



Mr. Greenspan's Patience

by Walter S. Frank, Chief Investment Officer

The Federal Reserve, in particular Alan Greenspan, is on Wall Street's mind nowadays. This is understandable. The recovery and the bull market have fed off the very low interest rates that are the handiwork of the Fed. More important, investors expect that the low rate environment will remain low for some indefinite period of time, providing further nourishment for the bull. And that too is the handiwork of the Fed.

At the same time, Wall Street knows that the good (interest rate) times are not going to last forever. Mr. Greenspan told us that himself in his testimony to Congress on February 11. As he said there, "...the real federal funds rate will eventually need to rise toward a more neutral level. However, with inflation very low and substantial slack in the economy, the Federal Reserve can be patient in removing its current policy accommodation."

Wall Street rallied after hearing those and his other words, relieved about something, although it is not clear what. The Fed had already said in its statement after the last Open Market Committee meeting that the Committee would be patient and it referred to inflation and slack then in the same words as did Mr. Greenspan now.

One can only guess that some on the Street were worried that somehow Mr. Greenspan was about to signal a near-term increase in interest rates. Be that as it may, the newest indoor sport on the Street is trying to calculate how long the Fed's (and Mr. Greenspan's) patience will hold.

We have our view on this matter as does everyone else. We suspect that all of these views (including our own) are pretty squishy at this time. It all depends on the strength of the economy over the coming months. We've had some surprises on this subject lately and we will undoubtedly have more as the year unfolds. We're certain that all the views, including those of Mr. Greenspan himself, will be subject to more than one midcourse correction.

Rather than speculate on the exact strength of the economy for the rest of the year, we think it would be useful to take a look at the approach Mr. Greenspan takes these days to the problems facing the economy. It turns out doing that gives a clue of what to look for in trying to anticipate the Fed.

Risk management

Over the course of the last year, Mr. Greenspan has given two or three speeches which have not focused on the immediate outlook and problems of the day, but on his (and therefore the Fed's) approach to policy making. The approach, as he described it, is a weighing by the Fed of the risks facing the economy (inflation/deflation, sluggish or too rapid growth) as the Fed tries to steer the economy toward the goals of price stability and maximum employment.

What Mr. Greenspan emphasized in these speeches is that every policy choice runs risks. For example, if the Fed is easing, it may cause inflation to rise. So as the Fed eases, it has to calibrate, as best it can, the probability of inflation. The opposite is the case when the Fed is tightening, though the risk it is concerned about then is that of recession.

As Mr. Greenspan sees it he is a risk manager. Every policy choice the Fed makes is the result of balancing risks. One example he gives involves the deflation issue, losing importance now but still present for the Fed.

Most of us were puzzled when the Fed highlighted the issue of deflation as a prominent reason why they were driving interest rates so low. As the Fed itself admitted from day one, the odds of a general deflation here (à la Japan) were extremely low. Then why let the risk of deflation significantly influence monetary policy?

Because as Mr. Greenspan explained, "The product of a low-probability event and a potentially severe outcome (read: deflation) was judged a more serious threat to economic performance than the higher inflation that might ensue (from lowering rates -ed) in the more probable scenario."

What this tells us is that for the Greenspan Fed we have to pay attention to the risks enunciated in their statements as well as the straightforward outlook. The policy to be followed is a mixture of the two.

It's not Sanskrit

The risk approach is now part of the Fed's communication with the public. Their last statement (January 28) after a Committee meeting told us that the "upside and downside" risks for growth over the next few quarters were about equal. Translation: rates are about right with respect to growth. As for deflation, its probability has fallen and is almost equal to a "rise in inflation." Translation: the prob-

(continued on page 2)

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 from page 1)

ability of either deflation or inflation is now very low. Price stability is the expectation for the next few quarters.

This gets us back to the opening issue. How long is patience? The Fed has been emphasizing two things in its statements, inflation and “resource use” (i.e. employment and capacity use).

Both inflation and resource use are highly dependent on the speed of the economy (inflation can go its own way at times). Of late, the economy, while doing OK, has cooled considerably. We expect this to be temporary. But every month of cooling, pushes the day of the first rate increase one month further away. Right now, we think there is a very good chance we will not see a rate increase until after the election. But as we said, expect a midcourse correction anytime.

Reflections On Asia

As readers know Asian markets had a terrific run last year. Matthews Pacific Tiger, for example, was up 60.2% over the year, and similar numbers can be found in many Asian funds of all stripes. After a run such as that, it is only natural to ask, is the Asian run over? It is not unusual today to see an article or two in the financial press with a title suggesting that China is overheating and must slow substantially. Since China is the locomotive powering Asian growth, the implication is that Asian growth rates are about to shrink meaningfully. The conclusion is that the game is up as far as Asia is concerned.

Mark Headley, the President of Matthews Asian funds as well as the portfolio manager of Matthews Pacific Tiger, wrote about this issue in an excellent article in the January 2004 issue of Asia Insight, a Matthews Funds monthly newsletter. The title of the article is “1993 Versus 2003.”

Headley reminds us that in 1993 there was another boom in the emerging Asian markets. In 1993, he writes, “Global investors who had experienced single-digit returns on the S&P 500 over recent years, were hungry for big returns. Suddenly, every impoverished nation with a stock market was a future superstar. Price-to-earnings ratios went from low teens to twenty, thirty, forty times earnings for companies with little history and, frequently, little integrity.” Then came 1994, when it all unraveled.

Headley asks about today, with the Hang Seng index (Hong Kong) having gone from about 8,000 to 13,000, “Will history repeat itself?” Headley’s answer is indirect. He starts by remarking that “the differences from a decade ago are noticeable. Asian markets, for all their flaws are significantly more mature than they were in 1993. Companies, we would argue, are significantly better managed.”

He goes on, “Most of the movement of capital into the Asia markets appears to us to be a rational move from an extreme underweight position by global investors to what is perhaps only a significant underweight position. Indexes are mostly well below highs seen in the post-Asian crisis/Nasdaq rally of 1999 when the Hang Seng was over 18,000. Most important to us, earnings in many Asian sectors are just a couple of quarters into what could be a multi-year recovery.”

After going over some obvious risks to the Asian markets (Sars, a U.S. collapse), Headley writes, “a low interest rate environment with sustained economic growth at the current or similar levels should allow Asian markets to justify current valuations. Future upside needs to be driven by earnings growth....”

After saying all this, Headley ducks a direct answer to his question (will history repeat itself?) reflecting the prudent portfolio manager he is. We are not so constrained. China has already made some gestures toward slowing growth. At the same time, growth in the U.S. should be running at a speedy and steady 5%. The result? Asian growth should continue at close to current rates. If we are right, substantial profits growth will follow. 2004 is not 1994. \$

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A Wintery Pause

The markets have been marking time in February so far, after a good January performance. Earnings have been fine, right on the money, with the S&P showing yearly gains of about 26% for the fourth quarter of 2003. As we've seen again and again, these gains have not set the market's juices running. As often as not good, but not blowout, gains (particularly in technology) have been met by some selling.

It is clear that, for the moment, investors are reluctant to push the market higher in anticipation of better than projected earnings. Put another way, price-earnings ratios at 18.4 times estimated earnings over the next twelve months look about as high investors want to pay. At least for the moment.

This is understandable. Just looking at expectations within the market, earnings for this year are expected to grow at very solid rates, but well below the rates of the last six months. At about 18.5 times, the market is already priced for solid growth. If the earnings come through, then (assuming the p/e ratio holds) investors can look for gains of about 11-13%. The one thing that can push the market higher is if the case can be made that the earnings estimates are too low. Last year, it was easy to make that case. But this year is another story.

After the market's run it is hard to believe that analysts are materially low-balling earnings estimates. There is certainly more caution. The era of analyst's hype is at least temporarily over. Actual earnings are running ahead of estimates by more than the usual amount, but not tremendously so, as was the case at times last year. It is too early to make the case for underestimated earnings.

Aside from analyst's estimates, another path to better than expected earnings is an economy that runs better than expected. But that is not what we have been getting this year so far. On the contrary, the economic numbers we have been getting have been almost uniformly running below expectations.

The most obvious example of that, of course, has come from the employment report for January which showed job growth continuing to run at a very slow rate. But it is not only on the job front that the disappointment has come. It is accepted by all that if the economy is to continue a rapid recovery, business investment spending must pick up. It already has, of course, but the pickup needs to continue. What we have gotten recently are business capital spending new orders reports that are moving in the wrong direction.

At the very time that the actual numbers disappoint, the various surveys that are good indicators of the numbers to come continue to show the opposite. The result is confusion for all. Are we, or are we not, in a vigorous recovery? We think we are. The market wants more evidence. Until the market gets it, further gains will be hard won. \$

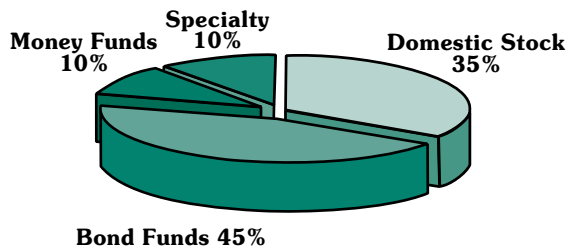
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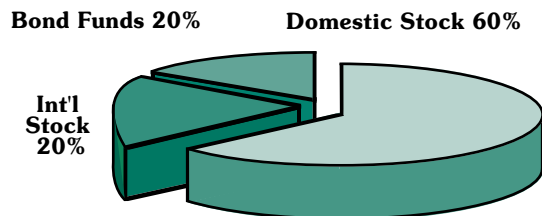
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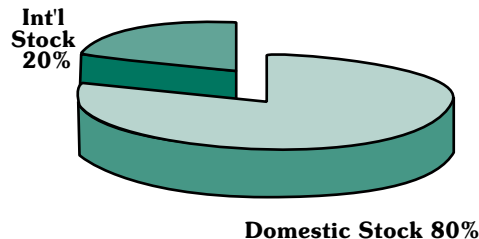
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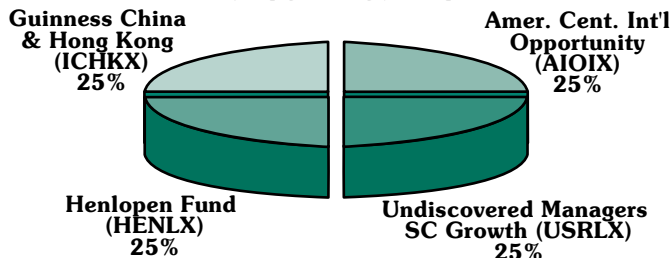
VENTURESOME

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



SELECT

Seeks maximum long-term growth by assertively upgrading fund positions



Domestic Stock Funds

RANK 2/13 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/ w/f
									1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
1	2	-	FLVCX	Fidelity Leveraged Company (\$10,000)	MC	*	B	B	2.4%	39.6%	120.0%	\$20.57	-	-	Fw
2	5	7	RYPNX	Royce Opportunity (1%r<180d)	SCVal	B	B	B	1.1	37.7	98.1	12.95	26.3	1.07	fsw
3	6	12	HRTVX	Hearliland Value (closed, 1%r<90d)	SCVal	S	S	S	1.9	36.4	95.8	54.74	21.0	0.76	FsW
4	14	4	NBSX	Neuberger Berman Focus	LCVal	*	B	B	4.6	32.3	100.5	39.30	36.2	1.87	fSW
5	3	2	USRLX	Undiscovered Small Cap Growth (\$10,000)	SCGro	*	B	B	0.1	32.9	104.1	11.26	-	-	fw
6	1	10	HENLX	Henlopen Fund (1%r<30d)	SCGro	*	B	B	2.6	32.2	88.9	27.99	33.7	1.43	FSW
7	29	123	MOPIX	Mainsay Small Cap Opportunity	SCVal	B	B	B	2.5	37.8	71.7	17.88	17.5	0.63	FSW
8	61	16	CGMFX	CGM Focus	SCVal	*	H	H	2.4	31.0	84.2	29.84	50.6	0.13	fsw
9	19	24	WMCVX	Wasatch Small Cap Value (closed, 2%r<60d)	SCVal	B	B	B	4.4	30.2	82.2	5.70	25.4	0.86	FSW
10	24	13	BUFSX	Buffalo Small Cap (closed)	SCGro	B	B	B	6.1	28.0	84.6	24.38	28.9	1.20	SW
11	8	35	BOGLX	Bogle Small Cap Growth (closed)	SCGro	B	B	B	1.0	33.3	78.3	28.20	21.3	0.90	w
12	10	8	RSSGX	RS Smaller Company Growth	SCGro	*	B	B	1.3	29.2	87.7	21.74	28.0	1.33	FSW
13	9	9	WBSNX	WmBlair S-C Growth N (closed, 1%r<60d)	SCGro	B	B	B	0.7	28.8	88.6	23.24	34.6	1.32	FSW
14	11	3	RSDGX	RS Diversified Growth	SCGro	*	B	B	-1.8	26.7	94.1	23.04	29.0	1.53	FSW
15	32	53	IZZYX	ICM/Isabelle Small Cap Value	SCVal	B	B	B	1.6	32.8	71.5	14.51	24.6	0.85	FSW
16	21	135	BERWX	Berwyn Fund (1%r<180d)	SCVal	B	B	B	2.0	33.4	68.6	26.00	20.6	0.63	fsw
17	4	20	POGSX	Pin Oak Aggressive Stock	MCGro	*	B	B	-0.9	30.6	79.1	20.68	40.6	2.57	FSW
18	12	-	NEGSX	Needham Small Cap Growth	SCGro	B	B	B	0.2	27.9	83.6	17.79	-	-	FSW
19	20	37	VHCOX	Vanguard Cap Opp (\$25,000, 1%r<5yr)	MCGro	*	B	B	3.2	31.1	70.5	27.35	22.8	1.29	fsw
20	28	14	JAVTX	Janus Venture (closed)	SCGro	*	B	B	1.6	26.0	83.0	51.78	30.1	1.52	FSW
21	7	1	OBEGX	Oberweis Emerging Growth (1%r<180d)	SCGro	*	B	B	-1.9	22.2	97.8	28.34	34.2	1.63	FSW
22	23	22	RSPFX	RS Partners	SC	H	B	B	2.8	27.5	76.3	28.89	23.0	0.65	FSW
23	76	73	MUHLX	Muhlenkamp Fund	MCVal	B	H	H	5.5	28.2	69.2	66.76	28.6	1.26	FSW
24	25	36	TGVNX	TCW Galileo Value Opportunities	MC	(B)	(B)	(B)	3.6	28.2	71.6	21.47	-	-	FSW
25	36	25	BPSCX	Boston Ptrns Smlcap Val (closed, 1%r<1yr)	SCVal	B	B	B	2.5	26.4	77.6	24.03	26.4	0.74	FSW
26	37	66	FSLCX	Fidelity Small Cap Stock (2%r<90d)	SCGro	B	B	B	2.3	29.4	66.1	17.98	20.3	0.92	F
27	27	42	MERDX	Meridian Fund	SCGro	B	B	B	2.2	27.3	71.3	35.10	20.3	0.84	fw
28	17	17	TGSCX	TCW Galileo Small Cap Growth	MCGro	*	B	B	0.0	26.1	75.4	15.94	37.9	2.17	FSW
29	38	39	JSVAX	Janus Special Equity	MC	*	H	H	2.3	27.0	69.2	11.37	19.0	1.00	SW
30	53	30	CRMSX	CRM Small Cap Value Inv	SCVal	H	H	H	3.4	25.3	71.7	25.92	22.9	0.87	FSW
31	70	64	TUDRX	WPG Tudor	SC	H	H	H	3.5	26.6	68.0	17.40	27.3	1.36	FsW
32	30	18	RSEGX	RS Emerging Growth (closed)	MCGro	*	H	H	0.6	25.6	72.7	29.93	30.6	1.68	FSW
33	-	-	TGONX	TCW Galileo Opportunity N	SC	H	H	H	0.7	26.9	67.4	13.44	22.1	0.84	FSW
34	16	11	LMOPX	Legg Mason Opportunity Trust (1%r<1yr)	MC	*	(H)	(H)	-2.1	23.5	79.8	14.15	32.2	1.45	-
35	34	76	CSMVX	Century Select Small Cap	SCGro	B	B	B	2.3	26.7	64.4	22.77	16.3	0.54	FSW
36	51	21	PRNHX	T. Rowe Price New Horizons	SCGro	H	H	H	1.6	24.3	71.3	26.24	29.2	1.44	fsw
37	42	50	NAESX	Vanguard SmallCap Index	SC	H	H	H	1.7	26.4	65.3	23.79	22.2	1.03	fsw
38	15	29	USCGX	USAA Capital Growth	SCGro	*	B	B	-0.6	25.3	70.8	6.73	-	-	fsW
39	40	19	LMASX	Legg Mason Special Investment Trust	MC	*	H	H	-0.4	25.1	70.6	46.10	27.2	1.30	-
40	33	38	MNSCX	Montgomery Small Cap	SCGro	*	H	H	0.4	25.3	68.7	11.44	24.3	1.13	s
41	22	6	UBRRX	Undiscovered Behavioral Growth (\$10,000)	MCGro	*	H	H	0.4	22.2	76.5	20.61	26.9	1.34	fw
42	31	43	GSETX	Columbia Small Company Equity CIZ	SCGro	H	H	H	0.2	25.8	66.8	18.03	33.0	1.10	fw
43	58	52	BRAIX	Bridgeway Aggressive Investors 2	MCGro	*	H	H	0.6	25.1	67.5	12.76	-	-	fsw
44	45	41	RYLPX	Royce Low Priced Stock (1%r<180d)	SCVal	H	H	H	1.1	25.0	66.0	14.76	26.1	1.02	FSW
45	26	44	VISGX	Vanguard Small Cap Growth Index	SCGro	H	H	H	1.0	26.2	63.0	13.88	22.3	1.02	w
46	59	51	FDCAX	Fidelity Capital Appreciation	MC	H	H	H	2.0	24.9	64.5	25.36	23.2	1.27	fsw
47	54	120	CRIMX	CRM Mid Cap Value Ins	MCVal	H	H	H	3.4	26.5	58.2	22.73	20.0	0.65	w
48	57	122	CRMMX	CRM Mid Cap Value Inv	MCVal	H	H	H	3.3	26.3	57.8	22.52	-	-	Fsw
49	46	47	CUEGX	CS Warburg Pincus Emerging Growth	MCGro	H	H	H	2.2	24.4	64.1	29.35	24.0	1.31	FSW
50	43	48	RSMOX	RS MidCap Opportunities	MCGro	H	H	H	1.0	24.5	65.1	11.29	20.3	1.08	FSW
51	44	15	TGANX	TCW Galileo Aggressive Growth CIN	MCGro	*	H	H	1.2	23.3	67.5	12.63	38.2	2.14	SW
52	60	62	VEXMX	Vanguard Extended Market Index	MC	H	H	H	2.3	24.4	62.6	28.05	23.1	1.17	fsw
53	71	111	VISVX	Vanguard Small-Cap Value Index	SCVal	H	H	H	2.4	26.6	56.9	12.00	23.2	0.87	fsw
54	72	-	MAVFX	Matrix Advisors Value	LC	H	H	H	2.6	23.7	63.8	56.23	26.7	1.25	FSW
55	41	45	VEXPX	Vanguard Explorer	SCGro	H	H	H	0.6	24.6	64.7	68.73	24.7	1.18	fsw
56	68	55	SLSSX	Selected Special Shares	MCGro	H	H	H	3.9	23.5	62.3	12.32	19.0	1.04	sW
57	49	104	SMTVX	Strong Multi-Cap Value	MCVal	H	H	H	1.3	25.9	59.6	58.37	18.8	0.85	FSW
58	64	67	FDISX	Dreyfus-Founders Discovery	SCGro	H	H	H	3.0	24.1	61.0	27.59	25.7	1.30	FSW
59	69	75	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	H	H	H	0.6	24.8	62.7	29.68	19.3	0.67	fw
60	63	78	VSEGX	Vanguard Strategic Equity	MCGro	H	H	H	2.1	24.9	59.5	19.59	16.2	0.78	fsw
61	62	40	ARTSX	Artisan Small Cap	SCGro	H	H	H	2.4	22.0	66.2	15.07	27.8	1.23	FSW
62	65	106	TRMCSX	T. Rowe Price Mid Cap Value	MCVal	S	S	S	3.2	25.5	56.0	21.34	17.7	0.72	fsw
63	52	89	TWCVX	American Century Vista	MCGro	S	S	S	2.2	23.8	61.7	13.26	20.6	0.77	fSW
64	18	5	PBEGX	PBHG Emerging Growth	SCGro	*	H	H	-1.8	21.0	73.7	13.48	33.6	2.03	FSW
65	121	56	WGROX	Wasatch Core Growth (closed, 2%r<60d)	SCGro	S	S	S	4.0	21.0	65.1	38.88	30.1	1.06	FSW
66	-	-	TGDVX	TCW Galileo Diversified Value N	LCVal	S	S	S	3.8	24.5	56.3	11.91	19.3	0.94	FW
67	92	98	VCVLX	Vanguard Capital Value	LCVal	S	S	S	2.6	23.2	59.7	10.70	-	-	fsw
68	50	33	TMGFX	Turner Mid Cap Growth	MCGro	*	H	H	1.2	22.3	63.9	22.86	31.2	1.70	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	2/13	1 Mo	6 Mo	Ticker	FUND NAME (Max. Load)	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	RISK		NTF/wff
										1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
69	75	85	PBSVX	PBHG Small Cap Value	SC	S	S	S	1.9	23.3	60.2	20.31	24.3	1.08	FSW	
70	47	84	TASCX	Third Avenue Small-Cap Value	SCVal	H	H	H	0.5	25.6	56.6	19.75	19.1	0.81	FSW	
71	96	61	SMCDX	Strong Mid Cap Disciplined	MCVal	S	S	S	3.7	21.7	61.5	21.16	21.3	0.94	FSW	
72	73	80	FLPSX	Fidelity L P Stock (closed, 1.5%r<90d)	SCVal	S	S	S	2.5	23.3	58.6	36.64	16.9	0.67	fsw	
73	48	83	FMLIX	Fidelity New Millennium (closed)	MCGro	S	S	S	0.9	24.9	56.7	31.79	30.4	1.51	fsw	
74	80	28	SAFGX	Safeco Growth Opportunities	SC	S	S	S	1.3	21.2	65.3	25.56	27.8	1.22	fsw	
75	84	54	MPMVX	MSI Mid Cap Value	MCVal	S	S	S	3.5	21.9	60.0	21.37	16.3	0.80	fsw	
76	35	31	NEEGX	Needham Growth Fund (.75%r<30d)	MCGro	(S)	(S)	(S)	-0.2	22.3	64.2	31.23	28.8	1.38	FSW	
77	90	-	CAMOX	Cambiar Opportunity	LC	S	S	S	3.8	23.5	53.8	15.13	19.7	0.93	FSW	
78	56	77	RSVPX	RS Value+Growth	LC	S	S	S	0.4	22.4	61.0	17.92	17.4	1.04	FSW	
79	77	100	ARTMX	Artisan Midcap (closed)	MCGro	S	S	S	3.5	23.0	52.9	27.62	25.0	1.25	FSW	
80	108	105	PESPX	Dreyfus Mid Cap Index	MCGro	S	S	S	3.2	22.7	53.5	24.44	19.6	0.95	FSW	
81	55	72	PENNX	Royce Penn Mutual (1%r<180d)	SCVal	S	S	S	0.9	22.6	57.1	9.28	19.2	0.71	Fsw	
82	131	126	NCTWX	Nicholas II	MCVal	S	S	S	4.5	21.9	52.7	22.53	18.7	0.98	w	
83	94	90	TAVFX	Third Avenue Value	MCVal	S	S	S	1.9	23.8	51.6	43.30	16.1	0.75	FSW	
84	106	110	BPMCX	Boston Partners Mid Cap Value	MCVal	S	S	S	2.9	21.7	55.3	13.33	18.6	0.83	FSW	
85	83	114	FIDLX	Fidelity Value	MCVal	S	S	S	2.8	22.5	52.7	65.06	18.5	0.68	Fsw	
86	99	63	MPSCX	MSI Small Cap Value (closed)	SCVal	S	S	S	2.0	21.4	56.5	21.55	18.7	0.91	fsw	
87	86	115	VIMSX	Vanguard Mid-Cap Index	MC	S	S	S	2.6	22.8	52.0	13.69	19.8	0.95	fsw	
88	115	109	WPSRX	Westport Small Cap R	SCVal	S	S	S	4.0	22.4	50.6	23.10	19.3	0.84	FSW	
89	13	32	WVEGX	Van Wagoner Emerging Growth (closed)	MCGro	*	H	H	-5.4	25.3	56.6	6.64	54.7	3.00	FSW	
90	91	71	CBMDX	C&B Mid Cap Value	MCVal	S	S	S	1.8	21.0	56.5	19.45	19.5	0.66	FSW	
91	89	23	KAUFX	Federated Kaufmann Fund (0.2%)	MCGro	S	S	S	1.8	17.6	65.0	5.15	20.1	0.89	FSW	
92	102	58	MPEGX	MSI Mid Cap Growth	MCGro	*	S	S	-2.2	20.3	57.5	17.97	22.9	1.30	fsw	
93	67	70	FOCPX	Fidelity OTC Portfolio	LCGro	*	H	H	-0.3	22.5	55.6	34.05	29.2	1.59	fsw	
94	127	129	MPVLX	MSI Value Portfolio	MCVal	S	S	S	3.8	20.7	53.8	16.25	20.6	0.87	fsw	
95	-	-	TGIGX	TCW Galileo Dividend Focused N	MCVal	S	S	S	3.4	22.8	48.6	10.39	13.9	0.48	FW	
96	134	127	ARTQX	Artisan Mid Cap Value	MCVal	S	S	S	4.2	21.6	50.4	14.30	-	-	FSW	
97	97	137	WVNDX	Vanguard Windsor	LCVal	S	S	S	1.9	21.7	52.9	16.84	19.6	0.91	fsw	
98	112	26	FBRVX	FBR Small Cap Value A (1%r<90d)	SCGro	S	S	S	2.4	17.9	61.2	34.04	22.0	0.76	FSW	
101	98	148	FDESCX	Fidelity Small Cap Ind. (1.5%r<90d)	SC	H	H	H	2.0	22.6	50.0	18.64	17.7	0.58	fsw	
128	117	103	FDEGX	Fidelity Aggressive Growth (0.75%r<90d)	LCGro	H	H	H	2.9	19.9	48.1	15.64	30.5	1.96	fsw	

Dow Jones
NASDAQ
S&P 500

1.9%
-2.1
2.2

14.6%
21.8
16.4

37.1%
60.8
40.2

indexes do not
include dividends

International Stock Funds

1	3	2	FLATX	Fidelity Latin Amer.(1.5%<90d)	LatinA	*	H	H	-0.7%	41.8%	94.2%	\$16.34	29.8	-	fs
2	1	-	FISMX	Fidelity Intl Small Cap (2%r<90d)	Int'l	B	B	B	3.8	39.0	91.6	20.01	-	-	F
3	1	-	AIOIX	Amer.Cent.Intl Opportunity (2%r<180d)	Int'l	B	B	B	4.2	38.6	90.7	8.65	-	-	S
4	4	9	PRLAX	T. Rowe Price Latin America (2%r<1yr)	LatinA	*	H	H	0.2	39.4	87.3	12.63	29.7	-	fsw
5	6	13	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	B	B	B	3.6	38.4	75.4	17.42	20.4	-	FSW
6	5	6	PRIDX	T. Rowe Price Intl Disc. (2%r<1yr)	Int'l	B	B	B	3.7	35.9	80.8	28.28	16.0	-	fsw
7	15	8	VEIEX	Vanguard Emerging Mkts Stk Index (.5%r)	Int'l	*	B	B	2.6	36.7	79.0	12.87	22.6	-	fsw
8	9	-	DREGX	Driehaus Emerging Mkts Gr	Int'l	B	B	B	1.0	36.8	79.4	21.56	24.9	-	FSW
9	13	3	MAPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	*	B	B	2.6	35.9	77.8	14.30	23.6	-	FSW
10	16	16	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	B	B	4.4	35.8	74.5	16.13	21.1	-	fsw
11	14	14	VINEX	Vanguard Intl Explorer (\$10,000,2%<60d)	Int'l	(B)	(B)	(B)	4.0	34.8	75.8	13.94	16.3	-	fsw
12	12	4	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	B	B	B	3.4	33.9	78.9	16.68	-	-	SW
13	18	11	ICHKX	Guinness China & Hong Kong	Pacific	*	B	B	3.9	36.4	70.8	17.92	19.6	-	FSW
14	7	12	SLAFX	Scudder Latin America	LatinA	*	H	H	-1.0	34.7	77.9	26.05	27.3	-	FSW
15	17	15	PRASX	T. Rowe Price New Asia	Pacific	*	B	B	2.8	34.6	69.8	9.26	19.7	-	fsw
16	19	18	FEMMX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	H	H	H	2.9	34.5	69.4	11.56	-	-	fsw
17	28	20	SCOPX	Scudder Pacific Opportunity (2%r<1yr)	Pacific	H	H	H	4.5	35.2	64.2	12.76	19.0	-	FSW
18	20	17	DRFMX	Dreyfus Emerging Market (1%r)	Int'l	*	H	H	2.0	33.9	68.7	18.04	21.6	-	FSW
19	-	-	DODFX	Dodge&Cox Intl. Stock	Int'l	H	H	H	2.5	32.9	69.8	24.89	-	-	fsw
20	21	24	FIEUX	Fidelity Europe (1%r<90d)	Europe	H	H	H	3.8	31.8	69.6	28.46	22.5	-	fsw
21	25	-	FECAX	Fidelity Europe Capital App.	Europe	H	H	H	4.4	33.7	61.1	20.53	18.8	-	Fw
22	11	-	DRIDX	Driehaus Int'l Discovery	Int'l	H	H	H	2.1	28.0	73.3	31.26	21.1	-	FSW
23	29	1	OAKGX	Oakmark Global (2%r<90d)	Global	H	H	H	2.4	26.6	73.4	20.23	26.5	-	Fsw
24	27	34	JAOSX	Janus Overseas (closed)	Int'l	H	H	H	2.5	31.3	60.2	22.08	16.5	-	FSW
25	24	30	FIGRX	Fidelity International G & I	Int'l	H	H	H	2.2	31.4	60.3	25.31	15.2	-	Fsw
26	8	10	MJFOX	Matthews Japan Fund (2%r<90d)	Japan	*	(H)	(H)	-1.7	32.9	62.4	13.22	15.2	-	FSW
27	22	19	SGSCX	Scudder Global Discovery (closed)	Int'l	H	H	H	2.5	28.0	67.5	29.88	20.1	-	FSW
28	30	33	VTRIX	Vanguard International Value	Int'l	H	H	H	2.6	28.8	60.4	27.82	16.8	-	fsw
29	26	29	FOSFX	Fidelity Overseas (1%r<30d)	Int'l	H	H	H	1.0	28.8	60.2	32.87	15.5	-	Fsw
30	37	45	VEURX	Vanguard European Stock Index	Europe	S	S	S	2.4	28.7	57.8	23.19	17.4	-	fsw
31	34	31	FDIVX	Fidelity Diversified Intl (1%r<30d)	Int'l	S	S	S	2.8	28.4	57.5	25.44	13.8	-	Fsw
32	33	28	HAINX	Harbor International	Int'l	S	S	S	1.8	27.5	59.5	38.54	17.9	-	Fsw
33	36	41	BJBIX	Julius Baer International Equity A	Int'l	S	S	S	2.1	30.1	52.0	28.13	12.5	-	FS
34	40	25	OAKIX	Oakmark International (2%r<90d)	Int'l	S	S	S	2.9	26.7	59.0	19.08	22.0	-	FSW
54	23	26	PRJJPX	T. Rowe Price Japan	Japan	*	(S)	(S)	-2.2	25.9	49.1	7.20	14.4	-	s

Bond Funds (next issue on page 6: Specialty Funds)
 2/13/2004

Ticker Symbol	Fund NAME (Max. Load)	Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	Std. Dev.	Yield	NTF/wff
						1 mo.	6 mo.	12 mo.				
FFRHX	Fidelity Floating Rate High Inc(1%r<60d)	BnkLoan	B	*	*	-0.1%	2.5%	5.2%	\$9.90	-	3.21%	Fw
BUFHX	Buffalo High-Yield(2%r<180d)	HighYld	B	B	*	0.5	8.8	20.9	11.25	6.06	4.49	FSW
CMHYX	Columbia High Yield	HighYld	B	B	*	-0.2	6.8	9.1	8.77	5.44	6.42	fSW
FAGIX	Fidelity Capital & Income	HighYld	*	*	*	-1.3	13.0	36.7	8.12	14.56	7.65	Fsw
SPHIX	Fidelity High Income (1%r<90d)	HighYld	B	B	*	-0.2	12.6	26.6	9.00	10.33	7.64	Fsw
JAHYX	Janus High Yield	HighYld	B	B	*	-1.3	7.8	11.3	9.70	5.82	6.79	FSW
NTHFX	Northeast Investors Trust	HighYld	*	B	*	1.3	13.1	19.4	7.63	7.71	7.95	fw
PHYDX	PIMCO High Yield	HighYld	B	B	*	-1.0	11.7	21.6	9.76	9.06	6.69	SW
STHYX	Strong High Yield Bond(1%r)	HighYld	*	*	*	-1.2	9.7	19.3	7.74	10.60	7.01	FSW
STHBX	Strong S-T High Yield	HighYld	*	*	*	-0.5	2.9	5.9	8.68	4.10	5.23	FSW
PRHYX	T. Rowe Price High Yield	HighYld	B	B	*	-1.1	9.0	16.8	7.09	7.42	7.93	sw
TGHNX	TCW Galileo High Yield Bond	HighYld	B	B	*	-1.0	12.8	22.9	7.34	8.93	7.29	SW
VAGIX	Value Line Aggressive Inc	HighYld	*	B	*	-0.2	8.6	19.6	5.05	8.88	6.04	FSW
VVEHX	Vanguard High Yield Corporate	HighYld	B	B	*	-0.6	10.6	16.5	6.38	6.99	7.40	sw
BEGBX	American Century Intl Bond	Int'l	*	*	*	0.6	14.7	18.8	14.04	11.17	6.18	fSW
FNMIX	Fidelity New Markets Income	Int'l	*	*	*	-2.5	11.8	25.3	13.80	12.77	5.72	Fsw
PYGFX	Payden Global Fixed Income	Int'l	*	*	*	-0.1	2.7	3.0	10.13	3.95	4.73	fsw
SSTGX	Scudder Global Bond S-T (closed)	Int'l	*	*	*	0.1	7.3	9.0	10.45	5.46	4.56	FSW
RPBIX	T. Rowe Price Int'l Bond	Int'l	*	*	*	0.4	13.1	16.9	10.41	9.89	2.38	fsw
BGNMX	American Century Ginnie Mae	IntTerm	*	*	*	0.4	2.6	0.6	10.65	2.77	4.69	fSW
ACITX	American Century Inflation Adj	IntTerm	B	*	*	0.8	8.2	7.0	11.19	7.09	3.35	fSW
BABIX	Babson Bond Trust	IntTerm	*	*	*	0.0	3.3	1.4	1.57	4.44	2.99	FSW
BBHIX	BBH Inflation Indexed Sec	IntTerm	B	*	*	0.8	7.6	6.6	11.14	7.31	2.57	FSW
CFISX	Columbia Fixed Income Sec	IntTerm	H	*	*	0.2	3.9	2.5	13.63	4.22	3.92	fSW
SRINX	Columbia Income CIZ	IntTerm	H	*	*	-0.6	6.1	9.5	10.15	4.92	5.84	FSW
SRBFX	Columbia Intermediate Bond CIZ	IntTerm	H	*	*	-0.2	4.9	8.1	9.23	4.10	5.02	FSW
DODIX	Dodge & Cox Income	IntTerm	H	*	*	0.2	5.4	6.7	13.06	3.49	4.61	fsw
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	-0.5	3.9	4.5	14.06	5.05	3.91	FSW
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	0.6	5.1	3.2	15.03	3.06	4.20	FSW
DSINX	Dreyfus Strategic Income	IntTerm	*	*	*	-0.9	3.2	4.6	14.85	4.67	3.72	FSW
FTRGX	Federated Total Return Govt	IntTerm	H	*	*	0.0	3.8	1.2	11.09	5.98	4.29	sw
FGMNX	Fidelity GNMA	IntTerm	*	*	*	0.2	2.8	1.3	11.17	2.50	2.86	Fsw
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	0.7	7.8	6.7	11.21	-	1.53	Fw
FTHRX	Fidelity Intermediate Bond	IntTerm	H	*	*	-0.1	3.4	3.3	10.75	3.89	3.58	Fsw
FSTGX	Fidelity Intermediate Govt	IntTerm	H	*	*	0.1	3.5	2.8	10.38	4.27	2.74	Fsw
FBNDX	Fidelity Investment Grade	IntTerm	H	*	*	0.3	5.5	5.5	7.63	4.40	3.11	Fsw
FBDFX	Fremont Bond	IntTerm	H	*	*	0.3	5.6	4.7	10.62	4.91	2.92	fsw
MWTRX	MetroWest Total Return	IntTerm	*	*	*	0.5	7.6	10.9	10.06	5.82	6.10	SW
PRRDX	PIMCO Real Return	IntTerm	H	*	*	0.9	7.6	5.3	11.47	7.42	3.17	SW
PTTDX	PIMCO Total Return	IntTerm	H	*	*	0.1	4.6	3.8	10.85	4.92	2.88	SW
PTMDX	PIMCO Total Return Mortgage	IntTerm	H	*	*	0.0	3.4	2.4	10.82	3.19	2.27	SW
SCSBX	Scudder Income (closed)	IntTerm	H	*	*	0.2	5.7	5.9	13.06	4.32	3.78	FSW
STVSX	Strong Govt Securities	IntTerm	H	*	*	0.1	3.6	2.3	11.01	4.77	3.02	FSW
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	0.0	4.0	4.0	9.14	4.29	3.58	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	H	*	*	0.6	3.8	3.5	9.98	3.15	6.12	SW
USAIX	USAA Income	IntTerm	H	*	*	0.5	5.8	5.5	12.56	4.87	4.49	w
VALBX	Value Line U.S. Govt Sec	IntTerm	H	*	*	0.2	3.7	2.5	12.00	4.63	3.50	FSW
VBMFX	Vanguard Bond Market	IntTerm	H	*	*	0.3	5.2	4.9	10.41	4.27	4.52	fsw
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	1.0	8.3	7.6	12.46	7.13	3.61	sw
MINTRX	Wells Fargo Montgomery Total Return	IntTerm	H	*	*	0.4	4.2	3.3	12.44	4.55	3.60	FSW
WTIBX	Westcore Plus Bond	IntTerm	*	*	*	0.2	8.3	12.8	10.94	4.12	5.73	FSW
WPGVX	WPG Core Bond	IntTerm	H	*	*	0.3	4.6	4.0	10.79	4.48	2.93	Fsw
FGOVX	Fidelity Government Income	LngTerm	*	*	*	0.1	4.2	1.9	10.34	5.62	3.08	Fsw
KIFIX	FifthThird Bond	LngTerm	*	*	*	0.3	5.2	3.6	10.27	5.13	3.57	w
MGFIX	Managers Bond	LngTerm	*	*	*	0.2	9.1	11.4	24.96	6.87	4.68	FSW
STCBX	Strong Corporate Bond	LngTerm	*	*	*	-0.1	7.2	9.4	10.73	6.81	4.88	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	0.1	7.7	10.2	9.87	5.82	5.36	fsw
PRULX	T. Rowe Price U.S. Treas. L-T	LngTerm	*	*	*	0.2	5.9	1.5	11.94	10.00	4.38	fsw
VUSTX	Vanguard L-T Treasury	LngTerm	*	*	*	0.2	6.4	1.2	11.61	11.32	4.82	fsw
VWESX	Vanguard Long-Term Corporate	LngTerm	*	*	*	0.1	7.9	3.8	9.45	10.32	5.60	fsw
JAFIX	Janus Flexible Income	Multi	*	*	*	-0.2	4.1	4.1	9.88	4.68	4.38	FSW
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	0.2	8.5	14.1	11.93	4.55	4.19	fsw
JASBX	Janus S-T Bond	ShfTerm	B	*	*	0.0	1.7	3.5	2.95	1.60	2.44	FSW
MGIDX	Managers Int. Duration Govt	ShfTerm	*	*	*	0.4	4.2	3.7	10.72	2.84	2.38	FSW
MWLDX	MetroWest Low Duration	ShfTerm	B	*	*	0.3	2.7	3.8	9.57	3.01	4.71	SW
SCSTX	Scudder Short-Term Bond (closed)	ShfTerm	B	*	*	0.2	2.0	3.1	10.57	1.70	4.04	FSW
BTFIX	Amer. Cent. Target 2015	ZeroCpn	*	*	*	0.5	11.5	6.2	69.08	15.32	5.18	fSW
BTINX	American Century Target 2010	ZeroCpn	*	*	*	0.3	6.4	4.8	85.51	10.30	4.43	fSW
BTITX	American Century Target 2020	ZeroCpn	*	*	*	1.0	15.5	6.8	49.57	19.01	4.79	fSW
BTTRX	American Century Target 2025	ZeroCpn	*	*	*	1.5	18.7	6.9	41.04	21.90	4.88	fSW

MONEYLETTER'S Top 10 Funds for 2003

As promised in the last issue, below are funds six through 10 of MONEYLETTER'S Top 10 Funds for 2003. Chief Economist and Chief Investment Officer Walter Frank chose these funds based on several characteristics, including their performance for the past year, their contribution to the MONEYLETTER portfolios, and the funds' long-term record. First, let's review funds one through five: #1 Fidelity Leveraged Growth, #2 Royce Opportunity, #3 Henlopen Fund, #4 Undiscovered Small Cap Growth, #5 Heartland Value.

#6 Neuberger Berman Focus (NBSSX)

Fund Type: Large Cap Value **2003 Return:** +64.9%
Managers: Kent Simons (1/88) and Robert Corman (11/03)
Best Quarter (since 1/00): +34.1% (2Q 2003)
Worst Quarter (since 1/00): -31.9% (3Q 2002)
Minimum Investment: \$1,000

Comment: This fund has put together a volatile year-by-year performance record, outperforming the S&P 500 four times (and under performing three) since 1996. Despite two quarterly drawdowns of 30% in the last three years, the fund has done significantly better than the benchmark index over the last five years. Not for the faint of heart.

#7 American Century Int'l Opportunity (AIOIX)

Fund Type: International **2003 Return:** +73.2%
Managers: Lynette Schroeder (6/01) and Henrik Strabo (3/02)
Best Quarter (since 1/00): +24.2% (2Q 2003)
Worst Quarter (since 1/00): -18.2% (3Q 2002)
Minimum Investment: \$10,000

Comment: This fund was launched in June, 2001 and added to the MONEYLETTER database last November. Assets are now more than \$100 million, and the fund has said it will close at \$500 million. Held by the MONEYLETTER Select Portfolio.

#8 Driehaus Emerging Markets Growth (DREGX)

Fund Type: International **2003 Return:** +65.5%
Manager: Emery Brewer (12/97)
Best Quarter (since 1/00): +27.7% (2Q 2003)
Worst Quarter (since 1/00): -19.8% (3Q 2001)
Minimum Investment: \$10,000

Comment: This fund was added to the MONEYLETTER database last month. Its high turnover is justified by the manager as a risk reduction strategy (by cutting the fund's losses).

#9 Guinness China & Hong Kong (ICHKX)

Fund Type: Pacific **2003 Return:** +65.3%
Manager: Edmund Harriss (4/98)
Best Quarter (since 1/00): +19.1% (4Q 2003)
Worst Quarter (since 1/00): -25.6% (3Q 2001)
Minimum Investment: \$2,500

Comment: With its 2003 turnaround and an improved outlook in China, this fund should be considered for diversification and a small portion of your assets. Purchased 1/7/04 by the Select Portfolio.

#10 Oberweis Emerging Growth (OBEGX)

Fund Type: Small Cap Growth **2003 Return:** +67.7%
Managers: James D. Oberweis (1/87) and James W. Oberweis (11/01)
Best Quarter (since 1/00): +37.4% (2Q 2003)
Worst Quarter (since 1/00): -26.8% (3Q 2001)
Minimum Investment: \$1,000

Comment: This fund appears to have learned from its mistakes, recovering from four straight sub-par years (as compared to other small cap growth funds) from 1997-2000. But when viewed versus the S&P 500 index, the fund compares favorably for the one-, three-, and five-year periods.

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	0.67%	0.67%	0.78%
Gabelli US Treasury MMF	0.65	0.66	0.78
Fidelity Spartan US Treas MMF	0.59	0.62	0.71
Amer Century Capital Presv Fund/Inv	0.54	0.54	0.64
T Rowe Price US Treasury MF	0.50	0.50	0.58
HSBC Investor US Treas MMF/CI D	0.37	0.36	0.42
Schwab US Treasury Money Fund	0.35	0.36	0.45
CMA Treasury Fund RIC	0.33	0.34	0.46
RMK Select Treas MMF/CI A	0.32	0.29	0.40
US Treasury MF of America/CI A	0.29	0.21	0.43

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	1.04%	1.04%	1.12%
McMorgan Principal Preservation	0.89	0.87	0.95
Bunker Hill MMF	0.87	0.86	0.94
Phoenix-Goodwin Money Market Series/A	0.87	0.85	0.92
Flex-fund Money Market Fund	0.84	0.84	0.89
TIAA-CREF Money Market Fund	0.81	0.83	0.90
AIM MMF/Investor Class	0.80	0.80	0.00
Harbor Money Market Fund	0.79	0.80	0.79
AIG Money Market Fund/CI B	0.78	0.79	0.76
Scudder Premium Money Mkt Shrs/CI S	0.78	0.78	0.87
Scudder Premium Money Mkt Shrs/AARP	0.78	0.78	0.87

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Vanguard Tax-Exempt MMF	0.81%	0.83%	0.92%
Strong Tax-Free Money Fund	0.80	0.83	0.94
Strong Municipal MMF	0.64	0.67	0.83
Scudder Tax-Exempt Money Fund	0.58	0.61	0.68
USAA Tax Exempt MMF	0.58	0.61	0.76
Amer Century T-F MMF/Inv Class	0.57	0.62	0.71
Dreyfus BASIC Muni MMF	0.56	0.60	0.69
Fidelity Municipal MMF	0.56	0.61	0.71
T Rowe Price Summit Muni MMF	0.55	0.59	0.72
Excelsior T-E Money Fund	0.52	0.54	0.61

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	0.80%	0.82%	0.92%
Vanguard CA Tax-Exempt MMF	0.78	0.79	0.88
Vanguard NY Tax-Exempt MMF	0.77	0.79	0.86
Vanguard PA Tax-Exempt MMF	0.77	0.79	0.88
Vanguard NJ Tax-Exempt MMF	0.76	0.78	0.85
Fidelity PA Municipal MMF	0.51	0.61	0.65
USAA Tax Exempt CA MMF	0.51	0.52	0.70
Fidelity FL Municipal MMF	0.47	0.51	0.64
Fidelity OH Municipal MMF	0.47	0.50	0.62
Northern CA Municipal MMF	0.46	0.49	0.59

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 2/10/04. 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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Slow and Steady Wins the International Race: Dodge & Cox International Stock Fund

The Dodge and Cox family of funds is a modest one, with a line-up of only four mutual funds—an equity, income, international, and balanced. The family is well known as a pure value shop, one that eschews rapid trading, and instead takes a long-term investment horizon—looking at least three years ahead. Interestingly, that long-term horizon seems to spread through to the firm's management team. The International Investment Policy Committee of the firm consists of six members, whose average tenure at Dodge & Cox is 17 years.

Dodge & Cox utilizes a strict price discipline when selecting securities for the fund. The firm avoids what they call “popular choices”—stocks that are selling at prices the firm deems too high. They watch for investor pessimism that temporarily depresses a stock price below what the firm calculates as the its long-term fundamental value. Of course, low price is not enough to warrant purchase. An investment candidate must also prove to have a strong management, a competitive business franchise, and good growth potential—for earnings, cash flow, and dividends.

To ascertain business quality and potential the management team develops an investment thesis for each candidate that looks three years ahead. They want stocks they can put in the portfolio and watch unfold over three- to five-years. They use all resources available to them—including the reports of major research firms. But they rely heavily on direct meetings, onsite with company management, as well as consultations with suppliers, customers, and competitors. They find a thorough knowledge of past and present business plans invaluable in assessing the future outlook.

Importantly, a catalyst is required to push earnings higher. The team stresses that it is willing to wait out short-term price weakness, as long as its long-term thesis is intact. However, the managers also carefully weigh downside risk. One of the equity managers, Wendell Birkhofer, recently commented, “Our chief investment officer likes to say that we should follow a Hippocratic oath: ‘Thou shalt do no harm to your clients.’”

That sentiment shows up in various characteristics of the fund. In addition to the strict value discipline, the fund is well diversified by industry sector, individual holdings, and countries. Turnover is low, at just 11% annually. Expenses are capped at 0.90% of assets through 2005, very reasonable for an international equity fund.

Although in its other equity funds Dodge & Cox focuses on the large-cap universe, in the International Stock fund management delves into small- (17% of assets) and mid-cap (28%) stocks as well. This has been a benefit to the fund recently as small-cap stocks led the way abroad last year.

Top Five Countries and Sectors (% of Assets)

Japan	26.0%	Consumer Discretionary	26.5%
United Kingdom	9.9	Materials	17.9
Switzerland	9.2	Financials	17.7
South Korea	7.6	Consumer Staples	9.9
Netherlands	7.0	Energy	6.2

Dodge & Cox International began operations on May 1, 2001. In 2002, its value discipline and picks among cyclical issues helped it to limit losses during a market downturn. The fund declined 13.1%. Its strong performance last year, when it gained 49.4%, well above its category average, proved that it has what it takes to perform well in positive market conditions as well. Looking more recently, a 69.8% gain for the trailing year through February 13 placed it ahead of 98% of its Lipper peers. Investors have certainly taken note of the fund's relative performance. Fund assets grew from below \$150 million at the start of 2003 to \$655 million at year end.

In addition to its smaller-cap exposure, recent results have also benefited from strength in Latin America, where portfolio holdings (representing 9% of assets) gained 30% on average during the last calendar year. And the managers note that persistence paid off in its investment in aircraft engine-maker Rolls Royce. The stock plunged in the first quarter of 2003, but they added to their position, believing in the firm's strong market position in an industry critical to global economic growth. During the remainder of the year, the stock's price appreciated meaningfully.

Even though the team has witnessed rising valuations in many markets, they continue to find attractive investment opportunities. As they foresee the consumer outside the US, and especially in the developing world, becoming a larger factor in global growth, one area the managers are focusing on is companies serving the consumer in the developing world. \$

*Dodge & Cox International Stock Fund (DODFX)
Dodge & Cox Funds, One Sansome Street, 35th Floor
San Francisco, CA 94104; (800) 621-3979
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