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Gaining Altitude The 2004 Outlook

by Walter S. Frank, Chief Investment Officer

As we look at the prospect for investors next year, we cannot help but smile. The outlook is as good as it has been in many years. Oh, yes, there will be problems of allocation: will the U.S. remain the best place to go for performance as the global economy develops? And, over the year, the bond market will undoubtedly represent a difficult sector to tackle. Then there is the Fed, tiptoeing away from a no-longer-necessary negative real interest rate policy.

But these problems are the normal problems that come with a vigorously expanding economy, an expansion that will not be confined to our shores. They are the problems of economies and markets recovering from recession and bear markets. And recovering we are. The recovery took off this year. In 2004 it will climb further at first, and then hit cruising speed. As the economy moves ahead, the question for 2004 is not whether there will be gains, but how much and where.

That is why we are smiling (though we know there is no free lunch, especially in the market). We see profits growing rapidly next year (at least for the first half), following the economy. We also see the market following, at least to a reasonable extent. No, the gains are not exhausted nor are we living in another bubble. Excesses here and there? Sure. For the rest of the market? Not at all.

The 2004 economy

The key to the economic outlook for next year is that the domestic economy is heading into the year under a full head of steam. What does the economy have going for it now? Perhaps an easier question would be, what doesn't it have? The main thing going is that business is starting to invest, and that investment spending promises to come on strong.

The evidence? For one, business spending for equipment and software (as opposed to structures) has been growing smartly over the last six months. Profits (not the S&P 500 kind, but the government defined kind) soared in the third quarter. Business has the wherewithal to invest. Its pockets are bulging. The profit bulge is showing up in steadily rising orders for new investment, with backlogs following. There is every reason to believe that we are seeing the beginning of that upswing in business investment we have been expecting.

Add to capital investment another type of investment, inventory investment. From everything we see, business is finally spending on inventories (another delayed reaction). Don't underestimate the power of an inventory upswing. It can give a jolt to an economy that drives growth into superspeed. The inventory jolt may last only six months, but its after effects last longer.

Finally, the J.P. Morgan economists have been telling us not to underestimate export growth. We overlooked it. But, surprise! Exports have been growing lately and the Morgan group expects that growth to continue. Foreign economies are now growing and the dollar has dived against the euro. Given the circumstances, they think export growth will add 1% to overall growth next year.

Put all this together and you have a rapidly growing economy—on the order of 4-5%—at least in the first half of the year. Going back to the airplane metaphor, the first half will see the climb, the second half is when the economy will slow somewhat to a cruising speed of about 3.5%. Of course, this splitting of the year into parts is only broadly approximate. Boiled down, what we are saying is that the hot economy we now have will cool off as we move through next year.

The Fed

The growth we see ahead will ultimately convince the Fed that it is time to move away from today's 1% interest rate policy. The economy is pulling away from the need for the stimulus of a negative real interest rate. We have already seen the Fed edging to the end of that policy in its statement of December 8 when it allowed that the threat of deflation "has diminished." The threat will continue to diminish.

The issue for Fed controlled interest rates is not whether rates will rise, but when and by how much. This is a tough call, but we go along with the consensus view that the Fed will act around mid-year. As for how much, we see rates at 1.5 to 2% by year-end. Given that we are talking about rates one year away, treat these numbers as the roughest of estimates. The important point from an investment perspective is that rates are going up next year, and that will not be the end of the rise.

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	Flat	Higher
Japan (Nikkei)	Higher	Higher
Hong Kong (Hang Seng)	Higher	Higher

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There is one more point to make before the table is set to discuss next year's investment outlook. Take a step back and consider that for the last two years most of the world's economies were in a post-bubble slump along with us. The one exception was China, and perhaps Japan which was in a slump all its own. Now, return to this year, and what we have is a world economy that is coming out of its slump along with us.

The impulse for this worldwide turn to growth is coming mainly from the U.S. but not alone. There is China. The most rapid growth is coming from non-Japan Asia (think China again). But Japan is picking up on its own, and Europe—yes Europe—is turning the corner. Along with growth, the profit outlook is shifting positively throughout the globe.

Investing in 2004

Surprising as it may sound, investing was relatively easy this year. The first rule was: stick to the U.S., where the Fed was determined to revive the economy and Washington was equally determined to kick start growth. Rule No. 2: Don't worry too much about risk, with rates going lower, and get the burst-bubble monkey off your back. Look ahead, not back. There were nail-biting moments earlier in the year, but we ate our own cooking, and it worked.

This year is going to be trickier. For one the Fed, as we've noted, will be a constant shadow over the market. It introduces a new risk to the investment equation. For another, growth is no longer confined to the U.S. Now growth can be found in many places, particularly Asia. Finally, the U.S. market has had a terrific run, it is unlikely to repeat the gains of this year, next year. In that case, there may be other markets where the growth opportunities are more reasonably priced. These other markets also offer a chance for diversification, as an added bonus.

U.S.: a good year ahead

Though some foreign markets now present an attractive alternative to the U.S. market, the outlook here remains very good, in our opinion. As we said earlier, no one doubts that profits will be going up next year. The issue is by how much, and are those profits already in stock prices. In other words, we are back to the perennial problem of valuation.

Right now stocks are selling at a little less than 18 times analysts' estimates of next year's earnings. We find 18 times reasonable in light of the current and prospective level of interest rates. Others vigorously maintain that stocks are expensive. As we wrote in these pages recently, valuation is in the eyes of the beholder. Only the market will decide who is right.

As a check on our view of the market and valuation, we chatted with Andrew Stephens, the portfolio manager of the Artisan Midcap Fund (the fund is closed). We have great respect for Andy's views: he was one of Morningstar's Managers of the Year a few years ago.

Andy's view is that, considering the level of interest rates and any probable increase ahead next year, the price-earnings ratio still has room to rise. Furthermore, he also believes that earnings estimates are still too low by about 7-10%.

We agree with both those views. In particular a careful reading of Wall Street's earning estimates from analysts and strategists

leads us to the same position on the earnings estimates. They are probably too low.

Looking at the domestic stock market, then, we think it is reasonable to look for a 10-12% gain in the broad averages.

Overseas

At the moment, when we say overseas in the context of stock markets, we are really referring to Asia. Do not misunderstand. Europe has just begun to turn around and portfolio managers are finding buys there, especially in small cap issues. But the most promising area for profit growth anywhere, in our eyes, is Asia, both with and without Japan.

When asked about Japan, Mark Headley, portfolio manager of the Matthews Japan Fund, replied, "Japan could be on the cusp of a long-term turnaround." Notice the "could." Not all the pieces are in place for Headley to be definitive, but a big opportunity may be in the making.

When the conversation moved to Asia (ex-Japan), the enthusiasm level rose. Headley also manages the Matthews Pacific Tiger Fund. Some months ago as Tiger's gains mounted, it

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appeared to us that Headley was concerned that Southeast Asia stock prices were becoming rich. It now appears that global economic recovery has given a new kick to earnings growth in Southeast Asia, changing the investment outlook. The region is in our sights.

In terms of allocation, we believe the time is near when a modest shift out of U.S. equities and into foreign equities will be warranted. The world outlook is changing and our allocations will change along with it.

Fund changes

The Hotline of Friday, December 12 recommended the sale of Heartland Value in all three *MONEYLETTER* portfolios. We made the recommendation with great reluctance. Heartland has been an outstanding performer. Heartland was accused by the SEC of mispricing bonds in a case that goes back some years, although they vigorously deny the accusation. As a newsletter dispensing advice, we feel the best advice in this case is to invest elsewhere while the dust settles.

Here are the recommended changes. **Venturesome:** Sell Heartland Value, buy RS Smaller Company Growth. **Moderate:** Sell Heartland Value, buy Henlopen Fund. **Conservative:** Sell Heartland Value, buy Eclipse Small Cap Value.

The Hotline of Tuesday, December 9 recommended the sale of Fidelity Growth Company in all three Fidelity family portfolios. Here are the details: **Venturesome:** Sell Fidelity Growth Company; with one-half of the proceeds, buy Fidelity Leveraged Company; with the other half, buy Small Cap Independence. **Moderate:** Sell Growth Company; buy Leveraged Company. **Conservative:** Sell Growth Company; buy Small Cap Stock. Details in the next issue.

There have been a fair number of fund closures in the small cap area recently. This makes sense because the small cap sector is relatively illiquid: an order which would be considered medium-sized in the larger cap sectors can move prices sharply in the small cap sector. Small cap fund managers can find it hard to buy or sell in any meaningful size. Money has been pouring into performers in the small cap sector, and they have been closing to new investors.

Our policy with regard to closed funds in our model portfolios is to remove the fund from the portfolio. The reason we do so is that new subscribers who frequently want to follow our models then avoid the problem of finding a substitute for a closed fund. The removal is not, repeat, not a sell recommendation. If the fund is a “buy” or “hold” at the time of closure we continue with the recommendation. Our policy may hurt model performance, but our first priority is to be useful. \$

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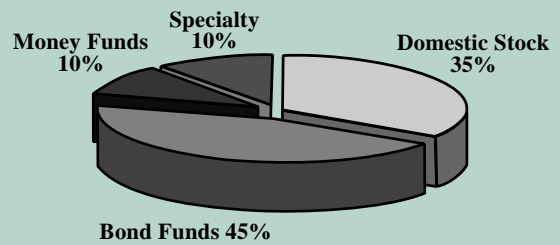
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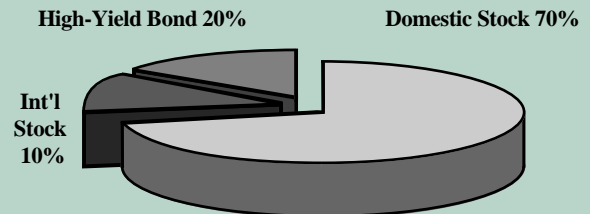
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Seeks steady long-term growth of capital with limited short-term volatility



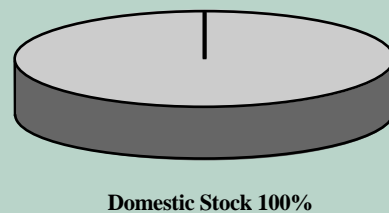
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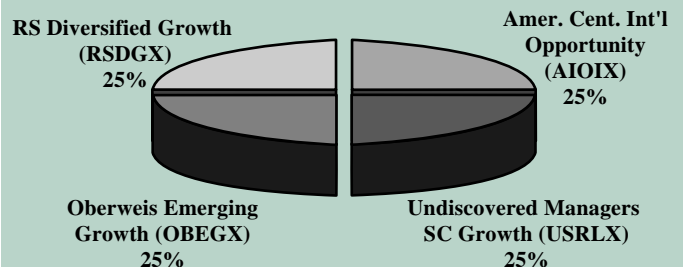
VENTURESOME

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	12/12 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	2	-		HENLX	Henlopen Fund (1%r<30d)	SCGro	*	B	B	0.8%	38.3%	57.6%	\$25.28	33.7	1.43	FSW
2	4	-		FLVCX	Fidelity Leveraged Company	MC	*	B	B	3.7	24.9	85.0	18.32	-	-	Fw
3	5	9		HRTVX	Heartland Value (closed,1%r<90d)	SCVal	(S)	(S)	(S)	3.2	31.3	65.3	52.43	21.0	0.76	FsW
4	3	4		OBEGX	Oberweis Emerging Growth	SCGro	*	B	B	-1.2	30.9	62.6	27.04	34.2	1.63	FSW
5	-	-		NESGX	Needham Small Cap Growth	SCGro	B	B	B	0.1	30.3	58.7	16.66	-	-	FSW
6	6	34		RSSGX	RS Smaller Company Growth	SCGro	*	B	B	0.1	31.1	54.7	20.20	28.0	1.33	FSW
7	10	11		WBSNX	WmBlair S-C Growth N (1%r<60d)	SCGro	B	B	B	1.9	29.0	55.7	21.60	34.6	1.32	FSW
8	1	14		RYPNX	Royce Opportunity (1%r<180d)	SCVal	B	B	B	-3.6	29.7	57.1	11.83	26.3	1.07	fsw
9	23	5		RSPFX	RS Partners	SC	B	B	B	3.3	24.0	60.0	26.39	23.0	0.65	FSW
10	20	110		EEQFX	Eclipse Small Cap Value	SCVal	B	B	B	3.1	27.7	48.2	17.17	17.5	0.63	FSW
11	14	41		BOGLX	Bogle Small Cap Growth (closed)	SCGro	B	B	B	0.9	27.8	51.1	25.66	21.3	0.90	w
12	64	116		BERWX	Berwyn Fund (1%r<180d)	SCVal	H	H	H	7.3	25.7	43.9	25.08	20.6	0.63	fsw
13	15	43		WMCVX	Wasatch Small Cap Value (closed,2%r<60d)	SCVal	B	B	B	1.8	25.5	48.6	5.17	25.4	0.86	FSW
14	24	21		CGMFX	CGM Focus	SCVal	*	B	B	4.5	22.2	51.5	28.38	50.6	0.13	fsw
15	7	15		RSDGX	RS Diversified Growth	SCGro	*	B	B	-1.1	26.1	49.1	21.60	29.0	1.53	FSW
16	34	148		FSLCX	Fidelity Small Cap Stock (2%r<90d)	SCGro	(B)	(B)	(B)	4.0	26.9	38.8	16.70	20.3	0.92	F
17	13	6		USRLX	Undiscovered Small Cap Growth (\$10,000)	SCGro	B	B	B	-0.9	22.1	55.6	10.21	-	-	fw
18	16	23		JAVTX	Janus Venture (closed)	SCGro	*	B	B	-0.3	24.9	47.7	48.45	30.1	1.52	FSW
19	8	27		POGSX	Pin Oak Aggressive Stock	MCGro	*	B	B	-3.4	25.1	51.0	19.27	40.6	2.57	FSW
20	19	-		USCGX	USAA Capital Growth	SCGro	*	B	B	-0.6	24.7	46.2	6.36	-	-	fsW
21	22	28		BPSCX	Boston Ptnrs Smlcap Val (closed,1%r<1yr)	SCVal	B	B	B	2.6	22.3	46.4	22.23	26.4	0.74	FSW
22	18	-		CSMVX	Century Select Small Cap	SCGro	B	B	B	0.8	24.9	42.1	22.33	16.3	0.54	FSW
23	9	18		PBEGX	PBHG Emerging Growth	SCGro	*	B	B	-4.3	25.4	46.6	12.94	33.6	2.03	FSW
24	42	30		CRMSX	CRM Small Cap Value Inv	SCVal	(B)	(B)	(B)	1.8	21.9	39.6	23.82	22.9	0.87	Fsw
25	17	31		BUFSX	Buffalo Small Cap (closed)	SCGro	B	B	B	-1.7	22.6	41.4	21.95	28.9	1.20	SW
26	12	10		NBSSX	Neuberger Berman Focus	LCVal	*	B	B	-2.7	19.3	51.0	34.89	36.2	1.87	FSW
27	38	3		LMASX	Legg Mason Special Investment Trust	MC	*	B	B	0.5	18.6	47.6	43.39	27.2	1.30	-
28	37	70		TUDRX	WPG Tudor	SC	H	H	H	3.6	20.9	36.0	15.87	27.3	1.36	FsW
29	28	58		MERDX	Meridian Fund	SCGro	H	H	H	-0.1	20.6	41.0	33.10	20.3	0.84	fw
30	27	32		NEEGX	Needham Growth Fund (.75%r<30d)	MCGro	B	B	B	-1.2	21.1	40.8	28.97	28.8	1.38	FSW
31	44	29		JSVAX	Janus Special Equity	MC	*	H	H	1.7	19.0	41.5	10.28	19.0	1.00	SW
32	35	13		PRNHX	T. Rowe Price New Horizons	SCGro	H	H	H	0.9	18.8	42.6	24.30	29.2	1.44	fsw
33	26	1		LMOPX	Legg Mason Opportunity Trust (1%r<1yr)	MC	*	B	B	-0.2	13.5	57.1	13.35	32.2	1.45	-
34	11	7		UBRRX	Undiscovered Behavioral Growth (\$10,000)	MCGro	*	B	B	-4.1	19.2	48.6	19.16	26.9	1.34	fw
35	43	100		NAESX	Vanguard SmallCap Index	SC	H	H	H	1.5	20.0	38.3	22.32	22.2	1.03	fsw
36	60	26		MXIX	Marsico 21st Century	LC	(B)	(B)	(B)	0.3	19.2	41.7	9.62	20.5	1.01	fsw
37	32	98		RYLPX	Royce Low Priced Stock (1%r<180d)	SCVal	(B)	(B)	(B)	0.9	20.2	37.9	13.68	26.1	1.02	FSW
38	25	95		SAFGX	Safeco Growth Opportunities	SC	B	B	B	0.7	20.0	38.7	24.20	27.8	1.22	fsw
39	52	140		TASGX	Third Avenue Small-Cap Value	SCVal	H	H	H	0.7	21.4	33.8	18.45	19.1	0.81	FSW
40	59	111		PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	2.4	19.6	35.3	8.72	19.2	0.71	Fsw
41	81	69		SMCDX	Strong Mid Cap Disciplined	MCVal	H	H	H	4.7	17.7	36.1	19.61	21.3	0.94	FSW
42	65	237		IZZYX	ICM/Isabelle Small Cap Value	SCVal	H	H	H	4.9	19.2	30.9	13.23	24.6	0.85	FSW
43	90	235		VISVX	Vanguard Small-Cap Value Index	SCVal	H	H	H	3.6	20.1	30.3	11.42	23.2	0.87	fsw
44	87	120		PRSVX	T. Rowe Price S-C Value (closed,1%r<1yr)	SCVal	H	H	H	3.3	18.7	33.7	29.65	17.6	0.62	fsw
45	30	90		VISGX	Vanguard Small Cap Growth Index	SCGro	H	H	H	-0.6	19.9	36.4	12.84	22.3	1.02	w
46	51	49		VSEQX	Vanguard Strategic Equity	MCGro	H	H	H	1.1	17.9	38.5	18.40	16.2	0.78	fsw
47	55	53		VEXMX	Vanguard Extended Market Index	MC	H	H	H	1.2	18.0	37.5	26.29	23.1	1.17	fsw
48	63	94		FLPSX	Fidelity L P Stock (1.5%r<90d)	SCVal	H	H	H	1.5	19.0	34.5	34.39	16.9	0.67	fsw
49	69	91		CRIMX	CRM Mid Cap Value Ins	MCVal	H	H	H	2.4	17.6	36.3	21.04	20.0	0.65	w
50	46	19		MNSCX	Montgomery Small Cap	SCGro	*	H	H	-0.1	18.0	39.2	10.58	24.3	1.13	s
51	47	142		TAVFX	Third Avenue Value	MCVal	H	H	H	0.2	19.9	33.5	40.99	16.1	0.75	FSW
52	72	97		CRMMX	CRM Mid Cap Value Inv	MCVal	H	H	H	2.4	17.5	36.0	20.86	-	-	FSW
53	39	75		TGVNX	TCW Galileo Value Opportunities	MC	H	H	H	0.3	17.6	38.3	19.49	-	-	FSW
54	91	197		PBSVX	PBHG Small Cap Value	SC	H	H	H	2.5	19.1	31.1	19.15	24.3	1.08	FSW
55	80	17		FDCAX	Fidelity Capital Appreciation	MC	H	H	H	0.4	16.2	40.4	23.45	23.2	1.27	fsw
56	58	33		MUHLX	Muhlenkamp Fund	MCVal	H	H	H	2.2	15.1	39.8	61.82	28.6	1.26	FSW
57	36	20		RSMOX	RS MidCap Opportunities	MCGro	H	H	H	-0.7	16.3	40.9	10.54	20.3	1.08	FSW
58	33	48		TGSCX	TCW Galileo Small Cap Growth	MCGro	*	H	H	-3.4	19.4	37.3	14.54	37.9	2.17	FSW
59	68	16		LLSCX	Longleaf Partners Smallcap (closed)	SCVal	S	S	S	2.3	16.9	35.0	28.23	19.3	0.67	fw
60	45	74		VEXPX	Vanguard Explorer	SCGro	H	H	H	-0.4	17.9	36.1	63.99	24.7	1.18	fsw
61	41	93		GSETX	Columbia Small Company Equity CIZ	SCGro	S	S	S	-0.8	18.8	34.5	16.71	33.0	1.10	fw
62	66	38		ARTSX	Artisan Small Cap	SCGro	S	S	S	0.6	16.9	36.4	13.89	27.8	1.23	FSW
63	75	108		TRMCX	T. Rowe Price Mid Cap Value	MCVal	S	S	S	3.2	16.1	33.6	20.07	17.7	0.72	fsw
64	76	84		AVALX	Aegis Value Fund	SCVal	S	S	S	3.4	16.4	32.5	16.86	16.9	0.47	fw
65	53	35		CUEGX	CS Warburg Pincus Emerging Growth	MCGro	H	H	H	-0.9	16.1	39.5	27.00	24.0	1.31	FSW
66	92	208		FDSCX	Fidelity Small Cap Ind. (1.5%r<90d)	SC	H	H	H	1.4	18.8	29.2	17.51	17.7	0.58	fsw
67	29	39		TMGFX	Turner Mid Cap Growth	MCGro	*	(S)	(S)	-2.1	16.6	39.6	21.46	31.2	1.70	FSW
68	31	47		RSEGX	RS Emerging Growth (closed)	MCGro	*	(H)	(H)	-3.2	18.3	37.0	27.46	30.6	1.68	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	12/12 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	40	25	KAUFX	Federated Kaufmann Fund (0.2%)	MCGro	H	H	H	-0.8	16.6	37.5	4.91	20.1	0.89	FSW	
70	67	212	FDISX	Dreyfus-Founders Discovery	SCGro	*	H	H	-0.5	19.9	28.7	25.52	25.7	1.30	FSW	
71	62	101	CBMDX	C&B Mid Cap Value	MCVal	S	S	S	1.7	15.6	35.9	18.65	19.5	0.66	FSW	
72	71	61	SLSSX	Selected Special Shares	MCGro	S	S	S	0.5	16.5	35.4	11.37	19.0	1.04	sW	
73	84	66	MPMVX	MSI Mid Cap Value	MCVal	S	S	S	2.4	15.3	34.6	20.00	16.3	0.80	fsw	
74	50	22	VHCOX	Vanguard Cap Opp (\$25,000,1%r<5yr)	MCGro	*	(S)	(S)	-0.1	15.6	37.3	24.47	22.8	1.29	fsw	
75	83	85	RYPRX	Royce Premier (1%r<180d)	SC	S	S	S	1.6	17.2	30.8	12.67	18.2	0.73	FSW	
76	102	44	VCVLX	Vanguard Capital Value	LCVal	H	H	H	3.1	14.6	34.8	10.04	-	-	fsw	
77	56	55	MPEGX	MSI Mid Cap Growth	MCGro	*	S	S	-0.6	16.3	35.7	16.96	22.9	1.30	fsw	
78	48	86	WGROX	Wasatch Core Growth (closed,2%r<60d)	SCGro	H	H	H	0.2	15.4	36.2	36.33	30.1	1.06	FSW	
79	82	79	MPSCX	MSI Small Cap Value (closed)	SCVal	S	S	S	1.6	15.9	32.4	20.24	18.7	0.91	fsw	
80	57	-	BRAIX	Bridgeway Aggressive Investors 2	MCGro	*	(S)	(S)	-2.9	16.7	36.5	11.81	-	-	fsw	
81	159	241	PRNEX	T. Rowe Price New Era	LC	S	S	S	7.4	14.2	26.5	26.18	18.8	0.55	fsw	
82	93	147	LSSCX	Loomis Sayles Small Cap Value	SC	S	S	S	1.1	16.5	30.1	23.36	17.8	0.72	sW	
83	-	-	MAVFX	Matrix Advisors Value	LC	(H)	(H)	(H)	-2.1	14.2	33.9	51.60	26.7	1.25	FSW	
84	73	-	TGCNX	TCW Galileo Select Equity	LCGro	*	S	S	-2.1	15.4	37.1	16.60	26.8	1.55	FSW	
85	21	67	VWEGX	Van Wagoner Emerging Growth (closed)	MCGro	*	(S)	(S)	-5.5	17.3	37.7	6.32	54.7	3.00	FSW	
86	77	133	PESPX	Dreyfus Mid Cap Index	MCGro	S	S	S	0.8	16.2	30.2	22.94	19.6	0.95	FSW	
87	116	177	OTCFX	T. Rowe Price Small Cap Stock Fund	SC	S	S	S	2.6	16.1	27.6	27.96	19.6	0.84	fsw	
88	100	175	NBGNX	Neuberger Berman Genesis (closed)	SC	S	S	S	2.0	16.3	27.7	25.52	15.5	0.57	fSW	
89	49	36	BSCFX	Baron Small Cap	SCGro	S	S	S	-2.7	16.3	34.3	18.24	22.5	0.89	FSW	
90	61	2	FBRVX	FBR Small Cap Value A (1%r<90d)	SCGro	S	S	S	-1.3	13.2	40.0	31.66	22.0	0.76	FSW	
91	74	42	RSVPX	RS Value+Growth	LC	S	S	S	-0.5	14.5	35.0	16.80	17.4	1.04	FSW	
92	54	24	WAAEX	Wasatch Small Cap Grth (closed,2%r<60d)	SCGro	H	H	H	-1.9	16.1	33.2	35.44	30.0	1.29	FSW	
93	78	60	TWCVX	American Century Vista	MCGro	S	S	S	-0.2	15.1	32.3	12.13	20.6	0.77	fSW	
94	123	166	WPSRX	Westport Small Cap R	SCVal	S	S	S	3.3	14.8	26.8	21.33	19.3	0.84	FSW	
95	127	151	FDVLX	Fidelity Value	MCVal	S	S	S	3.5	13.7	29.1	60.22	18.5	0.68	FSW	
96	112	82	ARTQX	Artisan Mid Cap Value	MCVal	S	S	S	3.1	12.8	31.9	13.36	-	-	FSW	
97	147	149	MQIFX	Mutual Qualified (1%) CIZ	MCVal	S	S	S	4.0	13.9	27.4	17.67	12.9	0.52	sw	
98	148	154	BEGRX	Mutual Beacon (1%) CIZ	MCVal	S	S	S	4.0	14.0	27.1	14.21	12.2	0.49	sw	
134	97	52	FDGRX	Fidelity Growth Company	LCGro	*	(S)	(S)	-1.9	11.9	30.8	48.59	24.6	1.46	Fsw	
146	124	89	FDEGX	Fidelity Aggressive Growth(0.75%r<90d)	LCGro	H	H	H	0.0	11.7	26.3	14.56	30.5	1.96	fsw	

Dow Jones
NASDAQ
S&P 500

2.0%
-1.2
1.5

9.2%
17.9
7.6

17.6%
39.3
19.1

indexes do not
include dividends

International Stock Funds

1	4	10	ICHKX	Investec China & Hong Kong	Pacific	*	B	B	9.6%	41.1%	59.2%	\$16.72	19.6	-	FSW
2	2	-	FISMX	Fidelity Intl Small Cap (2%r<90d)	Int'l	B	B	B	3.5	38.1	74.6	17.81	-	-	Fw
3	7	49	MJFOX	Matthews Japan Fund (2%r<90d)	Japan	*	B	B	-0.4	40.6	53.5	12.46	15.2	-	FSW
4	5	19	SJPNX	Japan Fund (Scudder) (2%r<180d)	Japan	*	B	B	0.5	40.5	49.9	8.98	14.8	-	FSW
5	1	-	AIOIX	Amer.Cent.Intl Opportunity (2%r<180d)	Int'l	B	B	B	-0.9	35.1	62.4	7.66	-	-	S
6	3	11	MPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	*	B	B	3.9	36.4	51.7	12.82	23.6	-	FSW
7	8	5	PRIDX	T. Rowe Price Intl Disc. (2%r<1yr)	Int'l	B	B	B	2.1	32.3	61.0	25.58	16.0	-	fsw
8	6	25	PRASX	T. Rowe Price New Asia	Pacific	*	B	B	1.7	36.7	42.8	8.38	19.7	-	fsw
9	10	8	VEIEX	Vanguard Emerging Mkts Stk Index (.5%r)	Int'l	*	B	B	3.7	32.0	48.0	11.54	22.6	-	fsw
10	19	3	FLATX	Fidelity Latin Amer. (1.5%r<90d)	LatinA	*	H	H	4.6	25.7	59.8	14.18	29.8	-	fs
11	12	1	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	B	B	B	2.4	27.0	58.0	15.01	-	-	SW
12	9	34	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	B	B	3.1	33.2	38.4	14.19	21.1	-	fsw
13	15	63	VINEX	Vanguard Intl Explorer (\$10,000,2%r<60d)	Int'l	B	B	B	3.8	25.7	52.3	12.41	16.3	-	fsw
14	11	9	DRFMX	Dreyfus Emerging Market (1%r)	Int'l	*	B	B	2.8	28.5	44.9	16.29	21.6	-	FSW
15	14	20	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	B	B	B	3.6	26.1	48.8	15.37	20.4	-	FSW
16	16	17	FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	H	H	H	3.5	28.7	40.7	10.19	-	-	fsw
17	17	62	PRJJP	T. Rowe Price Japan	Japan	*	B	B	-1.6	32.2	39.0	6.81	14.4	-	s
18	13	36	SCOPX	Scudder Pacific Opportunity (2%r<1yr)	Pacific	H	H	H	3.1	29.0	32.7	11.20	19.0	-	FSW
19	28	6	PRLAX	T. Rowe Price Latin America (2%r<1yr)	LatinA	*	H	H	4.5	21.4	49.3	11.14	29.7	-	fsw
20	22	14	FIEUX	Fidelity Europe (1%r<90d)	Europe	H	H	H	7.0	22.0	42.9	26.12	22.5	-	fsw
21	39	4	SLAFX	Scudder Latin America	LatinA	*	H	H	5.0	19.2	49.1	23.15	27.3	-	FSW
22	21	7	SGSCX	Scudder Global Discovery (closed)	Int'l	H	H	H	4.2	20.9	46.1	27.44	20.1	-	FSW
23	32	47	VPACX	Vanguard Pacific Stock Index	Pacific	*	H	H	0.4	24.9	34.6	7.78	13.7	-	fsw
24	37	46	FJPNX	Fidelity Japan (1.5%r<90d)	Japan	*	H	H	-0.4	26.6	31.3	10.89	17.3	-	Fsw
25	30	24	FIGRX	Fidelity International G & I	Int'l	H	H	H	4.7	21.1	37.5	22.88	15.2	-	Fsw
26	25	39	FPBFX	Fidelity Pacific Basin (1.5%r<90d)	Pacific	H	H	H	0.4	25.2	33.1	16.82	14.7	-	Fsw
27	23	30	VTRIX	Vanguard International Value	Int'l	H	H	H	3.8	21.6	36.5	25.18	16.8	-	fsw
28	18	56	WPJGX	CS Warburg Pincus Japan Grth (2%r<180d)	Japan	*	H	H	-1.8	27.6	28.6	4.99	22.7	-	FSW
29	26	29	FOSFX	Fidelity Overseas (1%r<30d)	Int'l	H	H	H	3.5	21.4	35.8	30.04	15.5	-	Fsw
30	20	2	OAKGX	Oakmark Global (2%r<90d)	Global	H	H	H	2.5	17.8	45.5	18.62	26.5	-	FSw
31	35	16	FDIVX	Fidelity Diversified Intl (1%r<30d)	Int'l	S	S	S	4.1	19.4	37.2	23.14	13.8	-	Fsw
32	33	44	PFIFX	Preferred International	Int'l	S	S	S	3.9	20.8	33.1	13.87	17.4	-	w
33	31	21	MACSX	Matthews Asia Growth&Income (2%r<90d)	Pacific	S	S	S	3.6	21.5	31.6	13.37	11.4	-	FSW
34	27	26	WBIGX	Wm. Blair Intl Growth Stock N	Int'l	S	S	S	1.9	21.0	35.0	17.83	14.6	-	FSW
35	24	12	LLINX	Longleaf Partners International	Int'l	(S)	(S)	(S)	2.8	20.6	34.1	13.76	19.4	-	fw

Bond Funds (next issue on page 6: Specialty Funds)
 12/12/2003

Ticker Symbol	Fund FUND NAME (Max. Load)	Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	Std. Dev.	Yield	NTF/wf
						1 mo.	6 mo.	12 mo.				
FFRHX	Fidelity Floating Rate High Inc (1%r<60d)	BrkLoan	B	*	*	0.4%	2.6%	5.3%	\$9.89	-	3.32%	Fw
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	B	B	*	1.1	5.9	19.5	11.12	6.57	4.70	Fsw
CMHYX	Columbia High Yield	HighYld	B	B	*	1.3	1.5	9.1	8.72	5.94	6.52	fSW
FAGIX	Fidelity Capital & Income	HighYld	*	*	*	2.8	8.9	40.9	\$8.14	15.76	5.97	Fsw
SPHIX	Fidelity High Income (1%r<90d)	HighYld	B	B	*	2.2	8.6	27.4	9.00	11.86	7.02	Fsw
JAHYX	Janus High Yield	HighYld	B	B	*	1.6	3.7	11.3	9.65	6.32	6.72	FSW
NTHEX	Northeast Investors Trust	HighYld	*	B	*	2.0	7.2	13.9	7.34	7.87	8.02	fw
PHYDX	PIMCO High Yield	HighYld	B	B	*	2.3	5.9	23.2	9.69	9.34	7.00	SW
STHYX	Strong High Yield Bond (1%r)	HighYld	*	*	*	2.6	6.9	20.1	7.66	12.57	7.39	FSW
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.8	2.2	7.1	8.68	4.56	5.33	FSW
PRHYX	T. Rowe Price High Yield	HighYld	B	B	*	2.2	6.2	17.1	7.01	8.22	8.15	sw
TGHNX	TCW Galileo High Yield Bond	HighYld	B	B	*	2.9	7.4	21.3	7.28	9.36	7.80	SW
VAGIX	Value Line Aggressive Inc	HighYld	*	B	*	1.2	5.0	19.7	4.98	9.67	6.80	FSW
VWEHX	Vanguard High Yield Corporate (closed)	HighYld	B	B	*	2.2	5.9	17.5	6.36	7.61	7.59	sw
BEBGX	American Century Intl Bond	Int'l	*	*	*	5.7	2.8	21.5	14.15	11.50	2.03	fSW
FNMIK	Fidelity New Markets Income	Int'l	*	*	*	3.2	3.1	27.1	13.78	13.21	6.74	Fsw
PYGFX	Payden Global Fixed Income	Int'l	*	*	*	1.1	-2.6	3.9	10.09	4.00	4.76	fsW
SSTGX	Scudder Global Bond S-T (closed)	Int'l	*	*	*	2.7	0.0	10.3	10.36	5.44	3.69	FSW
RPBIX	T. Rowe Price Int'l Bond	Int'l	*	*	*	4.5	3.4	19.3	10.57	10.01	2.44	fsw
BGNMX	American Century Ginnie Mae	IntTerm	*	*	*	0.5	0.0	0.9	10.63	2.94	4.81	fSW
ACITX	American Century Inflation Adj	IntTerm	B	*	*	1.7	-0.8	9.8	11.01	7.15	3.81	fSW
BBHIX	BBH Inflation Indexed Sec	IntTerm	B	*	*	1.5	-1.4	9.6	11.39	7.36	2.90	FSW
SRINX	Columbia Income CIZ	IntTerm	H	*	*	1.3	0.7	11.4	10.07	5.09	5.88	FSW
SRBFX	Columbia Intermediate Bond CIZ	IntTerm	H	*	*	1.1	0.5	9.6	9.15	4.34	5.20	FSW
DODIX	Dodge & Cox Income	IntTerm	H	*	*	1.4	0.4	7.0	13.01	3.71	4.78	fsw
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	0.7	-1.4	6.4	14.08	5.41	4.17	FSW
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	1.1	0.6	3.0	14.90	3.17	4.23	FSW
DSINX	Dreyfus Strategic Income	IntTerm	*	*	*	1.1	-1.1	5.9	14.91	5.21	3.88	FSW
NIIBX	Eclipse Indexed Bond	IntTerm	H	*	*	1.3	-1.5	4.0	10.96	4.66	3.75	SW
FGMNX	Fidelity GNMA	IntTerm	*	*	*	0.9	0.7	1.4	11.21	2.67	2.81	Fsw
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	1.7	-0.8	10.2	11.05	-	1.62	Fw
FTHRX	Fidelity Intermediate Bond	IntTerm	H	*	*	1.2	-1.5	3.6	10.65	4.02	3.71	Fsw
FSTGX	Fidelity Intermediate Govt	IntTerm	H	*	*	1.0	-1.8	2.2	10.29	4.38	2.86	Fsw
FBNDX	Fidelity Investment Grade	IntTerm	H	*	*	1.3	-0.8	5.1	7.55	4.53	3.10	Fsw
FBDFX	Fremont Bond	IntTerm	H	*	*	1.3	-1.7	4.2	10.51	4.97	3.13	fsw
MWTRX	MetroWest Total Return	IntTerm	*	*	*	1.5	1.7	9.8	9.91	5.94	6.51	SW
MNTRX	Montgomery Total Return	IntTerm	H	*	*	1.0	-1.9	2.7	12.42	4.67	3.93	FSW
PRRDX	PIMCO Real Return	IntTerm	H	*	*	1.6	-1.2	8.5	11.28	7.52	3.54	SW
PTTDX	PIMCO Total Return	IntTerm	H	*	*	1.2	-2.0	3.6	10.70	5.03	3.04	SW
PTMDX	PIMCO Total Return Mortgage	IntTerm	H	*	*	1.0	0.7	2.5	10.74	3.35	2.16	SW
SCSBX	Scudder Income (closed)	IntTerm	H	*	*	1.6	-0.7	5.7	12.91	4.50	4.19	FSW
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	0.7	-0.4	1.1	9.73	3.22	4.00	fsw
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	1.2	-1.6	4.6	9.03	4.46	3.76	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	H	*	*	0.9	0.2	3.0	9.88	3.46	6.48	SW
USAIX	USAA Income	IntTerm	H	*	*	1.3	-0.8	6.0	12.44	5.06	4.70	w
VBMFX	Vanguard Bond Market	IntTerm	H	*	*	1.3	-1.2	4.4	10.31	4.41	4.64	fsw
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	1.6	-0.4	10.8	12.50	7.18	3.79	sw
WTIBX	Westcore Plus Bond	IntTerm	*	*	*	1.5	3.3	11.9	10.84	4.15	6.18	FSW
WPGVX	WPG Core Bond	IntTerm	H	*	*	1.1	-1.8	3.9	10.64	4.65	2.89	FsW
NIBDX	Eclipse Bond	LngTerm	*	*	*	1.3	-1.3	4.9	9.87	4.73	3.97	SW
KIFIX	FifthThird Bond	LngTerm	*	*	*	1.4	-1.6	4.1	10.16	5.27	3.84	w
MGFIX	Managers Bond	LngTerm	*	*	*	2.3	-0.5	11.9	24.73	6.98	4.53	FSW
STCBX	Strong Corporate Bond	LngTerm	*	*	*	2.0	-1.7	10.1	10.53	7.08	5.03	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	2.0	-0.9	11.1	9.68	6.07	5.57	fsw
JAFIX	Janus Flexible Income	Multi	*	*	*	1.3	-1.8	4.8	9.78	4.89	4.45	FSW
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	2.1	2.2	12.3	11.69	4.66	4.34	fsw
CUGGX	Columbia S-T Bond	ShtTerm	B	*	*	0.7	-0.9	1.5	8.68	2.40	2.40	fW
FSGVX	Federated U.S. Govt Sec. 1-3	ShtTerm	B	*	*	0.4	-0.4	0.3	10.75	1.59	2.04	fsw
FSHBX	Fidelity Short-Term Bond	ShtTerm	B	*	*	0.8	-0.2	2.5	9.03	2.10	3.09	Fsw
JASBX	Janus S-T Bond	ShtTerm	B	*	*	0.9	0.7	3.8	2.98	1.69	2.61	FSW
MGIDX	Managers Int. Duration Govt	ShtTerm	*	*	*	0.8	1.2	3.6	10.68	2.98	2.64	FSW
MGSDX	Managers Short Duration Govt	ShtTerm	B	*	*	0.2	1.0	2.7	9.75	1.41	2.49	FSW
MWLDX	MetroWest Low Duration	ShtTerm	B	*	*	0.5	0.4	3.2	9.51	3.06	4.86	SW
MNSGX	Montgomery Sht Duration Govt	ShtTerm	B	*	*	0.6	-0.4	0.7	10.26	2.21	3.02	FSW
SWBDX	Schwab S-T Bond Mkt Index	ShtTerm	B	*	*	0.8	-0.9	2.5	10.22	2.77	3.18	S
SCSTX	Scudder Short-Term Bond (closed)	ShtTerm	B	*	*	0.6	0.4	3.3	10.56	1.86	4.05	FSW
SSTBX	Strong S-T Bond	ShtTerm	B	*	*	0.8	-0.3	2.5	8.83	2.47	3.92	FSW
PRWBX	T. Rowe Price S-T Bond	ShtTerm	B	*	*	0.7	-0.5	2.8	4.82	2.06	3.34	fsw
VFISX	Vanguard S-T Treasury	ShtTerm	B	*	*	0.4	-1.1	1.1	10.71	2.66	2.58	fsw
VFSTX	Vanguard Short-Term Corporate	ShtTerm	B	*	*	0.4	-0.7	2.4	10.80	2.25	4.15	fsw

William Blair Small Cap Growth to Close on December 31

Effective December 31, 2003 the William Blair Small Cap Growth Fund (WBSNX) will close to new investors. Citing their desire to avoid "diluting the portfolio management team's effectiveness," fund management announced the move late last week. Like its fellow model portfolio holding Heartland Value (see page 3), the fund will be removed from *MONEYLETTER's* Conservative, Moderate, and Venturesome portfolios as of year-end.

The fund will remain open for existing shareholders after year-end, and subscribers should take note. This fund has been an excellent performer since its inception on December 27, 1999, as you can see below:

	YTD	1 year	3 years
S-C Growth Fund	56.2%	51.8%	19.5%
Russell 2000 Growth	47.9	37.7	-0.2
M* Small Growth	44.2	35.0	0.6
Russell 2000	44.3	36.3	8.5

data through November 30, 2003

MONEYLETTER subscribers who are not already shareholders should at least consider opening an account in this fund before year-end. The Fund left open the possibility that it would re-open some time in the future, but there is no guarantee.

For more information, contact William Blair toll-free at 800-742-7272.



100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF	0.69%	0.68%	0.86%
Vanguard Treasury MMF	0.67	0.67	0.86
Fidelity Spartan US Treas MMF	0.60	0.60	0.79
Amer Century Capital Presv Fund/Inv	0.53	0.54	0.72
T Rowe Price US Treasury MF	0.52	0.51	0.65
MTB US Treasury MMF/CI A	0.43	0.36	0.53
DBAB Cash Reserve Treasury	0.42	0.41	0.51
CMA Treasury Fund RIC	0.38	0.37	0.53
WCMA Treasury Fund Class 3	0.38	0.37	-
Schwab US Treasury Money Fund	0.36	0.35	0.53

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	1.02%	1.02%	1.20%
GE Money Market Fund	0.89	0.91	0.90
McMorgan Principal Preservation	0.85	0.85	1.02
Flex-fund Money Market Fund	0.84	0.84	0.95
TIAA-CREF Money Market Fund	0.83	0.82	0.97
Phoenix-Goodwin Money Market Series/A	0.82	0.81	0.97
AIM MMF/Investor Class	0.80	0.80	-
AIG Money Market Fund/CI B	0.79	0.81	0.76
Scudder Premium Money Mkt Shrs/CI S	0.77	0.77	0.93
Scudder Premium Money Mkt Shrs/AARP	0.77	0.77	0.93

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Strong Tax-Free Money Fund	0.89%	0.94%	0.97%
Vanguard Tax-Exempt MMF	0.89	0.92	0.95
Strong Municipal MMF	0.73	0.80	0.87
USAA Tax Exempt MMF	0.68	0.75	0.80
Amer Century T-F MMF/Inv Class	0.67	0.72	0.75
Dreyfus BASIC Muni MMF	0.67	0.71	0.72
Fidelity Municipal MMF	0.67	0.71	0.74
Scudder Tax-Exempt Money Fund	0.63	0.67	0.72
T Rowe Price Summit Muni MMF	0.61	0.67	0.76
Tax-Exempt Cash Managed Shares	0.59	0.63	0.62

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	0.86%	0.91%	0.95%
Vanguard CA Tax-Exempt MMF	0.85	0.89	0.91
Vanguard PA Tax-Exempt MMF	0.85	0.91	0.91
Vanguard NY Tax-Exempt MMF	0.84	0.87	0.89
Vanguard NJ Tax-Exempt MMF	0.83	0.86	0.87
Fidelity PA Municipal MMF	0.68	0.69	0.66
USAA Tax Exempt CA MMF	0.61	0.67	0.76
Fidelity FL Municipal MMF	0.60	0.64	0.66
Fidelity MI Municipal MMF	0.58	0.61	0.63
Fidelity OH Municipal MMF	0.58	0.62	0.66

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

Funds are ranked by 7-day yields; 7-day and 30-day yields are compound yields as of 12/9/03. 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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Fidelity Floating Rate High Income Fund: A Timely Investment

Only a couple of years ago, the world of floating rate bonds was available primarily via institutional funds, exchange-traded closed-end funds, or broker-sold funds. No-load fund investors were left high and dry—that is until fund giant Fidelity Investments launched the Fidelity Floating Rate High Income Fund in September 2002. Portfolio manager Christine McConnell, who already managed Fidelity's institutional version of the fund, is at the helm here. The fund is up 6.17% for the year-to-date (through December 9) and yields 2.65% (30-day yield). It is outpacing more than 60% of its Lipper fund peers, of which there are only 18.

As recently as a decade ago, the floating rate bank loan market was very small. Not only were the amount of new issues small, there were few active institutional investors and liquidity was limited. But over the past ten years the market has grown significantly in size, liquidity, and infrastructure. Daily pricing was a major issue for bank loan funds early on, as banks were not required to price their holdings on a daily basis, and the lack of liquidity made it even more difficult for early vehicles to price their portfolios daily. In fact, the original floating rate income funds offered limited liquidity to their investors—usually only quarterly, through repurchase or tender offers. It wasn't until 2000 that the first broker-sold funds emerged that offered daily liquidity.

What is a floating rate fund?

Floating rate funds, though not well known, certainly have some attractive qualities for income funds. We've seen these funds described as "a crazy cross between money market and junk bond funds," probably because their net asset values tend to be more stable than a short-term bond fund and they invest in below-investment grade credits. But they are really their own unique entity.

Here's how this Fidelity offering works. The fund invests in senior, primarily secured, floating rate bank loans of non-investment grade issuers. Each of these characteristics has its own implications for the fund's performance. First, seniority. This means that if the company gets into trouble, the bank that issued the debt is first in line to claim assets. (Senior debt is followed by junior debt, bonds, preferred stock, and common stock.) That senior claim helps protect the investment's downside, reducing the credit risk associated with the underlying company. Second, floating rate. This bank debt is issued with a floating rate that typically is expressed at a spread to LIBOR (the London Interbank Offered Rate). The debt's interest rate is reset upward or downward periodically, at intervals of up to 180 days, but most typically every 90 days. According to a recent interview with Christine McConnell, the spread to LIBOR has historically ranged between

2% and 3% for such loans. That periodic rate adjustment affords the funds that invest in them a lower interest rate risk than traditional bond funds, and helps limit price volatility. Last, non-investment grade. Clearly, this feature is indicative of higher stated interest rates, but also higher credit risk, which is somewhat mitigated by the senior debt characteristic.

When are they most attractive?

Traditional bond funds tend to take it on the chin when interest rates rise. That's because newly issued bonds become more attractive, while older, lower-rate bonds become less attractive, and their prices fall. Since the interest rate on the underlying floating rate debt is reset periodically, floating rate funds do not suffer the same price declines. Indeed, their yields will track rising rates. If that's the scenario looking forward from today, Fidelity Floating Rate High Income should prove a timely investment. Yet, there is a scenario where these funds can suffer—when the loan default rate is high. And that's exactly what happened in 2001. Corporate loan defaults soared, especially in the telecommunications and technology areas, and that's just where many of these funds were heavily invested. Even though floating rate debt is senior, that does not protect them if a company defaults on making interest payments.

Top Ten Sectors (% of Assets)*

Telecommunications	7.9%	Capital Goods	3.9%
Electric Utilities	6.6	Technology	3.0
Cable TV	6.5	Diversified Financial Serv.	2.6
Healthcare	5.6	Energy	2.6
Broadcasting	4.5	Chemicals	2.5

*as of October 31, 2003

Where is this Fidelity fund invested now?

McConnell sets an economic outlook and then picks sectors and securities that will do well in that environment. A thorough analysis of the security, collateral, and loan covenants is used to pick loans that are attractively priced. At this point, she is keeping the fund highly diversified, with about 200 names in the portfolio. She has emphasized defensive sectors such as electric utility and broadcast, and is overweight in health care. McConnell has deemphasized consumer cyclicals and leisure in light of earnings concerns. About 43% of the fund's assets are invested in credits rated BB and another 21% in B-rated loans. The average maturity of the fund is 3.4 years.

Fidelity Floating Rate High Income (FFRHX)
Fidelity Investments

82 Devonshire Street, Boston, MA 02109
(800) 544-6666; Minimum investment \$2,500/\$500 IRA

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