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Productivity And The Fed

The Fed met on Tuesday, September 16th, left interest rates unchanged and issued a statement explaining its decision. The opening sentence of its commentary reads, "The Committee continues to believe that an accommodative stance of monetary policy, coupled with robust underlying growth in productivity, is providing important ongoing support to economic activity."

Consider that statement for a bit. It is easy to see that low interest rates ("accommodative stance of monetary policy") are providing support to the economy. Consider home sales. Consider the refinancing boom and more dollars in consumer pockets for spending. Consider the bond market where corporations have been borrowing huge sums at cheap rates. We could go on. Low rates are the oil that has allowed this economy to keep moving.

But productivity? How does it enter into the picture? We don't spend productivity. It doesn't directly put money into our pockets as a tax cut does. It doesn't do anything that we can immediately point to. It is not the stuff of every day economic matters. Why then does the Fed give such weight to "robust" productivity growth in its short policy statement? What is the Fed driving at?

Productivity

Before we attempt to answer the question, we need to agree to what we mean by this abstract term, "productivity." The economic textbooks make heavy weather of the concept, and that's understandable (it can be made complex). But for our purposes we can keep it simple. What we mean, and broadly speaking what the Fed means, is that with the same input (say, hours worked) we can get more output (things or goods produced). When productivity increases, it is like a free lunch, you don't do any more work, but you produce more.

That brings us back to the original question. How does this support economic growth? Take a look at what has been happening in the economy. Despite a weak labor market, hourly earn-

ings have been chugging along at a 3% rate. At the same time profits recently have been increasing at double-digit rates. Also at the same time, inflation remains low, as firms complain about a lack of pricing power. Under the usual conditions this triangle would collapse, something would have to give, either wages, or profits, or inflation.

What has permitted all this to exist is rapidly rising productivity. Even though wages are rising, the actual wage cost of producing a piece of output has gone down because more are being produced. Meanwhile profits are rising even though prices remain the same, because the per-item cost of production has gone down. This allows workers to go away with more income, companies to go away with higher profits, while inflation remains in check and does not eat into the value of either.

This is one key to the Fed's statement. Robust productivity means consumer incomes can rise at good clip, enabling consumer spending to grow. Higher profits present firms with the wherewithal, and the incentive, to invest. (We are now seeing the process at work as business investment comes to life, after a long absence.) Meanwhile, low inflation means the Fed can hold rates steady as growth accelerates.

As for investors

Productivity has surged in recent quarters, greater than anybody dared project. Economists are now sorting out (arguing) about how much of this surge is permanent. This is an interesting exercise but has nothing to do with the medium-term investment outlook. What is relevant for the outlook is that productivity should continue to grow rapidly for the next year or two. This should translate into higher profits than we would normally expect with respect to the economy's growth rate. It is a strong support for our position that profits will continue to outstrip the estimates over the next 12-18 months, if not longer. If we are right, we should see a very positive market response.

A View From the Cockpit

In the last issue, we asked, "Will It Continue?" By "It," of course, we meant the powerful rally that has carried the market so far since the lows of March 11. Our conclusion, based on looking at the fundamentals, was that the rally would continue, though undoubtedly at a slower pace and not without some significant bumps in the road (corrections).

Our view of the outlook is from on high, a macro view if you will, and once removed from the actual marketplace. Between us and the actual direct investment process stands the mutual fund. We spend a lot of time on the big picture. The manager spends a lot of time on the smaller picture, on sectors

Market Trends

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

(continued on page 2)

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and stocks. Markets may look good from on high, but a closer view, the micro view, may find that there is really nothing worth investing in (or vice-versa). Economic growth rates are one thing, attractive values are another.

The small-cap charge

We decided to follow up last issue's article with the same question, only this time looking for the views of portfolio managers. Further, it was not just any portfolio manager we wanted, but one whose fund had been one of the star performers over the rally. This means that the manager has been investing in precisely those areas where stocks have done the best. If the rally was coming to an end or stocks were now fully exploited, this manager would be as aware of it as anyone.

Looking at our fund list, it is obvious that the fund managers we wanted to speak to were small-cap managers, either growth or value. (The bear market has blurred the line between growth and value in the small-cap sector.) Fortunately, we were able to reach the always helpful Kent Gasaway, lead portfolio manager of the Buffalo Small Cap Fund, which was up 41% for the year to September 22nd. We also contacted (at a conference, no less) Eric Miller, co-portfolio manager of the Heartland Value Fund, up 49% for the year.

It's not over yet

We asked both managers the same question, and essentially the answers we got were similar. Yes, much of the cream has been skimmed off the investment milk. As Gasaway put it, "Some of the small sectors are now priced for perfection." Or as Miller worded it, "There are no great sector plays left, nor is there any advantage in large caps vs. small or value vs. growth in the Russell 2000. It is a stockpickers market." What they are saying is what one would expect given a market where the top small cap funds are up 50%-60% since March.

Having said that, both see more gains ahead. They put their views differently among other things because one is growth (Buffalo) and the other value (Heartland). In addition, while both are small cap, they invest at different ends of the small cap market. Buffalo is at the larger end of that market, with a fair representation in mid-cap stocks. Heartland is at the lower end, with typically 40%-50% in microcaps (\$250 million cap or below).

Gasaway's take is that not everything is expensive. As he phrased it, "There are plenty of consistent long-term growers whose prices are still reasonable." They are in sectors that have not been exploited so far such as healthcare and consumer related sectors. Accordingly, he has begun to shift the portfolio away from the sectors which have done so well and toward the new opportunities. As he stressed, "There are still lots of opportunities present."

As for Miller, his positive view derives from the area he invests in. One of the characteristics of the microcap area is that the companies are too small for Wall Street and therefore fly under the radar. In analyst's jargon, the area is "inefficient", meaning firms are not priced correctly, considering their potential. There is opportunity aplenty for investors who are expert enough to winnow the wheat from the chaff.

This is the territory in which Heartland Value lives. For success, not only is expertise essential, but also a positive market environment. Miller believes that such an environment exists now and will continue for the medium-term. Still he cautions that the gap between small-cap and large-cap prices was huge coming into this year. The gap has now been almost closed by this year's small-cap rally.

Cautious optimism

What we have then from the small-cap managers we spoke to was a meeting of the minds. No, the gains are not over, but the distortions of the bear market have been corrected, and then some. Small caps should still perform well. Still it is prudent to expect that the dominance of small caps in our fund table will lessen as the months roll on. \$

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Next Issue: Volume 24, No. 19

Mails: October 10, 2003

Internet: October 8, 2003, 12:00pm (ET)

Much Ado About The Dollar

The market sold off sharply on Monday, September 21st on news that the G-7 nations had endorsed the U.S. view that all currencies should be allowed to float. Of course, the statement is aimed first at China and then at Japan. China has fixed its currency to the dollar (for all practical purposes) and Japan's currency floats, but the Japanese try to control the range of movement.

The G-7 statement set off a large drop in the dollar against the yen and, in sympathy, against the euro. Stock markets around the world dropped. The drop is understandable. Large currency changes send a shiver through the financial world, because domestic investors in foreign countries find the value of their assets changing. Some investors sell then as a precaution against further losses.

But from a strictly U.S. point of view floating the Chinese yuan would be a net plus. Considering China's trade surplus, there is no doubt the yuan would rise against the dollar, making Chinese goods relatively more expensive, and our goods relatively cheaper in China. It would make the U.S. more competitive in the Chinese market and would help our manufacturers somewhat in competing against Chinese imports.

Whatever the possibilities, it is very doubtful that the Chinese are about to listen to the G-7 concerning their currency. The Chinese are not about to float. The situation may be different with respect to Japan, but don't hold your breath.

Meanwhile, if something were to come from the G-7 statement, it would be a net positive for American business. Instead of selling off, the U.S. markets should have mildly celebrated. The reason they did not, we suspect, is that much of the selling came from foreign investors who were concerned about losses because of a lower value for their dollar holdings in their domestic currency.

We see the currency issue as a minor irritant as we go forward but no more than that for the market outlook.

The economy

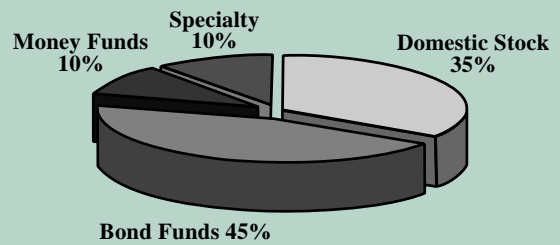
The economy is turning in a very strong performance this quarter, which ends this month. Estimates are now running at 5% or so (annual rate) for GDP. Confirmation of the strength of the economy has come from the latest manufacturing survey from the Philadelphia Fed. This is a useful survey which usually points the way to the national numbers. The latest tally showed new orders soaring to a 46-month high. It is saying the recent strength is not just a flash in the pan. We are positive on the outlook.

Portfolio changes

The Hotline of Tuesday, September 9th recommended the sale of Vanguard Capital Value in the Vanguard Moderate and Conservative portfolios. Here are the changes as of Wednesday, September 10th. **Moderate:** Sold 1,663 shares of Capital Value @ \$9.06 per share. Purchased 1,262 shares of Small Cap Growth Index @ \$11.94 per share. **Conservative:** Sold 1,153 shares of Capital Value. Purchased 436 shares of Extended Market Index @ \$23.97 per share. \$

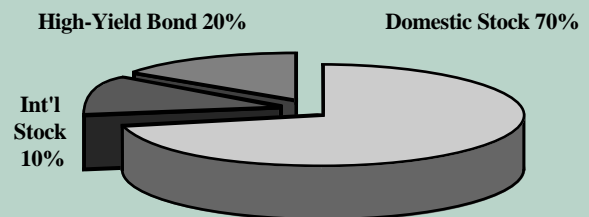
CONSERVATIVE

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



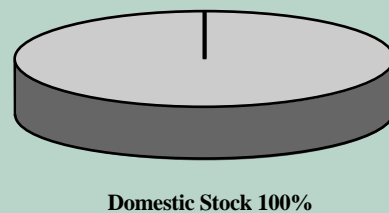
MODERATE

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



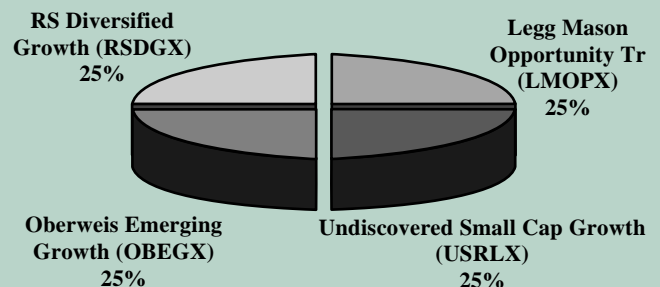
VENTURESOME

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	9/19 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	1	8	OBEGX	Oberweis Emerging Growth	SCGro	*	B	B	10.7%	77.8%	89.3%	\$26.96	34.2	1.63	FSW	
2	2	-	USRLX	Undiscovered Small Cap Growth (\$10,000)	SCGro	*	B	B	12.0	68.8	77.8	10.01	-	-	fw	
3	4	236	RSDGX	RS Diversified Growth	SCGro	*	B	B	10.6	66.0	60.5	20.95	29.0	1.53	FSW	
4	10	161	PBEGX	PBHG Emerging Growth(closed)	SCGro	*	B	B	10.9	60.6	69.1	13.12	33.6	2.03	FSW	
5	7	156	RYPNX	Royce Opportunity (1%r<180d)	SCVal	B	B	B	9.4	62.2	65.7	11.32	26.3	1.07	fsw	
6	3	5	NBSSX	Neuberger Berman Focus	LCVal	*	B	B	10.7	57.3	71.7	34.30	36.2	1.87	FSW	
7	78	234	VWEGX	Van Wagoner Emerging Growth(closed)	MCGro	(B)	(B)	(B)	15.0	59.3	58.2	6.50	54.7	3.00	FSW	
8	6	-	HENLX	Henlopen Fund (1%r<30d)	SCGro	*	B	B	8.0	55.7	70.8	23.54	33.7	1.43	FSW	
9	5	245	RSSGX	RS Smaller Company Growth	SCGro	*	B	B	9.3	60.4	57.2	19.23	28.0	1.33	FSW	
10	11	199	HRTVX	Heartland Value (1%r<90d)	SCVal	B	B	B	8.7	59.7	58.8	47.17	21.0	0.76	FsW	
11	9	-	UBRRX	Undiscovered Behavioral Growth (\$10,000)	MCGro	*	B	B	9.3	54.6	64.7	19.38	26.9	1.34	fw	
12	8	38	WBSNX	WmBlair S-C Growth N (1%r<60d)	SCGro	*	B	B	6.0	52.7	62.0	20.26	34.6	1.32	FSW	
13	12	2	LMOFX	Legg Mason Opportunity Trust (1%r<1yr)	MC	*	B	B	6.4	46.7	72.5	12.39	32.2	1.45	-	
14	20	246	CGMFX	CGM Focus	SCVal	*	B	B	6.9	59.4	36.9	25.95	50.6	0.13	fsw	
15	13	185	JAVTX	Janus Venture (closed)	SCGro	*	B	B	7.7	51.3	50.2	45.99	30.1	1.52	FSW	
16	17	197	TGSCX	TCW Galileo Small Cap Growth	MCGro	*	B	B	8.6	49.5	50.9	14.47	37.9	2.17	FSW	
17	21	119	RSEGX	RS Emerging Growth(closed)	MCGro	*	B	B	9.5	48.2	52.4	27.44	30.6	1.68	FSW	
18	56	-	BRAIX	Bridgeway Aggressive Investors 2	MCGro	*	H	H	10.3	52.0	40.9	11.81	-	-	fsw	
19	28	250	SAFGX	Safeco Growth Opportunities	SC	B	B	B	7.2	52.8	42.1	23.29	27.8	1.22	fsw	
20	15	214	BUFSX	Buffalo Small Cap(closed)	SCGro	B	B	B	5.6	51.7	46.4	21.07	28.9	1.20	SW	
21	30	140	NEEGX	Needham Growth Fund (.75%r<30d)	MCGro	(B)	(B)	(B)	8.1	44.8	57.4	28.50	28.8	1.38	FSW	
22	35	233	BOGLX	Bogle Small Cap Growth(closed)	SCGro	H	H	H	8.2	49.2	44.8	23.95	21.3	0.90	w	
23	32	-	USCGX	USAA Capital Growth	SCGro	*	B	B	9.1	46.8	49.3	6.09	-	-	fsw	
24	27	9	POGSX	Pin Oak Aggressive Stock	MCGro	*	B	B	7.0	40.6	63.4	17.89	40.6	2.57	FSW	
25	31	13	LMASX	Legg Mason Special Investment Trust	MC	*	B	B	5.9	43.1	56.1	41.64	27.2	1.30	-	
26	23	127	WMCVX	Wasatch Small Cap Value (closed,2%r<60d)	SCVal	B	B	B	5.1	47.2	45.9	4.77	25.4	0.86	FSW	
27	14	22	RSPFX	RS Partners	SC	B	B	B	4.3	43.4	55.5	25.86	23.0	0.65	FSW	
28	19	222	BPSCX	Boston Ptnrs Smlcap Val(closed,1%r<1yr)	SCVal	B	B	B	5.2	48.2	40.0	20.66	26.4	0.74	FSW	
29	24	219	KAUFX	Federated Kaufmann Fund(0.2%)	MCGro	B	B	B	6.7	47.6	38.2	4.81	20.1	0.89	FSW	
30	42	31	TGVNX	TCW Galileo Value Opportunities	MC	H	H	H	8.3	39.4	50.4	18.77	-	-	FSW	
31	39	213	RYLPX	Royce Low Priced Stock (1%r<180d)	SCVal	H	H	H	6.4	43.9	39.5	12.95	26.1	1.02	FSW	
32	47	17	VHCOX	Vanguard Cap Opp (\$25,000&1%r<5yr)	MCGro	H	H	H	7.2	38.4	49.9	23.27	22.8	1.29	fsw	
33	37	181	MNSCX	Montgomery Small Cap	SCGro	*	B	B	6.5	41.8	42.2	10.15	24.3	1.13	s	
34	22	30	PRNHX	T. Rowe Price New Horizons	SCGro	B	B	B	4.8	39.8	49.4	23.03	29.2	1.44	fsw	
35	26	235	CRMSX	CRM Small Cap Value Inv	SCVal	H	H	H	5.2	44.1	37.2	22.53	22.9	0.87	FSW	
36	46	163	VEXPX	Vanguard Explorer	SCGro	H	H	H	7.1	40.7	42.1	61.50	24.7	1.18	fsw	
37	38	36	TMGFX	Turner Mid Cap Growth	MCGro	*	H	H	7.3	37.7	48.4	20.83	31.2	1.70	FSW	
38	48	137	VISGX	Vanguard Small Cap Growth Index	SCGro	H	H	H	7.5	39.2	41.8	12.36	22.3	1.02	w	
39	73	252	IZZYX	ICM/Isabelle Small Cap Value	SCVal	H	H	H	6.9	46.3	24.3	12.32	24.6	0.85	FSW	
40	25	42	WAAXX	Wasatch Small Cap Grth(closed,2%r<60d)	SCGro	B	B	B	3.9	40.2	43.1	34.44	30.0	1.29	FSW	
41	34	-	ARTSX	Artisan Small Cap	SCGro	H	H	H	4.2	39.1	45.0	13.37	27.8	1.23	FSW	
42	44	201	GSETX	Liberty Small Company Equity CIZ	SCGro	H	H	H	6.3	39.2	40.6	15.90	33.0	1.10	f	
43	52	168	NAESX	Vanguard SmallCap Index	SC	H	H	H	6.2	38.9	41.0	20.97	22.2	1.03	fsw	
44	16	1	TGANX	TCW Galileo Aggressive Growth CIN	MCGro	*	(H)	(H)	3.9	30.2	64.4	11.26	38.2	2.14	SW	
45	57	226	WGROX	Wasatch Core Growth(closed,2%r<60d)	SCGro	H	H	H	5.1	41.4	33.7	34.81	30.1	1.06	FSW	
46	36	207	JSVAX	Janus Special Equity	MC	*	H	H	4.8	40.4	36.4	9.76	19.0	1.00	SW	
47	53	12	FDCAX	Fidelity Capital Appreciation	MC	H	H	H	6.7	34.1	49.2	22.54	23.2	1.27	fsw	
48	66	16	FDGRX	Fidelity Growth Company	LCGro	H	H	H	8.3	33.1	47.7	48.56	24.6	1.46	Fsw	
49	40	-	MXXIX	Marsico 21st Century	LC	H	H	H	5.7	37.2	39.3	9.14	20.5	1.01	fsw	
50	55	206	TUDRX	WPG Tudor	SC	H	H	H	2.7	38.3	40.5	14.63	27.3	1.36	FsW	
51	45	35	RSMOX	RS MidCap Opportunities	MCGro	H	H	H	6.6	34.8	43.1	9.99	20.3	1.08	FSW	
52	60	151	MPMVX	MSI Mid Cap Value	MCVal	H	H	H	5.4	37.5	38.3	19.12	16.3	0.80	fsw	
53	29	-	TGCNX	TCW Galileo Select Equity	LCGro	*	H	H	6.2	31.3	51.7	16.20	26.8	1.55	FSW	
54	74	52	MUHLX	Muhlenkamp Fund	MCVal	H	H	H	5.0	37.7	37.1	56.40	28.6	1.26	FSW	
55	50	40	CUEGX	CS Warburg Pincus Emerging Growth	MCGro	H	H	H	6.0	35.0	42.0	25.83	24.0	1.31	FSW	
56	71	84	SSMGX	SIT Small Cap Growth	MCGro	*	H	H	6.4	36.0	37.2	24.46	24.2	1.29	FSW	
57	18	3	FBRVX	FBR Small Cap Value A (1%r<90d)	SCGro	H	H	H	2.7	32.0	52.6	30.25	22.0	0.76	FSW	
58	85	129	FOCPX	Fidelity OTC Portfolio	LCGro	*	H	H	8.0	33.8	39.5	31.36	29.2	1.59	fsw	
59	77	220	FIGGX	INVESCO Small Company Growth	SCGro	*	H	H	6.4	35.0	38.6	10.91	27.8	1.39	FSW	
60	59	103	VEXMX	Vanguard Extended Market Index	MC	H	H	H	5.4	35.7	37.9	24.74	23.1	1.17	fsw	
61	67	150	FSLCX	Fidelity Small Cap Stock (2%r<90d)	SCGro	H	H	H	6.2	35.6	35.4	15.30	20.3	0.92	F	
62	65	114	MPSCX	MSI Small Cap Value(closed)	SCVal	H	H	H	5.5	35.2	37.5	19.38	18.7	0.91	fsw	
63	41	133	MERDX	Meridian Fund	SCGro	H	H	H	4.1	35.5	37.3	30.86	20.3	0.84	fw	
64	87	48	VSEQX	Vanguard Strategic Equity	MCGro	H	H	H	6.6	33.8	37.7	17.37	16.2	0.78	fsw	
65	91	175	TAVFX	Third Avenue Value	MCVal	S	S	S	7.4	34.3	34.9	39.31	16.1	0.75	FSW	
66	43	51	SLSSX	Selected Special Shares	MCGro	H	H	H	4.5	34.3	39.1	11.21	19.0	1.04	sW	
67	62	218	PENNX	Royce Penn Mutual(1%r<180d)	SCVal	S	S	S	4.6	36.3	33.8	8.49	19.2	0.71	Fsw	
68	58	-	CSMVX	Century Select Small Cap	SCGro	S	S	S	4.6	32.7	42.3	20.28	16.3	0.54	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	9/19 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	82	128	TASCX	Third Avenue Small-Cap Value	SCVal	S	S	S	6.5	33.4	36.7	17.44	19.1	0.81	FSW	
70	51	177	SMCDX	Strong Mid Cap Disciplined	MCVal	H	H	H	3.3	35.1	36.9	19.04	21.3	0.94	FSW	
71	63	14	LMVTX	Legg Mason Value	LCVal	S	S	S	3.7	32.4	43.1	53.22	21.6	1.17		
72	33	86	BSCFX	Baron Small Cap	SCGro	S	S	S	3.4	35.9	34.7	18.05	22.5	0.89	FSW	
73	76	160	FLPSX	Fidelity L P Stock(1.5%r<90d)	SCVal	S	S	S	4.8	35.2	32.8	32.35	16.9	0.67	fsw	
74	61	74	MPEGX	MSI Mid Cap Growth	MCGro	*	S	S	5.5	31.7	38.3	16.26	22.9	1.30	fsw	
75	81	93	LLSCX	Longleaf Partners Smallcap(closed)	SCVal	S	S	S	3.8	34.3	33.9	25.71	19.3	0.67	fw	
76	49	57	STDIX	Strong Discovery	MCGro	S	S	S	5.8	31.3	37.8	19.04	17.9	0.84	FSW	
77	68	191	AVALX	Aegis Value Fund	SCVal	S	S	S	5.2	34.2	31.0	15.90	16.9	0.47	fw	
78	102	69	VCVLX	Vanguard Capital Value	LCVal	S	S	S	5.8	31.7	36.2	9.36	-	-	fsw	
79	64	241	FDISX	Dreyfus-Founders Discovery	SCGro	*	S	S	5.5	34.3	28.9	24.37	25.7	1.30	FSW	
80	83	97	FMILX	Fidelity New Millennium (closed)	MCGro	S	S	S	7.4	30.2	35.7	28.46	30.4	1.51	fsw	
81	122	171	EEQFX	Eclipse Small Cap Value	SCVal	S	S	S	6.5	32.7	29.3	15.01	17.5	0.63	FSW	
82	69	46	CBMDX	C&B Mid Cap Value	MCVal	S	S	S	3.6	33.4	31.5	17.44	19.5	0.66	FSW	
83	54	98	RYPRX	Royce Premier (1%r<180d)	SC	S	S	S	2.4	33.5	32.7	11.96	18.2	0.73	FSW	
84	98	247	SMTVX	Strong Multi-Cap Value	MCVal	S	S	S	5.0	33.6	28.4	49.87	18.8	0.85	FSW	
85	70	135	RSVPX	RS Value+Growth	LC	S	S	S	5.5	31.2	33.7	16.40	17.4	1.04	FSW	
86	86	143	SOPFX	Strong Opportunity	MCVal	S	S	S	4.2	30.9	35.3	36.78	20.1	1.07	FSW	
87	75	224	TWCVX	American Century Vista	MCGro	*	S	S	5.1	33.4	27.3	11.71	20.6	0.77	FSW	
88	127	6	SCDVX	Scudder Development (closed)	MCGro	S	S	S	6.2	26.2	42.6	18.25	31.7	1.82	FSW	
89	110	239	VISVX	Vanguard Small-Cap Value Index	SCVal	S	S	S	5.0	32.5	27.3	10.47	23.2	0.87	fsw	
90	72	25	RPMGX	T.Rowe Price Mid Cap Growth	MCGro	S	S	S	3.3	29.9	36.4	39.95	21.7	1.13	fsw	
91	134	4	FDEGX	Fidelity Aggressive Growth(0.75%r<90d)	LCGro	S	S	S	5.5	24.9	45.6	14.15	30.5	1.96	fsw	
92	79	243	PBSVX	PBHG Small Cap Value	SC	S	S	S	4.4	32.6	27.5	17.72	24.3	1.08	FSW	
93	96	89	VGEQX	Vanguard Growth Equity	LCGro	S	S	S	5.7	28.3	35.1	8.76	22.8	1.43	fsw	
94	88	76	PRSVX	"T. Rowe Price S-C Value (closed,1%r<1yr)"	SCVal	S	S	S	3.6	29.8	33.6	27.42	17.6	0.62	fsw	
95	89	20	STCSX	Strong Advisor Common Stock(closed)	MC	S	S	S	3.9	27.5	38.5	20.36	21.1	1.10	FSW	
96	95	27	VPMCX	"Vanguard PRIMECAP(\$25,000&1%r<5yr)"	LC	S	S	S	4.8	27.6	36.1	49.86	19.9	1.16	fsw	
97	93	95	NBNGX	SIT Mid Cap Growth	MCGro	*	S	S	5.1	28.1	33.8	9.02	24.6	1.40	FSW	
98	90	45	FIDYX	INVESCO Dynamics	MCGro	S	S	S	4.4	26.3	38.7	13.68	29.5	1.67	FSW	
99	103	125	TRMCX	T.Rowe Price Mid Cap Value	MCVal	S	S	S	4.4	29.4	30.9	18.59	17.7	0.72	fsw	
100	108	157	PESPX	Dreyfus Mid Cap Index	MCGro	S	S	S	4.9	29.5	29.6	21.73	19.6	0.95	FSW	

Dow Jones
NASDAQ
S&P 500

2.3% **16.7%** **21.4%**
8.2 **36.4** **56.7**
3.4 **18.6** **22.9**

indexes do not include dividends

International Stock Funds

1	8	59	SJPNX	Japan Fund (Scudder) (2%r<180d)	Japan	*	H	H	14.9%	61.4%	35.1%	\$8.81	14.8	-	FSW
2	17	61	MJFOX	Matthews Japan Fund (2%r<90d)	Japan	*	H	H	17.3	58.9	27.6	12.11	15.2	-	FSW
3	2	-	ARTJX	Artisan Intl Small Cap (2%r<90d)	Int'l	B	B	B	8.7	48.6	49.8	14.03	-	-	SW
4	5	8	PRIDX	T.Rowe Price Intl Disc. (2%r<1yr)	Int'l	B	B	B	8.4	50.2	45.4	22.84	16.0	-	fsw
5	3	4	OAKGX	Oakmark Global (2%r<90d)	Global	B	B	B	7.2	46.9	49.5	17.52	26.5	-	FSW
6	1	1	FLATX	Fidelity Latin Amer.(1.5%r<90d)	LatinA	*	H	H	9.1	41.8	56.8	13.02	29.8	-	fs
7	15	63	VINEX	Vanguard Intl. Explorer	int'l	H	H	H	7.5	48.4	37.4	11.25	16.3	-	fsw
8	18	44	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	(B)	(B)	(B)	7.8	49.5	34.1	13.87	20.4	-	FSW
9	7	48	LLINX	Longleaf Partners International	Int'l	B	B	B	4.3	48.6	35.1	13.21	19.4	-	fw
10	4	40	MAPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	*	B	B	5.5	45.2	39.8	11.34	23.6	-	FSW
11	9	3	PRLAX	T.Rowe Price Latin America (2%r<1yr)	LatinA	*	H	H	8.2	38.8	47.3	10.12	29.7	-	fsw
12	19	5	SGSCX	Scudder Global Discovery(closed)	Int'l	B	B	B	7.7	40.8	40.8	25.54	20.1	-	FSW
13	6	7	VEIEI	Vanguard Emerging Mkts Stk Index (0.5%r)	Int'l	*	B	B	5.2	40.3	40.7	10.28	22.6	-	fsw
14	10	2	SLAFX	Scudder Latin America	LatinA	*	H	H	7.2	35.6	49.2	21.48	27.3	-	FSW
15	22	6	FIEUX	Fidelity Europe (1%r<90d)	Europe	H	H	H	5.4	40.4	39.8	23.35	22.5	-	fsw
16	29	60	PRJPX	T. Rowe Price Japan	Japan	*	H	H	11.3	45.5	16.0	6.59	14.4	-	s
17	24	62	WPJGX	CS Warburg Pincus Japan Grth (2%r<180d)	Japan	*	H	H	10.2	43.3	21.6	5.06	22.7	-	FSW
18	13	10	DRFMX	Dreyfus Emerging Market(1%r)	Int'l	*	(H)	(H)	5.5	38.3	36.0	14.49	21.6	-	FSW
19	37	55	VPACX	Vanguard Pacific Stock Index	Pacific	*	H	H	11.1	37.5	22.3	7.59	13.7	-	fsw
20	20	25	FIVFX	Fidelity Aggressive Intl. (1%r<30d)	Int'l	H	H	H	5.1	37.1	31.9	13.85	20.4	-	Fsw
21	14	50	PRASX	T. Rowe Price New Asia	Pacific	*	(H)	(H)	3.7	39.4	27.8	7.36	19.7	-	fsw
22	28	51	FOSFX	Fidelity Overseas (1%r<30d)	Int'l	H	H	H	6.0	37.3	29.4	28.11	15.5	-	Fsw
23	25	56	FPBFX	Fidelity Pacific Basin (1.5%r<90d)	Pacific	H	H	H	7.7	38.4	21.3	16.28	14.7	-	Fsw
24	27	54	FJPNX	Fidelity Japan(1.5%r<90d)	Japan	*	H	H	8.3	38.4	20.3	10.75	17.3	-	Fsw
25	12	58	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	H	H	3.1	40.4	22.7	12.69	21.1	-	fsw
26	16	35	FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	H	H	H	4.1	35.8	31.9	9.22	-	-	fsw
27	32	34	VTRIX	Vanguard International Value	Int'l	H	H	H	5.4	35.1	28.8	23.57	16.8	-	fsw
28	33	29	FIGRX	Fidelity International G & I	Int'l	H	H	H	6.6	34.1	29.0	21.14	15.2	-	Fsw
29	26	41	OAKIX	Oakmark International (2%r<90d)	Int'l	H	H	H	5.9	35.2	26.7	16.18	22.0	-	FSW
30	23	17	HAINX	Harbor International	Int'l	H	H	H	5.1	32.5	33.2	33.39	17.9	-	sw
31	30	21	FDIVX	Fidelity Diversified Intl (1%r<30d)	Int'l	S	S	S	5.8	32.4	30.0	21.59	13.8	-	Fsw
32	34	20	FVWFX	Fidelity Worldwide (1%r<30d)	Global	S	S	S	5.3	31.0	29.4	15.01	16.0	-	Fsw
33	36	36	PFIFX	Preferred International	Int'l	S	S	S	5.6	32.8	24.0	12.75	17.4	-	w
34	31	-	WBIGX	Wm. Blair Intl. Growth Stock N	Int'l	S	S	S	6.0	31.3	25.7	16.49	14.6	-	FSW
36	11	24	ICHKX	Investec China & Hong Kong	Pacific	*	(H)	(H)	1.9	30.3	32.9	13.60	19.6	-	FSW

Bond Funds (next issue on page 6: Specialty Funds)
9/19/2003

Ticker Symbol	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	*	3.1%	12.4%	19.7%	\$10.78	6.77	5.12	FSW
CMHYX	Columbia High Yield	HighYld	B	B	*	2.9	3.3	8.3	8.61	5.90	6.69	fSW
SPHIX	Fidelity High Income (1%r<90d)	HighYld	B	B	*	4.4	13.9	26.7	8.68	12.41	7.31	Fsw
FHYPX	INVESCO High Yield	HighYld	*	*	*	4.2	15.0	28.8	3.77	14.96	7.66	FS
JAHYX	Janus High Yield	HighYld	B	B	*	3.1	5.2	9.1	9.43	6.53	6.61	FSW
NTHSX	Northeast Investors Trust	HighYld	*	B	*	3.0	6.9	9.2	7.18	8.22	7.93	fw
PHYDX	PIMCO High Yield	HighYld	B	B	*	4.0	10.4	23.1	9.41	9.27	7.41	SW
STHYX	Strong High Yield Bond(1%r)	HighYld	*	*	*	3.6	10.3	19.7	7.42	12.99	8.13	FSW
STHBX	Strong S-T High Yield	HighYld	*	*	*	1.4	4.0	7.0	8.63	4.54	5.56	FSW
PRHYX	T. Rowe Price High Yield	HighYld	B	B	*	3.2	9.1	15.2	6.81	8.49	8.45	sw
TGHNX	TCW Galileo High Yield Bond	HighYld	B	B	*	4.8	11.2	16.7	7.03	9.55	8.41	SW
VAGIX	Value Line Aggressive Inc	HighYld	*	B	*	3.2	10.9	17.8	4.83	11.11	7.36	FSW
VWEHX	Vanguard High Yield Corporate (closed)	HighYld	B	B	*	4.2	8.2	16.2	6.20	7.81	7.86	sw
BGBX	Amer. Cent. Int'l Bond	Int'l	*	*	*	3.0	9.1	16.9	13.28	10.90	2.19	fSW
FNMIX	Fidelity New Markets Income	Int'l	*	*	*	4.1	15.5	32.3	13.37	13.15	7.22	Fsw
PYGFY	Payden Global Fixed Income	Int'l	*	*	*	0.8	2.0	3.9	10.15	3.94	4.74	fsW
SSTGX	Scudder Global Bond S-T (closed)	Int'l	*	*	*	1.7	4.2	9.2	10.11	5.14	3.82	FSW
RPIBX	T. Rowe Price Int'l Bond	Int'l	*	*	*	3.0	7.7	14.7	9.92	9.32	2.57	fsw
ACITX	Amer. Cent. Inflation Adj	IntTerm	B	*	*	1.2	2.8	5.3	10.83	6.94	3.54	fSW
BBHIX	BBH Inflation Indexed Sec	IntTerm	B	*	*	1.2	2.3	5.4	11.15	7.15	3.14	FSW
CFISX	Columbia Fixed Income Sec	IntTerm	H	*	*	1.2	1.1	1.0	13.52	4.20	4.20	fSW
DODIX	Dodge & Cox Income	IntTerm	H	*	*	1.6	3.6	6.8	12.97	3.57	4.90	fsw
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	1.5	3.1	6.4	14.11	4.99	4.52	FSW
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	1.5	0.9	2.6	14.88	3.09	4.39	FSW
DSINX	Dreyfus Strategic Income	IntTerm	*	*	*	1.7	3.9	5.0	14.86	4.87	4.50	FSW
NIIBX	Eclipse Indexed Bond	IntTerm	H	*	*	1.5	1.8	4.0	10.95	4.43	4.28	SW
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	1.0	2.6	5.5	10.83	-	1.77	Fw
FTHRZ	Fidelity Intermediate Bond	IntTerm	H	*	*	1.0	2.0	3.6	10.70	3.80	4.06	Fsw
FSTGX	Fidelity Intermediate Govt	IntTerm	H	*	*	0.9	1.1	2.0	10.30	4.16	3.10	Fsw
FBNDX	Fidelity Investment Grade	IntTerm	H	*	*	1.6	2.7	5.2	7.56	4.29	3.28	Fsw
FBDFX	Fremont Bond	IntTerm	H	*	*	1.4	1.4	4.1	10.55	4.81	3.29	fsw
FBDSX	INVESCO Select Income	IntTerm	*	*	*	2.2	4.3	10.3	5.34	6.13	5.28	FS
SRINX	Liberty Income CIZ	IntTerm	H	*	*	2.1	5.8	9.9	9.91	4.86	5.90	FSW
SRBFX	Liberty Intermediate Bond CIZ	IntTerm	H	*	*	1.6	5.0	9.0	9.05	4.07	5.47	FSW
MWTRX	MetroWest Total Return	IntTerm	*	*	*	2.4	7.4	9.8	9.72	5.85	6.66	SW
MNTRX	Montgomery Total Return	IntTerm	H	*	*	1.2	1.8	3.3	12.39	4.43	4.40	FSW
PRRDX	PIMCO Real Return	IntTerm	H	*	*	1.2	1.9	4.5	11.46	7.28	3.80	SW
PTTDX	PIMCO Total Return	IntTerm	H	*	*	1.2	1.5	3.2	10.79	4.84	3.37	SW
PTMDX	PIMCO Total Return Mortgage	IntTerm	H	*	*	0.8	1.1	2.5	10.77	3.33	2.32	SW
SCSBX	Scudder Income (closed)	IntTerm	H	*	*	1.6	2.7	5.1	12.85	4.27	4.44	FSW
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	1.0	2.1	4.1	8.99	4.30	4.02	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	H	*	*	0.5	0.8	3.0	9.94	3.47	6.70	SW
USAIX	USAA Income	IntTerm	H	*	*	1.5	2.5	4.6	12.41	4.80	4.92	w
VALBX	Value Line U.S. Govt Sec	IntTerm	H	*	*	1.0	1.0	2.4	12.00	4.63	3.76	FSW
VBMFX	Vanguard Bond Market	IntTerm	H	*	*	1.5	2.3	3.3	10.32	4.16	4.90	fsw
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	1.1	2.9	6.0	12.11	7.02	4.33	sw
WTIBX	Westcore Plus Bond	IntTerm	*	*	*	2.2	7.3	9.1	10.67	3.88	6.60	FSW
WPGVX	WPG Core Bond	IntTerm	H	*	*	1.2	2.0	4.2	10.59	4.40	3.19	FsW
DRGBX	Dreyfus 100 Treasury L-T	LngTerm	*	*	*	2.0	3.1	2.8	16.50	8.61	4.41	FW
NIBDX	Eclipse Bond	LngTerm	*	*	*	1.6	2.1	5.3	9.87	4.48	4.37	SW
KIFIX	FifthThird Bond	LngTerm	*	*	*	1.4	1.3	3.4	10.13	5.04	4.12	w
MGFIX	Managers Bond	LngTerm	*	*	*	2.5	5.5	9.4	24.26	6.60	4.74	FSW
STCBX	Strong Corporate Bond	LngTerm	*	*	*	2.6	5.6	10.9	10.44	6.67	5.24	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	2.3	5.3	8.9	9.52	5.71	5.91	fsw
VWESX	Vanguard Long-Term Corporate	LngTerm	*	*	*	2.7	1.6	1.6	9.21	9.99	5.89	fsw
JAFIX	Janus Flexible Income	Multi	*	*	*	1.4	2.5	4.0	9.76	4.63	4.52	FSW
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	2.2	7.4	11.5	11.41	4.53	4.52	fsw
FSHBX	Fidelity Short-Term Bond	ShtTerm	B	*	*	0.5	1.5	2.8	9.02	2.05	3.53	Fsw
JASBX	Janus S-T Bond	ShtTerm	B	*	*	0.3	2.4	3.6	2.97	1.68	2.82	FSW
MGIDX	Managers Int. Duration Govt	ShtTerm	*	*	*	0.9	1.6	3.3	10.61	2.91	3.34	FSW
MGSDX	Managers Short Duration Govt	ShtTerm	B	*	*	0.2	1.1	2.7	9.73	1.42	2.73	FSW
MWLDX	MetroWest Low Duration	ShtTerm	B	*	*	1.0	2.8	4.5	9.47	3.12	5.01	SW
SWBDX	Schwab S-T Bond Mkt Index	ShtTerm	B	*	*	0.7	1.5	2.7	10.23	2.62	3.45	S
SCSTX	Scudder Short-Term Bond (closed)	ShtTerm	B	*	*	0.4	1.9	3.5	10.61	1.81	4.04	FSW
SSTBX	Strong S-T Bond	ShtTerm	B	*	*	0.5	1.5	2.3	8.83	2.39	4.12	FSW
PRWBX	T. Rowe Price S-T Bond	ShtTerm	B	*	*	0.2	1.3	3.0	4.82	2.01	3.67	fsw
VFSTX	Vanguard Short-Term Corporate	ShtTerm	B	*	*	0.5	1.4	2.8	10.81	2.22	4.47	fsw
BTTNX	Amer. Cent. Target 2010	ZeroCpn	*	*	*	2.1	1.8	4.0	83.00	11.42	4.28	fSW
BTFTX	Amer. Cent. Target 2015	ZeroCpn	*	*	*	3.7	1.1	2.9	65.77	16.06	4.48	fSW
BTTTX	Amer. Cent. Target 2020	ZeroCpn	*	*	*	4.4	0.8	1.0	46.47	19.86	4.75	fSW

Fidelity Drops Loads on Sector Funds

In an effort to compete with Exchange Traded sector funds (ETFs), Fidelity announced that effective September 23, 2003 all 41 Select Portfolios are available on a no-load basis. Previously, Fidelity charged investors a front-end load of three percent. The 0.75% redemption fee on the sale of all positions held less than 30 days remains in place.

According to a report by Investors' FastTrack, Fidelity's redemption fee may deter some investors from switching from the more volatile ETFs to the Select funds. But a closer examination of the numbers indicates that an investor could be better off using the Selects. Since most sector ETFs trade 0.25% - 0.50% from their underlying index, and there is a commission to pay, they can be more expensive. For example, if you were to switch 12 times per year (assume 6 are "short term"), with the Selects it would cost you $6 \times 0.75\% = 3.0\%$ per year. Using the same example, the ETFs could cost you $12 \times 0.5\% = 6.0\%$ per year.

What's the big deal? While MONEYLETTER generally steers clear of the Sector funds, preferring more diversified domestic stock funds to reduce risk, we know many subscribers are Select shareholders. For those investors who are willing to assume additional risk, the Select funds and sector ETFs can be a good middle ground between individual stocks and mutual funds.

Tech talk

While we're not recommending his fund for the reason stated above, we did find some valuable information from Fidelity Select Technology portfolio manager Sonu Kalra. Kalra sees two key drivers to the technology sector going forward. This is important to subscribers as many of our diversified domestic stock funds, particularly our growth funds, hold significant positions in technology.

First, the performance of technology related companies is closely tied to corporate spending in the information technology area. Over the last several years, we've been in a corporate recession and IT investment has been weak. The results: an average 35% per year decline in the Goldman Sachs Technology Index for the three years 2000-2002. But given the improvements in the economic picture, tech prices (discounting for future increases in IT spending) have rebounded strongly so far this year.

The second key driver in this sector, according to Kalra, is emerging technologies, or what he calls Killer Applications. These can come in the form of an upgrade of older technology (for example speeding up Internet dial-up) or from newer ideas (such as wireless access to the Internet). Four additional new applications mentioned by Kalra include flat panel monitors, voice over IP phones, digital cameras, and web services software.

For more information contact Fidelity at (800) 544-6666.

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100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	0.70%	0.71%	1.03%
Gabelli US Treasury MMF	0.65	0.65	1.03
Fidelity Spartan US Treas MMF	0.61	0.61	0.97
Amer Century Capital Presv Fund/Inv	0.55	0.54	0.89
T Rowe Price US Treasury MF	0.49	0.48	0.82
JENNDRY/Dryden Govt SecTr/US Treas/D	0.40	0.38	0.74
CMA Treasury Fund RIC	0.37	0.37	0.74
US Treasury MF of America/CI A	0.37	0.38	0.69
Dreyfus 100% US Treas MMF	0.36	0.36	0.71
MTB US Treasury MMF/CI A	0.36	0.37	0.69
Schwab US Treasury Money Fund	0.36	0.36	0.70

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	1.03%	1.03%	1.38%
GE Money Market Fund	0.94	0.89	1.00
Bunker Hill MMF	0.86	0.83	1.17
Centennial Money Market Trust	0.86	0.86	1.10
McMorgan Principal Preservation Fund	0.85	0.88	1.19
Flex-fund Money Market Fund	0.84	0.81	1.10
TIAA-CREF Money Market Fund	0.81	0.81	1.14
Phoenix-Goodwin Money Market Series/A	0.80	0.79	1.09
AIG Money Market Fund/CI B	0.79	0.78	0.85
E*TRADE Premier MMF	0.76	0.75	1.05
Vanguard Prime MMF/Retail	0.76	0.76	1.12

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Strong Tax-Free Money Fund	0.77%	0.73%	1.13%
Vanguard Tax-Exempt MMF	0.75	0.72	1.10
Scudder YieldWise Muni MF	0.67	0.63	0.98
Strong Municipal MMF	0.65	0.62	1.04
USAA Tax Exempt MMF	0.61	0.58	0.94
T Rowe Price Summit Muni MMF	0.58	0.56	0.90
Amer Century T-F MMF/Inv Class	0.57	0.53	0.91
Dreyfus BASIC Muni MMF	0.55	0.54	0.87
Fidelity Municipal MMF	0.55	0.53	0.88
CMA Tax-Exempt Money Fund	0.52	0.44	0.77
Scudder Tax-Exempt Money Fund	0.52	0.50	0.87
WCMA Tax-Exempt Fund Class 3	0.52	-	-

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	0.77%	0.74%	1.09%
Vanguard PA Tax-Exempt MMF	0.73	0.68	1.04
Vanguard NY Tax-Exempt MMF	0.71	0.69	1.02
Vanguard CA Tax-Exempt MMF	0.70	0.67	1.04
Vanguard NJ Tax-Exempt MMF	0.70	0.67	0.99
Fidelity FL Municipal MMF	0.50	0.48	0.81
Fidelity CT Municipal MMF	0.45	0.42	0.75
Fidelity MI Municipal MMF	0.45	0.41	0.77

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 9/16/03. 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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Movin' On Up— Some New Up-And-Comers

Having just followed up on a number of funds that were rapidly scaling the ranks in the domestic stock funds list at the end of 2002, we want to look forward now and see who the dramatic movers are today. We took our top 100-ranked funds as of September 15 and investigated where they were three months earlier. We found nine funds that had jumped between 47 and 185 spots. Here we take a look at those that are the highest in the list, and therefore have the best chance of gaining a “buy” recommendation.

ICM/Isabelle Small Cap Value (IZZYX)

The winner in distance covered over the past three months, ICM/Isabelle Small Cap Value moved from number 220 to number 35 in three months. The fund's top health care holdings, Ariad Pharmaceuticals and Praecis Pharmaceuticals (the top two stocks at 3.9% and 3.8% of assets), and Epix Medical, have powered recent results, as all three have more than doubled this year.

Manager Warren Isabelle is known for concentrating the fund's investments. He has plowed 60% of assets into micro-cap stocks, and has a 40% stake in the industrial materials industry. That's a significant overweighting relative to the S&P 500 and to the typical small-cap value fund. That tendency to concentrate the portfolio (plow a good portion of assets in its top holdings) and focus on the market's smallest companies can make the fund red hot – or ice cold at any given time. And the past six months' hot gain of 52.7% is what has propelled the fund forward on the list. (Note the one-year return of only 17.9% as of September 15).

*ICM Series Trust, Two Portland Square
Portland, ME 04101; (800) 472-6114*

Liberty Small Company Equity (GSETX)

Liberty Small Company Equity was at rank 42 on September 15, up 79 spots in three months. The fund gained a new manager, Bill Garrison, in June 2002. Garrison shifted the fund's focus somewhat, spreading assets into relatively small positions in about 150 stocks. And he makes sure the fund stays diversified by industry, pegging sector weightings within 10 percentage points of the Russell 2000 Growth Index. Thus, the fund is typically more diversified than its peers with a lesser relative emphasis on its top holdings.

Although the fund has moved ahead in ranking vs. all domestic equity funds, its performance does not stack up well against its small-cap growth peers. A year-to-date return of 31.8% puts the fund in the bottom third of the small-cap growth

category. Two of Garrison's positions have worked against the fund's relative performance. He made a bet on energy stocks a year ago that did not pay off – he has since trimmed the position to just above a market weighting. Also, he found little that met his criteria in technology, thus the fund has been underweight vs. the competition, which detracted from results.

*Liberty Financial Funds, P.O. Box 8081
Boston, MA 02210; (800) 628-0414*

Safeco Growth Opportunities (SAFGX)

This fund is in the midst of a restructuring begun in February under its new lead portfolio manager Jeffrey Schwartz. His goal: to reduce the portfolio's risk and volatility. To that end, he and co-manager Bill Whitlow have been working to lessen the fund's large sector bets and micro-cap exposure (now 35% of assets), while eliminating very small positions and adding to diversity by buying stocks in sectors where the fund was underrepresented.

It's been slow going. The fund has had to register any sales of stocks with the SEC where it held more than 10% of the shares outstanding, waiting 90 days between sales. For example, top holding PolyMedica consumed more than 8% of assets in February – the managers have gotten it down to only 5.0% as of the end of August. Moreover, in a Catch-22 situation, a number of stocks in the portfolio have appreciated substantially this year, making it hard, even with sales, to reduce stock and industry positions. Meanwhile, the fund's healthcare holdings (32% of assets) have added significantly to recent performance.

*SAFECO Mutual Funds, P.O. Box 34890
Seattle, WA 98124-1890; (800) 624-5711*

TCW Galileo Small Cap Growth (TGSCX)

A year-to-date return of 45.1%, and one-year return of 50.9% put this fund within the Top 5% of the mid-cap growth fund category. And that performance has moved the fund from number 139 to 14 recently. The fund is loaded with information technology and media stocks, and winners such as Ask Jeeves (up more than 700% this year) are behind the fund's recent results.

Lead manager Doug Foreman believes the demand drivers behind soaring technology stocks in 1999 remain in place, and that now excess supply has been removed creating a good environment. Foreman buys fast-growing stocks with little regard to valuation. But he is quick to sell when a company misses earnings or its outlook deteriorates. The fund has racked up impressive gains when growth stocks are in favor (it gained 126% in 1999), but it fell hard when the bubble collapsed.

*TCW Galileo Funds, 865 South Figueroa, 18th Floor
Los Angeles, CA 90017; (800) 386-3829*

MONEYLETTER® (ISSN:1526-5110) is published twice each month for \$150 per year (24 issues) by PRI Financial Publishing Inc., 360 Woodland St., P.O. Box 6020, Holliston, MA 01746-6020. First Class Postage paid at Holliston, MA and at additional mailing offices. POSTMASTER: send address changes to **MONEYLETTER**, 360 Woodland St., P.O. Box 6020, Holliston, MA 01746-6020. *Chief Investment Officer/Chief Economist:* Walter Frank. *Contributing Editor:* Cynthia Andrade. *Editorial Assistant:* Christa Mohr. *Publisher:* Brian W. Kelly. Address all subscription and editorial inquiries to PRI Financial Publishing Inc., 360 Woodland St., P.O. Box 6020, Holliston, MA 01746-6020, (800) 890-9670. Paid advertising which appears in or accompanies this publication does not constitute an endorsement of products or services offered. Employees and staff of **MONEYLETTER** may from time to time maintain positions in recommended securities. PRI Financial Publishing Inc. is affiliated with PRI Financial Advisors Inc. (formerly Principal Resource Inc.), a registered investment advisor. Walter Frank also serves as an independent economic consultant to PRI Financial Advisors. **MONEYLETTER** is not produced as a solicitation for PRI Financial Advisors. Views presented are the opinion of the Chief Investment Officer/Chief Economist and contributing editors, and should not be treated as fact. **MONEYLETTER** does not purport to provide legal, tax or individual investment advice. While carefully screened, the accuracy of the statistical data in **MONEYLETTER** cannot be guaranteed. Readers should carefully review investment prospectuses before investing. **MONEYLETTER** provides a twice-weekly Hotline: call (410) 528-1804. Back copies \$5 each. Reproduction in whole or in part by any means is strictly forbidden without written permission. © Copyright 2003 PRI Financial Publishing Inc.