



Cutting Back On High-Yield

by Walter S. Frank, Chief Investment Officer

As we wrote in the last issue of MONEYLETTER (March 5) our high-yield allocations in the Moderate and Conservative model portfolios have been undergoing review. The high-yield funds have been good to us, and we received more than we expected from them. But you can have too much of a good thing, and that is where we think we are now with regard to these funds.

As economists say, there is no free lunch. In the case of the high-yield universe, that means investors traded off the security of a high-rated bond for the extra yield of a low-rated bond. When the economy is coming out of a recession and business starts heading up, that is a reasonable trade. It is an unusually good trade if the Fed is aggressively lowering rates and promises to hold rates low for an extended period of time.

We have had all that, and the result was a vigorous rally for high-yield bonds. The result of the rally was to narrow the distance in returns between high-yield bonds and high-grade bonds to less than normal. High-yield bond funds were able to achieve good capital gains in addition to their high-yield returns. By now, however, the capital gains part of the return is surely over. The expected return today from high-yield bond funds is their yield and nothing more. This raises the question of whether high-yield bond fund returns adequately reward today's investor for the risk being taken.

There is no clear-cut answer in our current unusual (post-bubble) interest rate environment. What we do know is that we feel uncomfortable simply riding along with our high-yield allocation. We have picked all the fruit of that allocation by now, so to speak.

What we have decided to do is to take a half step away from funds that can only invest in the domestic high-yield market. We are moving to multisector bond funds. At this point, we are willing to trade some yield for diversification and flexibility. The flexibility we speak of would come from the ability of the portfolio manager of the fund to move among various types of bonds both for safety and return.

Here are our specific fund recommendation changes:
MONEYLETTER Moderate – Sell Buffalo High Yield; buy Loomis Sayles Bond Fund Retail. **MONEYLETTER Conservative** – Sell Pimco High Yield; buy Loomis Sayles Bond Fund Retail. **Fidelity Moderate and Conservative** – Sell Fidelity High Income; buy Fidelity Strategic Income.

The Vanguard family portfolios represent a challenge. Vanguard does not offer a multisector bond fund. In this case, we recommend that **Vanguard Moderate** investors hold on to Vanguard High Yield Corporate, while for **Vanguard Conservative** we recommend – Sell High Yield Corporate; buy Vanguard GNMA.

What we particularly like about multisector bond funds (Loomis Sayles Bond and Fidelity Strategic Income) is that the bond fund manager can spread risk among various types of bonds. In the case of the Loomis Sayles fund this includes some high-yield, some emerging market debt, and some higher-yielding, but also high-rated, foreign debt.

The result of the switches is that we have given up some, but not a great deal, of yield. In turn, while we have reduced the risk level some, we are by no means in the high-grade universe. The main advantage of the moves is that we now have funds that can move from one bond fund sector to another, at a time when no sector offers enticing prospects.

As an afterthought, after we had decided on these moves, Business Week in its March 22nd issue chose Dan Fuss (see page 8, Loomis Sayles Bond Fund) as one of its nine Best Mutual Fund Managers 2004. An obvious choice, in our opinion.

Time For Mid-Caps?

In some ways this is a misleading question. There has always been time for mid-caps, but investors generally overlooked the fact. In general, investor psychology, guided by Wall Street practice, has worked to divide the investment world into small- and large-caps. These are pretty elastic terms, but in general we know the difference between large-cap firms (IBM, WalMart) and small-cap firms. For most of us, there is only a vague notion of something in between.

There is a great deal of Wall Street "knowledge" about small-caps. We know how small-caps act as the economy comes out of a recession (they soar and lead the way). We know that small-caps tend to have cycles of outperformance (5-8 years) and then fade away. Conversely, there is very little lore about mid-caps.

One reason for all this is that there is a tendency to lump the middle size firms in with small-caps. We have been guilty of this practice. We have in the past talked about small- and mid-cap stocks as if basically they marched to the same drummer. It may very well be that they do. But there are obvious differences.

(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)

Two things led us to look at mid-caps. The first is that so many small-cap funds high up in our fund list have closed, some over the last few months (Buffalo Small Cap, Wasatch Small Cap Value, William Blair Small Cap Growth N). The reason given for the closures was simply that as the fund grew larger, the managers could not find enough attractive opportunities to invest wisely. Size matters in the small cap world.

The second thing that led us to mid-caps is that we spotted good year-to-date performance numbers coming from some mid-cap funds (Buffalo Mid Cap, Muhlenkamp Fund). Their performances still somewhat trailed that of the leading small-cap funds. But many of those funds were closed. Given the performances, we wondered whether something was going on in the mid-cap universe that we have overlooked. (The answer is not really.)

What are mid-caps?

In pursuit of an answer, we talked with Kent Gasaway, Bob Male and Grant Sarris, co-portfolio managers of the Buffalo Mid Cap Fund, among other things. But before we go on, let's try to nail down the mid-cap universe. For the Buffalo managers, the mid-cap universe starts at \$1 billion of market cap and goes up to \$10 billion. At the low end that is still fairly small nowadays, and even the upper end is not that large. Still they are firms that are valued in the billions rather than something less.

Standard & Poor's and Russell both have developed Mid-Cap indexes. The S&P Index is the S&P Midcap 400. The Russell Indexes are the Russell Midcap Growth and Russell Midcap Value indexes.

More opportunities in mid-caps

There are obvious advantages for mid-caps, as we said earlier. Quoting Grant Sarris, "Mid-caps have always been in a kind of no-man's land, and when you have had a (sustained) outperformance by small caps, there is a tendency to roll right through midcaps to large caps." What then happens is that in the overlooked mid-cap universe, "You can buy seasoned good growth companies that have established themselves, and they are decent sized companies, but are still small enough that they can grow at pretty good rates." As he then pointed out, if you go to large cap companies, in general, their ability to grow at above average rates is simply limited by their size.

If the mid caps have been overlooked, are they then an area of undervalued companies? Here Sarris made a subtle distinction. If one looks at the indexes, small-cap vs. mid-cap, "I think they are at parity," said Sarris. One cannot make the case that one is cheaper than the other. But when the Buffalo team looks at the mid-cap universe they are finding more opportunities there than in small caps. Sarris was very careful to say that, "Between the analysts and ourselves we have found a lot of reasonably priced, I wouldn't call them cheap, opportunities in mid-cap."

Small-caps in disguise?

As we look at the mid-cap funds, it is clear that they have been swept along by the small-cap performance. In some ways investors have treated the mid caps as an exten-

sion of the small-cap universe. That is the reason the indexes are at parity instead of the mid-caps sporting lower valuations.

As Brian Berghuis, portfolio manager of the T. Rowe Price Mid-Cap Growth Fund wrote in the Fund's annual report (January 14, 2004), "Mid-caps have outperformed large-caps for nearly five years and no longer trade at a substantial valuation discount as in 1999." You could substitute small-caps for mid-caps in that sentence and the sentence would still hold.

As we go forward though, we think the difference between small- and mid-cap will become more important to investors. There was a kind of speculative frenzy in the small-cap area last year that was missing among the mid-caps. With small-caps no longer cheap, we believe that investors will demand solid prospects before they pay up for either growth or value. This will certainly favor the mid-cap universe. \$

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NOTE: There will be 3 weeks between issues.

A Bear Market?

The reason we ask the question is because that is what you have to ask yourself as stock prices slide. Is this a bear market or is it a correction? By a bear market we mean a market that is going much lower, even to the lows of a year ago, and is going to stay there for a while. By a correction, we mean a market that is undergoing profit-taking, aggravated by fear, which will ultimately dry up as one buying opportunity after another emerges.

The question has to be answered. Put another way, the answer to the question will determine what you do now. We find it almost inconceivable, under the circumstances that now prevail for the economy and the stock market, that we are heading for a bear market. We know better than to say anything is impossible for the market to do, but a bear market under the circumstances that now exist? It makes no sense.

Let's just look at the fundamentals of the market—profits, interest rates and valuations. Profits are now rising at about a 15% clip, and are projected to grow at that rate, according to the analysts, for the rest of this year. People can disagree about the number, but we have yet to see anyone calling for profits to fall this year.

As for interest rates, we have little to add to the noise, except to remind everyone that the 10-year yield is now below 4.0%. Rules of thumb have been breaking down left and right lately, but that yield would normally justify a high multiple for stocks. Not only is the yield low now, but we expect yields to remain low (even if they rise some) for the rest of this year.

Finally, valuations. Yes, stocks are not cheap. Last year took care of that. But, in general, they are not expensive. As we have said before, everyone is his own valuation guide. Stocks are now selling at about 18 times projected earnings over the next 12 months. With our interest rate outlook, we simply do not find stocks expensive. They are somewhere between cheap and expensive.

How you make a bear market out of that is beyond us. That is why we keep repeating that we are in a correction. An ugly correction to be sure. We haven't had one of these since the bull market began one year ago.

The thing to keep in mind about corrections is that they can be gut-wrenching. Also, they can build up momentum of their own, as selling begets selling. We think that nowadays, in the new world of hedge funds, piling on—up or down—is to be expected. That is what we are seeing now, in our opinion.

Our advice is to remain cool. Corrections end, and when they do we tend to see sharp market recoveries. We see no reason why this time it will be any different. \$

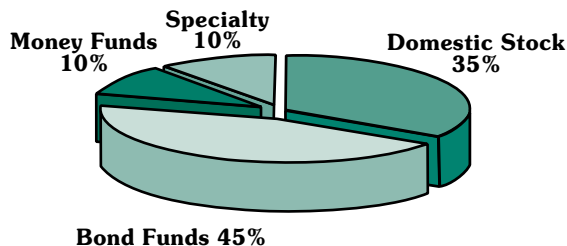
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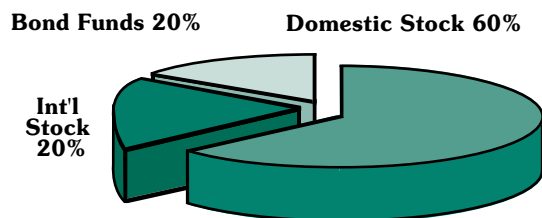
CONSERVATIVE

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



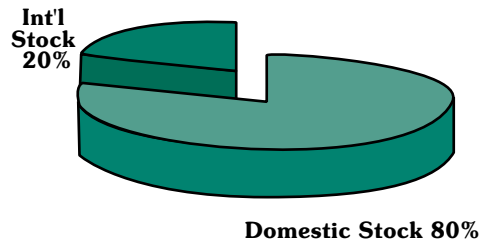
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Seeks greater long-term growth than the Conservative Portfolio by taking prudent risks



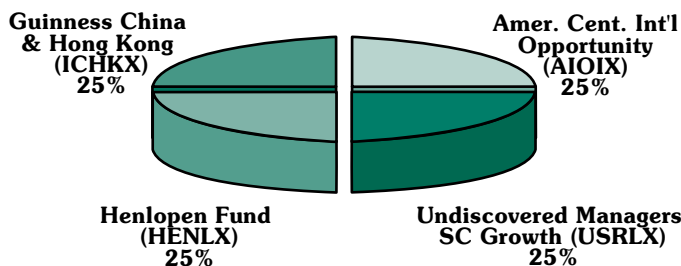
VENTURESOME

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 3/12 2004	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	RISK		NTF/ w/f
									1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
1	1	-	FLVCX	Fidelity Leveraged Company (\$10,000)	MC	*	B	B	-2.7%	26.7%	115.2%	\$20.19	35.9	1.37	Fw
2	8	15	CGMFX	CGM Focus	SCVal	*	B	B	1.2	21.5	99.1	30.52	50.6	0.13	fsW
3	2	6	RYPNX	Royce Opportunity (1%r<180d)	SCVal	B	B	B	-2.8	21.1	103.0	12.73	26.3	1.07	fsW
4	9	17	WMCVX	Wasatch Small Cap Value (closed,2%r<60d)	SCVal	B	B	B	1.2	23.2	89.9	5.79	25.4	0.86	FSW
5	10	16	BUF5X	Buffalo Small Cap (closed)	SCGro	B	B	B	0.8	20.7	95.0	24.73	28.9	1.20	SW
6	22	19	RSPFX	RS Partners	SC	B	B	B	2.5	23.4	79.4	29.73	23.0	0.65	FSW
7	6	7	HENLX	Henlopen Fund (1%r<30d)	SCGro	*	B	B	-2.2	20.3	92.8	27.59	33.7	1.43	FSW
8	13	11	WBSNX	WmBlair S-C Growth N (closed,1%r<60d)	SCGro	B	B	B	-1.3	19.4	90.5	23.22	34.6	1.32	FSW
9	4	10	NBSSX	Neuberger Berman Focus	LCVal	*	B	B	-2.9	16.4	99.9	38.49	36.2	1.87	fsW
10	25	22	BPSCX	Boston Ptnrs Smlcap Val (closed,1%r<1yr)	SCVal	B	B	B	0.1	19.9	83.3	24.29	26.4	0.74	FSW
11	12	4	RSSGX	RS Smaller Company Growth	SCGro	*	B	B	-1.0	16.5	93.3	21.77	28.0	1.33	FSW
12	15	30	IZYX	ICM/Isabelle Small Cap Value	SCVal	B	B	B	-0.8	20.1	83.4	14.54	24.6	0.85	FSW
13	16	82	BERWX	Berwyn Fund (1%r<180d)	SCVal	B	B	B	-1.2	26.2	68.2	25.85	20.6	0.63	fsW
14	5	3	USRLX	Undiscovered Small Cap Growth (\$10,000)	SCGro	B	B	B	-4.5	14.2	100.8	10.94	-	-	fw
15	23	42	MUHLX	Muhlenkamp Fund	MCVal	B	B	B	-1.3	22.4	74.8	66.40	28.6	1.26	FSW
16	30	45	CRMSX	CRM Small Cap Value Inv	SCVal	(B)	(B)	(B)	0.5	18.4	80.9	26.21	22.9	0.87	FSW
17	34	2	LMOPX	Legg Mason Opportunity Trust (1%r<1yr)	MC	*	(B)	(B)	-0.5	17.9	82.4	14.17	32.2	1.45	-
18	31	39	TUDRX	WPG Tudor	SC	(B)	(B)	(B)	-0.3	20.6	74.1	17.43	27.3	1.36	Fsw
19	18	17	RSCOX	RS Contrarian Value	MC	(H)	(H)	(H)	1.5	20.6	70.5	17.88	18.6	0.60	FSW
20	11	26	BOGLX	Bogle Small Cap Growth (closed)	SCGro	B	B	B	-4.3	18.3	80.2	27.34	21.3	0.90	w
21	19	35	VHCOX	Vanguard Cap Opp (closed,\$25,000,1%r<5yr)	MCGro	*	B	B	-1.8	19.4	72.8	27.08	22.8	1.29	fsW
22	74	18	SAFGX	Safeco Growth Opportunities	SC	H	H	H	0.9	14.0	81.4	26.06	27.8	1.22	fsW
23	71	52	SMCDX	Strong Mid Cap Disciplined	MCVal	H	H	H	1.2	17.5	71.8	21.46	21.3	0.94	FSW
24	33	-	TGONX	TCW Galileo Opportunity N	SC	(B)	(B)	(B)	-0.6	17.1	75.1	13.50	22.1	0.84	FSW
25	53	80	VISVX	Vanguard Small-Cap Value Index	SCVal	H	H	H	0.1	20.0	66.7	12.11	23.2	0.87	fsW
26	18	-	NESGX	Needham Small Cap Growth	SCGro	B	B	B	-4.3	14.6	86.4	17.24	-	-	FSW
27	42	66	GSETX	Columbia Small Company Equity CIZ	SCGro	H	H	H	-0.4	17.2	72.3	18.20	33.0	1.10	fw
28	44	33	RYLPX	Royce Low Priced Stock (1%r<180d)	SCVal	H	H	H	-1.1	16.9	74.1	14.76	26.1	1.02	FSW
29	65	36	WGRGX	Wasatch Core Growth (closed,2%r<60d)	SCGro	H	H	H	1.2	16.3	70.3	39.61	30.1	1.06	FSW
30	36	41	PRNHX	T. Rowe Price New Horizons	SCGro	H	H	H	-0.6	16.1	72.2	26.29	29.2	1.44	fsW
31	96	96	ARTQX	Artisan Mid Cap Value	MCVal	H	H	H	1.0	21.1	56.1	14.51	-	-	FSW
32	26	63	FSLCX	Fidelity Small Cap Stock (2%r<90d)	SCGro	B	B	B	-2.7	17.9	69.0	17.65	20.3	0.92	F
33	29	40	JSVAX	Janus Special Equity	MC	*	H	H	-1.8	16.8	70.4	11.18	19.0	1.00	SW
34	14	8	RSDGX	RS Diversified Growth	SCGro	*	B	B	-4.7	10.5	90.4	22.32	29.0	1.53	FSW
35	20	23	JAVTX	Janus Venture (closed)	SCGro	*	B	B	-3.3	14.1	78.7	50.57	30.1	1.52	FSW
36	37	47	NAESX	Vanguard SmallCap Index	SC	H	H	H	-1.3	16.6	68.9	23.73	22.2	1.03	fsW
37	62	94	TRMCX	T. Rowe Price Mid Cap Value	MCVal	H	H	H	-1.1	19.1	62.1	21.18	17.7	0.72	fsW
38	39	20	LMASX	Legg Mason Special Investment Trust	MC	*	H	H	-2.4	14.4	75.2	45.36	27.2	1.30	-
39	40	53	MNSCX	Montgomery Small Cap	SCGro	*	H	H	-1.4	15.0	72.3	11.42	24.3	1.13	s
40	48	95	CRMMX	CRM Mid Cap Value Inv	MCVal	H	H	H	-0.8	19.8	59.2	22.39	-	-	FSW
41	35	43	CSMVX	Century Select Small Cap (1%r<180d)	SCGro	H	H	H	-2.1	18.7	63.0	22.43	16.3	0.54	FSW
42	72	55	FLPSX	Fidelity L P Stock (closed,1.5%r<90d)	SCVal	H	H	H	-0.6	16.7	64.2	36.54	16.9	0.67	fsW
43	27	69	MERDX	Meridian Fund	MCGro	(H)	(H)	(H)	-3.2	17.2	66.2	34.26	20.3	0.84	fw
44	66	-	TGDVX	TCW Galileo Diversified Value N	LCVal	H	H	H	-1.2	18.2	60.5	11.83	19.3	0.94	FW
45	81	57	PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	-0.8	16.5	62.8	9.29	19.2	0.71	Fsw
46	49	71	CUEGX	CS Warburg Pincus Emerging Growth	MCGro	*	H	H	-0.9	15.4	65.6	29.29	24.0	1.31	FSW
47	52	60	VEXMX	Vanguard Extended Market Index	MC	(H)	(H)	(H)	-1.2	16.1	64.0	27.90	23.1	1.17	fsW
48	24	27	TGVNX	TCW Galileo Value Opportunities	MC	(H)	(H)	(H)	-2.9	15.2	67.9	20.97	-	-	FSW
49	59	37	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	H	H	H	-2.7	16.5	63.9	29.01	19.3	0.67	fw
50	111	50	MXIX	Marsico 21st Century	LC	H	H	H	0.6	13.4	66.8	10.09	20.5	1.01	fsW
51	86	77	MPSCX	MSI Small Cap Value (closed)	SCVal	H	H	H	0.4	14.7	63.5	21.81	18.7	0.91	fsW
52	63	109	TWCVX	American Century Vista	MCGro	H	H	H	-1.0	15.9	61.8	13.19	20.6	0.77	fsW
53	70	48	TASCX	Third Avenue Small-Cap Value	SCVal	H	H	H	-0.7	15.8	60.2	19.72	19.1	0.81	FSW
54	61	59	ARTSX	Artisan Small Cap	SCGro	H	H	H	-1.4	13.4	67.3	15.01	27.8	1.23	FSW
55	69	107	PBSVX	PBHG Small Cap Value	SC	H	H	H	-1.6	15.5	61.8	20.22	24.3	1.08	FSW
56	112	133	BARAX	Baron Asset	MCGro	H	H	H	-0.3	17.5	54.3	46.53	21.3	0.95	FSW
57	56	58	SLSSX	Selected Special Shares	MCGro	H	H	H	-2.3	15.0	63.6	12.12	19.0	1.04	sW
58	57	72	SMTVX	Strong Multi-Cap Value	MCVal	H	H	H	-2.4	16.1	61.0	57.27	18.8	0.85	FSW
59	105	86	PRSVX	T. Rowe Price S-C Value (closed,1%r<1yr)	SCVal	H	H	H	-0.5	16.3	57.5	30.83	17.6	0.62	fsW
60	60	67	VSEGX	Vanguard Strategic Equity	MCGro	H	H	H	-1.8	15.5	61.0	19.41	16.2	0.78	fsW
61	38	31	USCGX	USAA Capital Growth	MCGro	*	H	H	-3.2	12.8	69.7	6.62	-	-	fsW
62	77	-	CAMOX	Cambiar Opportunity	LC	S	S	S	-2.6	17.4	57.1	14.82	19.7	0.93	FSW
63	123	38	AVALX	Aegis Value Fund	SCVal	S	S	S	1.0	14.7	58.5	17.61	16.9	0.47	fw
64	98	32	FBRVX	FBR Small Cap Value A (1%r<90d)	SCGro	S	S	S	0.6	14.9	58.4	34.38	22.0	0.76	FSW
65	46	34	FDCAX	Fidelity Capital Appreciation	LCGro	H	H	H	-2.1	14.9	62.2	25.03	23.2	1.27	fsW
66	119	75	RYPRX	Royce Premier (1%r<180d)	SC	S	S	S	-0.7	15.2	59.3	13.51	18.2	0.73	FSW
67	55	44	VEXPX	Vanguard Explorer	SCGro	H	H	H	-2.3	13.2	66.3	67.83	24.7	1.18	fsW
68	83	51	TAVFX	Third Avenue Value	SC	S	S	S	-0.1	15.2	57.9	43.50	16.1	0.75	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	3/12	1 Mo	6Mo	Ticker	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	RISK		NTF/wff
										1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
69	45	64	VISGX	Vanguard Small Cap Growth Index	SCGro	H	H	H	-2.7	13.5	65.6	13.67	22.3	1.02	w	
70	95	-	TGIGX	TCW Galileo Dividend Focused N	MCVal	S	S	S	-1.6	17.9	52.3	10.26	13.9	0.48	FW	
71	90	79	CBMDX	C&B Mid Cap Value	MCVal	S	S	S	-1.5	13.9	62.2	19.30	19.5	0.66	FSW	
72	103	145	NPRTX	Neuberger Berman Partners	LCVal	S	S	S	-1.0	16.4	54.6	22.21	19.1	1.01	f	
73	152	135	WVALX	Weitz Value Fund	MCVal	S	S	S	0.8	17.4	49.2	37.78	17.5	0.68	SW	
74	106	129	DODGX	Dodge & Cox Stock (closed)	LCVal	S	S	S	-1.4	16.5	54.4	118.50	16.8	0.67	sw	
75	91	21	KAUFX	Federated Kaufmann Fund (0.2%)	MCGro	S	S	S	-1.5	10.2	69.9	5.10	20.1	0.89	FSW	
76	85	113	FDVLX	Fidelity Value	MCVal	S	S	S	-1.7	16.5	54.3	64.27	18.5	0.68	Fsw	
77	17	25	POGSX	Pin Oak Aggressive Stock	MCGro	*	(S)	(S)	-6.3	12.4	71.3	19.60	40.6	2.57	FSW	
78	67	68	VCVLX	Vanguard Capital Value	LCVal	S	S	S	-2.7	14.9	59.6	10.44	-	-	fsw	
79	101	149	FDSCX	Fidelity Small Cap Ind. (1.5%r<90d)	SC	H	H	H	-0.9	16.4	52.9	18.56	17.7	0.58	fsw	
80	84	88	BPMCX	Boston Partners Mid Cap Value	MCVal	S	S	S	-1.4	15.6	55.4	13.20	18.6	0.83	FSW	
81	110	159	SLASX	Selected American Shares	LCVal	S	S	S	-1.3	18.6	47.9	34.31	14.7	0.81	sW	
82	54	-	MAVFX	Matrix Advisors Value	LC	S	S	S	-3.9	14.4	62.0	54.35	26.7	1.25	FSW	
83	139	143	NBGNX	Neuberger Berman Genesis (closed)	SC	S	S	S	0.6	16.2	50.7	27.13	15.5	0.57	fsw	
84	80	106	PESPX	Dreyfus Mid Cap Index	MCGro	S	S	S	-1.2	15.1	56.0	24.26	19.6	0.95	FSW	
85	134	120	LSSCX	Loomis Sayles Small Cap Value	SC	S	S	S	-0.2	15.1	53.5	24.82	17.8	0.72	sW	
86	21	1	OBEGX	Oberweis Emerging Growth (1%r<180d)	SCGro	*	H	H	-6.2	2.5	93.8	26.95	34.2	1.63	FSW	
87	75	65	MPMVX	MSI Mid Cap Value	MCVal	S	S	S	-2.2	11.9	63.6	20.95	16.3	0.80	fsw	
88	32	24	RSEGX	RS Emerging Growth (closed)	SCGro	*	H	H	-4.0	10.3	70.4	29.16	30.6	1.68	FSW	
89	186	168	RYSEX	Royce Special Equity (1%r<180d)	SCVal	S	S	S	2.2	16.4	45.1	18.93	16.1	0.41	Sw	
90	107	146	VUVLX	Vanguard U.S. Value	LCVal	S	S	S	-1.9	16.4	50.6	12.63	17.6	0.80	fsw	
91	87	116	VIMSX	Vanguard Mid-Cap Index	MC	S	S	S	-1.8	15.1	53.8	13.53	19.8	0.95	fsw	
92	28	28	TGSCX	TCW Galileo Small Cap Growth	MCGro	*	S	S	-5.1	9.3	73.0	15.29	37.9	2.17	FSW	
93	97	98	VWNDX	Vanguard Windsor	LCVal	S	S	S	-2.3	15.0	53.3	16.52	19.6	0.91	fsw	
94	94	93	MPVLX	MSI Value Portfolio	LCVal	S	S	S	-2.9	14.7	54.7	15.85	20.6	0.87	fsw	
95	121	162	VWNFX	Vanguard Windsor II	LCVal	S	S	S	-1.4	16.9	46.7	27.47	15.9	0.66	fsw	
96	126	117	BGRFX	Baron Growth	SCGro	S	S	S	-0.5	13.5	53.7	37.65	20.2	0.81	FSW	
97	100	78	SOPFX	Strong Opportunity	MCVal	S	S	S	-2.1	13.4	56.2	40.90	20.1	1.07	FSW	
101	50	61	RSMOX	RS MidCap Opportunities	MCGro	(S)	(S)	(S)	-3.5	12.7	59.2	11.00	20.3	1.08	FSW	
137	128	89	FDEGX	Fidelity Aggressive Growth (0.75%r<90d)	MCGro	H	H	H	-2.1	11.9	47.0	15.43	30.5	1.96	fsw	
186	93	70	FOCPX	Fidelity OTC Portfolio	LCGro	*	H	H	-5.0	7.7	50.8	32.62	29.2	1.59	fsw	

Dow Jones
NASDAQ
S&P 500

-4.3%
-4.3
-2.7

8.1%
7.0
10.0

35.6%
55.2
39.3

indexes do not
include dividends

International Stock Funds

1	2	-	FISMX	Fidelity Intl Small Cap (2%r<90d)	Int'l	B	B	B	-1.2%	27.8%	97.6%	\$19.83	-	-	Fw
2	3	-	AIOIX	Amer.Cent.Intl Opportunity (2%r<180d)	Int'l	B	B	B	-1.7	27.3	95.4	8.45	-	-	S
3	-	-	ARTKX	Artisan Intl Value	Int'l	(B)	(B)	(B)	-1.4	26.3	82.2	17.42	-	-	FSW
4	5	7	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	(B)	(B)	(B)	-3.6	24.6	89.1	16.79	20.4	-	FSW
5	6	4	PRIDX	T. Rowe Price Intl Disc. (2%r<1yr)	Int'l	B	B	B	-2.5	25.0	85.1	27.57	16.0	-	fsw
6	1	9	FLATX	Fidelity Latin Amer. (1.5%<90d)	LatinA	*	H	H	-3.4	26.4	82.9	15.89	29.8	-	fs
7	12	3	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	B	B	B	-1.2	24.3	83.3	16.54	-	-	SW
8	11	6	VINEX	Vanguard Intl Explorer (\$10,000,2%<60d)	Int'l	B	B	B	-2.1	24.5	82.8	13.62	16.3	-	fsw
9	13	11	ICHKX	Guinness China & Hong Kong	Pacific	*	B	B	-1.4	26.9	72.5	17.49	19.6	-	FSW
10	8	-	DREGX	Driehaus Emerging Mkts Gr	Int'l	B	B	B	-2.5	23.5	82.0	20.95	24.9	-	FSW
11	19	-	DODFX	Dodge&Cox Intl. Stock	Int'l	(B)	(B)	(B)	-1.8	21.2	84.8	24.50	-	-	fsw
12	20	12	FIEUX	Fidelity Europe (1%r<90d)	Europe	(B)	(B)	(B)	-3.7	22.2	83.7	27.53	22.5	-	fsw
13	26	1	MJFOX	Mathews Japan Fund (2%r<90d)	Japan	*	H	H	3.8	19.7	78.5	13.62	15.2	-	FSW
14	18	15	DRFMX	Dreyfus Emerging Market (1%r)	Int'l	*	(B)	(B)	-1.6	23.3	73.7	17.69	21.6	-	FSW
15	7	10	VEIEX	Vanguard Emerging Mkts S&K Index (.5%r)	Int'l	*	B	B	-3.0	22.3	77.9	12.41	22.6	-	fsw
16	4	16	PRLAX	T. Rowe Price Latin America (2%r<1yr)	LatinA	*	H	H	-5.1	23.4	75.4	12.10	29.7	-	fsw
17	22	-	DRIDX	Driehaus Int'l Discovery	Int'l	H	H	H	-3.9	21.5	76.0	30.15	21.1	-	FSW
18	10	17	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	H	H	-4.1	21.0	77.7	15.35	21.1	-	fsw
19	9	5	MAPTXX	Mathews Pacific Tiger (2%r<90d)	Pacific	*	H	H	-4.9	19.8	78.9	13.55	23.6	-	FSW
20	16	23	FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	H	H	H	-2.9	21.7	71.0	11.18	-	-	fsw
21	15	13	PRASX	T. Rowe Price New Asia	Pacific	*	H	H	-3.9	20.4	73.9	8.83	19.7	-	fsw
22	21	-	FECAIX	Fidelity Europe Capital App.	Europe	H	H	H	-5.4	22.9	69.2	19.51	18.8	-	Fw
23	40	2	SJPNX	Japan Fund (Scudder) (2%r<180d)	Japan	*	H	H	3.4	15.3	74.7	9.57	14.8	-	FSW
24	17	25	SCOPX	Scudder Pacific Opportunity (2%r<1yr)	Pacific	H	H	H	-2.5	20.9	67.8	12.31	19.0	-	FSW
25	14	22	SLAFX	Scudder Latin America	LatinA	*	H	H	-4.3	20.9	67.8	25.09	27.3	-	FSW
26	54	19	PRJJPX	T. Rowe Price Japan	Japan	*	H	H	3.8	18.0	62.4	7.42	14.4	-	s
27	37	46	ARTIX	Artisan International	Int'l	H	H	H	-3.2	20.0	67.6	19.83	16.4	-	FSW
28	23	8	OAKGX	Oakmark Global (2%r<90d)	Global	S	S	S	-3.3	14.7	79.7	19.67	26.5	-	FSW
29	24	39	JAOSX	Janus Overseas (closed)	Int'l	H	H	H	-2.3	19.9	65.1	21.46	16.5	-	FSW
30	29	24	FOSFX	Fidelity Overseas (1%r<30d)	Int'l	H	H	H	-2.3	17.8	69.5	32.07	15.5	-	Fsw
31	25	30	FIGRX	Fidelity International G & I	Int'l	H	H	H	-3.5	19.0	66.2	24.48	15.2	-	Fsw
32	62	14	LLINX	Longleaf Partners International	Int'l	S	S	S	0.5	12.9	74.9	14.45	19.4	-	fw
33	35	42	PRESX	T. Rowe Price European	Europe	S	S	S	-4.7	19.4	64.7	17.55	18.0	-	fsw
34	30	40	VEURX	Vanguard European Stock Index	Europe	S	S	S	-5.2	19.2	65.4	22.08	17.4	-	fsw
38	28	31	VTRIX	Vanguard International Value	Int'l	H	H	H	-4.6	16.9	66.1	26.59	16.8	-	fsw

Bond Funds (next issue on page 6: Specialty Funds)
 3/12/2004

Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	Std. Dev.	Yield	NTF/wft
						1 mo.	6 mo.	12 mo.				
FFRHX	Fidelity Floating Rate High Inc(1%r<60d)	BnkLoan	B	*	*	0.0%	1.8%	5.1%	\$9.90	-	3.20%	Fw
BUFHX	Buffalo High-Yield(2%r<180d)	HighYld	(S)	(S)	*	0.2	6.4	20.0	11.27	6.03	4.47	FSW
CMHYX	Columbia High Yield	HighYld	(S)	(S)	*	0.6	4.4	7.5	8.81	5.43	6.38	fSW
FAGIX	Fidelity Capital & Income	HighYld	*	*	*	-0.6	7.3	29.1	8.07	14.56	7.73	Fsw
SPHIX	Fidelity High Income (1%r<90d)	HighYld	(S)	(S)	*	0.2	8.2	23.0	8.97	10.32	7.74	Fsw
JAHYX	Janus High Yield	HighYld	(S)	(S)	*	0.1	4.8	9.9	9.72	5.82	6.87	FSW
NTHFX	Northeast Investors Trust	HighYld	*	(S)	*	0.7	11.0	18.7	7.54	7.60	7.86	fw
PHYDX	PIMCO High Yield	HighYld	(S)	(S)	*	-0.1	7.2	17.8	9.71	9.04	6.69	SW
STHYX	Strong High Yield Bond(1%r)	HighYld	*	*	*	0.1	6.4	17.0	7.75	10.58	6.96	FSW
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.4	2.0	5.8	8.71	4.07	5.16	FSW
PRHYX	T. Rowe Price High Yield	HighYld	(S)	(S)	*	-0.3	5.5	15.2	7.07	7.42	7.96	sw
TGHNX	TCW Galileo High Yield Bond	HighYld	(S)	(S)	*	0.6	8.8	20.7	7.34	8.93	7.28	SW
VAGIX	Value Line Aggressive Inc	HighYld	(S)	(S)	*	-0.2	5.9	17.0	5.04	8.83	5.99	FSW
VWEHX	Vanguard High Yield Corporate	HighYld	(S)	(H)	*	1.2	7.8	15.6	6.42	6.98	7.41	sw
BEGBX	American Century Intl Bond	Int'l	*	*	*	-3.6	10.4	12.4	13.59	11.17	6.12	fSW
FNMIX	Fidelity New Markets Income	Int'l	*	*	*	0.9	7.6	21.3	13.92	12.71	5.71	Fsw
PYGFX	Payden Global Fixed Income	Int'l	*	*	*	1.2	3.1	3.2	10.21	3.95	4.64	fsW
SSTGX	Scudder Global Bond S-T (closed)	Int'l	*	*	*	-1.4	5.5	5.7	10.31	5.47	4.55	FSW
RPBIX	T. Rowe Price Int'l Bond	Int'l	*	*	*	-4.1	8.3	9.9	10.01	9.88	2.40	fsw
ACITX	American Century Inflation Adj	IntTerm	B	*	*	2.3	7.9	6.6	11.41	7.13	3.32	fSW
BABIX	Babson Bond Trust	IntTerm	*	*	*	1.6	2.9	1.7	1.58	4.48	3.24	FSW
BBHIX	BBH Inflation Indexed Sec	IntTerm	B	*	*	2.7	7.8	6.2	11.41	7.35	2.52	FSW
CFISX	Columbia Fixed Income Sec	IntTerm	H	*	*	0.9	3.0	2.4	13.73	4.22	3.94	fSW
SRINX	Columbia Income CIZ	IntTerm	H	*	*	1.1	5.1	8.9	10.25	4.88	5.83	FSW
SRBFX	Columbia Intermediate Bond CIZ	IntTerm	H	*	*	1.0	4.2	7.7	9.31	4.08	4.98	FSW
DODIX	Dodge & Cox Income	IntTerm	H	*	*	0.9	4.3	6.8	13.17	3.48	4.58	fsw
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	1.1	2.6	4.0	14.20	5.06	3.85	FSW
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	0.9	3.8	3.4	15.08	3.08	4.25	FSW
DSINX	Dreyfus Strategic Income	IntTerm	*	*	*	0.9	1.8	4.2	14.98	4.68	3.66	FSW
FTRGX	Federated Total Return Govt	IntTerm	H	*	*	1.2	3.2	1.0	11.21	5.97	4.23	sw
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	2.4	7.7	6.3	11.45	-	1.48	Fw
FTHRX	Fidelity Intermediate Bond	IntTerm	H	*	*	0.9	2.9	3.2	10.84	3.90	3.53	Fsw
FSTGX	Fidelity Intermediate Govt	IntTerm	H	*	*	1.3	3.3	2.9	10.48	4.27	2.70	Fsw
FBNDX	Fidelity Investment Grade	IntTerm	H	*	*	1.3	4.5	5.5	7.70	4.40	3.09	Fsw
FBDFX	Fremont Bond	IntTerm	H	*	*	1.0	4.4	4.4	10.72	4.92	2.80	fsw
MWTRX	MetroWest Total Return	IntTerm	*	*	*	0.8	5.6	11.4	10.09	5.78	6.01	SW
PRRDY	PIMCO Real Return	IntTerm	H	*	*	2.5	7.4	5.3	11.72	7.47	3.10	SW
PTTDY	PIMCO Total Return	IntTerm	H	*	*	1.0	3.4	3.5	10.94	4.93	2.71	SW
PTMDX	PIMCO Total Return Mortgage	IntTerm	H	*	*	0.7	2.5	2.8	10.89	3.18	2.36	SW
SCSBX	Scudder Income (closed)	IntTerm	H	*	*	1.5	5.1	6.1	13.19	4.34	3.69	FSW
STVSX	Strong Govt Securities	IntTerm	H	*	*	1.3	3.2	2.4	11.13	4.79	3.01	FSW
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	1.0	3.5	3.8	9.22	4.30	3.51	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	H	*	*	1.2	4.4	4.1	10.05	3.14	6.02	SW
USAIX	USAA Income	IntTerm	H	*	*	1.3	4.9	5.5	12.67	4.88	4.40	w
VALBX	Value Line U.S. Govt Sec	IntTerm	H	*	*	1.2	3.1	2.4	12.12	4.62	3.47	FSW
VBMFX	Vanguard Bond Market	IntTerm	H	*	*	1.4	4.5	5.1	10.51	4.28	4.43	fsw
VFIX	Vanguard GNMA	IntTerm	(B)	*	*	0.2	1.3	-0.3	10.57	3.44	4.73	fsw
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	2.6	8.3	7.2	12.74	7.17	3.53	sw
MNTRX	Wells Fargo Montgomery Total Return	IntTerm	H	*	*	1.4	3.6	3.7	12.56	4.56	3.51	FSW
WTIBX	Westcore Plus Bond	IntTerm	*	*	*	1.7	7.6	13.6	11.07	4.12	5.61	FSW
WPGVX	WPG Core Bond	IntTerm	H	*	*	1.3	4.0	4.3	10.89	4.49	2.88	FsW
FGOVX	Fidelity Government Income	LngTerm	*	*	*	1.4	3.5	1.8	10.46	5.62	2.99	Fsw
KIFIX	FifthThird Bond	LngTerm	*	*	*	1.2	4.2	3.7	10.35	5.12	3.56	w
MGFIX	Managers Bond	LngTerm	*	*	*	1.1	7.4	10.6	25.10	6.85	4.26	FSW
STCBX	Strong Corporate Bond	LngTerm	*	*	*	1.1	5.5	8.8	10.83	6.81	4.82	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	1.2	6.6	9.6	9.98	5.85	5.27	fsw
PRULX	T. Rowe Price U.S. Treas. LT	LngTerm	*	*	*	2.4	5.6	1.6	12.21	9.98	4.32	fsw
VUSTX	Vanguard L-T Treasury	LngTerm	*	*	*	3.0	5.9	1.3	11.93	11.33	4.78	fsw
VWESX	Vanguard Long-Term Corporate	LngTerm	*	*	*	2.7	7.0	3.9	9.68	10.34	5.55	fsw
FSICX	Fidelity Strategic Income	Multi	(B)	(B)	*	0.1	7.3	15.2	10.55	5.51	5.46	Fw
JAFX	Janus Flexible Income	Multi	*	*	*	1.3	3.6	4.1	9.99	4.69	4.35	FSW
LSBRX	Loomis Sayles Bond Retail	Multi	(B)	(B)	*	-0.5	11.4	23.0	13.51	8.56	5.72	FW
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	-0.7	5.8	12.6	11.86	4.56	4.16	fsw
MGIDX	Managers Int. Duration Govt	ShfTerm	*	*	*	0.7	3.3	4.0	10.77	2.84	2.09	FSW
MWLDX	MetroWest Low Duration	ShfTerm	B	*	*	0.3	1.8	4.1	9.56	2.99	4.65	SW
SCSTX	Scudder Short-Term Bond (closed)	ShfTerm	B	*	*	0.6	1.9	3.3	10.59	1.70	4.04	FSW
BTINX	American Century Target 2010	ZeroCpn	*	*	*	2.8	6.2	4.4	87.58	10.27	4.35	FSW
BTFIX	American Century Target 2015	ZeroCpn	*	*	*	4.5	11.4	5.9	71.96	15.32	5.05	fSW
BITTX	American Century Target 2020	ZeroCpn	*	*	*	5.8	14.7	7.3	52.25	19.09	4.64	fSW
BITRX	American Century Target 2025	ZeroCpn	*	*	*	6.4	17.1	7.0	43.48	21.97	4.72	fSW

Regulatory Update

As most subscribers know, various regulatory agencies are taking a close look at the mutual fund industry, particularly with regard to the highly publicized practices of late trading and market timing. RS Investments currently finds itself in the sights of the Securities and Exchange Commission and the New York Attorney General's office. The SEC has indicated that it will likely bring civil enforcement actions against the firm for market timing activities involving the **RS Emerging Growth Fund (RSEGX)**. RS Investments maintains that it has never tolerated or permitted late trading.

In a recent statement, the firm put forth its position on market timing. "In light of recent events, we do not allow market timing in our funds. In the past, we took steps to remove market timers from a fund if the portfolio manager believed they were detrimental to the fund's performance. Among other things, as long as the fund's cash flow met the portfolio manager's desired cash management parameters, we did not believe timers were necessarily detrimental to a fund. Our prospectus does not mention market timing. None of our portfolio managers or investment professionals engaged in market timing activities in the RS Funds."

Although the potential outcome of such an action is hard to predict, the lack of a prohibition against timing in the RS Funds' prospectus would seem to work in the group's favor. RS Emerging Growth is closed to new investors and is currently ranked #88. Stay tuned.

*RS Emerging Growth (RSEGX), 388 Market St., Ste 1700,
San Francisco, CA 94111, 800-766-3863, 415-781-9700*

Here, There, and Everywhere

There are several changes to the *MONEYLETTER* fund lists effective this issue:

- **RS Contrarian Value (RSCOX)** has been moved from the Specialty list to the Domestic Stock list because it generally behaves like a Mid Cap (blend) fund.
- **T. Rowe Price New Era (PRNEX)** has been moved to the Specialty list due to its heavy concentration in Natural Resources stocks.
- **Loomis-Sayles Bond Retail (LSBRX)** and **Fidelity Strategic Income (FSICK)** have been added to the Bond Fund list. See pages 1 & 8 for more on these funds.
- **Heartland Value (HRTVX)** has been removed from the database. The fund is closed and was thus removed from the *MONEYLETTER* portfolios. In addition, a SEC action regarding inaccurate pricing of one of the family's bond funds years ago and implications of related insider trading activity have left a legal question mark hovering over the fund. For that reason, we have provided a "Sell" recommendation for the fund, reasoning that other alternatives provide less uncertainty and, therefore, less risk. Although the fund has maintained a relatively high ranking in our Domestic Stock Fund list, RS Smaller Company Growth (RSSGX), which we bought for the Venturesome Portfolio on December 15, 2003 with the proceeds of the Heartland sale, has performed even better.
- **Mainstay Small Cap Opportunity (MOPIX)** has been removed, as it is becoming a load fund. Mainstay used to be Eclipse Small Cap Value (EEQFX). \$

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	0.67%	0.67%	0.76%
Gabelli US Treasury MMF	0.66	0.65	0.76
Fidelity Spartan US Treas MMF	0.61	0.59	0.69
Amer Century Capital Presv Fund/Inv	0.54	0.54	0.62
T Rowe Price US Treasury MF	0.53	0.51	0.56
HSBC Investor US Treas MMF/CI D	0.41	0.39	0.41
DBAB Cash Reserve Treasury	0.35	0.30	0.42
Schwab US Treasury Money Fund	0.34	0.35	0.43
RMK Select Treas MMF/CI A	0.33	0.32	0.38
CMA Treasury Fund RIC	0.31	0.33	0.44

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	1.02%	1.03%	1.10%
Bunker Hill MMF	0.87	0.88	0.93
Phoenix-Goodwin Money Market Series/A	0.86	0.84	0.90
McMorgan Principal Preservation	0.84	0.86	0.93
Flex-fund Money Market Fund	0.82	0.83	0.88
TIAA-CREF Money Market Fund	0.81	0.81	0.88
AIM MMF/Investor Class	0.80	0.80	-
Harbor Money Market Fund	0.80	0.83	0.78
AIG Money Market Fund/CI B	0.79	0.79	0.77
Scudder Premium Money Mkt Shrs/CI S	0.77	0.77	0.84
Scudder Premium Money Mkt Shrs/AARP	0.77	0.77	0.84

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Vanguard Tax-Exempt MMF	0.81%	0.83%	0.91%
Strong Tax-Free Money Fund	0.80	0.82	0.92
Strong Municipal MMF	0.66	0.68	0.80
Scudder Tax-Exempt Money Fund	0.60	0.61	0.67
Dreyfus BASIC Muni MMF	0.57	0.59	0.68
USAA Tax Exempt MMF	0.57	0.59	0.73
Fidelity Municipal MMF	0.56	0.56	0.69
Amer Century T-F MMF/Inv Class	0.55	0.59	0.69
Excelsior T-E Money Fund	0.55	0.55	0.59
T Rowe Price Summit Muni MMF	0.55	0.57	0.70

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	0.82%	0.83%	0.90%
Vanguard CA Tax-Exempt MMF	0.78	0.80	0.87
Vanguard NY Tax-Exempt MMF	0.77	0.79	0.85
Vanguard PA Tax-Exempt MMF	0.77	0.79	0.87
Vanguard NJ Tax-Exempt MMF	0.76	0.78	0.84
Fidelity PA Municipal MMF	0.55	0.54	0.63
Fidelity FL Municipal MMF	0.51	0.50	0.62
USAA Tax Exempt CA MMF	0.47	0.52	0.68
Fidelity OH Municipal MMF	0.46	0.46	0.61
Fidelity CT Municipal MMF	0.45	0.47	0.58

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 3/9/04. 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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Two Outstanding Bond Funds to Consider

Since this issue focuses on the bond market, below we've taken a closer look at two funds—one new to the *MONEYLETTER* database—that may make sense for your portfolio.

Loomis Sayles Bond Fund (LSBRX)

Dan Fuss may not have as recognizable a name as PIMCO's bond guru Bill Gross, but this bond manager has steered Loomis Sayles Bond (Retail) to a top-decile performance over trailing one-, three-, and five-year periods (compared to its Morningstar Multisector Bond peers, as of March 11). And, a 28.8% total return in 2003 just about topped the bond fund charts. Fuss acknowledges that bond market conditions were right for his fund last year, but his skill as a manager put the fund in a position to take advantage of those conditions.

Fuss and co-manager Kathleen Gaffney run the fund like a value manager runs an equity fund—they often buy bonds in out-of-favor sectors. They look for bonds that are undervalued when compared to market historical averages, while assessing the strength of the issuer. And, while many bond fund managers seek a combination of income plus capital appreciation, Fuss focuses solely on income, believing that the bulk of total return (income plus capital gains) comes from coupon payments. Hence, the portfolio is often loaded with high-yield and corporate bonds, often those expected to experience credit upgrades. A good example of an undervalued corporate bond buy is Sears Roebuck Acceptance Corp., which was pushed down over its rising credit card delinquencies. When Sears announced plans to sell part of its credit card portfolio, the bond prices recovered nicely.

Typically, this fund's portfolio turnover runs around 25% a year. But 2003 was different. With the stock market rebounding and interest rates still at record lows, Fuss decided it was time to get ready for a change in the trend of interest rates. He began to reorganize the fund's portfolio beginning in late 2002, with the aim of shortening duration (a measure of interest rate sensitivity), which will help protect the fund's value when interest rates increase. He reduced the fund's exposure to debt sensitive U.S. interest-rates, while increasing the fund's high yield and foreign holdings. As of 2003 year end, 29% of assets were in high-yield debt, 27% in emerging markets, and another 18% in global government debt, areas where Fuss believes the best opportunities lie.

Loomis Sayles, 399 Boylston Street
Boston, MA 02116; (800) 633-3330
Minimum Investment \$2,500/\$2,500 IRA

TCW Galileo Total Return Bond Fund (TGMNX)

The TCW Galileo Total Return Bond fund has been in the *MONEYLETTER* database and is classified as an intermediate term bond fund, with its primary benchmark being the Lehman Aggregate Index. Yet its secondary benchmark is the Lehman Mortgage Index, and that says a lot about the fund, which is comprised almost entirely of mortgage-backed securities. Fund manager Jeffrey Gundlach says that he views his goal as outperforming the PIMCO Total Return Bond Fund and the Vanguard GNMA Fund over rolling three-year time frames. He keeps the fund's duration, or interest rate sensitivity, below that of the Lehman Aggregate and above that of the Mortgage Index.

The fund's design is to keep its returns competitive with both plain vanilla mortgage funds and intermediate bond funds. To aid in that pursuit, Gundlach tries to position the fund with less prepayment risk than its typical mortgage fund peer. So rather than buying 30-year debt selling at a moderate premium, he might buy adjustable-rate pass-throughs, mortgage securities with prepayment penalties, or 15- and 20-year mortgages. The fund is structured to be better able to withstand interest rate and prepayment volatility. But that does not mean the portfolio turns over rapidly; Gundlach and crew purchase securities with a three-year time frame in mind.

Gundlach's strategies have generally worked well. In calendar years 2000-2002, the fund's total return outpaced its category average, and in 2000 and 2002, it ranked in the top 1% and 3%, respectively, of its Morningstar intermediate bond peers. But the first half of 2003 proved a temporary setback. With refinancings soaring and interest rates declining, the mortgage sector suffered while Treasuries and corporate debt rebounded. The fund returned only 2.2% through mid-2003, which put it in the bottom portion of the intermediate category. However, the fund performed well for the remainder of the year. As rates moved up and other sectors of the fixed income market were hurt, mortgages were aided by declining prepayment rates and tightening spreads.

Gundlach believes the period of mortgage underperformance is over. Newly issued, lower coupon mortgages are replacing older, higher-coupon mortgages, reducing the overall prepayment risk going forward, which should aid the mortgage securities market. And, this fund usually performs well in a period of stable or rising rates, which is most likely in our future. \$

TCW Galileo, 865 South Figuero Street, Ste 1800
Los Angeles, CA 90017; (800) 386-3829
Minimum Investment \$2,000/\$1,500 IRA

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