



Scaling the Wall of Worry Fourth Quarter and 2003 Review

by Walter S. Frank, Chief Investment Officer

Who would have thought when this year began that it would become the second best year for our *MONEYLETTER* growth portfolios since they began in 1987 (the Year of the Great Crash)? Or that it would be the best year for all the Vanguard family portfolios since the family portfolios were introduced in 1995? No, expectations were low just one year ago, and the Alert Level was Red after three years of a vicious bear market that crushed the spirits of investors. Yet here we are one year later with these performance numbers.

What was remarkable about last year was the way the performance sneaked up on us. As you know, one hallmark of the year was that the lower quality stocks were the leading performers. As many bewildered money managers complained, the lower the quality of the company and the worse the earnings, the better the stock did (think telcom). We avoided funds that concentrated solely in those bubble-crushed areas (for example, RS Information Age, up 97.8% last year). We had no funds, then, that rode the comeback rocket. What we did have was a group of funds that just kept chugging away, month after month, and slowly the numbers mounted. For a long while, it looked like a good, maybe a very good year, but nothing more than that. Only when the year was over did the numbers show just how good the year was. That is what we mean by a year that “sneaked up.”

In order to understand last year, go back to the first quarter and realize that both the *MONEYLETTER* Venturesome and Moderate portfolios showed losses for the quarter. Small losses to be sure, but losses nonetheless (-3.9% and -3.6% respectively). So for the last nine months, the Venturesome Portfolio gained 50% (OK, 49.5%), and about one-third of that performance came in the last quarter. The same holds true for the Moderate Portfolio. The rally was persistent throughout the year.

The Fourth Quarter

As the table shows, the fourth quarter performance numbers just reinforce what was going on all year. The Venturesome portfolios did better than the Moderate ones, which in turn did better than the Conservative ones. There is no surprise here. It is all a standard product of our normal asset allocation when the market is advancing. Performance doesn't always come along in this textbook fashion.

The quarter was like the year in another aspect: the relative performance of the single fund family and the *MONEYLETTER* all-family portfolios. All during the year the *MONEYLETTER* portfolios performed better than the Vanguard portfolios which did better than the Fidelity portfolios. As the Table shows, the same relative rankings held for the last quarter.

**Table 1
Portfolio Performance (2003)**

Portfolio	4 th Quarter (Sept. 30 – Dec. 31)	Year (Jan. 1- Dec. 31)
<i>MONEYLETTER</i>		
Venturesome	16.1%	45.6%
Moderate	13.9	41.7
Conservative	8.4	19.6
Fidelity		
Venturesome	12.0%	30.7%
Moderate	11.2	29.5
Conservative	6.0	17.6
Vanguard		
Venturesome	13.5%	37.1%
Moderate	12.1	34.1
Conservative	7.3	20.4
<i>MONEYLETTER</i> Select	12.2%	31.9%
Vanguard 500 Index Fund	12.1%	28.6%

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

Certainly the Fidelity growth portfolios would have done better had we not been wary about adding Fidelity Leveraged Company to our fund list. It would have brought the Fidelity and Vanguard performances closer together. But in general, the Vanguard growth list last year offered better opportunities than did Fidelity's. We should add that usually this has not been the case.

As we said before, while the fourth quarter performance of the portfolios was special (16.1% for *MONEYLETTER* Venturesome, 13.5% for Vanguard Venturesome and 12.0% for Fidelity Venturesome—just annualize those numbers), it was no better than performance in the previous two quarters. But aside from the numbers, the Fourth Quarter was different from the

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earlier quarters in that it marked an increase in confidence that the rally was for real. Last quarter was the quarter when Wall Street (and Main Street) were finally convinced that the economy had turned. Wall Street dropped much of its bear market skepticism, while the public finally poured money back into funds.

Look at the fund performance list (Table 2) and you will see that the appetite for risk did not shrink last quarter. The funds we held throughout the quarter that were top performers were either small cap or the riskier international funds. The top fund was Royce Opportunity followed closely by Vanguard Emerging Markets Stock Index. Then came Fidelity Small Cap Stock and RS Partners. Small was beautiful. In the early weeks of January there is no evidence that small cap leadership is fading. The current wisdom on the Street is that it will fade. It ultimately will, of course, but it could be next month or next year. We'll let the performance data decide that issue for us.

What impresses us about the fund performance Table is that every one of the twelve funds on the list showed double digit returns. That was an important hallmark of last quarter: the advance was broad, broader than earlier in the year.

Looking back, it is no surprise that investor optimism grew during the quarter. Wall Street was waiting for job growth, and the September employment report was the first report showing growth in seven months. Then there were positive earnings surprises through the quarter. Finally, the manufacturing outlook turned decidedly cheery. We had some blockbuster reports justifying strong optimism about manufacturing.

The year that was

Moving from the quarter to the year, if we had to put our finger on one reason for the portfolios' strong performance it would be asset allocation. We had a fairly aggressive allocation going into the year, and by late May we committed all the reserves in the Venturesome allocation to domestic equities. Deep down it was the Fed's interest rate policy that drove our allocation decisions.

Even earlier, as the rally from the March lows gathered steam, we came to the conclusion that this rally was different. In the May 9th issue of *MONEYLETTER*, we wrote, "Shed the bear psychology." What we meant was that it was time take some risk, to move, say, from the Conservative allocation to the Moderate allocation. We know how difficult it was to follow such advice after the battering from the bear market.

One year, of course is just one year. In viewing performance, one year means very little. A somewhat better view is given by the performance of the two *MONEYLETTER* growth portfolios from the end of '99 through last year—the bear market and the first recovery year. For the entire four years, the *MONEYLETTER* Venturesome Portfolio shows a gain of 2.5% per year, the Moderate Portfolio a gain of 4.4% per year, while the S&P 500 shows a loss of 6.8% per year. In other words, followers of this letter's advice over the last four years would be in the black, while S&P 500 index investors would still be considerably in the red.

2003 is behind us. We look forward to the challenges of 2004. \$

Table 2
4th Quarter Fund Performance
(Selected Funds)

Royce Opportunity	19.9%
Vanguard Emerging Markets	19.0
Heartland Value	18.5
Fidelity Small Cap Stock	17.3
RS Partners	16.9
Wm. Blair Small Cap Growth N	15.2
Matthews Pacific Tiger	14.8
Vanguard Capital Value	14.5
Vanguard Extended Market	13.7
Legg Mason Special	13.6
Vanguard Small Cap Growth	13.5
Vanguard Explorer	13.1

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January Fog

The tone for the economic numbers we have been getting about December was set by the employment report, which, as everyone knows, was a major disappointment. We all expected a reasonably big number. Instead we were told payroll employment grew by a miniscule 1,000 jobs last month. We find it hard to believe. Something is wrong, not in the economy, but in the report. As others have pointed out, correctly, the report flies in the face of everything else we are being told about employment. Some in the press have pounced on the report to push their favorite notion of why the economy is in trouble, at least with regard to employment. We need more data before any of us knows what is happening on the employment front.

Many, but by no means all, of the other economic numbers about December activity have been soft as well. The market has not paid much attention. The market's attention has been focused on the earnings reports now coming out and also on corporate developments. The earnings reports have been generally positive, though there have been some disappointments, such as with Intel (not with the actual earnings but with the guidance). As to be expected, with optimism rising expectations are rising as well. That is scenario for disappointment.

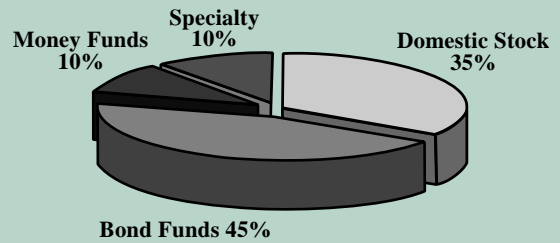
Still, putting aside the daily froth, the economy appears to be acting well, and the earnings reports (and guidance) are certainly satisfactory. We just need to remember that a repeat of last year's performance is not in the cards. What we should look forward to is a reasonable double-digit performance. We do believe, however, that any surprises this year will be on the upside. Certainly, the interest rate environment is going to remain positive for some months to come.

Portfolio changes

The Hotline of Tuesday, January 6 recommended a series of allocation changes that affected all six Venturesome and Moderate portfolios. Here are the fund changes effective Wednesday, January 7. **MONEYLETTER Venturesome:** Sold 497 shares of Legg Mason Special @ \$45.80 per share. Purchased 836 shares of Matthews Pacific Tiger @ \$13.62 per share. Also purchased 596 shares of Fidelity International Small Cap @ \$19.10 per share. **MONEYLETTER Moderate:** Sold 263 shares of Legg Mason Special. Purchased 630 shares of Fidelity International Small Cap. **Fidelity Venturesome:** Sold 1,144 shares of Fidelity Aggressive Growth @ \$15.20 per share. Purchased 455 shares of Fidelity International Small Cap and 578 shares of Fidelity Southeast Asia @ \$15.05 per share. **Fidelity Moderate:** Sold 658 shares of Aggressive Growth @ \$15.20 per share. Purchased 157 shares of International Small Cap and 465 shares of Southeast Asia. **Vanguard Venturesome:** Sold 1,512 shares of Capital Value @ \$10.43 per share. Also sold 59 shares of Explorer @ \$67.61 per share. Purchased 1,605 shares of Emerging Markets Index @ \$12.32 per share. **Vanguard Moderate:** Sold 262 shares of Strategic Equity @ \$19.07 per share. Also sold 74 shares of Explorer. Purchased 373 shares of International Value @ \$26.79 per share. \$

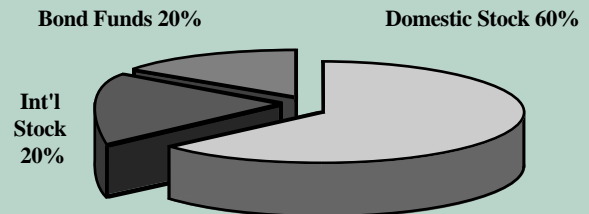
CONSERVATIVE

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



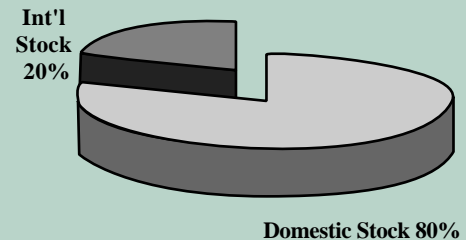
MODERATE

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



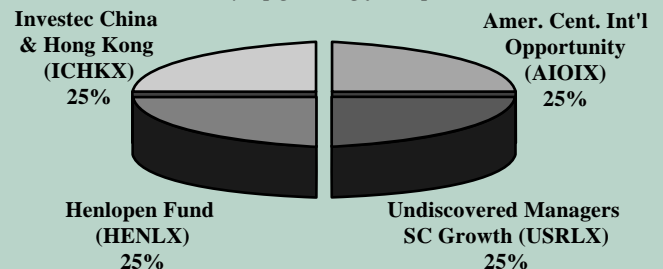
VENTURESOME

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	1/16 2004	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	3	HENLX	Henlopen Fund (1%r<30d)	SCGro	*	B	B	11.4%	45.4%	69.4%	\$27.73	33.7	1.43	FSW	
2	2	-	FLVCX	Fidelity Leveraged Company	MC	*	B	B	11.2	35.3	88.9	20.38	-	-	Fw	
3	14	2	USRLX	Undiscovered Small Cap Growth (\$10,000)	SCGro	B	B	B	17.6	35.1	79.6	11.58	-	-	fw	
4	18	18	POGSX	Pin Oak Aggressive Stock	MCGro	*	B	B	17.6	37.5	68.9	22.03	40.6	2.57	FSW	
5	10	6	RYPNX	Royce Opportunity (1%r<180d)	SCVal	B	B	B	12.4	37.4	76.7	13.08	26.3	1.07	fsw	
6	3	11	HRTVX	Heartland Value (closed,1%r<90d)	SCVal	S	S	S	9.7	33.6	75.9	54.33	21.0	0.76	FsW	
7	5	1	OBEGX	Oberweis Emerging Growth (1%r<180d)	SCGro	*	B	B	13.8	27.0	76.0	29.37	34.2	1.63	FSW	
8	12	32	BOGLX	Bogle Small Cap Growth (closed)	SCGro	B	B	B	12.7	32.0	64.7	28.41	21.3	0.90	w	
9	8	7	WBSNX	WmBlair S-C Growth N (closed,1%r<60d)	SCGro	B	B	B	11.7	30.4	68.5	23.33	34.6	1.32	FSW	
10	6	10	RSSGX	RS Smaller Company Growth	SCGro	*	B	B	10.9	30.2	66.3	21.93	28.0	1.33	FSW	
11	13	4	RSDGX	RS Diversified Growth	SCGro	*	B	B	11.9	27.4	66.4	23.75	29.0	1.53	FSW	
12	9	-	NESGX	Needham Small Cap Growth	SCGro	B	B	B	10.0	32.0	57.7	18.07	-	-	FSW	
13	89	117	VWEGX	Van Wagoner Emerging Growth (closed)	MCGro	*	H	H	21.2	28.1	48.8	7.38	54.7	3.00	FSW	
14	21	15	NBSSX	Neuberger Berman Focus	LCVal	*	B	B	13.3	26.7	64.2	38.86	36.2	1.87	fSW	
15	20	23	USCGX	USAA Capital Growth	SCGro	*	B	B	10.8	28.5	59.9	6.89	-	-	fsW	
16	65	8	LMOPX	Legg Mason Opportunity Trust (1%r<1yr)	MC	*	(B)	(B)	11.1	24.4	67.8	14.63	32.2	1.45	-	
17	56	25	TGSCX	TCW Galileo Small Cap Growth	MCGro	*	H	H	15.9	26.9	54.4	16.41	37.9	2.17	FSW	
18	23	14	PBEGX	PBHG Emerging Growth	SCGro	*	(H)	(H)	14.5	25.0	58.9	14.14	33.6	2.03	FSW	
19	15	28	WMCVX	Wasatch Small Cap Value (closed,2%r<60d)	SCVal	B	B	B	9.0	27.5	60.1	5.57	25.4	0.86	FSW	
20	68	43	VHCOX	Vanguard Cap Opp (\$25,000,1%r<5yr)	MCGro	*	H	H	12.6	27.8	52.4	27.25	22.8	1.29	fsw	
21	16	79	BERWX	Berwyn Fund (1%r<180d)	SCVal	B	B	B	7.5	31.4	50.8	25.68	20.6	0.63	fsw	
22	49	5	UBRRX	Undiscovered Behavioral Growth (\$10,000)	MCGro	*	H	H	13.2	22.9	63.3	21.07	26.9	1.34	fW	
23	7	12	RSPFX	RS Partners	SC	B	B	B	7.3	26.7	61.3	28.19	23.0	0.65	FSW	
24	26	9	BUFSX	Buffalo Small Cap (closed)	SCGro	B	B	B	10.1	24.4	60.7	23.58	28.9	1.20	SW	
25	33	33	TGVNX	TCW Galileo Value Opportunities	MC	H	H	H	11.5	27.5	50.7	21.42	-	-	FSW	
26	45	52	VISGX	Vanguard Small Cap Growth Index	SCGro	H	H	H	12.1	26.2	51.4	14.06	22.3	1.02	w	
27	31	51	MERDX	Meridian Fund	SCGro	H	H	H	10.0	26.7	53.4	35.18	20.3	0.84	fw	
28	17	16	JAVTX	Janus Venture (closed)	SCGro	*	B	B	9.6	24.9	57.4	51.94	30.1	1.52	FSW	
29	11	83	MOPIX	Mainstay Small Cap Opportunity (closed)	SCVal	B	B	B	5.9	28.2	54.3	17.18	17.5	0.63	FSW	
30	66	29	RSEGX	RS Emerging Growth (closed)	MCGro	*	H	H	14.2	23.3	53.7	30.46	30.6	1.68	FSW	
31	53	45	GSETX	Columbia Small Company Equity CIZ	SCGro	H	H	H	11.8	25.2	50.6	18.32	33.0	1.10	fw	
32	24	240	IZZYX	ICM/Isabelle Small Cap Value	SCVal	B	B	B	10.3	28.5	44.5	14.39	24.6	0.85	FSW	
33	39	27	MNSCX	Montgomery Small Cap	SCGro	*	H	H	11.4	23.8	54.2	11.61	24.3	1.13	s	
34	25	44	CSMVX	Century Select Small Cap	SCGro	B	B	B	7.8	26.8	51.3	22.67	16.3	0.54	FSW	
35	57	24	NEEGX	Needham Growth Fund (.75%r<30d)	MCGro	H	H	H	11.9	25.4	48.7	31.70	28.8	1.38	FSW	
36	22	22	BPSCX	Boston Ptnrs Smicap Val (closed,1%r<1yr)	SCVal	B	B	B	8.3	24.8	55.4	23.75	26.4	0.74	FSW	
37	19	78	FSLCX	Fidelity Small Cap Stock (2%r<90d)	SCGro	B	B	B	8.1	28.5	46.3	17.82	20.3	0.92	F	
38	27	46	JSVAX	Janus Special Equity	MC	*	(B)	(B)	9.0	25.6	51.4	11.23	19.0	1.00	SW	
39	69	57	STDIX	Strong Discovery	MCGro	H	H	H	12.3	25.7	44.4	21.07	17.9	0.84	FSW	
40	52	26	LMASX	Legg Mason Special Investment Trust	MC	*	H	H	10.3	22.6	55.0	47.00	27.2	1.30	-	
41	50	49	VEXPX	Vanguard Explorer	SCGro	H	H	H	11.3	24.3	49.0	69.83	24.7	1.18	fsw	
42	32	56	NAESX	Vanguard SmallCap Index	SC	H	H	H	9.3	25.1	48.7	23.80	22.2	1.03	fsw	
43	58	36	RSMOX	RS MidCap Opportunities	MCGro	H	H	H	10.0	24.1	49.4	11.43	20.3	1.08	FSW	
44	82	13	TGANX	TCW Galileo Aggressive Growth CIN	MCGro	*	H	H	15.9	20.2	50.3	12.94	38.2	2.14	SW	
45	47	70	RYLPX	Royce Low Priced Stock (1%r<180d)	SCVal	H	H	H	8.7	26.1	45.2	14.65	26.1	1.02	FSW	
46	71	47	CUEGX	CS Warburg Pincus Emerging Growth	MCGro	H	H	H	11.1	23.5	47.6	29.44	24.0	1.31	FSW	
47	61	109	TASCX	Third Avenue Small-Cap Value	SCVal	H	H	H	9.5	26.2	43.1	19.93	19.1	0.81	FSW	
48	105	126	FMLIX	Fidelity New Millennium (closed)	MCGro	H	H	H	11.8	24.6	43.1	32.33	30.4	1.51	fsw	
49	79	99	SMTVX	Strong Multi-Cap Value	MCVal	H	H	H	10.4	27.2	38.5	57.92	18.8	0.85	FSW	
50	40	34	TMGFX	Turner Mid Cap Growth	MCGro	*	H	H	10.2	22.5	49.9	23.27	31.2	1.70	FSW	
51	34	17	PRNHX	T. Rowe Price New Horizons	SCGro	H	H	H	9.6	22.2	51.1	26.16	29.2	1.44	fsw	
52	98	53	TWCVX	American Century Vista	MCGro	H	H	H	11.6	22.3	47.8	13.20	20.6	0.77	fSW	
53	30	37	CRMSX	CRM Small Cap Value Inv	SCVal	(H)	(H)	(H)	8.0	22.8	50.3	25.40	22.9	0.87	FSW	
54	43	120	CRIMX	CRM Mid Cap Value Ins	MCVal	H	H	H	7.1	25.3	42.4	22.38	20.0	0.65	w	
55	59	74	PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	7.7	24.2	43.3	9.26	19.2	0.71	Fsw	
56	81	50	RSVPX	RS Value+Growth	LC	H	H	H	10.1	21.9	45.2	18.25	17.4	1.04	FSW	
57	46	128	CRMMX	CRM Mid Cap Value Inv	MCVal	H	H	H	7.1	25.0	41.9	22.17	-	-	FSW	
58	91	38	BRAIX	Bridgeway Aggressive Investors 2	MCGro	*	H	H	12.0	18.7	49.9	12.89	-	-	fsw	
59	35	40	FDCAX	Fidelity Capital Appreciation	MC	H	H	H	7.6	22.2	47.4	25.27	23.2	1.27	fsw	
60	51	58	VEXMX	Vanguard Extended Market Index	MC	H	H	H	8.3	22.3	46.0	27.87	23.1	1.17	fsw	
61	4	60	CGMFX	CGM Focus	SCVal	*	(H)	(H)	2.9	22.5	53.5	28.84	50.6	0.13	fsw	
62	67	35	ARTSX	Artisan Small Cap	SCGro	S	S	S	9.5	19.4	49.9	15.02	27.8	1.23	FSW	
63	48	84	VSEQX	Vanguard Strategic Equity	MCGro	H	H	H	8.0	22.4	44.6	19.48	16.2	0.78	fsw	
64	63	94	FDISX	Dreyfus-Funders Discovery	SCGro	S	S	S	9.5	22.6	40.7	27.44	25.7	1.30	FSW	
65	55	125	TRMCX	T.Rowe Price Mid Cap Value	SCVal	H	H	H	7.5	24.6	38.3	20.98	17.7	0.72	fsw	
66	37	30	MXXIX	Marsico 21st Century	LC	H	H	H	6.8	20.9	47.9	10.19	20.5	1.01	fSW	
67	107	66	FOCPX	Fidelity OTC Portfolio	LCGro	*	S	S	11.6	21.2	39.6	34.65	29.2	1.59	fsw	
68	75	67	SLSSX	Selected Special Shares	MCGro	S	S	S	7.4	22.2	42.5	12.13	19.0	1.04	sW	

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	1/16 2004	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	92	87	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	H	H	H	7.2	20.7	46.3	29.57	19.3	0.67	fw	
70	28	39	TUDRX	WPG Tudor	SC	S	S	S	7.8	20.5	45.7	16.96	27.3	1.36	Fsw	
71	36	148	VISVX	Vanguard Small-Cap Value Index	SCVal	H	H	H	6.5	23.9	39.2	11.85	23.2	0.87	fsw	
72	72	-	MAVFX	Matrix Advisors Value	LC	S	S	S	8.4	21.2	42.9	55.99	26.7	1.25	FSW	
73	54	90	FLPSX	Fidelity L P Stock (closed,1.5%r<90d)	SCVal	H	H	H	7.3	22.4	40.6	36.16	16.9	0.67	fsw	
74	101	82	FIDYX	INVESCO Dynamics	MCGro	S	S	S	9.8	21.2	39.7	15.56	29.5	1.67	FSW	
75	42	96	PBSVX	PBHG Small Cap Value	SC	S	S	S	6.9	22.7	40.3	20.21	24.3	1.08	FSW	
76	38	93	MUHLX	Muhlenkamp Fund	MCVal	S	S	S	5.1	22.1	44.0	64.53	28.6	1.26	FSW	
77	137	107	ARTMX	Artisan Midcap (closed)	MCGro	S	S	S	10.6	21.7	36.3	27.39	25.0	1.25	FSW	
78	115	68	FIGGX	INVESCO Small Company Growth	SCGro	*	S	S	11.3	19.7	39.7	11.90	27.8	1.39	FSW	
79	106	73	SOPFX	Strong Opportunity	MCVal	S	S	S	9.8	21.0	38.6	41.55	20.1	1.07	FSW	
80	29	41	SAFGX	Safeco Growth Opportunities	SC	H	H	H	6.7	18.1	48.3	25.35	27.8	1.22	fsw	
81	44	242	PRNEX	T. Rowe Price New Era	LC	H	H	H	4.0	26.4	31.1	26.96	18.8	0.55	fsw	
82	83	19	TGCNX	TCW Galileo Select Equity	LCGro	*	S	S	8.6	17.0	47.2	17.75	26.8	1.55	FSW	
83	87	139	FIDLX	Fidelity Value	MCVal	S	S	S	7.1	22.4	35.4	64.13	18.5	0.68	Fsw	
84	60	71	MPMVX	MSI Mid Cap Value	MCVal	S	S	S	7.1	20.6	39.8	21.18	16.3	0.80	fsw	
85	64	92	PRSVX	T. Rowe Price S-C Value (closed,1%r<1yr)	SCVal	S	S	S	6.3	21.3	39.2	30.53	17.6	0.62	fsw	
86	99	146	VIMSX	Vanguard Mid-Cap Index	MC	S	S	S	7.6	21.7	35.9	13.60	19.8	0.95	fsw	
87	112	42	FDGRX	Fidelity Growth Company	LCGro	*	S	S	9.6	18.4	41.1	52.56	24.6	1.46	Fsw	
88	93	63	RYPXX	Royce Premier (1%r<180d)	SC	S	S	S	6.0	21.2	39.3	13.32	18.2	0.73	FSW	
89	70	20	KAUFX	Federated Kaufmann Fund(0.2%)	MCGro	S	S	S	6.3	17.7	47.3	5.11	20.1	0.89	FSW	
90	90	-	CAMOX	Cambiar Opportunity	LC	S	S	S	6.3	22.5	35.0	14.88	19.7	0.93	FSW	
91	78	101	CBMDX	C&B Mid Cap Value	MCVal	S	S	S	6.1	21.0	38.7	19.46	19.5	0.66	FSW	
92	76	86	VCVLX	Vanguard Capital Value	LCVal	(S)	(S)	(S)	6.4	20.2	40.0	10.59	-	-	fsw	
93	122	113	DODGX	Dodge & Cox Stock (closed)	LCVal	(S)	(S)	(S)	8.3	22.2	32.2	118.00	16.8	0.67	sw	
94	74	135	TAVFX	Third Avenue Value	MCVal	S	S	S	5.3	21.4	38.4	42.90	16.1	0.75	FSW	
95	103	75	VPMCX	Vanguard PRIMECAP (\$25,000&1%r<5yr)	LC	S	S	S	8.1	19.7	38.0	55.56	19.9	1.16	fsw	
96	41	62	SMCDX	Strong Mid Cap Disciplined	MCVal	S	S	S	4.8	22.3	36.3	20.49	21.3	0.94	FSW	
97	102	131	VWNDX	Vanguard Windsor	LCVal	S	S	S	6.9	21.1	35.7	16.80	19.6	0.91	fsw	
98	84	180	FDSCX	Fidelity Small Cap Ind. (1.5%r<90d)	SC	H	H	H	7.5	20.0	37.2	18.58	17.7	0.58	fsw	
99	62	64	MPSCX	MSI Small Cap Value (closed)	SCVal	S	S	S	6.5	19.4	40.3	21.32	18.7	0.91	fsw	
117	145	100	FDEGX	Fidelity Aggressive Growth (0.75%r<90d)	LCGro	H	H	H	8.4	18.3	33.5	15.58	30.5	1.96	fsw	

Dow Jones
NASDAQ
S&P 500

4.7%
11.2
6.0

16.6%
22.5
14.7

21.9%
50.3
24.6

indexes do not
include dividends

International Stock Funds

1	3	-	AIOIX	Amer.Cent.Intl Opportunity (2%r<180d)	Int'l	B	B	B	10.4%	42.4%	77.1%	\$8.24	-	-	S
2	1	-	FISMX	Fidelity Intl Small Cap (2%r<90d)	Int'l	B	B	B	7.4	42.2	78.6	19.20	-	-	Fw
3	7	3	FLATX	Fidelity Latin Amer. (1.5%r<90d)	LatinA	*	H	H	14.5	42.1	65.6	16.15	29.8	-	fs
4	13	8	PRLAX	T. Rowe Price Latin America (2%r<1yr)	LatinA	*	H	H	13.5	37.3	59.2	12.38	29.7	-	fsw
5	6	2	PRIDX	T. Rowe Price Intl Disc. (2%r<1yr)	Int'l	B	B	B	6.4	36.3	67.1	27.11	16.0	-	fsw
6	14	22	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	B	B	B	8.3	37.3	57.1	16.74	20.4	-	FSW
7	16	9	SLAFX	Scudder Latin America	LatinA	*	H	H	14.1	34.2	55.4	25.75	27.3	-	FSW
8	2	25	MJFOX	Matthews Japan Fund (2%r<90d)	Japan	*	B	B	7.4	36.0	60.3	13.48	15.2	-	FSW
9	-	-	DREGX	Driehaus Emerging Mkts Gr	Int'l	(H)	(H)	(H)	7.6	34.3	64.2	21.05	24.9	-	FSW
10	4	21	SJPNX	Japan Fund (Scudder) (2%r<180d)	Japan	*	B	B	9.0	34.5	58.5	9.77	14.8	-	FSW
11	-	-	DRIDX	Driehaus Int'l Discovery	Int'l	(H)	(H)	(H)	9.0	32.1	63.0	30.59	21.1	-	FSW
12	8	1	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	B	B	B	6.4	32.9	63.4	16.03	-	-	SW
13	9	4	MAPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	*	B	B	8.5	32.6	59.8	13.77	23.6	-	FSW
14	12	6	VINEX	Vanguard Intl Explorer (\$10,000,2%r<60d)	Int'l	B	B	B	7.0	31.8	61.3	13.25	16.3	-	fsw
15	11	7	VEIEX	Vanguard Emerging Mkts Stk Index (.5%r)	Int'l	*	B	B	8.3	33.3	55.5	12.30	22.6	-	fsw
16	19	17	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	(B)	(B)	9.4	33.9	51.6	15.41	21.1	-	fsw
17	10	15	PRASX	T. Rowe Price New Asia	Pacific	*	B	B	8.0	32.1	52.0	8.92	19.7	-	fsw
18	5	10	ICHKX	Guinness China & Hong Kong	Pacific	*	B	B	5.2	30.9	59.2	16.94	19.6	-	FSW
19	17	20	FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	(B)	(B)	(B)	9.3	32.2	47.7	11.07	-	-	fsw
20	20	14	DFRFX	Dreyfus Emerging Market (1%r)	Int'l	*	H	H	7.6	30.0	52.6	17.41	21.6	-	FSW
21	18	19	FIEUX	Fidelity Europe (1%r<90d)	Europe	H	H	H	5.3	32.8	46.1	27.56	22.5	-	fsw
22	21	12	SGSCX	Scudder Global Discovery (closed)	Int'l	H	H	H	8.1	27.7	52.5	29.43	20.1	-	FSW
23	15	46	PRJPX	T. Rowe Price Japan	Japan	*	H	H	6.5	31.4	44.0	7.33	14.4	-	s
24	22	29	FIGRX	Fidelity International G & I	Int'l	H	H	H	7.7	29.9	44.7	24.71	15.2	-	Fsw
25	-	-	FECAX	Fidelity Europe Capital App.	Europe	(H)	(H)	(H)	9.4	30.9	39.5	19.63	18.8	-	Fw
26	24	23	FOSFX	Fidelity Overseas (1%r<30d)	Int'l	H	H	H	8.4	28.7	44.7	32.57	15.5	-	Fsw
27	36	38	JAOSX	Janus Overseas (closed)	Int'l	H	H	H	8.8	29.7	40.7	21.49	16.5	-	FSW
28	27	27	SCOPX	Scudder Pacific Opportunity (2%r<1yr)	Pacific	H	H	H	9.9	27.6	43.8	12.09	19.0	-	FSW
29	31	5	OAKGX	Oakmark Global (2%r<90d)	Global	S	S	S	6.5	25.6	49.7	19.79	26.5	-	FSw
30	30	18	VTRIX	Vanguard International Value	Int'l	H	H	H	7.3	27.4	42.2	26.96	16.8	-	fsw
31	35	42	LSIEF	Loomis Sayles International Equity	Int'l	S	S	S	7.5	27.9	39.5	11.42	13.8	-	fsw
32	29	31	PFIFX	Preferred International	Int'l	S	S	S	7.3	28.0	39.4	14.72	17.4	-	w
33	28	16	HAINX	Harbor International	Int'l	S	S	S	7.0	27.5	40.8	37.61	17.9	-	Fsw
34	32	28	FDIVX	Fidelity Diversified Intl (1%r<30d)	Int'l	S	S	S	6.5	26.9	42.5	24.64	13.8	-	Fsw
35	33	26	WBIGX	Wm. Blair Intl Growth Stock N	Int'l	S	S	S	6.7	26.6	42.7	19.08	14.6	-	FSW

Bond Funds (next issue on page 6: Specialty Funds)
 1/16/2004

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%	2.4%	5.3%	\$9.91	-	3.25%	Fw
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	B	B	*	1.9	7.1	20.1	11.22	6.45	4.54	FSW
CMHYX	Columbia High Yield	HighYld	B	B	*	1.4	3.5	9.1	8.85	5.76	6.45	fSW
FAGIX	Fidelity Capital & Income	HighYld	*	*	*	3.1	10.7	35.1	8.25	15.75	7.61	Fsw
SPHIX	Fidelity High Income (1%r<90d)	HighYld	B	B	*	2.3	10.0	25.3	9.09	11.78	7.69	Fsw
JAHYX	Janus High Yield	HighYld	B	B	*	1.8	5.4	11.9	9.84	6.26	6.72	FSW
NTHEX	Northeast Investors Trust	HighYld	*	B	*	3.1	9.8	15.4	7.56	8.04	8.10	fw
PHYDX	PIMCO High Yield	HighYld	B	B	*	2.9	9.0	21.7	9.92	9.40	6.81	SW
STHYX	Strong High Yield Bond (1%r)	HighYld	*	*	*	2.2	8.0	19.2	7.85	12.47	7.21	FSW
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.5	2.6	6.2	8.72	4.48	5.28	FSW
PRHYX	T. Rowe Price High Yield	HighYld	B	B	*	2.4	7.4	17.4	7.18	8.30	8.05	sw
TGHNX	TCW Galileo High Yield Bond	HighYld	B	B	*	3.1	9.2	22.2	7.47	9.47	7.48	SW
VAGIX	Value Line Aggressive Inc	HighYld	*	B	*	1.8	6.1	19.6	5.07	9.73	6.71	FSW
VWEHX	Vanguard High Yield Corporate	HighYld	B	B	*	2.4	7.7	16.7	6.46	7.54	7.46	sw
BGBX	American Century Intl Bond	Int'l	*	*	*	1.5	11.3	18.3	13.61	11.18	6.19	fSW
FNMI	Fidelity New Markets Income	Int'l	*	*	*	3.2	12.5	27.6	14.24	13.18	5.70	Fsw
PYGFX	Payden Global Fixed Income	Int'l	*	*	*	1.1	1.2	4.5	10.17	3.97	4.77	fsW
SSTGX	Scudder Global Bond S-T (closed)	Int'l	*	*	*	1.1	5.5	9.5	10.36	5.46	4.59	FSW
RPIBX	T. Rowe Price Int'l Bond	Int'l	*	*	*	1.2	10.4	16.1	10.22	9.89	2.36	fsw
ACITX	American Century Inflation Adj	IntTerm	B	*	*	1.3	4.8	9.1	11.11	7.15	3.54	fSW
BABIX	Babson Bond Trust	IntTerm	*	*	*	1.3	0.6	2.1	1.57	4.64	3.43	FSW
BBHIX	BBH Inflation Indexed Sec	IntTerm	B	*	*	1.4	4.2	9.0	11.06	7.36	2.77	FSW
CFISX	Columbia Fixed Income Sec	IntTerm	H	*	*	1.0	1.2	3.2	13.65	4.29	3.96	fSW
SRINX	Columbia Income CIZ	IntTerm	H	*	*	1.4	3.7	11.5	10.21	5.00	5.90	FSW
SRBFX	Columbia Intermediate Bond CIZ	IntTerm	H	*	*	1.1	2.9	9.2	9.25	4.26	5.11	FSW
DODIX	Dodge & Cox Income	IntTerm	H	*	*	1.2	3.3	7.3	13.04	3.65	4.64	fsw
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	1.1	2.3	6.2	14.20	5.24	3.92	FSW
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	0.7	2.7	3.1	14.96	3.11	4.22	FSW
DSINX	Dreyfus Strategic Income	IntTerm	*	*	*	0.7	1.6	5.6	14.96	5.02	3.75	FSW
FTRGX	Federated Total Return Govt	IntTerm	H	*	*	0.9	0.9	2.3	11.09	6.00	4.35	sw
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	1.3	4.7	9.2	11.14	-	1.57	Fw
FTHRX	Fidelity Intermediate Bond	IntTerm	H	*	*	0.8	1.4	4.1	10.75	3.96	3.63	Fsw
FSTGX	Fidelity Intermediate Govt	IntTerm	H	*	*	1.0	1.3	3.3	10.37	4.30	2.79	Fsw
FBNDX	Fidelity Investment Grade	IntTerm	H	*	*	1.4	2.7	6.1	7.63	4.46	3.11	Fsw
FBDFX	Fremont Bond	IntTerm	H	*	*	1.2	2.1	4.9	10.60	4.93	2.88	fsw
MWTRX	MetroWest Total Return	IntTerm	*	*	*	1.8	4.1	9.8	10.08	5.91	6.33	SW
MNTRX	Montgomery Total Return	IntTerm	H	*	*	1.1	1.5	3.8	12.44	4.66	3.76	FSW
PRRDX	PIMCO Real Return	IntTerm	H	*	*	1.3	4.3	7.5	11.38	7.53	3.31	SW
PTTDX	PIMCO Total Return	IntTerm	H	*	*	1.1	1.3	4.1	10.82	4.95	3.00	SW
PTMDX	PIMCO Total Return Mortgage	IntTerm	H	*	*	0.7	1.5	2.7	10.80	3.25	2.19	SW
SCSBX	Scudder Income (closed)	IntTerm	H	*	*	1.6	3.2	6.8	13.08	4.43	4.09	FSW
STVSX	Strong Govt Securities	IntTerm	H	*	*	1.1	1.3	3.0	11.00	4.81	3.08	FSW
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	1.0	1.7	4.8	9.13	4.34	3.67	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	H	*	*	1.1	2.0	3.7	9.97	3.16	6.31	SW
USAIX	USAA Income	IntTerm	H	*	*	1.2	2.7	6.4	12.55	4.96	4.63	w
VALBX	Value Line U.S. Govt Sec	IntTerm	H	*	*	0.9	1.2	3.4	11.97	4.68	3.51	FSW
VBMFX	Vanguard Bond Market	IntTerm	H	*	*	1.4	2.6	5.3	10.42	4.34	4.60	fsw
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	1.2	5.0	9.9	12.36	7.17	3.65	sw
WTIBX	Westcore Plus Bond	IntTerm	*	*	*	2.0	6.7	13.0	10.99	4.14	5.88	FSW
WPGVX	WPG Core Bond	IntTerm	H	*	*	1.2	1.7	4.8	10.78	4.55	2.81	FsW
FGOVX	Fidelity Government Income	LngTerm	*	*	*	1.1	1.3	2.9	10.33	5.62	3.15	Fsw
KIFIX	FifthThird Bond	LngTerm	*	*	*	1.2	2.0	4.8	10.26	5.17	3.72	w
MGFIX	Managers Bond	LngTerm	*	*	*	1.8	5.1	12.1	24.97	6.98	4.47	FSW
STCBX	Strong Corporate Bond	LngTerm	*	*	*	2.1	3.9	10.9	10.76	7.06	4.95	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	2.0	4.3	11.1	9.88	6.03	5.47	fsw
PRULX	T. Rowe Price U.S. Treas. L-T	LngTerm	*	*	*	1.8	0.9	3.6	11.96	9.96	4.46	fsw
VUSTX	Vanguard L-T Treasury	LngTerm	*	*	*	1.8	0.0	3.4	11.63	11.26	4.88	fsw
VWESX	Vanguard Long-Term Corporate	LngTerm	*	*	*	2.5	1.7	6.2	9.49	10.39	5.68	fsw
JAFIX	Janus Flexible Income	Multi	*	*	*	1.2	2.0	5.6	9.91	4.79	4.42	FSW
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	2.1	6.5	12.6	11.90	4.67	4.25	fsw
FSHBX	Fidelity Short-Term Bond	ShtTerm	B	*	*	0.4	0.9	2.6	9.07	2.07	2.95	Fsw
JASBX	Janus S-T Bond	ShtTerm	B	*	*	0.3	1.8	3.8	2.95	1.67	2.54	FSW
MGIDX	Managers Int. Duration Govt	ShtTerm	*	*	*	0.8	2.4	4.1	10.69	2.91	2.48	FSW
MWLDX	MetroWest Low Duration	ShtTerm	B	*	*	0.8	1.1	3.3	9.58	3.04	4.80	SW
SCSTX	Scudder Short-Term Bond (closed)	ShtTerm	B	*	*	0.5	1.2	3.4	10.58	1.78	4.04	FSW
SSTBX	Strong S-T Bond	ShtTerm	B	*	*	0.5	0.8	2.4	8.87	2.44	3.83	FSW
BTFTX	Amer. Cent. Target 2015	ZeroCpn	*	*	*	3.3	3.5	10.1	69.07	15.20	5.28	fSW
BTTNX	American Century Target 2010	ZeroCpn	*	*	*	2.0	2.1	7.1	85.23	10.27	4.48	fSW
BTTTX	American Century Target 2020	ZeroCpn	*	*	*	4.2	4.2	11.4	49.57	18.78	4.92	fSW
BTTTX	American Century Target 2025	ZeroCpn	*	*	*	4.7	4.4	10.9	40.97	21.56	5.04	fSW

Stepping Back for a Better View

By now you've probably taken a close look at pages 2 and 3 of the January 9th issue and pages 1 and 2 of this issue to see how the *MONEYLETTER* model portfolios performed for the year. We're obviously pleased with our absolute and relative performance in 2003, and proud of the fact that six of the nine asset allocation portfolios outperformed the Vanguard 500 Index Fund for the year. (The three that didn't were our Conservative Portfolios, which are not designed to keep pace with the market but rather to provide long-term growth with reduced risk and volatility).

But we're also mindful of falling into the trap of focusing only on short-term performance. Subscribers should remember that any sensible performance evaluation of an investment strategy should include more than one year. Toward that end, subscribers can always check the three-year total returns that are part of our regular monthly portfolio review. To supplement those regularly published returns, below we've included a detailed look at the performance of the *MONEYLETTER* models over the last 5 years.

What \$10,000 Grew to in Five Years (1999-2003)

Rank	Portfolio	Amount
1	ML All-Family Moderate	18143
2	ML All-Family Venturesome	16609
3	Fidelity Venturesome	16449
4	ML All-Family Conservative	16297
5	Fidelity Moderate	15154
6	Vanguard Venturesome	13572
7	Vanguard Moderate	13308
8	Fidelity Conservative	12300
9	Vanguard Conservative	11991
10	<i>Average Asset Allocation Fund</i> +	11964
11	<i>Vanguard 500 Index Fund</i>	9684

+The average of 36 Asset Allocation Funds

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100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF	0.67%	0.67%	0.82%
Vanguard Treasury MMF	0.66	0.66	0.82
Fidelity Spartan US Treas MMF	0.60	0.62	0.75
Amer Century Capital Presv Fund/Inv	0.54	0.53	0.68
T Rowe Price US Treasury MF	0.50	0.51	0.61
HSBC Investor US Treas MMF/CI D	0.43	0.44	0.44
Schwab US Treasury Money Fund	0.36	0.36	0.49
CMA Treasury Fund RIC	0.34	0.35	0.49
Dreyfus 100% US Treas MMF	0.31	0.30	0.46
JENNDRY/Dryden Govt SecTr/US Treas/D0.31		0.32	0.49

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	1.05%	1.04%	1.16%
GE Money Market Fund	0.91	0.90	0.89
McMorgan Principal Preservation	0.87	0.86	0.97
Flex-fund Money Market Fund	0.84	0.85	0.92
Phoenix-Goodwin Money Market Series/A	0.84	0.84	0.95
TIAA-CREF Money Market Fund	0.84	0.84	0.93
AIM MMF/Investor Class	0.80	0.80	-
Scudder Premium Money Mkt Shrs/CI S	0.80	0.80	0.89
Scudder Premium Money Mkt Shrs/AARP	0.79	0.80	0.89
AIG Money Market Fund/CI B	0.77	0.80	0.76

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Strong Tax-Free Money Fund	0.85%	0.98%	0.96%
Vanguard Tax-Exempt MMF	0.85	0.95	0.93
Strong Municipal MMF	0.70	0.82	0.85
Amer Century T-F MMF/Inv Class	0.64	0.73	0.73
Dreyfus BASIC Muni MMF	0.64	0.72	0.71
Fidelity Municipal MMF	0.64	0.73	0.72
Scudder Tax-Exempt Money Fund	0.64	0.73	0.70
USAA Tax Exempt MMF	0.64	0.77	0.78
T Rowe Price Summit Muni MMF	0.59	0.69	0.74
Excelsior T-E Money Fund	0.56	0.65	0.62
Tax-Exempt Cash Managed Shares	0.56	0.65	0.60

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	0.83%	0.93%	0.93%
Vanguard CA Tax-Exempt MMF	0.80	0.91	0.89
Vanguard NY Tax-Exempt MMF	0.80	0.90	0.87
Vanguard NJ Tax-Exempt MMF	0.79	0.89	0.86
Vanguard PA Tax-Exempt MMF	0.79	0.93	0.89
Fidelity PA Municipal MMF	0.66	0.76	0.65
Fidelity OH Municipal MMF	0.54	0.62	0.64
USAA Tax Exempt CA MMF	0.54	0.65	0.73
Fidelity MI Municipal MMF	0.53	0.61	0.61
Fidelity CA Municipal MMF	0.51	0.60	0.61
Fidelity FL Municipal MMF	0.51	0.65	0.65
Fidelity NY Municipal MMF	0.51	0.59	0.63

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 1/13/04. 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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Driehaus Does International Right

The Driehaus Mutual Funds family once consisted of five international funds—which the firm whittled down to two last September. Driehaus International Growth and Driehaus European Opportunity were merged into Driehaus International Discovery, and Driehaus Asia Pacific Growth was folded into Driehaus Emerging Markets Growth. The reasons were multifold. Two of the funds were on the small side, and one, the International Growth, had a poor record that was not attributable to current management. Moreover, the Driehaus team is a lean one. Prior to September, three managers with four analysts were running the five retail funds.

The Driehaus group contends that they view the investment process a bit differently than more conventional firms, given their ability to be flexible and open-minded. Indeed, founder Richard H. Driehaus countered a number of common investment paradigms in a speech entitled, “Unconventional Wisdom in the Investment Process.” For instance, “buy low and sell high” is oft quoted. But Driehaus contends, “I believe that more money can be made buying high and selling at even higher prices. I try to buy stocks that have already had good price moves, that are often making new highs and that have positive relative strength.” Why? He asserts that he’d rather take the risk that the price will begin to decline from a high level than buy a stock in decline and try to estimate when it will turn around. He also says he could not disagree more with the adage, “Don’t try to hit home runs—you make the most money by hitting a lot of singles.” Driehaus opines, “That is my sell discipline. I try to cut my losses and let my winners run.” The Driehaus funds sport high portfolio turnovers: 355% for Emerging Markets Growth and 406% for International Discovery, which certainly would be criticized by any a number of fund managers. But Driehaus says that while most people believe high turnover is risky, he believes the opposite. “High turnover reduces risk when it is the result of taking a series of small losses in order to avoid larger losses. I don’t hold on to stocks with deteriorating fundamentals or price patterns.”

Clearly, the Driehaus group manages its funds in an aggressive manner. Earnings growth is the key to these managers, as only through earnings growth will cash flows be expanded, dividends raised, and book values increased. Hence, they look for accelerating sales and earnings growth, strong earnings momentum, and positive earnings surprises, and earnings quality. They monitor industry and market developments. Technical analysis also plays a strong role in the investment process. The managers analyze price support levels, volume characteristics, and relative strength rankings, as well as sector and industry relative strength. Their goal: to identify, early, stocks on the threshold of rapid price appreciation. Investing internationally also requires research on country market trends, market liquidity, currency strength, and political climates, among other factors.

As Richard Driehaus alluded to, the firm also has a set of selling criteria. They watch for decelerating sales and/or earnings growth, negative surprises, poor earnings quality, weakening fundamentals, or more broadly, deterioration in industry appeal. Technically, price stagnation, excess price correction, unfavorable volume characteristics, or decreasing relative strength are all warning signals. The group finds that as new opportunities become evident, earlier investments are often peaking.

The firm’s techniques have proven successful. The 1999 year was a banner one for both funds, with Emerging Markets Growth gaining 114% and International Discovery surging nearly 214%. Not unexpectedly, both funds were in the red for the following three years, but their respective performances were better than the category averages, which is impressive given the aggressive nature of the funds. In 2003, the funds were hot once again, with Emerging Markets ahead by 65.5% and International Discovery up 62.4%. Emerging Markets Growth can invest in stocks of all market capitalizations—it currently has 46% of assets in small cap, 31% in mid cap stocks, and 13% in large caps. International Discovery concentrates in small- and mid-caps (35% and 55%, respectively), and often invests heavily in emerging markets.

Driehaus Emerging Markets Growth (DREGX)

Top Five Regions and Nations (% of Assets)*

Asia/Far East Ex-Japan	55.1%	South Korea	11.5%
Eastern Europe	10.4	India	11.0
North America	8.2	Taiwan	9.4
South Africa	8.1	South Africa	7.8
Africa	7.9	Mexico	7.7

*as of September 30, 2003

Driehaus International Discovery (DRIDX)

Top Five Regions and Nations (% of Assets)*

Western Europe	40.9%	Japan	21.6%
Japan	24.1	Canada	6.3
Asia/Far East Ex-Japan	13.1	Russian Federation	3.2
North America	9.1	Netherlands	2.8
Eastern Europe	7.8	South Africa	2.6

*as of September 30, 2003

Richard Driehaus asserts that investing in volatile stocks, as in these funds, is less risky than it seems. He contends that leaving money on the sidelines is a guarantee of weak performance, stating, “You need to embrace risk to take advantage of volatile markets.”

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