.32	1.37	1.73
Scudder YieldWise Money Fund	1.31	1.38	1.63
TIAA-CREF Money Market Fund	1.30	1.37	1.70
Touchstone Money Market Fund	1.29	1.40	1.88
RBB MMP/Sansom Street Class	1.27	1.30	1.78
Centennial Money Market Trust	1.25	1.30	1.42
Marshall MMF/Investor Class	1.25	1.31	1.63
Schwab Value Advantage MF/Inv	1.25	1.29	1.61

#### TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Scudder YieldWise Muni MF	1.00%	1.14%	1.27%
Strong Tax-Free Money Fund	1.00	1.22	1.39
Vanguard Tax-Exempt MMF	0.99	1.21	1.43
Evergreen Municipal MMF/CI I	0.97	1.20	1.29
Strong Municipal MMF	0.97	1.16	1.37
USAA Tax Exempt MMF	0.91	1.09	1.24
Scudder Tax-Exempt Money Fund	0.90	1.05	1.16
T Rowe Price Summit Muni MMF	0.89	1.04	1.23
Fidelity Municipal MMF	0.87	1.00	1.22
Dreyfus BASIC Muni MM Portfolio	0.85	1.04	1.20

#### TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard NY Tax-Exempt MMF	1.02%	1.16%	1.32%
Vanguard OH Tax-Exempt MMF	1.02	1.20	1.41
Vanguard PA Tax-Exempt MMF	0.95	1.14	1.32
Vanguard CA Tax-Exempt MMF	0.93	1.12	1.33
USAA Tax Exempt CA MMF	0.91	1.12	1.22
Vanguard NJ Tax-Exempt MMF	0.89	1.05	1.29
Fidelity NY Municipal MMF	0.80	0.94	1.07
Excelsior NY Tax-Exempt MF	0.79	0.90	0.96
Fidelity PA Municipal MMF	0.79	0.97	1.13
Fidelity CA Municipal MMF	0.78	0.94	1.05

**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 12/10/02. 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.

Source: Money Fund Report (800) 343-5413

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## Up and Coming Small Cap Value Funds

In the last issue of *MONEYLETTER*, we profiled three growth funds that had jumped more than 100 spots in our domestic funds list, and have the potential to become future buys. While value funds in general have outperformed growth funds over the past year, this hasn't been true recently. Yet, surprisingly, a handful of value funds are now moving rapidly up the list. One of them, Third Avenue Small Cap Value, has even made it into our portfolios.

### *Heartland Value (HRTVX)*

Heartland Value searches for most of its stocks at the smaller end of the Russell 2000; i.e., it concentrates on micro-cap stocks. In doing so, long-time manager Bill Nasgovitz and co-manager Eric Miller adhere to the principles of value as developed by Benjamin Graham: they look to buy stocks trading at deep discounts to their intrinsic value. To achieve this objective, the managers employ a rigorous 10-point selection process that basically boils down to three main ideas. Are fundamentals strong and is it a solid business? To manage risk, is the stock price low enough? Companies must trade at discounts to earnings, cash flows, and book values. And, finally, is there a catalyst that will trigger Wall Street's interest in what was an unpopular stock? After all, they do not want to invest in cheap stocks only to see them remain cheap. The fund has a huge stake in health care – 26% of assets. U.S. Oncology has been a big winner, though many of its other health care issues have been drags. The fund's biggest winner to date? Energy firm Harvest Natural Resources, up 360%.

*Heartland Funds, 789 North Water Street  
Milwaukee, WI 53202, (800) 432-7856*

### *Royce Pennsylvania Mutual (PENNX)*

Micro caps are the main hunting ground here as well, as Chuck Royce looks for what he believes are the strongest names in the micro- and small-cap universe. Its micro-cap portfolio is actually invested in another family fund, Royce Micro-Cap, while the small-cap portion tracks Royce Premier. So investors are really getting two funds in one. The impact of this dual approach is that the micro-cap stocks have enhanced returns while the small-cap holdings have actually curtailed some of the volatility. Like other value managers, Royce and co-manager Whitney George seek out firms selling well below their estimates of future worth. Their ideal situation: a company with great financial fundamentals whose price is halved when it misses earnings. That has led to a greater-than-usual stake in traditional growth industries such as technology, which was a strong sector in October and November. Still, the fund is most

heavily weighted in more traditional value sectors such as energy and industrial materials. Big winners for the fund this year include gold mining firms AngloGold and Gold Fields.

*Royce Funds, 1414 Avenue of the Americas  
New York, NY 10019, (800) 221-4268*

### *Oakmark Small Cap (OAKSX)*

As of October 31, consumer cyclicals and consumer staples each accounted for 20% of Oakmark Small Cap's assets, followed by 17% in both financials and technology. The fact that traditional value stocks dominate, but tech holds a significant stake, reflects the efforts of managers Jim Benson and Clyde McGregor to focus on higher-quality growth companies with strong balance sheets. Still, their stock search is based on valuation – to make it into the portfolio, a stock must sell at a discount of at least 40% to estimated intrinsic value. The managers also put a great deal of emphasis on earnings yield, which is the inverse of a P/E ratio. In early 2000, many stocks had earnings yields of less than 3%, while the 10-year Treasury note yielded more than 6%. Today, according to the managers, many stocks have earnings yields of more than 10%, implying that expectations for stocks are very positive. Recent additions to the portfolio include Institutum Technologies, a leading provider of sewer replacement services that is well situated to benefit from a replacement cycle in municipal sewer systems; Surebeam Corp., which has a patented food irradiation process; and Tupperware Corp., which should benefit from its strong brand name and expanding distribution channels.

*Oakmark Funds, Two North La Salle Street  
Chicago, IL 60602-3790, (800) 625-6275*

### *Third Avenue Small-Cap Value (TASCX)*

"Safe and cheap" is the mantra that drives the folks at Third Avenue Small-Cap Value. Their criteria for the "safe" portion of the mantra: strong finances, competent management, and understandable businesses. As for the "cheap" requirement – the stock price must be substantially below a conservative valuation of the business as a private entity, or as a takeover candidate. The fund is concentrated — manager Curtis Jensen will take substantial positions in favored stocks, and industry positions may build as well. Just three industries account for 88% of assets: technology hardware, financial services, and industrial materials. And the manager is not against letting the cash position build if he can't find stocks that meet his criteria. Cash was 12% of the portfolio on September 30, but had declined to nearly zero two months later. Jensen may be early in buying beaten-down stocks, such as Comverse Technology and Sycamore Networks, but such moves are indicative of the manager's deep value approach. \$

*Third Avenue Funds, 767 Third Avenue, Fifth Floor  
New York, NY 10017, (800) 443-1021*

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