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Happy Returns (Second Quarter Review)

by Walter S. Frank, Chief Investment Officer

We haven't had much opportunity over the last three years to toast a quarter, but the three months ended June 30 ended the drought. Last quarter was a great time to be in stocks, almost any stocks. As Bill Nygren, the highly regarded manager of the Oakmark Fund, quipped in a recent conference call, there is all this talk about a stock-picker's market, but asset allocation was the key factor in returns for the second quarter. Were you in stocks, or weren't you? The trick was to be in stocks. If you were, you performed. If not, you lagged.

Of course, some fund groups did better than others, and value, broadly speaking, did better than growth. Small did better than large. The Russell 2000, a small cap index, was up 23.4% over the quarter, the S&P Midcap 400 was up 17.6%, while the S&P 500 (large cap) was up 15.4%. As one climbed the ladder of size, the returns decreased. But notice all three indexes produced substantial double-digit returns. The differences were minor compared to the returns—the important thing was to be in stock funds.

The portfolios

As the table on page 2 shows, the growth oriented portfolios, the Venturesome and Moderate portfolios, all had double-digit returns, with the all-family (*MONEYLETTER*) portfolios leading the way. In fact, both *MONEYLETTER* growth portfolios outperformed the S&P 500 over the quarter by more than a trivial amount. The same was true for the Select Portfolio (we will comment on that portfolio later). The Fidelity-only and Vanguard-only growth portfolios trailed the index, but the differences were not large.

As for the Conservative model portfolios, keep in mind that as of February we changed the nature of this portfolio from conservative growth to low volatility. We turned the Conservative portfolios from low risk into very low risk portfolios. In effect, you can look at the Conservative portfolios as akin to balanced portfolios. For a rough performance comparison, we can take the

Lipper Balanced Fund category which returned 10.56% over the quarter, not much different from our Conservative model portfolios.

From an asset allocation perspective alone, the growth portfolios were primed for the rally. At the start of the quarter, the Venturesome allocation was already 85% for domestic stock funds. The Moderate allocation was 65% domestic stock funds and 10% international stock funds (with a preference for Asia, ex-Japan). Last November 26 we had increased our allocation to domestic stock funds but still held on to half of our money fund reserve. As we said at the time, we were waiting for further confirmation that the economy was indeed recovering before committing all of our reserves. The memory of false signals was only too recent.

With the recent monthly manufacturing surveys, we were satisfied that an economic recovery was finally in place, and on June 3rd we increased our domestic stock fund allocation for both growth portfolios, with the Venturesome allocation going to 100%, as aggressive as we can get. As you can see, for two-thirds of the second quarter, we were 15% in cash (Venturesome) or 25% in cash or bonds (Moderate). Nevertheless, fund selection allowed both *MONEYLETTER* growth portfolios to outperform the S&P 500 index which, of course, is by definition always 100% allocated to domestic stocks.

Portfolio funds

The quarter saw an unusual turnover in our portfolio holdings. The result is that most stock funds now in the portfolios were purchased (on paper) during the quarter. We normally do not see such turnover. In fact, we try to avoid it, and indeed our fund selection system has built-in brakes to restrain rapid turnover.

But consider last quarter's unique conditions. Right up to March 11, a three-year bear market was in progress. Funds in our portfolios at the time were the best funds we could find for the portfolio in a bear market environment. That all changed last quarter. As the market rallied, and the rally proved to be more powerful than anyone imagined, the funds recommended by our system changed. Our own view about the appropriate funds for the portfolios also changed from defense to offense.

Hence the turnover. The way to look at last quarter is as a period of transition from a bear market to another market. We think the transition is to a new bull market, but some on the Street disagree. OK, if not a bull market, then maybe a broad trading range market. Whatever. The virulent phase of the bear market is over, and a new market began over the last three months. Our portfolio turnover is a response to the new reality.

There are two domestic stock funds in our *MONEYLETTER* portfolios that we held throughout the quarter: RS Partners and Legg Mason Special. Partners returned 25% and Special 29.2%

(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	Higher	Higher
NASDAQ	Higher	Higher
Europe	Lower	Higher
Japan (Nikkei)	Lower	Higher
Hong Kong (Hang Seng)	Lower	Higher

(continued from page 1)

during the quarter. The two funds were the powerhouses of our growth portfolios. The *MONEYLETTER* Moderate Portfolio's international fund, Matthews Pacific Tiger, also had a bang-up quarter, returning 25.1% after a difficult first quarter (remember SARS).

The one Fidelity growth fund we held over the quarter was Fidelity Capital Appreciation which gained 20.7% during the three months. The Vanguard Portfolios experienced the lowest turnover among our portfolios. For rather unheralded performers, the Vanguard stock funds we held over the quarter turned in solid numbers. Extended Market gained 21.3%, Strategic Equity 19.0%, Small Cap Growth 18.8% and Capital Value 22.1%. All beat the S&P's 15.4%. As for the closest thing Vanguard has to a fund like Pacific Tiger, Emerging Markets Index, it gained 22.5% for the quarter. Keep in mind this was a good quarter for emerging markets, as the long-absent appetite for risk reappeared.

The other asset class we have consistently had an allocation for in recent years is high-yield bonds. Naturally, the funds didn't shine amidst the fireworks of the stock market, but they did turn in a solid quarter. Remember, these are bond, not equity, funds. The best performer was Buffalo High Yield with a return of 9.0%, not far behind was Fidelity High Income at 8.6%. Vanguard High Income, Corporate returned 6.0%. Do not annualize these returns. The returns for these funds over the last half of this year will undoubtedly be much smaller. Again, it was the renewed appetite for risk, and a perceived reviving economy, that produced these returns.

Model Portfolio Performance (2nd Quarter and since 3/11)

	3/31 - 6/30	3/11 - 6/30
<i>MONEYLETTER</i>		
Venturesome	19.6%	23.9%
Moderate	19.1	23.0
Conservative	10.2	12.8
Fidelity		
Venturesome	12.7%	16.9%
Moderate	13.0	16.7
Conservative	8.6	11.1
Vanguard		
Venturesome	13.7%	18.6%
Moderate	13.8	18.0
Conservative	9.2	11.7
Select	12.8%	17.9%
Vanguard 500 Index Fund	15.4%	22.3%

The Select Portfolio

As with the asset allocation portfolios, the Select Portfolio moved from defense to offense during the quarter. Last March, the portfolio which does not have an asset allocation framework but chooses among all the top performing funds in our entire fund list (keeping diversification in mind), was in gold, a bear fund and

bonds. Now it is in four stock funds, three of which are of the high-octane variety. The Select's star performer over the quarter was Legg Mason Opportunity which returned 38% over the three months and 35% for the portfolio (it was purchased on April 9).

Please notice that this portfolio is not for everyone. The funds in the portfolio can be highly volatile, as is the case now. It is not designed to be a sleep-easy portfolio, and, given the volatility of its funds, it will be prone to trade relatively often. In the pursuit of performance, this may not be bad, but it is not what many people want. They are willing to trade some performance for less frequent activity.

More to come

We firmly believe that there are more domestic stock market gains ahead as the U.S. economy continues to gain strength. The gains will undoubtedly not be as spectacular as the ones we have seen, but the market's day in the sun is far from over. \$

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Next Issue: Volume 24, No. 15

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A Pause/Correction

The stock market has run into some resistance, and it was only a matter of time before that occurred. In this case it happened during the second quarter earnings season, a natural place for the rally to slow, if not retreat, as investors match their expectations against the reality of earnings. We believe that earnings and company guidance, and the coming economic numbers, will prove sufficient to give the rally second wind, although at a slower pace. As for the rise in interest rates, it will be limited and will not disturb the stock market. We should see substantial gains by the end of the year.

Portfolio changes

The Hotline of Tuesday, July 8 recommended the sale of Vanguard Convertible Securities in all three Vanguard-only portfolios. For the Vanguard Venturesome and Moderate Portfolios the recommended switch was into Vanguard Explorer. For the Conservative Portfolio the switch was into Vanguard Smallcap Index. Here are the details (as of July 9): **Venturesome:** Sold 1,873 shares of Convertible Securities @ \$11.97 per share. Purchased 394 shares of Explorer @ \$56.84 per share. **Moderate:** Sold 1,709 shares of Convertible Securities, purchased 360 shares of Explorer. **Conservative:** Sold 1,149 shares of Convertible Securities. Purchased 1,219 shares of Smallcap Index @ \$11.28 per share.

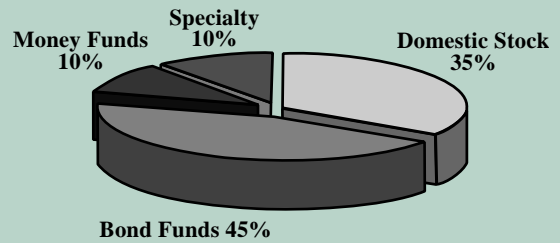
The same Hotline recommended the sale of Fidelity Export & Multinational in the Fidelity-only Moderate and Conservative portfolios. The recommended switch was into Fidelity Growth Company for both portfolios. Here are the details (as of July 9): **Fidelity Moderate:** Sold 781 shares of Export @ \$16.09 per share. Purchased 280 shares of Growth Company @ \$44.80 per share. **Fidelity Conservative:** Sold 808 shares of Export, purchased 290 shares of Growth Company.

Finally, the same Hotline recommended the sale of Fidelity Value in the Fidelity Venturesome and Moderate portfolios. In the Venturesome Portfolio, the fund was to be switched into Fidelity OTC, while in the Moderate Portfolio the recommended switch was into Fidelity Aggressive Growth. Here are the details (as of July 9): **Venturesome:** Sold 362 shares of Value @ \$53.66 per share. Purchased 672 shares of OTC @ \$28.87 per share. **Moderate:** Sold 329 shares of Value. Purchased 1,327 shares of Aggressive Growth @ \$13.29 per share.

The Hotline of July 15 recommended the sale of Yacktman Fund in all three *MONEYLETTER* portfolios. The recommended switch for the Venturesome Portfolio was into Royce Opportunity. For the Moderate and Conservative portfolios, the recommended switch was \$18,000 into William Blair Small Cap Growth N shares, with remainder of the proceeds to be invested in Heartland Value. Here are the details (as of July 16): **Venturesome:** Sold 868 shares of Yacktman @ \$14.04 per share. Purchased 1,219 shares of Royce Opportunity @ \$9.99 per share. **Moderate:** Sold 1,810 shares of Yacktman. Purchased 989 shares of Blair Small Cap @ \$18.20 per share, also purchased 174 shares of Heartland Value @ \$42.56 per share. **Conservative:** Sold 1,824 shares of Yacktman. Purchased 989 shares of Blair Small Cap and 179 shares of Heartland Value. \$

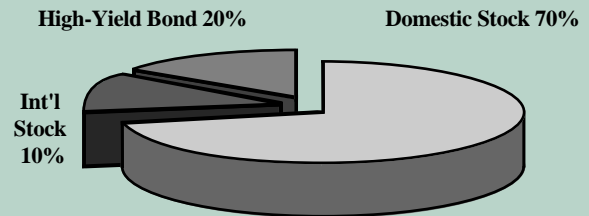
CONSERVATIVE

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



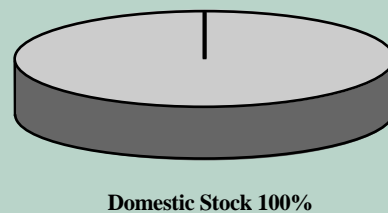
MODERATE

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



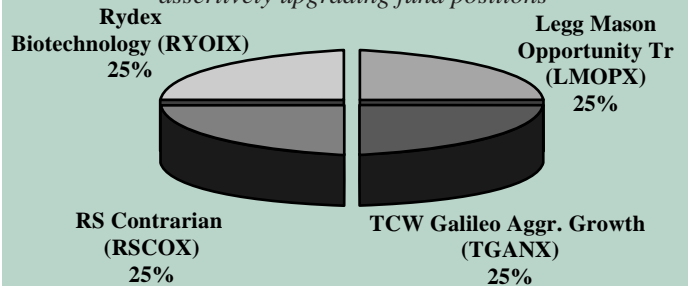
VENTURESOME

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	7/18 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	4	114	OBEGX	Oberweis Emerging Growth	SCGro	*	B	B	6.5%	37.6%	45.8%	\$22.49	48.7	1.49	FSW	
2	6	-	UBRRX	Undiscovered Behavioral Growth (\$10,000)	MCGro	*	B	B	2.3	32.3	42.6	16.85	26.9	1.34	fw	
3	1	13	LMOPX	Legg Mason Opportunity Trust (1%r<1yr)	MC	*	B	B	-3.2	34.4	44.2	11.58	29.5	1.45		
4	3	-	USRLX	Undiscovered Small Cap Growth (\$10,000)	SCGro	B	B	B	1.6	33.2	38.9	8.46	-	-	fw	
5	8	-	FBRVX	FBR Small Cap Value A (1%r<90d)	SCGro	B	B	B	1.9	26.1	52.3	28.58	20.2	0.73	FSW	
6	7	18	HRTVX	Heartland Value (1%r<90d)	SCVal	B	B	B	4.2	30.2	30.3	41.74	22.5	0.63	FsW	
7	40	232	BUFSX	Buffalo Small Cap	SCGro	(B)	(B)	(B)	5.1	30.7	26.7	19.01	-	0.69	SW	
8	10	32	WBSNX	WmBlair S-C Growth N (1%r<60d)	SCGro	B	B	B	3.8	28.4	31.8	17.81	-	0.95	FSW	
9	24	253	RSDGX	RS Diversified Growth	SCGro	*	B	B	4.7	30.3	25.7	18.15	56.1	1.55	FSW	
10	5	2	RSPFX	RS Partners	SC	B	B	B	1.6	26.6	39.0	23.39	21.9	0.64	FSW	
11	13	91	RYPNX	Royce Opportunity (1%r<180d)	SCVal	B	B	B	6.3	28.4	24.0	9.80	27.3	0.77	fsW	
12	2	6	LMASX	Legg Mason Special Investment Trust	MC	*	B	B	-0.3	25.6	38.2	38.51	25.5	1.34		
13	-	-	BRAIX	Bridgeway Aggressive Investors 2	MCGro	*	(H)	(H)	2.5	26.3	31.1	10.66	-	-	fsW	
14	11	224	NBSSX	Neuberger Berman Focus	LCVal	*	B	B	1.1	28.9	25.9	29.58	38.5	1.52	FSW	
15	9	-	TGANX	TCW Galileo Aggressive Growth CIN	MCGro	*	B	B	-0.2	24.2	37.6	10.43	33.9	1.93	SW	
16	20	246	PBEGX	PBHG Emerging Growth (closed)	SCGro	*	B	B	3.9	27.4	22.9	10.96	51.2	1.46	FSW	
17	26	147	MNSCX	Montgomery Small Cap	SCGro	*	B	B	1.8	25.1	28.5	9.28	38.5	1.31	s	
18	29	142	JAVTX	Janus Venture (closed)	SCGro	*	(B)	(B)	3.4	24.4	25.6	40.72	58.6	1.63	FSW	
19	37	242	RSSGX	RS Smaller Company Growth	SCGro	*	(B)	(B)	5.3	26.4	17.6	16.47	41.2	1.27	FSW	
20	15	76	PRNHX	T. Rowe Price New Horizons	SCGro	B	B	B	1.4	23.8	29.1	21.05	37.8	1.24	fsW	
21	44	122	WAAEX	Wasatch Small Cap Grth (closed,2%r<60d)	SCGro	(B)	(B)	(B)	2.8	22.3	28.4	32.04	37.8	1.15	FSW	
22	33	120	BOGLX	Bogle Small Cap Growth (closed)	SCGro	H	H	H	4.0	24.3	20.8	21.09	-	-		
23	27	156	KAUFX	Federated Kaufmann Fund (0.2%)	MCGro	B	B	B	1.4	24.5	23.4	4.32	33.5	0.86	FSW	
24	23	182	BPSCX	Boston Ptnrs Smicap Val (closed,1%r<1yr)	SCVal	B	B	B	2.5	24.4	20.2	18.80	24.9	0.72	FSW	
25	36	-	ARTSX	Artisan Small Cap	SCGro	H	H	H	1.3	24.3	21.8	12.26	27.8	1.23	FSW	
26	21	-	MXXIX	Marsico 21st Century	LC	B	B	B	1.3	22.9	25.1	8.33	20.5	1.01	fsW	
27	54	217	WMCVX	Wasatch Small Cap Value (2%r<60d)	SCVal	H	H	H	4.1	24.6	16.2	4.31	27.5	0.71	FSW	
28	30	155	TMGFX	Turner Mid Cap Growth	MCGro	*	H	H	1.0	22.7	23.1	18.64	58.5	1.57	FSW	
29	113	248	SAFGX	Safeco Growth Opportunities	SC	H	H	H	4.3	24.2	12.8	21.04	26.0	1.12	fsW	
30	-	-	CSMVX	Century Select Small Cap	SCGro	H	H	H	2.2	17.8	31.6	18.48	16.3	0.54	FSW	
31	47	237	RSEGX	RS Emerging Growth (closed)	MCGro	*	H	H	1.2	22.7	19.9	23.86	74.9	1.73	FSW	
32	82	133	SSMGX	SIT Small Cap Growth	MCGro	*	H	H	2.4	21.4	21.3	22.64	54.5	1.32	FSW	
33	18	53	RSMOX	RS MidCap Opportunities	MCGro	B	B	B	-1.2	20.6	27.2	9.07	27.0	1.06	FSW	
34	56	43	TUDRX	WPG Tudor	SC	H	H	H	2.8	20.2	22.2	13.71	38.9	1.20	FsW	
35	34	234	CGMFX	CGM Focus	SCVal	*	(B)	(B)	-0.2	23.5	18.0	23.04	55.1	0.02	fsW	
36	32	116	CRMSX	CRM Small Cap Value Inv	SCVal	H	H	H	1.6	21.9	18.0	20.34	-	-	FSW	
37	50	211	FDGRX	Fidelity Growth Company	LCGro	H	H	H	0.4	20.6	22.3	43.80	42.1	1.12	Fsw	
38	25	-	JSVAX	Janus Special Equity	MC	*	H	H	1.1	21.0	19.3	8.89	-	-	SW	
39	72	40	VISGX	Vanguard Small Cap Growth Index	SCGro	H	H	H	1.4	18.8	24.0	10.93	28.2	0.85	w	
40	85	216	GSETX	Liberty Small Company Equity CIZ	SCGro	H	H	H	1.8	20.5	19.3	14.49	33.0	1.10	f	
41	55	215	MERDX	Meridian Fund	SCGro	H	H	H	1.3	21.3	17.9	28.15	21.4	0.77	fw	
42	74	166	MPEGX	MSI Mid Cap Growth	MCGro	*	H	H	1.6	20.0	20.2	14.89	44.0	1.50	fsW	
43	43	52	BSCFX	Baron Small Cap	SCGro	H	H	H	1.0	21.0	18.3	16.32	28.0	1.07	FSW	
44	28	70	NEEGX	Needham Growth Fund (.75%r<30d)	MCGro	H	H	H	2.8	19.8	18.2	24.98	50.6	1.11	FSW	
45	68	130	VEXPX	Vanguard Explorer	SCGro	H	H	H	1.2	19.8	20.1	55.21	34.0	1.03	fsW	
46	52	64	VEXMX	Vanguard Extended Market Index	MC	H	H	H	1.3	19.3	21.3	22.65	31.4	1.17	fsW	
47	86	205	TWCVX	American Century Vista	MCGro	*	H	H	0.9	21.2	17.0	10.74	52.3	1.17	FSW	
48	39	50	CUEGX	CS Warburg Pincus Emerging Growth	MCGro	H	H	H	0.3	19.2	22.8	23.50	35.5	1.26	FSW	
49	12	77	VHCOX	Vanguard Cap Opp (\$25,000&1%r<5yr)	MCGro	(H)	(H)	(H)	-1.6	20.1	23.6	21.00	38.1	1.06	fsW	
50	59	37	VSEQX	Vanguard Strategic Equity	MCGro	H	H	H	1.2	18.3	23.5	15.86	17.2	0.82	fsW	
51	14	12	LMVTX	Legg Mason Value	LCVal	(H)	(H)	(H)	-1.3	16.9	30.3	50.46	28.1	1.16		
52	16	42	FDCAX	Fidelity Capital Appreciation	MC	(H)	(H)	(H)	-0.6	20.3	20.3	20.29	31.5	1.26	fsW	
53	98	239	WGROX	Wasatch Core Growth (closed,2%r<60d)	SCGro	H	H	H	2.3	21.5	12.8	32.49	29.2	0.95	FSW	
54	17	250	POGSX	Pin Oak Aggressive Stock	MCGro	*	H	H	-0.4	25.2	7.2	15.68	74.0	2.00	FSW	
55	49	241	TGSCX	TCW Galileo Small Cap Growth	MCGro	*	H	H	0.1	20.0	18.3	12.46	70.4	1.97	FSW	
56	84	73	MPSCX	MSI Small Cap Value (closed)	SCVal	H	H	H	1.3	17.9	21.5	17.69	25.5	0.77	fsW	
57	58	-	TGVNX	TCW Galileo Value Opportunities	MC	H	H	H	-0.4	19.5	19.8	16.66	-	-	SW	
58	83	119	NAESX	Vanguard SmallCap Index	SC	H	H	H	1.3	19.1	17.3	18.90	26.7	0.87	fsW	
59	41	102	MUHLX	Muhlenkamp Fund	MCVal	H	H	H	-2.1	19.1	22.5	52.48	26.4	0.91	FSW	
60	35	137	RSVPX	RS Value+Growth	LC	H	H	H	-1.2	19.0	21.1	15.15	28.9	1.20	FSW	
61	48	72	RPMGX	T. Rowe Price Mid Cap Growth	MCGro	H	H	H	0.0	18.4	20.6	37.43	24.5	1.12	fsW	
62	19	218	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	(H)	(H)	(H)	0.1	21.5	12.3	24.50	17.0	0.45	fw	
63	53	97	PRWAX	T. Rowe Price New America	LC	H	H	H	-0.1	17.5	21.3	26.51	27.0	1.27	fsW	
64	103	67	EEQFX	Eclipse Small Cap Value	SCVal	H	H	H	1.8	19.0	14.3	13.84	18.6	0.75	FSW	
65	65	61	SLSSX	Selected Special Shares	MCGro	S	S	S	0.2	17.6	19.2	10.25	23.9	1.04	sW	
66	63	187	NBNGX	SIT Mid Cap Growth	MCGro	*	S	S	-0.4	18.6	17.4	8.30	43.2	1.35	FSW	
67	57	163	VGEQX	Vanguard Growth Equity	LCGro	S	S	S	-0.9	17.6	19.9	8.08	37.2	1.39	fsW	
68	77	111	SCDVX	Scudder Development (closed)	MCGro	*	H	H	1.0	16.6	19.6	16.75	41.9	1.47	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	7/18 2003	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	46	132	VCLVX	Vanguard Capital Value	LCVal	H	H	H	-0.6	16.6	21.4	8.78	-	-	fsw	
70	193	173	FIEGX	INVESCO Small Company Growth	SCGro	S	S	S	2.2	17.0	16.3	9.79	48.4	1.38	FSW	
71	71	140	VPMCX	Vanguard PRIMECAP (\$25,000&1%r<5yr)	LC	S	S	S	1.0	17.1	17.5	46.51	26.7	1.00	fsw	
72	97	-	ARTQX	Artisan Mid Cap Value	MCVal	S	S	S	-0.1	15.3	23.2	11.83	-	-	FSW	
73	78	15	AVALX	Aegis Value Fund	SCVal	S	S	S	3.1	15.3	18.1	14.82	18.2	0.31	fw	
74	61	179	MPMVX	MSI Mid Cap Value	MCVal	S	S	S	0.1	16.9	18.0	17.48	24.2	0.92	fsw	
75	117	95	BPMCX	Boston Partners Mid Cap Value	MCVal	S	S	S	0.3	15.8	19.6	11.04	18.3	0.76	FSW	
76	70	79	JAENX	Janus Enterprise	MCGro	*	S	S	-0.4	16.6	18.5	27.22	54.1	1.59	FSW	
77	111	123	FOCPIX	Fidelity OTC Portfolio	LCGro	*	S	S	1.6	15.6	17.9	28.03	29.1	1.57	fsw	
78	69	19	RYPRX	Royce Premier (1%r<180d)	SC	S	S	S	-0.3	15.9	19.4	10.91	18.7	0.62	FSW	
79	112	59	BGRFX	Baron Growth	SCGro	H	H	H	1.5	15.9	15.8	31.45	25.4	1.06	FSW	
80	66	181	NPRTX	Neuberger Berman Partners	LCVal	S	S	S	-1.1	16.8	17.1	18.88	18.2	0.84	FSW	
81	79	124	FIDYX	INVESCO Dynamics	MCGro	S	S	S	-0.5	16.3	17.3	12.69	44.2	1.43	FSW	
82	125	162	SGROX	Strong Growth	LCGro	S	S	S	0.2	16.5	15.5	15.59	43.9	1.16	FSW	
83	88	90	VMRGX	Vanguard/Morgan Growth	LC	S	S	S	-0.5	15.4	19.2	13.17	26.7	1.22	fsw	
84	134	85	ARGFX	Ariel Fund	SCVal	S	S	S	1.6	14.8	17.2	39.94	18.9	0.40	FSW	
85	45	26	STCSX	Strong Advisor Common Stock (closed)	MC	S	S	S	-1.2	14.5	21.7	18.98	23.2	0.95	FSW	
86	81	178	SOPFX	Strong Opportunity	MCVal	S	S	S	0.1	16.0	15.8	34.17	21.8	0.91	FSW	
87	87	20	WVALX	Weitz Value Fund	MCVal	H	H	H	-0.3	14.2	20.6	32.44	16.6	0.52	SW	
88	129	33	PRSVX	T. Rowe Price S-C Value (closed,1%r<1yr)	SCVal	S	S	S	1.4	14.9	16.2	25.37	16.4	0.44	fsw	
89	67	191	SMDCX	Strong Advisor Midcap Growth	MCGro	S	S	S	-1.2	17.4	13.7	10.73	50.6	1.52	FSW	
90	127	148	CAAPX	Ariel Appreciation	MCVal	S	S	S	0.0	14.8	17.5	37.90	18.0	0.50	FSW	
91	123	198	USAUX	USAA Aggressive Growth	MCGro	*	S	S	-0.6	16.2	14.9	23.43	57.2	1.68	w	
92	188	55	OTCFX	T. Rowe Price Small Cap Stock Fund	SC	S	S	S	1.9	14.0	16.5	24.61	22.0	0.73	fsw	
93	202	14	NBGNX	Neuberger Berman Genesis (closed)	SC	S	S	S	1.2	13.1	19.9	22.16	19.6	0.62	fsw	
94	95	86	FEQTX	Fidelity Equity-Income II	G&I	S	S	S	-0.5	14.4	19.1	20.25	17.2	0.74	Fsw	
95	91	60	RYLPX	Royce Low Priced Stock (1%r<180d)	SCVal	S	S	S	0.2	15.9	13.7	11.47	24.8	0.69	FSW	
117	104	131	FDEGX	Fidelity Aggressive Growth (0.75%r<90d)	LCGro	H	H	H	-0.3	14.0	15.1	13.09	53.5	1.75	fsw	
126	38	27	SACPX	Salomon Brothers Capital (closed)	MCVal	S	S	S	-1.3	13.6	15.7	22.95	22.0	0.85	sw	
127	31	1	YACKX	Yacktman Fund	LCVal	S	S	S	-3.3	9.5	28.6	13.90	18.2	0.55	FW	
144	76	4	FVCSX	Fidelity Convertible Securities	Convrt	H	H	H	-1.4	11.3	19.1	18.40	27.4	0.89	Fsw	
205	42	38	LLPFX	Longleaf Partners	MCVal	S	S	S	-1.8	10.8	11.5	25.74	20.1	0.58	fw	

Dow Jones
NASDAQ
S&P 500

-1.1% 7.0% 9.3%
1.9 24.2 25.9
-1.7 10.2 12.7

indexes do not
include dividends

International Stock Funds

1	2	-	ARTJX	Artisan Intl Small Cap (2%r<90d)	Int'l	B	B	B	0.9%	22.7%	21.8%	\$12.29	-	-	SW
2	5	5	ICHKX	Investec China & Hong Kong	Pacific	B	B	B	5.8	21.5	12.8	12.83	39.2	-	FSW
3	3	11	PRIDX	T. Rowe Price Intl Disc. (2%r<1yr)	Int'l	B	B	B	2.2	22.8	12.5	19.94	37.1	-	fsw
4	6	8	FLATX	Fidelity Latin Amer. (1.5%r<90d)	LatinA	*	H	H	2.0	20.9	14.6	11.63	40.4	-	fs
5	13	14	MAPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	*	B	B	7.1	20.2	8.0	10.29	47.1	-	FSW
6	1	4	OAKGX	Oakmark Global (2%r<90d)	Global	B	B	B	-2.0	20.6	20.4	15.83	-	-	FSW
7	7	9	SLAFX	Scudder Latin America	LatinA	*	H	H	1.9	19.6	13.9	19.68	37.7	-	FSW
8	8	15	PRLAX	T. Rowe Price Latin America (2%r<1yr)	LatinA	*	H	H	0.8	20.0	12.1	9.19	43.5	-	fsw
9	4	21	SGSCX	Scudder Global Discovery (closed)	Int'l	B	B	B	-0.4	19.5	14.7	22.82	34.4	-	FSW
10	63	63	VINEX	Vanguard Intl. Explorer	int'l	(B)	(B)	(B)	1.0	21.7	6.6	10.04	23.5	-	fsw
11	9	30	FIVFX	Fidelity Aggressive Intl. (1%r<30d)	Int'l	B	B	B	1.3	19.8	6.3	12.91	25.6	-	Fsw
12	12	3	DRFMX	Dreyfus Emerging Market (1%r)	Int'l	*	B	B	2.9	17.4	8.4	13.30	21.8	-	FSW
13	10	2	VEIEI	Vanguard Emerging Mkts Stk Index (0.5%r)	Int'l	*	B	B	3.6	16.4	8.6	9.22	32.3	-	fsw
14	24	39	LLINX	Longleaf Partners International	Int'l	(B)	(B)	(B)	3.6	17.0	5.6	12.00	-	-	fw
15	47	13	PRASX	T. Rowe Price New Asia	Pacific	H	H	H	6.9	14.0	-0.7	6.68	33.6	-	fsw
16	33	1	MACSX	Matthews Asia Growth&Income (2%r<90d)	Pacific	H	H	H	2.2	11.7	11.0	11.58	14.4	-	FSW
17	18	34	FWWFX	Fidelity Worldwide (1%r<30d)	Global	H	H	H	-0.9	13.7	10.0	13.83	18.5	-	FSW
18	37	35	SJPNX	Japan Fund (Scudder) (2%r<180d)	Japan	*	H	H	8.4	13.3	-3.2	7.08	31.4	-	FSW
19	38	52	MJFOX	Matthews Japan Fund (2%r<90d)	Japan	*	H	H	7.4	14.5	-7.5	9.69	-	-	FSW
20	54	18	SCOPX	Scudder Pacific Opportunity (2%r<1yr)	Pacific	H	H	H	5.8	11.7	-0.6	9.36	33.5	-	FSW
21	39	10	FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	H	H	H	3.4	11.7	2.3	8.34	32.9	-	fsw
22	53	40	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	H	H	4.4	12.8	-4.4	11.40	38.5	-	fsw
23	16	12	FDIVX	Fidelity Diversified Intl (1%r<30d)	Int'l	H	H	H	-1.7	12.4	4.8	19.54	20.4	-	Fsw
24	20	16	HAINX	Harbor International	Int'l	H	H	H	-1.5	11.5	6.2	30.25	17.8	-	sw
25	15	26	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	H	H	H	-1.5	13.0	0.5	12.18	25.6	-	FSW
26	22	50	FOSFX	Fidelity Overseas (1%r<30d)	Int'l	S	S	S	-0.2	12.4	-1.6	25.25	20.7	-	Fsw
27	23	23	FIGRX	Fidelity International G & I	Int'l	(S)	(S)	(S)	-1.2	11.4	1.3	18.99	22.0	-	Fsw
28	45	24	FPBFX	Fidelity Pacific Basin (1.5%r<90d)	Pacific	*	H	H	4.3	9.7	-3.0	14.39	30.0	-	Fsw
29	21	43	VTRIX	Vanguard International Value	Int'l	S	S	S	-0.5	11.8	-1.4	21.39	15.9	-	fsw
30	34	-	WBIGX	Wm. Blair Intl. Growth Stock N	Int'l	S	S	S	-0.5	11.9	-1.9	14.86	14.6	-	FSW
32	14	53	FIEUX	Fidelity Europe (1%r<90d)	Europe	(S)	(S)	(S)	-3.9	12.1	0.7	20.99	20.6	-	fsw
41	17	33	PRESX	T. Rowe Price European	Europe	(S)	(S)	(S)	-6.2	9.9	0.7	14.13	17.7	-	fsw
45	19	25	OAKIX	Oakmark International (2%r<90d)	Int'l	(S)	(S)	(S)	-3.6	9.3	-2.2	14.66	24.3	-	FSW
50	11	37	VEURX	Vanguard European Stock Index	Europe	(S)	(S)	(S)	-6.3	9.3	0.4	17.82	17.3	-	fsw
53	32	7	BJBIX	Julius Baer International Equity A	Int'l	(S)	(S)	(S)	-3.5	6.2	1.3	21.21	28.8	-	FS

Bond Funds (next issue on page 6: Specialty Funds)
7/18/2003

Ticker Symbol	Fund FUND NAME (Max. Load)	Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	Std. Dev.	Yield	NTF/wtf
						1 mo.	6 mo.	12 mo.				
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	B	B	*	0.1%	12.3%	19.3%	\$10.71	7.0	5.16	FSW
CMHYX	Columbia High Yield	HighYld	B	B	*	-1.1	5.4	9.9	8.63	5.9	6.58	fSW
SPHIX	Fidelity High Income (1%r<90d)	HighYld	B	B	*	0.4	14.0	26.1	8.61	12.4	7.27	Fsw
FHYXP	INVESCO High Yield	HighYld	*	*	*	0.6	14.1	25.5	3.69	14.9	7.81	FS
JAHYX	Janus High Yield	HighYld	B	B	*	-0.3	6.2	8.6	9.44	6.5	6.42	FSW
NTHFX	Northeast Investors Trust	HighYld	*	B	*	0.4	5.2	3.6	7.21	8.4	7.81	fw
PHYDX	PIMCO High Yield	HighYld	B	B	*	-0.6	11.9	21.1	9.42	9.2	7.38	SW
STHYX	Strong High Yield Bond (1%r)	HighYld	*	*	*	0.3	10.7	15.5	7.40	13.0	8.44	FSW
STHBX	Strong S-T High Yield	HighYld	*	*	*	-0.2	3.5	7.0	8.61	4.6	5.76	FSW
PRHYX	T. Rowe Price High Yield	HighYld	B	B	*	0.3	9.1	13.8	6.81	8.5	8.39	sw
TGHNX	TCW Galileo High Yield Bond	HighYld	B	B	*	0.1	11.9	15.2	7.09	9.5	8.36	SW
VAGIX	Value Line Aggressive Inc	HighYld	*	B	*	-0.1	12.5	13.5	4.80	11.1	7.68	FSW
VWEHX	Vanguard High Yield Corporate (closed)	HighYld	B	B	*	-0.5	8.0	14.2	6.21	7.9	7.77	sw
BEGBX	Amer. Cent. Int'l Bond	Int'l	*	*	*	-4.1	6.2	17.2	13.13	11.0	2.09	fSW
FNMIX	Fidelity New Markets Income	Int'l	*	*	*	-3.5	15.1	24.4	13.04	13.1	7.10	Fsw
PYGFY	Payden Global Fixed Income	Int'l	*	*	*	-1.8	3.1	8.0	10.30	3.5	4.20	fsW
SSTGX	Scudder Global Bond S-T (closed)	Int'l	*	*	*	-3.0	3.7	10.2	10.12	4.7	3.70	FSW
RPIBX	T. Rowe Price Int'l Bond	Int'l	*	*	*	-3.9	4.3	12.6	9.78	9.3	2.48	fsw
ACITX	Amer. Cent. Inflation Adj	IntTerm	B	*	*	-2.7	3.8	10.5	10.86	6.0	3.63	fSW
CPTNX	American Government Bond	IntTerm	B	*	*	-1.1	1.2	6.2	11.18	4.7	3.10	f
BBHIX	BBH Inflation Indexed Sec	IntTerm	B	*	*	-2.7	4.1	12.7	11.16	6.3	3.27	FSW
DODIX	Dodge & Cox Income	IntTerm	B	*	*	-1.2	3.6	9.4	12.90	3.0	4.82	fsw
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	-2.1	3.6	8.6	14.13	4.4	4.61	FSW
DSINX	Dreyfus Strategic Income	IntTerm	*	*	*	-1.7	3.8	5.4	14.81	4.4	4.43	FSW
NIIBX	Eclipse Indexed Bond	IntTerm	B	*	*	-1.8	2.4	7.5	11.00	3.7	4.19	SW
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	-2.8	4.0	11.0	10.83	-	1.77	Fw
FTHRX	Fidelity Intermediate Bond	IntTerm	B	*	*	-1.5	2.3	6.3	10.75	3.1	4.13	Fsw
FSTGX	Fidelity Intermediate Govt	IntTerm	B	*	*	-1.6	1.6	5.5	10.35	3.6	3.23	Fsw
FBNDX	Fidelity Investment Grade	IntTerm	B	*	*	-1.6	3.1	7.7	7.58	3.5	3.36	Fsw
FBDFX	Fremont Bond	IntTerm	B	*	*	-1.9	2.6	8.0	10.62	4.0	3.23	fsw
FBDSX	INVESCO Select Income	IntTerm	*	*	*	-1.6	5.3	13.4	5.37	5.9	5.06	FS
SRINX	Liberty Income CIZ	IntTerm	B	*	*	-1.3	7.2	12.5	9.98	4.4	5.71	FSW
SRBFX	Liberty Intermediate Bond CIZ	IntTerm	B	*	*	-1.0	6.0	9.9	9.10	3.7	5.47	FSW
MWTRX	MetroWest Total Return	IntTerm	*	*	*	-0.8	5.3	9.0	9.68	5.5	6.79	SW
MNTRX	Montgomery Total Return	IntTerm	B	*	*	-1.7	2.1	6.8	12.40	3.7	4.56	FSW
PRRDX	PIMCO Real Return	IntTerm	B	*	*	-2.8	2.8	10.3	11.43	6.4	3.99	SW
PTTDX	PIMCO Total Return	IntTerm	B	*	*	-1.6	2.7	6.5	10.86	4.0	3.44	SW
SCSBX	Scudder Income (closed)	IntTerm	B	*	*	-1.7	3.3	8.0	12.92	3.7	4.48	FSW
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	-1.8	2.6	6.3	9.04	3.6	4.08	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	B	*	*	-0.5	1.5	5.9	10.08	3.3	6.65	SW
USAIX	USAA Income	IntTerm	B	*	*	-1.7	3.3	7.9	12.49	4.1	4.86	w
VALBX	Value Line U.S. Govt Sec	IntTerm	B	*	*	-1.8	1.8	6.3	12.02	4.0	3.64	FSW
VBMFX	Vanguard Bond Market	IntTerm	B	*	*	-1.7	2.4	6.0	10.36	3.4	5.08	fsw
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	-2.7	4.2	12.0	12.08	6.2	4.20	sw
VFITX	Vanguard Intermediate Treas.	IntTerm	B	*	*	-2.3	1.7	6.9	11.64	5.6	4.18	fsw
WTIBX	Westcore Plus Bond	IntTerm	*	*	*	-0.8	6.3	9.5	10.67	3.5	6.52	FSW
WPGVX	WPG Core Bond	IntTerm	B	*	*	-1.5	2.7	7.4	10.62	3.6	3.29	FsW
DRGBX	Dreyfus 100 Treasury L-T	LngTerm	*	*	*	-2.5	4.2	6.8	16.49	8.0	4.44	FW
NIBDX	Eclipse Bond	LngTerm	*	*	*	-1.8	2.8	8.5	9.92	3.7	4.13	SDX
KIFIX	FifthThird Bond	LngTerm	*	*	*	-1.6	2.4	7.2	10.21	4.5	4.15	w
MGFIX	Managers Bond	LngTerm	*	*	*	-3.1	6.1	13.0	24.38	5.8	4.58	FSW
STCBX	Strong Corporate Bond	LngTerm	*	*	*	-2.7	6.6	12.6	10.48	6.1	5.16	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	-2.5	6.2	11.0	9.59	5.0	5.82	fsw
VUSTX	Vanguard L-T Treasury	LngTerm	*	*	*	-5.3	2.6	10.0	11.68	9.6	4.58	fsw
VWESX	Vanguard Long-Term Corporate	LngTerm	*	*	*	-5.2	3.9	10.8	9.37	8.2	5.47	fsw
JAFIX	Janus Flexible Income	Multi	*	*	*	-1.9	3.3	8.0	9.82	4.1	4.42	FSW
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	-1.8	5.6	11.0	11.34	4.3	4.50	fsw
FSHBX	Fidelity Short-Term Bond	ShtTerm	*	*	*	-0.3	1.7	4.7	9.05	1.8	3.73	Fsw
JASBX	Janus S-T Bond	ShtTerm	*	*	*	-0.5	2.0	3.5	2.97	1.6	3.01	FSW
MGIDX	Managers Int. Duration Govt	ShtTerm	*	*	*	-0.1	1.5	4.6	10.60	2.6	3.43	FSW
MGSDX	Managers Short Duration Govt	ShtTerm	*	*	*	0.3	1.4	2.9	9.76	1.4	2.87	FSW
MWLDX	MetroWest Low Duration	ShtTerm	*	*	*	0.1	2.2	4.1	9.48	3.0	5.14	SW
SWBDX	Schwab S-T Bond Mkt Index	ShtTerm	*	*	*	-0.7	1.8	5.1	10.26	2.3	3.58	S
SCSTX	Scudder Short-Term Bond (closed)	ShtTerm	*	*	*	-0.1	2.0	4.7	10.67	1.6	4.06	FSW
PRWBX	T. Rowe Price S-T Bond	ShtTerm	*	*	*	-0.4	1.9	4.4	4.85	1.8	3.87	fsw
VFSTX	Vanguard Short-Term Corporate	ShtTerm	*	*	*	-0.3	1.9	4.8	10.86	2.1	4.66	fsw
BTTNX	Amer. Cent. Target 2010	ZeroCpn	*	*	*	-3.8	4.4	13.0	83.55	10.7	4.02	fSW
BTTTX	Amer. Cent. Target 2015	ZeroCpn	*	*	*	-7.2	5.7	16.6	66.81	14.8	4.03	fSW
BTTTX	Amer. Cent. Target 2020	ZeroCpn	*	*	*	-9.4	6.1	18.9	47.67	18.1	4.18	fSW
BTTTX	Amer. Cent. Target 2025	ZeroCpn	*	*	*	-10.8	5.4	19.2	39.36	21.1	4.85	fSW

Clarifying Bond Fund Advice

Q I noticed that American Century International Bond Fund (BEGBX) is not listed as a "Buy" for any of the portfolios. Three asterisks are shown. What is the reason behind the three-asterisk listing? I am a new subscriber, retired, and want to understand your system thoroughly so I can invest intelligently. Basically, as a retired individual with income from my IRA and Social Security, it is singularly important to get the right investment advice due to my age and income limitations. Your June issue does not show any advice to invest at all. Then why is it listed?
— E.M., Flushing, NY

A An asterisk (* = not for this portfolio) indicates *MONEYLETTER* is not recommending a fund for inclusion in the listed portfolio. Referring to *MONEYLETTER* dated June 20, 2003, Walter Frank, *MONEYLETTER*'s Chief Economist and Chief Investment Officer, recommends holding only certain types of bond funds, and only in the Moderate and Conservative Portfolios. Specifically, only High-Yield funds are recommended for Moderate investors, while a mix of High-Yield and Intermediate-Term funds are recommended for Conservative investors. International Bond Funds, among others, are excluded.

The primary reason for this limited exposure to bond funds is *MONEYLETTER*'s desire to take advantage of favorable conditions for equities. Mr. Frank's economic and market analysis shows that after three-plus years of underperformance, the domestic stock market is now in the beginning stages of a sustained move forward. Profit opportunities like these are too good to pass up, particularly for long-term investors willing to assume some additional risk.

Additionally, in his front page column titled "Coming Together The 2003 Mid-Year Outlook," Mr. Frank warns "Over the course of the year ahead, we could see bond prices, Treasuries and high-grade corporates, begin to move down." With the limited exposure to bond funds across the board, and based on Mr. Frank's analysis of risk, the yield curve, and other factors, *MONEYLETTER* is not recommending international, long term, multi, short term, or zero coupon bond funds.

As for why the fund is listed in *MONEYLETTER*, American Century International Bond Fund is a fine fund offered by an excellent company and it has met the strict standards necessary to be included in the *MONEYLETTER* selection and ranking process. However, to meet the optimum asset allocation mix, sometimes a portfolio should not own specific funds or invest in certain asset categories. There may simply be better choices available. At this point in time, that is the case and our analysis indicates it should not be owned in any of the Model Portfolios.

Send Us Your Question

If you have an investment question that would be appropriate for this feature, please contact us:

Snail Mail: *MONEYLETTER*, P.O. Box 6020, Holliston, MA 01746

Fax: (508) 429-0940

Email: service@moneyletter.com

MONEYLETTER may or may not use your question, and reserves the right to edit any inquiry as necessary.

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	0.79%	0.80%	1.16%
Gabelli US Treasury MMF	0.72	0.75	1.17
Fidelity Spartan US Treas MMF	0.69	0.70	1.11
Amer Century Capital Presv Fund/Inv	0.62	0.65	1.02
T Rowe Price US Treasury MF	0.56	0.59	0.96
US Treasury MF of America/CI A	0.50	0.50	0.80
Citi US Treasury Reserves	0.44	0.48	0.75
Schwab US Treasury Money Fund	0.44	0.46	0.83
CMA Treasury Fund	0.42	0.46	0.91
Dreyfus 100% US Treas MMF	0.42	0.45	0.85

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	1.08%	1.12%	1.52%
McMorgan Principal Preservation Fund	0.96	0.98	1.30
Bunker Hill MMF	0.86	0.93	1.27
Centennial Money Market Trust	0.86	0.88	1.20
Pacific Cap Cash Assets Tr/Orig	0.84	0.90	1.22
TIAA-CREF Money Market Fund	0.84	0.88	1.28
Vanguard Prime MMF/Retail	0.83	0.85	1.25
E*TRADE Premier MMF	0.82	0.83	1.16
GE Money Market Fund	0.82	0.78	1.09
Van Kampen Reserve Fund/CI A	0.82	0.82	0.88

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Vanguard Tax-Exempt MMF	0.66%	0.83%	1.20%
Strong Tax-Free Money Fund	0.60	0.78	1.23
Scudder YieldWise Muni MF	0.57	0.74	1.07
T Rowe Price Summit Muni MMF	0.52	0.67	1.00
Strong Municipal MMF	0.51	0.69	1.14
Dreyfus BASIC Muni MMF	0.49	0.63	0.96
Fidelity Municipal MMF	0.49	0.63	0.97
USAA Tax Exempt MMF	0.49	0.66	1.04
Northern Municipal MMF	0.46	0.55	0.88
Tax-Exempt MF of America/CI A	0.44	0.52	0.68

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	0.66%	0.83%	1.18%
Vanguard NY Tax-Exempt MMF	0.64	0.78	1.10
Vanguard CA Tax-Exempt MMF	0.63	0.80	1.12
Vanguard NJ Tax-Exempt MMF	0.60	0.76	1.07
Vanguard PA Tax-Exempt MMF	0.59	0.78	1.12
Fidelity NY Municipal MMF	0.42	0.55	0.88
Fidelity FL Municipal MMF	0.41	0.57	0.91
USAA Tax Exempt CA MMF	0.41	0.58	1.04
Fidelity OH Municipal MMF	0.40	0.56	0.91
Fidelity PA Municipal MMF	0.39	0.54	0.90

Taxable equivalent yield = yield / (1—total effective tax bracket).

Funds are ranked by 7-day yields; 7-day and 30-day yields are compound yields as of 7/15/03. 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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Bridgeway Aggressive Investors 2

Investors in Bridgeway Aggressive Investors 2 must be thrilled with the fund's year-to-date (July 18) return of 26.5% (compare that to the S&P 500, up 11.3% in the same period). But the 2003 year has not been an easy one. Investors were likely less than thrilled at the end of the first quarter, when the fund declined 6.6% vs. a 3.1% decline for the S&P 500. And according to manager John Montgomery's first quarter letter to shareholders, at the end of the quarter the fund ranked 255th of 263 aggressive growth funds monitored by Morningstar.

A unique approach

Unique might be an understatement when it comes to the strategy used to select investments for all seven of the Bridgeway funds. Bridgeway owner and fund manager John Montgomery once quipped, "Our funds are distinguished by what we do as much as what we don't do." He went on to say the Bridgeway folk do not make forecasts of the overall economy, don't worry about market timing, are not concerned with quarterly numbers, and do not talk to company management (except to verify data). The goal: to take all of the emotion out of the investment process.

So if there's no emotion, what drives the investment decisions? Machines, five to be exact. Montgomery has developed five separate proprietary models: each is different, and Montgomery keeps the details to himself. But this much we know: one is value oriented; one looks for price momentum but with a valuation consideration; and three are growth-oriented—one of those also analyzes valuation. These models look across the entire range of market capitalizations.

The combination of models results in a portfolio that can have a large-cap blue chip and a micro-cap technology firm. Montgomery notes that some of the best picks often come from badly beaten-up sectors, for example, telecom, where recent buys have included Utstarcom and Boston Communications Group. The fund's largest holding, Nextel Communications was first purchased in the fall of 2002, when it was getting punished in the telecom rout, yet was turning profitable after years of losses. Montgomery's models picked up on the improvements before Wall Street did. That stock, by the way, is up nearly 68% in 2003.

Top Five Sectors and Holdings (% of Assets)

Health Care	19.8%	Nextel Communications	5.9%
Consumer Services	16.6	Allen Telecom	5.5
Telecommunications	12.8	j2 Global Communications	5.4
Software	10.6	Analogic Corp.	3.9
Hardware	10.1	Apollo Group	3.2

as of March 31, 2003

Why the volatility?

As you can tell from the performance numbers cited earlier, the fund can be quite volatile. For one thing, Montgomery is more than willing to take big positions in top holdings. In fact, he is willing to commit 10% or more in a stock (the prospectus allows him to invest up to 25% in a single security) if the characteristics of a stock are good—i.e., very low downside risk and a high probability of price appreciation. The fund also can engage in purchasing futures and options, short sales, and short-term trading.

Montgomery actually does make some human decisions for the portfolio. He will step in to make sure that the portfolio does not become too heavily weighted in any sector(s). And he has trimmed holdings that have gotten too large. For example, in Aggressive Investors 1 he bought Qualcomm in early 1999. He held while it zoomed 2,600%-plus. But as its appreciation caused it to top 20% of the fund's assets, he started trimming in early 2000, despite his models still calling it a buy.

If this is "2" where's the "1"?

We mentioned Aggressive Investors 1 above, so why are we recommending version 2 and not 1? The simple answer is that the original fund closed at \$275 million in net assets, "to remain more nimble" in trading than it could at a larger size. This is a hallmark of the Bridgeway group; funds are closed before asset size becomes a disadvantage. Aggressive Investors 2 is managed identically to its sibling, with one exception. The original portfolio has the "right of first refusal" to purchase small- and mid-cap stocks identified by the models that have relatively limited liquidity. Theoretically, this could put the newer fund at a disadvantage relative to the older portfolio. And looking year-to-date, this appears to be true, as the older fund has advanced a greater 33.3%. Nonetheless, Aggressive Investors 2 returns are attractive.

Another unique aspect

Bridgeway prides itself on a number of very shareholder-friendly policies. They keep expenses low by doing all their own research, paying nothing for client or shareholder referrals, and have no interests in any brokerage house. They also do not accept soft-dollar payments—non-monetary perks from brokers for providing them with trading business. Employees may not own stocks outside the funds. The reason: These policies eliminate conflicts of interest. Moreover, the firm gives away half of profits from its fee structure to charities every year. And in an era of mega-salaries by chief executives, Montgomery established a rule whereby he may not be paid more than seven times the salary of the lowest-paid employee at his 16-person firm. This is a firm you can certainly feel good about investing with. \$

Bridgeway Aggressive Investors 2 (BRAIX) Bridgeway Funds

5615 Kirby Drive, Ste 518, Houston, TX 77005-2448
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