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## After Iraq

by Walter S. Frank, Chief Investment Officer

As last year drew to a close, the Iraq issue began to loom larger and larger as an influence on the market. The general view was that because of “geopolitical uncertainty” (read: Iraq) the market and the economy would do poorly. Uncertainty was hurting the economy and, by inference, hurting the market.

The implication of that view was that once the geopolitical uncertainties were resolved, the economy’s performance would improve. As it did, the stock market would follow, or maybe lead the way. We subscribed to that view as readers know. (We haven’t changed our minds.) We have said—more than once—that the market needed Iraq behind it before its underlying attractiveness (as we see it) drew Wall Street’s attention.

Of late, as the economy stumbled in February, the view that uncertainty over Iraq was the primary cause of the economy’s struggle to achieve liftoff is coming under scrutiny. The latest example of the doubts about the economy after Iraq came in the March 24th issue of Business Week in an article titled “Don’t Bank on a Bounceback.”

The article’s point is that, even after the Iraq uncertainty is stripped away, the economy faces numerous problems that are strong enough to keep growth grounded for some indefinite period of time. The authors quote Ed McKelvey, senior economist at Goldman, Sachs & Co, and then go on write, “McKelvey and others point to daunting problems of overcapacity, rising consumer and business debt, as well as the expectation that there is little further lift ahead from housing.”

It would be absurd to deny that these conditions do not exist and do not represent hurdles for the economy. But they are not new (except for, perhaps, housing). Overcapacity has been with us for some time, as has rising debt. Despite this the economy has been growing. As Alan Greenspan pointed out in his testimony to Congress on February 11, “...the economy has largely extended the broad patterns of performance that were evident at the time of

my July testimony. Most notably, output has continued to expand, but only modestly.”

### Blizzards and uncertainty

The new wobbles about the outlook after Iraq, we believe, have been caused more by the astonishingly weak employment numbers for February than by any fundamental new turn to weakness. The February employment figures were certainly chilling. They obviously had impact on the thinking on Wall Street and elsewhere.

As we all know, the February storms and bone-chilling weather crippled business in the East and Northeast for most of the month and into early March. At the very same time, the tension over Iraq heightened as the push for a second resolution began. A sliding stock market did not help. In a sense, the economy has been under unusual pressure for a good six weeks.

This is having an effect. Auto sales dropped below January’s lower level and we are now seeing cuts in auto production schedules for next quarter. The ISM showed manufacturing activity slowed after a strong December and January. So it goes.

The question is does this represent some fundamental weakness as the doubters suggest. Or is it a temporary response to temporary conditions? We are not certain about the answer, but we believe the odds favor a temporary response. The economy was doing OK in January. For example, excess capacity and all, new orders for nondefense capital goods were solid in January. Business was willing to commit to spend then. We see no reason why the economy should make a sudden U-turn in February, other than blizzards and Iraq.

We’re not banking on anything, but we still believe the economy’s growth will pick up as the fog of uncertainty lifts.

## Secular Bear Market?

During the course of the past two years, as the bear market persisted, we occasionally heard the phrase “secular bear market” thrown around. The speaker usually said that the market was “in the throes of a secular bear market.” We didn’t pay much attention when we first heard the phrase, passing it off as a fancy way to say that we were experiencing a severe bear market. Of course, that wasn’t news to anybody. Also, those using the phrase came from the trading community, and that community has a habit of investing every one-week trend with dramatic long-term implications for the future of the stock market. Did they even appreciate what they were saying when they stated that a secular bear market was at hand?

Over the past six months, though, we have heard the phrase used by a market strategist and a portfolio manager, both of whom we take seriously. Neither uses terms loosely. That set us to wondering what does the phrase mean and what are the implications

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### Market Trends

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

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for investors if it is the case that we are in a secular bear market. Finally, we asked ourselves, are we in a secular bear market?

### **Not polar opposites**

In trying to figure out what the phrase meant we first turned to its opposite, a secular bull market, because we know what that means. We just lived through a secular bull market in the '90's. Such a market is one where stock prices rise over a longish period of time. The rise may be pock-marked by bear markets, but the bear phase is short and not overly deep. The rise in stock prices comes not only from a rise in profits but also by a more or less steady rise in price-earnings ratios. Not only are stock prices on the upswing, so too is optimism about future profits, leading to a willingness to pay more for a dollar's worth of today's profits.

How about a secular bear market? The first thing that jumps out at you is that it cannot imply a longish period of falling prices. Anything like the opposite of the '90s would mean that stock prices would be close to zero by the end of such a bear market. That makes no sense.

That leaves the rest: downtrending price-earnings ratios, relatively short-term and limited rallies and pessimism about the future profit outlook. Is that what was meant by the talk about a secular bear market?

### **The 1970s**

The portfolio manager we referred to earlier was Andy Pilara, a market veteran and the (deservedly) highly regarded manager of the RS Partners Fund, one of the best performing funds during the bear market in our domestic fund list. We asked him what he meant by a secular bear market.

His answer: "What we've gone through this time is reminiscent of '73-'74. If you look at '74-'82, subsequent to that bear market, the market went nowhere for eight years." Pilara added, "I'm not forecasting that, but when we sit down and strategize, we at least have to put that in our work..."

In our thinking, we too had gone back to the '70s (through 1982) as the probable prototype of Wall Street's image of a secular bear market. It was, as Pilara says, a period when the S&P 500 went nowhere, but within that nowhere there were rallies and declines of more than 20%. As for price-earnings ratios, they indeed headed down. The price-earnings ratio for the S&P 500 was 18.2 at the end of 1973 and stood at 8.4 at the end of 1982.

But what we need to remember about the '70s are the almost hurricane like headwinds the equity markets faced during the period. Just looking at market prices, as some do, can leave a false impression.

Most important, OPEC flexed its muscles twice during the '70s raising oil prices precipitously, leading to two periods of virulent inflation. The Fed answered by raising rates sharply which in turn led to the deep recession of '75-'76. Credit controls, of a sort, were tried in 1980. During the last three years of the period short-term interest rates hit levels that are fond memories for today's older retirees. It was in short, a very turbulent period. It was no era for equities.

### **The 2000s**

And today? We don't know the future, but right now the demons the economy wrestled with in the '70s are absent. At the

same time though the great mover of the '90s markets, the huge decline in interest rates over the decade, is also absent. It was that decline in rates that underlay the rise in price-earnings ratios.

From now on, then, it will be profit growth that should be the driver of stock prices. Estimates of longer-run profit growth now are modest, about 7%. We won't quarrel with that. But a 7% average annual rise in stock prices is a far cry from the '70s. From what we know today, the odds favor a brighter market future than the experience of the '70s. \$

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## Blinded By Sandstorms

As we have been reiterating, Iraq has taken over the markets and this was underlined by the huge market rally of Monday, March 17. Once it became clear that war was inevitable, the market rallied as the uncertainty cleared. But even before Monday, the market rally had begun, and that was not simply Iraq related. Over the course of the dreary March markets sentiment had gotten more and more pessimistic as evidenced in the rise of bearishness and the fall in bullishness for the Investor's Intelligence survey. The market had become deeply oversold and, in normal times, a bounce was to be expected. We have had that and more.

The economic numbers have been dreary, and, in the case of the employment numbers for February, shocking. Iraq, oil prices and the blizzards did a job on the economy in February. Wall Street's immediate response was to mark down sharply its outlook for the first half of the year.

That's understandable. Business slowed considerably in February, and the effects are going to be felt for weeks to come. Even so, it is hard to know how much of the February weakness in employment, at least, was weather related or represents a true downshift in activity. We need at least another month of data to know. Aside from the weather, oil prices too are certainly having their effect.

But in the end it is the uncertainty over Iraq that is playing the major role in affecting the economy now. The Fed acknowledged this at its March 18 meeting when it left interest rates alone. It left them alone, it said, because it didn't really know the underlying trend of the economy. The Fed did not even offer its usual statement about the near-term outlook for the economy, because the tea leaves were telling it nothing. We applaud the Fed for its frank statement. There are times, such as now, when we just don't know.

For the moment, this remains an Iraq market. We have had the opening rally. The course of the market in the short-run will depend on the course of the conflict. We are cautiously optimistic, but we believe it is prudent to maintain reserves until the sandstorms die down.

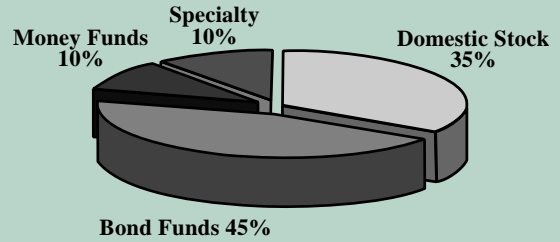
### Portfolio changes

The Hotline of Tuesday March 11 recommended the sale of Fidelity Low-Priced Stock in all three Fidelity family model portfolios. In the Venturesome and Conservative Fidelity portfolios the fund was to be switched into Fidelity Growth & Income II. In the Fidelity Moderate Portfolio the recommended switch was into Fidelity Capital Appreciation.

Here are the details as of Wednesday, March 12. **Fidelity Venturesome**—Sold 724 shares of Low-Priced Stock @ \$22.56 per share. Purchased 2,308 shares of Growth & Income II @ \$7.08 per share. **Fidelity Moderate**—Sold 569 shares of Low-Priced Stock, purchased 830 shares of Capital Appreciation @ \$15.45 per share. **Fidelity Conservative**—Sold 614 shares of Low-Priced Stock, purchased 1,995 shares of Growth & Income II. \$

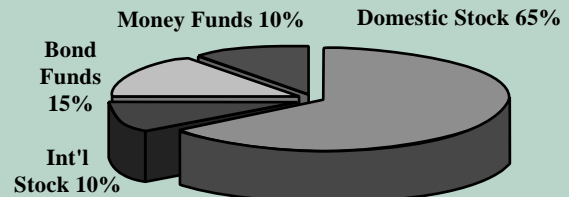
### CONSERVATIVE

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



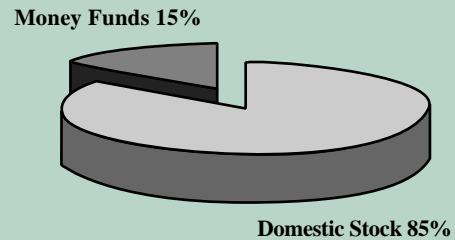
### MODERATE

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



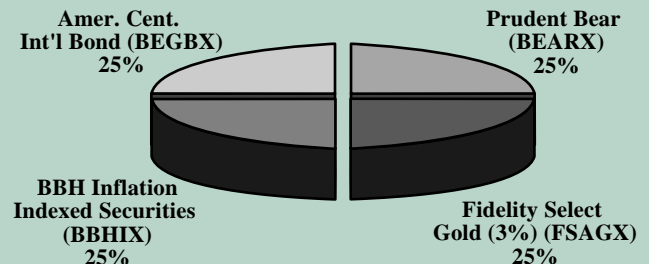
### VENTURESOME

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



### SELECT

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



# 4 FUND SCORECARD & RECOMMENDATIONS

## Domestic Stock Funds

RANK	3/14 2003	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	-	-	-	TGANX	TCW Galileo Aggressive Growth CIN	MCGro	*	B	B	5.9%	14.8%	-29.8%	\$8.23	33.9	1.93	SW
2	1	8	8	VCV SX	Vanguard Convertible Securities	Convrt	B	B	B	1.4	5.8	-4.1	10.52	20.4	0.69	fsw
3	3	4	4	RSPFX	RS Partners	SC	*	B	B	1.8	4.8	-2.9	17.86	-	0.59	Fsw
4	5	27	27	FCV SX	Fidelity Convertible Securities	Convrt	B	B	B	1.0	3.5	-12.0	16.31	27.4	0.89	Fsw
5	4	1	1	HSGFX	Hussman Strategic Growth (1.5%r<180d)	MCGro	B	B	B	-1.1	-3.8	5.1	12.31	-	-	fsw
6	7	-	-	RYSEX	Royce Special Equity (1%r<180d)	SCVal	B	B	B	-0.2	-2.9	-3.5	13.33	15.9	0.36	Sw
7	6	123	123	GINLX	Gintel Fund (2%r<45d)	MC	B	B	B	0.6	3.2	-21.1	8.70	49.8	1.20	fsW
8	10	195	195	LMOPX	Legg Mason Opportunity Trust	MC	B	B	B	1.4	2.0	-21.6	8.04	-	-	-
9	8	-	-	OAKBX	Oakmark Equity & Income	Bal	B	B	B	-0.2	-2.2	-9.6	17.19	10.6	0.37	Fsw
10	9	10	10	PRWCX	T. Rowe Price Cap Appreciation	LCVal	B	B	B	-1.2	-3.2	-9.4	13.61	10.7	0.24	fsw
11	34	130	130	FDCAX	Fidelity Capital Appreciation	MC	(B)	(B)	(B)	1.5	-0.3	-22.7	16.04	31.5	1.26	fsw
12	16	17	17	TWEIX	American Century Equity Income	MCVal	B	B	B	-0.5	-3.1	-13.8	6.16	15.1	0.44	Fsw
13	33	221	221	SCDVX	Scudder Development	MCGro	*	(B)	(B)	1.5	1.6	-30.0	13.83	41.9	1.47	Fsw
14	40	31	31	STDIX	Strong Discovery	MCGro	(B)	(B)	(B)	1.6	-3.3	-17.9	13.89	25.1	0.83	Fsw
15	47	-	-	FGRTX	Fidelity Growth & Income II	LC	H	H	H	1.7	-2.9	-19.5	7.37	13.7	0.76	Fw
16	29	-	-	GAATX	Liberty Asset Allocation CIZ	G&I	H	H	H	0.2	-3.3	-16.3	12.29	11.4	0.61	f
17	80	234	234	FDEGX	Fidelity Aggressive Growth (0.75%r<90d)	LCGro	*	H	H	1.4	3.9	-36.7	10.90	53.5	1.75	fsw
18	61	-	-	RSMOX	RS MidCap Opportunities	MCGro	H	H	H	3.0	-1.7	-25.4	7.13	27.0	1.06	Fsw
19	12	47	47	LMASX	Legg Mason Special Investment Trust	MC	B	B	B	-0.8	-2.9	-17.5	27.86	30.6	1.18	w
20	56	227	227	SACPX	Salomon Brothers Capital (closed)	MCVal	(B)	(B)	(B)	-0.2	0.3	-26.6	18.56	22.0	0.85	sw
21	28	145	145	STCSX	Strong Advisor Common Stock (closed)	MC	B	B	B	0.7	-1.5	-24.0	15.33	23.2	0.95	Fsw
22	21	22	22	MUTHX	Mutual Shares (1%) CIZ	MCVal	B	B	B	-0.1	-4.6	-15.5	16.30	16.6	0.62	sw
23	20	35	35	PRNEX	T. Rowe Price New Era	LC	B	B	B	0.5	-4.6	-16.9	19.62	26.7	0.72	fsw
24	13	65	65	FFTYX	Fidelity Fifty (.75%r<30d)	LC	B	B	B	-2.1	-5.3	-11.3	15.13	28.2	0.87	Fsw
25	193	224	224	FDGRX	Fidelity Growth Company	LCGro	H	H	H	2.7	-0.3	-30.9	34.67	42.1	1.12	Fsw
26	37	58	58	WBSNX	WmBlair S-C Growth N (1%r<60d)	SCGro	H	H	H	2.0	-3.6	-22.2	12.84	-	0.95	Fsw
27	2	2	2	YACKX	Yacktman Fund	MC	B	B	B	-4.4	-7.3	-3.4	11.15	18.2	0.55	Fsw
28	41	-	-	FEXPX	Fidelity Export & Multinat'l (.75%r<30d)	LC	H	H	H	0.3	-2.5	-22.7	13.00	18.5	0.91	fsw
29	58	79	79	JAENX	Janus Enterprise	MCGro	H	H	H	1.9	-3.5	-22.8	22.32	54.1	1.59	Fsw
30	23	19	19	PRSVX	T. Rowe Price S-C Value (closed, 1%r<1yr)	SCVal	H	H	H	-0.9	-5.1	-15.3	20.40	16.4	0.44	fsw
31	14	25	25	LLPFX	Longleaf Partners	MCVal	(H)	(H)	(H)	-1.5	-4.1	-17.0	21.32	20.1	0.58	fsw
32	22	-	-	FCONX	Fidelity Contrafund II (3%)	LC	B	B	B	-1.4	-2.8	-20.1	8.26	18.5	0.98	fsw
33	35	9	9	BSCFX	Baron Small Cap	SCGro	H	H	H	2.1	-6.4	-17.2	12.90	28.0	1.07	Fsw
34	15	7	7	NBGNX	Neuberger Berman Genesis (closed)	SC	B	B	B	-0.9	-6.2	-13.8	18.41	19.6	0.62	Fsw
35	112	210	210	FIDYX	INVESCO Dynamics	MCGro	H	H	H	1.9	-0.8	-32.2	10.38	44.2	1.43	Fsw
36	25	24	24	BEGRX	Mutual Beacon (1%) CIZ	MCVal	H	H	H	-0.6	-5.5	-17.0	10.85	15.9	0.58	sw
37	120	87	87	FOCPX	Fidelity OTC Portfolio	LCGro	*	H	H	1.2	-2.8	-26.6	22.57	29.1	1.57	fsw
38	136	92	92	SGROX	Strong Growth	LCGro	H	H	H	2.3	-4.5	-24.0	12.87	43.9	1.16	Fsw
39	88	150	150	PRNHX	T. Rowe Price New Horizons	SCGro	*	H	H	2.3	-3.1	-27.9	15.85	37.8	1.24	fsw
40	82	78	78	JAVLX	Janus Twenty (closed)	LCGro	H	H	H	1.7	-4.8	-22.6	28.37	38.1	1.43	Fsw
41	24	3	3	AVALX	Aegis Value Fund	SCVal	H	H	H	-2.5	-6.9	-11.2	11.50	18.2	0.31	fw
42	43	14	14	FCNTX	Fidelity Contrafund	LC	H	H	H	0.9	-7.4	-15.3	36.83	20.1	0.84	fsw
43	121	192	192	PRWAX	T. Rowe Price New America	LC	H	H	H	1.2	-2.6	-28.2	21.15	27.0	1.27	fsw
44	137	139	139	FFIDX	Fidelity Fund	LC	H	H	H	1.2	-4.0	-24.8	21.30	23.2	1.05	Fsw
45	39	5	5	EEQFX	Eclipse Small Cap Value	SCVal	H	H	H	0.6	-8.7	-12.4	11.09	18.6	0.75	Fsw
46	19	11	11	RYTRX	Royce Total Return (1%r<180d)	SCVal	(H)	(H)	(H)	-1.3	-6.7	-14.6	7.79	13.6	0.41	Fsw
47	26	114	114	WVALX	Weitz Value Fund	MCVal	H	H	H	0.3	-4.5	-22.5	26.25	16.6	0.52	SW
48	118	133	133	FDSSX	Fidelity Stock Selector	LC	H	H	H	0.8	-4.1	-24.3	15.86	20.9	0.97	Fsw
49	97	105	105	JAGIX	Janus Growth & Income	G&I	H	H	H	1.3	-4.6	-23.8	22.56	25.7	1.02	Fsw
50	108	172	172	VPMCX	Vanguard PRIMECAP (\$25,000&1%r<5yr)	LC	H	H	H	0.8	-2.7	-28.1	37.24	26.7	1.00	fsw
51	131	157	157	MPEGX	MSI Midcap Growth	MCGro	H	H	H	2.4	-4.0	-27.8	11.88	44.0	1.50	w
52	59	128	128	OBEGX	Oberweis Emerging Growth	SCGro	H	H	H	0.1	-3.9	-24.9	14.53	48.7	1.49	Fsw
53	62	82	82	TASCX	Third Avenue Small-Cap Value	SCVal	H	H	H	-0.9	-5.5	-19.7	12.66	17.5	0.58	Fsw
54	53	44	44	VSEQX	Vanguard Strategic Equity	MCGro	H	H	H	-0.2	-5.8	-20.0	12.50	17.2	0.82	fsw
55	206	196	196	WPGFX	WPG Large Cap Growth	LCGro	H	H	H	1.7	-3.4	-28.8	18.97	21.7	1.04	FsW
56	154	193	193	TMGFX	Turner Midcap Growth	MCGro	*	H	H	1.8	-2.6	-31.0	14.46	58.5	1.57	Fsw
57	94	153	153	JAMRX	Janus Mercury	LCGro	*	S	S	2.3	-4.2	-27.9	14.27	42.5	1.43	Fsw
58	87	137	137	FTRNX	Fidelity Trend	LC	H	H	H	-0.1	-4.3	-24.1	36.88	27.3	1.16	Fsw
59	85	110	110	RPMGX	T. Rowe Price Mid Cap Growth	MCGro	H	H	H	0.9	-4.7	-24.6	29.49	24.5	1.12	fsw
60	155	148	148	VIGRX	Vanguard Growth Index	LCGro	S	S	S	1.2	-4.5	-25.8	19.42	24.2	1.14	fsw
61	30	32	32	MQIFX	Mutual Qualified (1%) CIZ	MCVal	H	H	H	-0.7	-6.3	-18.3	13.42	16.9	0.61	sw
62	74	56	56	FMILX	Fidelity New Millennium (3%) (closed)	MCGro	H	H	H	0.8	-5.3	-23.2	20.91	59.0	1.67	fsw
63	173	204	204	SCQGX	Scudder Large Company Growth	LCGro	S	S	S	2.0	-3.7	-29.1	17.75	27.2	1.22	Fsw
64	69	217	217	VHCOX	Vanguard Cap Opp (\$25,000&1%r<5yr)	MCGro	H	H	H	-1.0	-1.4	-30.5	16.14	38.1	1.06	fsw
65	38	21	21	BERWX	Berwyn Fund (1%r<180d)	SCVal	H	H	H	0.6	-7.4	-18.1	16.33	18.7	0.41	fsw
66	176	226	226	SMDCX	Strong Advisor Midcap Growth	MCGro	S	S	S	3.4	-2.8	-34.0	8.84	50.6	1.52	Fsw
67	151	200	200	BABSX	Babson Growth	LCGro	S	S	S	0.9	-3.2	-29.2	7.87	26.1	1.16	Fsw
68	90	104	104	FEQTX	Fidelity Equity-Income II	G&I	H	H	H	0.0	-5.2	-22.8	16.21	17.2	0.74	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.

Domestic Stock Funds

RANK	3/14	1 Mo	6 Mo	Ticker	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	54	138	BEMVX	Berger Mid Cap Value	MCVal	H	H	H	-0.6	-5.4	-21.6	13.92	23.3	0.80	FSW
70	96	138		PRGFX	T. Rowe Price Growth Stock	LC	H	H	H	0.7	-5.0	-25.1	17.78	22.9	1.06	fsw
71	55	74		FIDLX	Fidelity Value	MCVal	S	S	S	-0.4	-6.2	-20.8	43.28	22.8	0.64	Fsw
72	188	144		SCDGX	Scudder Growth & Income	G&I	S	S	S	1.8	-5.6	-25.9	15.51	15.8	0.75	FSW
73	109	109		VMRGX	Vanguard/Morgan Growth	LC	S	S	S	0.9	-5.2	-25.4	10.67	26.7	1.22	fsw
74	195	181		STRFX	Strong Large Cap Growth	LCGro	S	S	S	2.0	-4.7	-28.4	16.35	35.3	1.13	FSW
75	197	185		VGEQX	Vanguard Growth Equity	LCGro	S	S	S	1.7	-4.3	-29.6	6.52	37.2	1.39	fsw
76	42	97		OAKLX	Oakmark Select (closed) (2%r<90d)	MCVal	(S)	(S)	(S)	0.0	-7.8	-18.3	22.90	26.2	0.83	FSW
77	70	28		DNLDX	Dreyfus New Leaders	MCGro	H	H	H	-0.2	-7.0	-20.0	32.60	25.2	0.92	FSW
78	-	-		TGVNX	TCW Galileo Value Opportunities	MC	S	S	S	1.5	-3.3	-32.2	12.96	-	-	SW
79	83	98		ARTMX	Artisan Midcap (closed)	MCGro	S	S	S	0.0	-4.8	-26.3	18.41	35.5	1.11	FSW
80	44	228		NEEGX	Needham Growth Fund (.75%r<30d)	MCGro	H	H	H	-1.7	-1.7	-31.5	18.99	50.6	1.11	FSW
81	77	162		CUEGX	CS Warburg Pincus Emerging Growth	MCGro	H	H	H	0.6	-4.2	-28.7	18.28	35.5	1.26	FSW
82	153	42		MERDX	Meridian Fund	SCGro	S	S	S	1.5	-7.4	-22.3	21.78	21.4	0.77	fsw
83	172	168		FBRGX	Fidelity Blue Chip Growth	LCGro	S	S	S	1.0	-5.0	-27.4	30.77	23.4	1.09	fsw
84	102	126		BEQGX	American Century Equity Growth	LCVal	S	S	S	0.2	-6.0	-23.9	14.52	20.8	1.03	FSW
85	159	111		RSVPX	RS Value+Growth	LC	S	S	S	3.1	-6.6	-26.9	12.00	28.9	1.20	FSW
86	105	96		FGRIX	Fidelity Growth & Income (3%)	G&I	S	S	S	0.2	-6.6	-22.6	28.90	16.7	0.80	fsw
87	54	-		VALSX	Value Line Special Situations	MCGro	S	S	S	0.5	-8.3	-18.9	15.40	28.6	0.88	FSW
88	98	77		FDEQX	Fidelity Disciplined Equity	LC	S	S	S	0.6	-6.9	-22.5	17.32	19.7	0.94	Fsw
89	100	59		NCTWX	Nicholas II	MCVal	S	S	S	0.7	-7.2	-22.4	15.08	21.3	1.00	w
90	198	155		TWCGX	American Century Growth	LCGro	*	S	S	0.9	-5.2	-27.8	13.96	25.0	1.08	FSW
91	142	146		SNFXF	Schwab 1000 Fund (.75%r<180d)	LC	S	S	S	0.3	-5.5	-25.8	23.66	20.6	1.01	S
92	89	178		FMC SX	Fidelity Mid-Cap Stock (.75%r<30d)	MCGro	S	S	S	0.5	-3.9	-30.5	15.48	33.9	0.72	Fsw
96	71	71		VEXMX	Vanguard Extended Market Index	MC	S	S	S	0.4	-6.8	-23.6	17.61	31.4	1.17	fsw
99	17	152		LMVTX	Legg Mason Value	LCVal	(H)	(H)	(H)	-2.5	-6.0	-21.6	37.88	28.1	1.16	w
116	31	-		VISGX	Vanguard Small Cap Growth Index	SCGro	H	H	H	-1.3	-7.2	-22.6	8.55	28.2	0.85	w
122	45	48		DODGX	Dodge & Cox Stock	LCVal	(S)	(S)	(S)	-2.3	-7.6	-20.8	81.40	19.8	0.64	sw
133	18	23		RYPRX	Royce Premier (1%r<180d)	SC	(H)	(H)	(H)	-2.2	-9.0	-18.3	8.66	18.7	0.62	FSW
138	68	20		FLPSX	Fidelity L P Stock (3%&1.5%r<90d)	SCVal	(S)	(S)	(S)	-1.8	-9.5	-18.1	23.22	16.6	0.57	fsw
156	123	125		VEIPX	Vanguard Equity-Income	LCVal	H	H	H	-1.8	-7.5	-24.9	17.30	16.0	0.55	fsw
198	169	240		VCVLX	Vanguard Capital Value	LCVal	H	H	H	-0.7	-7.5	-32.6	6.79	-	-	fsw

Dow Jones  
NASDAQ  
S&P 500

-0.6% -5.5% -25.3%  
2.3 3.8 -27.7  
-0.2 -6.4 -27.7

indexes do not  
include dividends

International Stock Funds

1	1	1		MACSX	Matthews Asia Growth&Income (2%r<90d)	Pacific	B	B	B	-1.0%	-2.1%	0.2%	\$10.23	14.4	-	FSW
2	2	8		ICHKX	Investec China & Hong Kong	Pacific	B	B	B	-2.3	-0.8	-14.2	10.24	39.2	-	FSW
3	28	58		SLAFX	Scudder Latin America	LatinA	*	H	H	4.7	-2.3	-25.9	15.61	37.7	-	FSW
4	40	61		FLATX	Fidelity Latin Amer. (1.5%r<90d)	LatinA	*	H	H	5.7	-2.5	-28.6	9.04	40.4	-	fs
5	14	24		VEIEX	Vanguard Emerging Mkts Stk Index (0.5%r)	Int'l	*	B	B	-0.4	-4.4	-19.3	7.26	32.3	-	fsw
6	3	6		BJBIX	Julius Baer International Equity A	Int'l	B	B	B	-3.2	-6.0	-14.0	18.30	28.8	-	FS
7	53	57		PRLAX	T. Rowe Price Latin America (2%r<1yr)	LatinA	*	H	H	5.6	-6.0	-27.5	7.21	43.5	-	fsw
8	16	25		MNEMX	Montgomery Emerging Mkts (closed)	Int'l	*	B	B	-1.1	-5.5	-20.0	7.50	31.6	-	FSW
9	11	28		HAINX	Harbor International	Int'l	B	B	B	-2.5	-5.7	-18.6	24.52	17.8	-	sw
10	9	15		FDIVX	Fidelity Diversified Intl (1%r<30d)	Int'l	B	B	B	-2.9	-6.1	-17.5	15.98	20.4	-	Fsw
11	5	13		DRFMX	Dreyfus Emerging Market (1%r)	Int'l	*	B	B	-3.6	-6.5	-16.8	10.36	21.8	-	FSW
12	35	62		PEAGX	Payden European Aggr Grth (1%r<60d)	Europe	*	H	H	0.0	-1.4	-35.8	5.12	-	-	fsw
13	6	35		PRIDX	T. Rowe Price Intl Disc. (closed,2%r<1yr)	Int'l	B	B	B	-3.8	-5.5	-20.0	15.11	37.1	-	fsw
14	13	17		USIFX	USAA International	Int'l	B	B	B	-2.5	-6.7	-19.3	13.82	18.1	-	w
15	24	7		VNEPX	Vontobel International Equity (2%r<360d)	Int'l	H	H	H	-2.3	-9.8	-14.5	10.80	21.1	-	FsW
16	23	46		SGSCX	Scudder Global Discovery (closed)	Int'l	(B)	(B)	(B)	-1.5	-6.4	-24.5	17.76	34.4	-	FSW
17	25	21		FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	(B)	(B)	(B)	-2.0	-7.8	-21.4	6.75	32.9	-	fsw
18	7	18		OAKGX	Oakmark Global (2%r<90d)	Global	(H)	(H)	(H)	-4.5	-6.8	-20.3	11.42	-	-	FSw
19	30	42		LSIEX	Loomis Sayles International Equity	Int'l	H	H	H	-1.6	-7.9	-23.4	7.63	32.2	-	fsw
20	29	31		USAWX	USAA World Growth	Int'l	H	H	H	-1.7	-7.7	-23.9	11.16	20.0	-	w
21	36	29		CMISX	Columbia International Stock	Int'l	H	H	H	-1.4	-8.6	-22.0	9.34	22.2	-	fsw
22	19	39		SCOBX	Scudder Global	Global	H	H	H	-2.9	-7.5	-23.4	16.64	16.7	-	FSW
23	8	12		MAPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	(H)	(H)	(H)	-4.6	-8.3	-19.8	7.67	47.1	-	FSW
24	45	-		GIETX	Liberty Intl Equity Clz	Int'l	H	H	H	-0.9	-7.8	-26.5	8.78	16.3	-	f
25	39	53		PRESX	T. Rowe Price European	Europe	H	H	H	-2.6	-7.2	-26.0	11.68	17.7	-	fsw
26	37	43		VWIGX	Vanguard International Growth	Int'l	H	H	H	-3.3	-8.1	-24.0	11.21	17.6	-	fsw
27	17	20		FIGRX	Fidelity International G & I	Int'l	H	H	H	-4.3	-8.6	-21.4	15.37	22.0	-	Fsw
28	4	3		FJPNX	Fidelity Japan (1.5%r<90d)	Japan	*	H	H	-5.8	-9.3	-17.6	7.83	34.8	-	Fsw
29	26	36		SWINX	Schwab International Index (1.5%r<180d)	Int'l	H	H	H	-3.9	-8.2	-23.5	9.48	18.0	-	S
30	46	52		VEURX	Vanguard European Stock Index	Europe	S	S	S	-3.6	-8.2	-25.3	14.66	17.3	-	fsw
31	44	44		FWWFX	Fidelity Worldwide (1%r<30d)	Global	S	S	S	-2.2	-8.9	-26.7	11.00	18.5	-	Fsw
32	32	40		STISX	Strong International Stock	Int'l	S	S	S	-3.2	-9.1	-25.2	6.71	30.5	-	FSW
33	15	23		FIVFX	Fidelity Aggressive Intl. (1%r<30d)	Int'l	S	S	S	-3.9	-9.1	-25.3	9.85	25.6	-	Fsw
34	12	9		VPACX	Vanguard Pacific Stock Index	Pacific	*	H	H	-5.5	-10.4	-19.9	5.49	24.7	-	fsw
56	59	16		FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	H	H	-4.2	-15.2	-28.4	8.92	38.5	-	fsw

## Bond Funds

RANK	3/14 2003	1Mo Ago	6Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	Std. Dev.	Yield	NTF/ wtf
										1 mo.	6 mo.	12 mo.				
1	-	-	-	BEBGX	Amer. Cent. Int'l Bond	Int'l	*	*	*	-0.2%	12.1%	28.7%	\$12.57	10.67	2.01%	fSW
2	-	-	-	BTFTX	Amer. Cent. Target 2015	ZeroCpn	*	*	*	4.0	6.5	30.4	67.03	14.04	4.25	fSW
3	-	-	-	BTTTX	Amer. Cent. Target 2020	ZeroCpn	*	*	*	4.4	5.2	31.6	47.84	16.92	4.45	fSW
4	-	-	-	BTRTX	Amer. Cent. Target 2025	ZeroCpn	*	*	*	5.6	3.5	33.0	39.88	19.67	5.15	fSW
5	-	-	-	RPIBX	T. Rowe Price Int'l Bond	Int'l	*	*	*	0.0	9.5	23.5	9.48	9.41	2.63	fsw
6	-	-	-	FHYPX	INVESCO High Yield	HighYld	*	*	*	3.2	12.9	9.4	3.42	14.05	9.11	FS
7	-	-	-	FNMIK	Fidelity New Markets Income	Int'l	*	*	*	4.0	12.3	5.6	11.98	12.58	7.08	Fsw
8	-	-	-	BTTNX	Amer. Cent. Target 2010	ZeroCpn	*	*	*	2.3	5.4	23.1	83.14	14.79	4.16	fSW
9	-	-	-	BBHIX	BBH Inflation Indexed Sec	IntTerm	B	*	*	1.6	5.7	20.3	11.31	5.65	3.29	FSW
10	-	-	-	SPHIX	Fidelity High Income (1%r<270d)	HighYld	B	B	*	3.2	10.5	5.8	7.86	11.27	7.38	Fsw
11	-	-	-	VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	1.6	5.7	20.0	12.29	-	3.70	sw
12	-	-	-	PRRDY	PIMCO Real Return	IntTerm	B	*	*	1.1	5.4	20.0	11.59	5.67	3.69	SW
13	-	-	-	SSTGX	Scudder Global Bond S-T (closed)	Int'l	*	*	*	0.6	7.0	15.9	10.04	4.47	3.80	FSW
14	-	-	-	ACITX	Amer. Cent. Inflation Adj	IntTerm	B	*	*	1.1	5.1	17.6	11.01	5.31	3.59	fSW
15	-	-	-	MGFIX	Managers Bond	Lngterm	*	*	*	1.6	4.9	14.4	23.74	5.90	5.21	FSW
16	-	-	-	VUSTX	Vanguard L-T Treasury	Lngterm	*	*	*	2.3	2.3	19.6	11.93	9.13	4.81	fsw
17	-	-	-	FBDSX	INVESCO Select Income	IntTerm	*	*	*	1.4	6.6	9.7	5.28	5.91	5.68	FS
18	-	-	-	PRULX	T. Rowe Price U.S. Treas. L-T	Lngterm	*	*	*	1.9	2.8	16.3	12.42	8.64	4.48	fsw
19	-	-	-	VVEHX	Vanguard High Yield Corporate	HighYld	B	B	*	2.2	7.3	4.0	5.98	7.57	8.36	sw
20	-	-	-	SRINX	Liberty Income CIZ	IntTerm	B	*	*	1.6	5.3	9.6	9.70	4.38	6.15	FSW
21	-	-	-	VWESX	Vanguard Long-Term Corporate	Lngterm	*	*	*	2.1	2.6	15.3	9.38	7.75	5.83	fsw
22	-	-	-	STCBX	Strong Corporate Bond	Lngterm	*	*	*	1.6	6.4	6.4	10.17	6.04	5.97	FSW
23	-	-	-	DODIX	Dodge & Cox Income	IntTerm	B	*	*	0.8	4.1	11.3	12.89	3.30	5.08	fsw
24	-	-	-	NIBDX	Eclipse Bond	Lngterm	*	*	*	1.1	4.6	9.5	9.95	3.78	4.50	SW
25	-	-	-	DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	1.2	4.2	10.0	14.07	4.57	5.26	FSW
26	-	-	-	NIIBX	Eclipse Indexed Bond	IntTerm	B	*	*	0.9	3.6	11.9	11.04	3.74	4.78	SW
27	-	-	-	KIFIX	FifthThird Bond	Lngterm	*	*	*	0.9	3.4	12.0	10.30	4.72	4.47	w
28	-	-	-	SCSBX	Scudder Income (closed)	IntTerm	B	*	*	1.0	3.7	10.5	12.88	3.79	4.83	FSW
29	-	-	-	FBDFX	Fremont Bond	IntTerm	B	*	*	1.1	3.7	10.3	10.54	4.10	3.50	fsw
30	-	-	-	USAIX	USAA Income	IntTerm	B	*	*	1.0	3.4	11.0	12.50	4.11	5.08	w
31	-	-	-	PRPIX	T. Rowe Price Corporate Inc	Lngterm	*	*	*	1.4	4.7	6.7	9.30	4.81	6.60	fsw
32	-	-	-	BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	B	B	*	1.4	5.2	5.2	9.90	6.36	6.31	FSW
33	-	-	-	VFITX	Vanguard Intermediate Treas.	IntTerm	B	*	*	1.0	1.6	14.6	11.84	5.52	4.70	fsw
34	-	-	-	WPGVX	WPG Core Bond	IntTerm	B	*	*	0.8	3.3	10.8	10.55	3.89	3.66	FsW
35	-	-	-	VALBX	Value Line U.S. Govt Sec	IntTerm	B	*	*	0.9	2.7	11.8	12.19	4.03	3.84	FSW
36	-	-	-	FBNDX	Fidelity Investment Grade	IntTerm	B	*	*	1.1	3.4	9.2	7.63	3.66	3.89	Fsw
37	-	-	-	CPTNX	American Government Bond	IntTerm	B	*	*	0.5	2.5	12.2	11.25	4.80	3.37	f
38	-	-	-	FTRGX	Federated Total Return Govt	IntTerm	B	*	*	1.0	2.1	12.3	11.23	4.97	4.76	sw
39	-	-	-	SRBFX	Liberty Intermediate Bond CIZ	IntTerm	B	*	*	1.3	4.7	5.1	8.88	3.75	6.01	FSW
40	-	-	-	MNTRX	Montgomery Total Return	IntTerm	B	*	*	0.7	2.8	10.7	12.41	3.71	5.01	FSW
41	-	-	-	PYGFX	Payden Global Fixed Income	Int'l	*	*	*	0.4	3.2	9.8	10.28	3.34	3.85	fsw
42	-	-	-	CMHYX	Columbia High Yield	HighYld	B	B	*	2.2	4.7	3.3	8.47	5.73	6.96	fSW
43	-	-	-	FBDGX	INVESCO U.S. Govt Sec	Lngterm	*	*	*	0.9	2.1	11.4	7.62	4.70	3.16	FS
44	-	-	-	TGMNX	TCW Galileo Total Return Bond	IntTerm	B	*	*	0.3	2.7	10.6	10.21	3.72	6.97	SW
45	-	-	-	JAFIX	Janus Flexible Income	Multi	*	*	*	1.1	2.9	8.7	9.73	4.29	4.80	FSW
46	-	-	-	SFIUX	Safeco I-T U.S. Treasury	IntTerm	B	*	*	0.8	1.9	11.5	11.01	4.39	4.59	FSW
47	-	-	-	STVSX	Strong Govt Securities	IntTerm	B	*	*	0.7	2.0	11.3	11.21	3.94	3.81	FSW
48	-	-	-	STHYX	Strong High Yield Bond (1%r)	HighYld	*	*	*	2.4	7.7	-5.6	6.88	12.29	10.31	FSW
49	-	-	-	PTTDX	PIMCO Total Return	IntTerm	B	*	*	0.9	2.6	9.3	10.79	4.12	3.86	SW
50	-	-	-	FSTGX	Fidelity Intermediate Govt	IntTerm	B	*	*	0.8	2.1	10.5	10.41	3.49	3.75	Fsw
51	-	-	-	PRHYX	T. Rowe Price High Yield	HighYld	B	B	*	1.3	5.1	2.1	6.39	7.89	9.16	sw
52	-	-	-	DRGBX	Dreyfus 100 Treasury L-T	Lngterm	*	*	*	1.7	1.7	9.7	16.43	7.89	4.28	FW
53	-	-	-	TGHNX	TCW Galileo High Yield Bond	HighYld	B	B	*	2.8	4.5	0.7	6.57	8.64	9.26	SW
54	-	-	-	PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	0.8	3.2	6.9	8.99	3.68	4.52	fsw
55	-	-	-	WTIBX	Westcore Plus Bond	IntTerm	*	*	*	0.7	2.6	8.5	10.31	3.36	6.91	FSW
56	-	-	-	VAGIX	Value Line Aggressive Inc	HighYld	*	B	*	2.3	5.2	-1.1	4.41	10.27	9.23	FSW
57	-	-	-	MTOIX	Mercury Total Return	IntTerm	*	*	*	0.2	2.2	9.7	13.35	3.72	4.52	FS
58	-	-	-	DRGMX	Dreyfus GNMA	IntTerm	*	*	*	0.4	2.6	8.4	15.19	2.75	4.97	FSW
59	-	-	-	VFIIX	Vanguard GNMA	IntTerm	*	*	*	0.0	1.0	12.5	10.72	2.82	5.39	fsw
60	-	-	-	VBMFX	Vanguard Bond Market	IntTerm	B	*	*	1.0	2.1	8.0	10.41	3.54	5.37	fsw
61	-	-	-	MGIDX	Managers Int. Duration Govt	ShtTerm	*	*	*	0.4	2.2	8.7	10.63	2.87	3.85	FSW
62	-	-	-	FTHRZ	Fidelity Intermediate Bond	IntTerm	B	*	*	0.7	2.6	7.2	10.81	3.14	4.56	Fsw
63	-	-	-	PTMDX	PIMCO Total Return Mortgage	ShtTerm	B	*	*	0.3	1.8	9.0	10.75	2.85	2.31	SW
64	-	-	-	FGOVX	Fidelity Government Income	IntTerm	*	*	*	1.0	1.2	9.2	10.53	4.56	3.92	Fsw
65	-	-	-	SFUSX	Safeco U.S. Government	IntTerm	B	*	*	0.5	1.5	9.0	9.88	2.91	4.88	FSW
66	-	-	-	JAHYX	Janus High Yield	HighYld	B	B	*	1.8	3.5	1.8	9.12	6.26	6.89	FSW
67	-	-	-	RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	0.5	3.4	4.0	10.79	3.97	4.94	fsw
68	-	-	-	PTLCX	PIMCO Low Duration	ShtTerm	*	*	*	0.4	2.1	6.2	10.32	2.09	2.91	fw
69	-	-	-	SWBDX	Schwab S-T Bond Mkt Index	ShtTerm	*	*	*	0.3	1.8	6.9	10.23	2.36	4.17	S
91	-	-	-	NTHFX	Northeast Investors Trust	HighYld	*	B	*	1.9	0.3	0.5	6.93	8.15	8.57	fsw

## Taking Advantage of (Fidelity's) Low Prices

In this market, we'll take our victories wherever we can find them.

The March 11, 2003 Hotline recommended the sale of Fidelity Low-Priced Stock fund (FLPSX), thereby locking in profits for two of our three Fidelity-only portfolios. Low-Priced Stock has been a tremendous performer on a relative basis since our initial purchase in November 2000. Lately it has slipped a bit on our list as a subtle shift away from value towards growth has emerged.

*MONEYLETTER* purchased Low-Priced Stock first for the Venturesome Portfolio on November 29, 2000, and the fund returned 12.5% to Venturesome investors through March 12, 2003. At first blush, +12.5% may not seem to be that impressive for almost two and one-half years' work. However, when you compare that return to the S&P 500 Index, which **declined** by 40.1% for the same period, it is indeed impressive. The Fidelity Moderate Portfolio also turned a profit on the trade, while the Conservative Portfolio (which purchased the fund in February 2002) lost money, although less than the market proxy.

Fidelity Portfolio	Purchase Date	FLPSX Return Purchase Date thru 3/12/03	S&P 500 Return Purchase Date thru 3/12/03
Venturesome	11/29/00	+12.5%	-40.1%
Moderate	01/10/01	+6.5%	-38.8%
Conservative	02/20/02	-15.9%	-26.8%

*MONEYLETTER* is not the only media outlet to recognize the fund's outstanding performance. Morningstar recently named portfolio manager Joel Tillinghast Domestic Stock Manager of the Year. "Through good times and bad, Tillinghast has kept this \$15 billion juggernaut ahead of more nimble competition...in the end, he has made billions for his shareholders," said the mutual fund rating organization.

While Morningstar called him "one of the best managers in the history of funds," here at *MONEYLETTER* we make sure we don't get caught up in such platitudes. We've taken advantage of what the fund had to offer, and now we've moved on to Fidelity Capital Appreciation (FDCAX) for the Moderate Portfolio and Fidelity Growth & Income II (FGRTX) for the Venturesome and Conservative Portfolios. Both funds have gotten off to a good start since the exchange.

\* \* \*

Fidelity has introduced another real estate fund designed for potentially higher income. The Fidelity Real Estate Income Fund (FRIFX) seeks higher than average income, along with capital growth as a secondary objective. How is this fund different from Fidelity's Real Estate Investment Portfolio (FRESX)? According to Fidelity, this new fund has a higher allocation to fixed-income securities and a greater emphasis on current income.

Specifically, FRIFX restricts its stock holdings to not more than 50% of assets. Based on current market conditions, the Fidelity Real Estate Income Fund has an expected asset mix close to 50/50 (equities to debt securities). Fidelity Real Estate Investment Portfolio had more than 95% of its assets invested in common stocks at year-end.

For more information on Fidelity funds, call (800) 544-6666.

### 100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	0.96%	0.97%	1.39%
Gabelli US Treasury MMF	0.93	0.98	1.41
Fidelity Spartan US Treas MMF	0.91	0.89	1.33
Amer Century Capital Presv Fund/Inv	0.81	0.86	1.25
T Rowe Price US Treasury MF	0.74	0.74	1.21
Prudential Govt Sec Tr/US Treas/CI A	0.67	0.67	1.15
DBAB Cash Reserve Treasury	0.64	0.58	1.03
Dreyfus 100% US Treas MMF	0.61	0.61	1.09
Schwab US Treasury Money Fund	0.61	0.63	1.04
CMA Treasury Fund	0.60	0.60	1.18

### GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	1.32%	1.34%	1.75%
RBB MMP/Sansom Street Class	1.15	1.16	1.62
Phoenix-Goodwin Money Market Series/A	1.14	1.11	1.22
Bunker Hill MMF	1.13	1.13	1.54
McMorgan Principal Preservation Fund	1.09	1.10	1.49
Scudder YieldWise Money Fund	1.09	1.10	1.49
TIAA-CREF Money Market Fund	1.08	1.10	1.52
Vanguard Prime MMF/Retail	1.07	1.10	1.53
Scudder Premium Money Mkt Shrs/CI S	1.05	1.07	1.44
Dreyfus BASIC MMF	1.04	1.04	1.50
Scudder Premium Money Mkt Shrs/AARP	1.04	1.07	1.44
Strong Heritage MF/Inv Class	1.04	1.04	1.43

### TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Vanguard Tax-Exempt MMF	1.02%	1.03%	1.34%
Strong Tax-Free Money Fund	0.99	1.04	1.31
Strong Municipal MMF	0.95	0.98	1.27
Scudder YieldWise Muni MF	0.90	0.91	1.17
USAA Tax Exempt MMF	0.87	0.90	1.15
Evergreen Municipal MMF/CI I	0.85	0.91	1.24
T Rowe Price Summit Muni MMF	0.80	0.83	1.13
Scudder Tax-Exempt Money Fund	0.79	0.80	1.07
Amer Century T-F MMF/Inv Class	0.77	0.83	1.15
Fidelity Municipal MMF	0.76	0.77	1.11

### TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	1.00%	1.04%	1.32%
Vanguard CA Tax-Exempt MMF	0.96	0.98	1.24
Vanguard NJ Tax-Exempt MMF	0.91	0.94	1.19
Vanguard PA Tax-Exempt MMF	0.91	0.95	1.24
USAA Tax Exempt CA MMF	0.88	0.88	1.14
Vanguard NY Tax-Exempt MMF	0.88	0.92	1.23
Northern CA Municipal MMF	0.72	0.70	0.98
Fidelity NY Municipal MMF	0.69	0.72	1.00
Fidelity PA Municipal MMF	0.69	0.69	1.03
Fidelity FL Municipal MMF	0.68	0.68	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 3/11/03. 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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## The Ins and Outs of Ginnie Maes

Following up on our new allocations for the Conservative model portfolios, we're taking a look at another investment that has served low-risk investors well during tough market times: mutual funds that invest in Ginnie Maes and other mortgage securities. Before looking at a specific fund, it's necessary first to understand the underlying security—Ginnie Maes or GNMA. Ginnie Mae securities are essentially pools of mortgages that have been bundled together by banks and other lending institutions and resold as fixed income securities to investors.

The Government National Mortgage Association (GNMA) guarantees that each month, you will receive timely payment of principal and interest from the underlying mortgages, whether or not the homeowner makes his or her payment. So already, we see two major benefits to GNMA: as a government-owned corporation, your GNMA investment is backed by the full faith and credit of the U.S. government; and your principal and interest payments are guaranteed. Historically, GNMA's have provided higher yields than those on U.S. Treasury obligations with similar maturities. In fact, according to Charles Schwab & Co., since 1980, GNMA securities have yielded between 0.8% and 2.3% more than 10-year Treasury notes.

### Drawbacks

As with any investment, GNMA's do have their drawbacks. First, determining the exact yield at any given point on a Ginnie Mae is difficult—in fact, yields quoted are always approximate. That's because of the effect of prepayments on the amount of income investors receive each month. Prepayment risk is a real concern for GNMA investors. If borrowers prepay their mortgages faster than anticipated, the investor gets larger monthly payments (as a greater portion of principal is paid off), and future payments will decrease. If the investor pays off his mortgage in full, either because he's sold his house or refinanced due to lower interest rates, the investor receives back a portion of his or her original investment. In the case where interest rates have been declining, the investor is then forced to reinvest at a lower rate.

### Outlook now

GNMA's have been outperforming Treasuries, and with interest rates at very low levels, the wave of mortgage refinancings should be nearing an end. Moreover, with rates so low, the next major trend in interest rates is likely to be higher. In that instance, Treasury bonds will suffer (remember that straight bonds' prices move inversely to interest rates). But, GNMA's

should hold up better. The reason? Prepayment risk is greatly reduced when interest rates head up. Moreover, mutual funds that invest in GNMA's will earn a gradually rising yield as new Ginnie Maes with higher yields replace older, lower-yielding securities in their portfolios.

### One of the best

When investing in GNMA's or other mortgage-backed securities, a mutual fund is generally the way to go. After all, the reinvestment of those principal and interest payments is done for you. And one of the best is the TCW Galileo Total Return Bond Fund (TGLMX). Don't let its name fool you. While it does not sound like a GNMA/mortgage fund, it is. Until May 2002 its moniker was the TCW Galileo Total Return Mortgage-Backed Securities Fund, but the name change in no way affected its mortgage orientation. Instead, the TCW Galileo team changed the name to reflect the fund's benchmark, the Lehman Aggregate Bond Index, which is also the benchmark for most core bond funds. (The Lehman Mortgage Index is its secondary benchmark.) The idea is to keep the fund competitive with both plain government mortgage funds and intermediate-term bond funds.

Lead portfolio manager Jeffrey Gundlach emphasizes that the managers aim to outperform both the PIMCO Total Return Bond fund and the Vanguard GNMA fund over trailing three-year time frames. Thus, he keeps the fund's duration targeted between the shorter Lehman Mortgage-backed securities index and the longer Lehman Aggregate. The managers also aim to structure the portfolio to be better able to withstand the impacts of changing interest rates and prepayment volatility. They tend to eschew modest-premium 30-year securities in favor of adjustable-rate pass-throughs, prepayment penalty pass-throughs, and 15- and 20-year pass-throughs. Why? Typical newly issued 30-year securities would have a higher level of prepayment risk. The team emphasizes government- or agency-backed securities, although about 18% of the portfolio is in non-agency securities, which are all rated AAA. That's a typical stake for the fund.

Gundlach and TCW team have certainly been successful. For the trailing one-, three-, and five-year periods ended March 13, the fund has outpaced at least 96% of the funds in its Lipper category—U.S. mortgage funds.

*TCW Galileo Total Return Fund*

*TCW Galileo Funds*

*865 S Figueroa, 18th floor*

*Los Angeles, CA 90017*

*(800) 386-3829*

*Minimum investment: \$2,000/\$2,000 IRA*

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