



Safety First... Leaving Asia (Temporarily)

by Walter S. Frank, Chief Investment Officer

The Asian markets (China, Southeast Asia and Japan) have been battered ever since China announced its determination to restrict the growth of certain sectors of the economy. The announcement was followed by specific administrative actions designed to carry out the authorities' intentions.

The very idea that the Chinese economy's growth was slowing hit world markets like a ton of bricks. Asia had been the great speculative play for hedge funds and such for many months. Low borrowing costs here and strong growth in Asia made an enticing mixture for many institutional investors. As Asian markets rose, so did the flow of funds destined for those markets.

The main cause of the strong Asian markets was the growth impulse radiating from China. China exported to the world, in particular the U.S., and imported from its neighbors (among others). With China growing at 8-9%, the growth prospects for the region were far and away better and more promising than for any other market in the world.

But then came the Chinese announcement, and suddenly what was certain (China's rapid growth for years to come) became uncertain. The financial press was full of articles speculating about whether China had a financial structure capable of achieving a smooth outcome (a soft landing). Or was a crash (whatever that means in the new China) the more likely outcome.

Until the markets have an inkling of an answer, a cloud of uncertainty is going to hang over the Asian markets. How long will the uncertainty last? No one knows. What is China's new growth rate going to be? Again, speculation has begun (naturally), but no one knows. The brakes, such as they are, have only just been applied.

The point is that once the China story became less certain the money which considered Asia a slam-dunk began

fleeing China itself, Southeast Asia and even Japan. How much more of the flight is left, we don't know. What we do know is that the outlook for the China region is going to be cloudy for a time, and not just for a matter of a few weeks.

Accordingly, we have decided to eliminate the international equity allocations for the Venturesome and Moderate portfolios. (Essentially our international allocations were directed to Asia, with China's growth as the magnet.) We are making the move purely as an act of caution at this uncertain time. When the selling wave dies down and the outlook clears somewhat, as it will, we are perfectly prepared to reassess our position. We are still bullish on the intermediate-term outlook for China and Southeast Asia. But we have to get through the risks of the short-term first.

We now recommend the sale of the following international funds: **MONEYLETTER Venturesome and Moderate**—Matthews Pacific Tiger and Fidelity International Small Cap. **Fidelity Venturesome and Moderate**—Fidelity Southeast Asia and Fidelity International Small Cap. **Vanguard Venturesome**—Vanguard Emerging Markets. **Vanguard Moderate**—Vanguard Emerging Market and Vanguard International Value.

At this time, we recommend that the proceeds from the sales be held in money funds: Schwab Money Fund for **MONEYLETTER** all-family investors, Fidelity Cash Reserves for Fidelity-only investors, and Vanguard Prime Portfolio for Vanguard-only investors.

The new allocations are: **Venturesome**—80% Domestic Stock, 20% Money Funds; **Moderate**—60% Domestic Stock, 20% Bond Funds, 20% Money Funds. The Conservative allocation is unchanged.

We want to stress again that our new advice on Asia is dictated by caution. We simply do not know enough at this time to feel confident about the outlook for stocks in the region for the immediate future. Given the volatility of the markets there, we prefer to punt.

At the same time, we also want to stress that if things go reasonably well in China, we expect the Asian markets to regain their position as the most attractive of all world markets. And we are certainly prepared to reenter those markets when we consider the time is right.

China

As we have said, no one knows the final chapter of China's efforts to slow its economy. But the China watchers we have listened to or talked to are relatively positive in their conclusions. One point that is made is that China is under strong compulsion to keep the economy growing at a rapid rate. This is because China needs to absorb a huge wave of new job-seekers every year because of population

(continued on page 2)

Market Trends

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

(continued from page 1)

growth. Slow growth (or worse, no growth) is the path to social disorder.

Another point is that the steps that have been taken have been directed mainly to slowing the headlong growth of specific industries and not so much to slowing overall growth. Three industries have been targeted, aluminum, cement and steel. These industries are all large energy consumers.

As Paul Matthews and Mark Headley, the principals of Matthews Asian Funds, remarked in a recent interview, "China will try to find a middle path (between too rapid and too slow growth)." They see a modest slowdown is in order. What would the slowdown amount to?

Winston Fong of TCW Galileo Asia Pacific Equities sees the slowdown as cutting China's growth from 9% in the first half of this year to 7% in the second half. What about next year? That is where the uncertainty enters. Will the government have to crack down harder or will slower but still substantial growth continue? The outlook for the markets depends on the answer.

Cheap markets, again

What has been forgotten in the course of the talk about China and the outlook there and for the region is that the stocks being sold are those of specific companies in specific industries. In other words, in the rush to protect profits or unwind large speculative borrowings, the fundamentals of earnings and price-earnings ratios have been brushed aside.

As you would expect, the sharp selling over the past four weeks has brought valuations down drastically all over Asia. In China, Fong talks of earnings growing by 20-25% this year with p/e ratios running at 10-11 times this year's earnings. Mark Headley observed that, "the China market looked pricey at the end of last year." But now looking at 2005, the forward estimates show the market selling at 12.5 times next year's earnings. Of course, as Headley suggested, maybe the forward estimates are overdone. It all depends on how China's economy fares in 2005. He is not overly concerned. As a seasoned and tested expert, we naturally accept his judgment, but the uncertainty is there.

As for the rest of Asia, Headley tossed out that Asia is selling at about 10 times earnings. He added, "That is phenomenally cheap on a long-term basis."

Traders-R-Not-Us

As you can see, on a longer-term basis the outlook for the Chinese and South-East Asian markets is very appealing. They are cheap and their growth prospects, which rely heavily on China nowadays, are extremely positive. China, with all its current growth pains, is still the cheapest producer of manufactured goods around. As Headley pointed out, there is no other place to locate a manufacturing plant that offers cheaper costs.

Why, then, recommend the sale of our Asian positions? It is not because we are traders, who whip into and out of an allocation with every passing wind. Rather it is because

as the selling in all the emerging market continued, not just in Asia, we sense that for now the appetite for risk among institutional investors, led by hedge funds, has shifted.

There are two sources for this shift. One is the uncertainty about China which changes the outlook for an entire region. The other is the notice by the Federal Reserve to the markets that interest rates are about to rise. How much or how fast is the new unknown.

We think the reaction to both of these unknowns is overdone. But we do not know how many billions have been borrowed to invest in emerging markets around the world, nor how many of those billions have not been repatriated. Until we have a sense that the shift in the appetite for risk in emerging markets has halted, we prefer to stand aside and protect your capital. If we are right about Asia there will be plenty of opportunity later for further profitable investment. \$

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360 Woodland St.
Holliston, MA 01746

TOLL-FREE: (800) 707-2060

FAX: (508) 429-0940

E-MAIL: info@priadvisors.com

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Next Issue: Volume 25, No. 11

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Internet: June 9, 2004, 12:00pm (ET)

NOTE: There will be 3 weeks between issues.

Consumed By Oil

The U.S. market continues to cope with the uncertainty of oil, the interest rate outlook and the glum news emanating from Iraq. The result is that bearishness (and profit-taking) has overtaken the markets all this month. At the same time, the hard news about the economy continues to be positive.

Job growth in April consisted of another huge increase (as in March) and this time it was across the board. It left no doubt in anyone's mind that the "jobless recovery" had morphed into the "recovery." If all the news had been along this line, the markets would have been satisfied.

Unfortunately, the news on the price front, while far from alarming, suggested that maybe, just maybe, a bit of price pressure is beginning to show. And then came oil. The result is that there is general agreement now that next month the era of a 1% fed fund rate will end.

Under these many pressures, the markets have understandably wilted. But we see the market's reaction to the events as overdone considering the total picture. We looked for modest gains in the overall market this year, and we still believe that is a reasonable expectation. The market is reasonably valued, interest rates are not going to soar and profit growth is substantial. Oil prices should subside. Equities are still the best game in town.

Fund changes

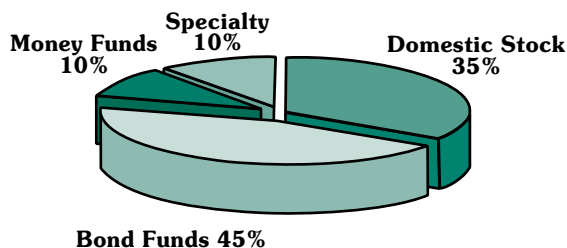
The Hotline of Tuesday, May 18 recommended the following switches. Vanguard Extended Market, in all three Vanguard portfolios, is to be switched into Vanguard Value Index. Vanguard Strategic Equity, in all three Vanguard portfolios, is to be switched into Vanguard U.S. Value. Needham Small Cap Growth in the *MONEYLETTER* Conservative Portfolio is to be switched into Strong Mid Cap Disciplined. Fidelity Small Cap Independence, in the Fidelity Venturesome and Moderate Portfolios, is to be sold. In the Venturesome Portfolio one-half of the sale proceeds is to be switched into Fidelity Equity-Income. The other half is to be switched into Fidelity Contrafund. In the Moderate Portfolio, Fidelity Small Cap Independence is to be switched into Fidelity Equity-Income. The same Hotline also contained the allocation changes recommended on Page 1. For the Select Portfolio Henlopen Fund will be exchanged for Baron Partners.

The Hotline of Tuesday May 11 recommended the sale of Legg Mason Special in the *MONEYLETTER* Moderate Portfolio. The fund is to be switched into Strong Mid Cap Disciplined. Royce Opportunity in the *MONEYLETTER* Venturesome and Moderate portfolios is closed. We will remove the fund from both portfolios. In the Venturesome Portfolio we will switch the fund into Strong Mid Cap Disciplined. In the Conservative Portfolio we will switch the fund into ICM/ Isabelle Small Cap Value.

The Hotline of Tuesday, May 11 also recommended the sale of Vanguard Explorer, in the Vanguard Venturesome and Moderate portfolios, to be switched into Vanguard Windsor II. Here are the details as of Wednesday, May 12. **Vanguard Venturesome**—Sold 335 shares of Explorer @ \$64.53 per share; purchased 804 shares of Windsor II @ \$26.90 per share. **Vanguard Moderate**—Sold 286 shares of Explorer; purchased 686 shares of Windsor II. \$

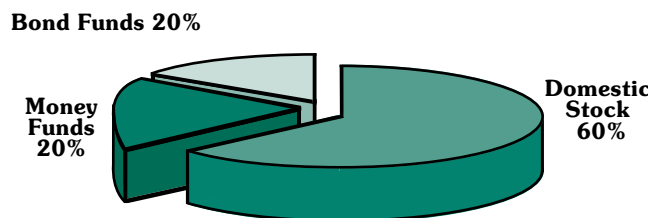
CONSERVATIVE

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



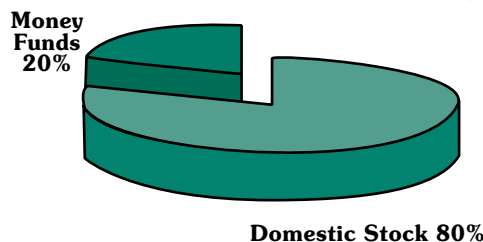
MODERATE

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



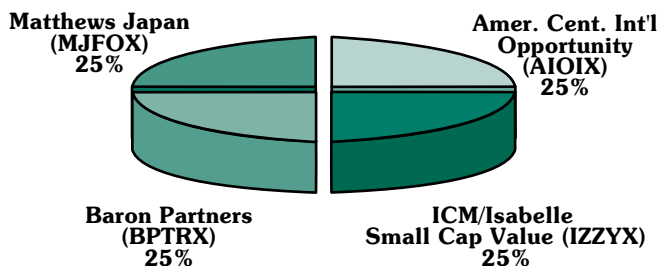
VENTURESOME

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	5/14	1 Mo	6 Mo	Ticker	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	RISK		NTF/wtf
										1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
1	-	-	88	BPTRX	Baron Partners Strong Mid Cap Disciplined	MCGro	*	(H)	(H)	-3.4%	18.4%	49.8%	\$13.48	28.6	1.26	FSW
2	15	88	SMCDX	Baron Partners Strong Mid Cap Disciplined	MCVal	B	B	B	-1.7	13.7	38.4	20.21	23.1	0.99	FSW	
3	4	16	RSPFX	RS Partners	SC	B	B	B	-5.2	12.8	43.5	28.54	20.9	0.69	FSW	
4	1	23	BUFSX	Buffalo Small Cap (closed)	SCGro	B	B	B	-6.2	10.6	47.0	24.17	31.2	1.25	SW	
5	7	49	IZZYX	ICM/Isabelle Small Cap Value	SCVal	B	B	B	-4.1	10.5	42.4	13.95	29.5	1.04	FSW	
6	6	9	WBSNX	WmBlair S-C Growth N (closed, 1%r<60d)	SCGro	B	B	B	-6.4	9.1	48.5	22.42	30.1	1.12	FSW	
7	-	-	PVLDX	Pimco PEA Value D	LCVal	*	(H)	(H)	-4.1	12.0	37.5	15.99	25.4	1.32	FSW	
8	18	30	BERWX	Berwyn Fund (1%r<180d)	SCVal	B	B	B	-4.0	11.4	36.7	24.90	22.3	0.77	fsw	
9	36	78	CRMMX	CRM Mid Cap Value Inv	MCVal	(B)	(B)	(B)	-2.3	10.1	36.3	22.30	18.9	0.78	FSW	
10	2	4	FLVCX	Fidelity Leveraged Co (\$10,000, 1.5%r<90d)	MC	*	B	B	-6.6	8.3	43.8	18.93	36.3	1.39	Fw	
11	156	242	JAVLX	Janus Twenty (closed)	LCGro	*	H	H	-1.0	12.8	23.5	37.94	17.3	0.93	FSW	
12	23	63	RYPRX	Royce Premier (1%r<180d)	SC	(B)	(B)	(B)	-3.0	9.5	34.0	13.55	19.4	0.84	FSW	
13	40	102	TRMXX	T. Rowe Price Mid Cap Value	MCVal	(B)	(B)	(B)	-2.6	8.9	34.0	20.57	19.8	0.90	fsw	
14	14	28	CRMSX	CRM Small Cap Value Inv	SCVal	B	B	B	-5.0	8.1	38.3	25.13	23.8	0.93	FSW	
15	41	136	ARTQX	Artisan Mid Cap Value	MCVal	(B)	(B)	(B)	-3.3	10.0	30.1	14.15	19.8	0.87	FSW	
16	16	17	WMCVX	Wasatch Small Cap Value (closed, 2%r<60d)	SCVal	B	B	B	-6.1	6.4	42.7	5.35	26.6	0.96	FSW	
17	54	-	TGDVX	TCW Galileo Diversified Value N	LCVal	H	H	H	-3.0	8.8	31.7	11.54	19.8	1.03	FW	
18	24	14	RSCOX	RS Contrarian Value	MC	(B)	(B)	(B)	-6.1	6.5	41.4	16.81	18.6	0.60	FSW	
19	256	253	JMCVX	Janus Mid Cap Value	MCVal	H	H	H	-3.0	8.2	31.4	20.70	20.4	0.93	fsw	
20	28	54	VHCOX	Vanguard Cap Opp (closed, \$25,000, 1%r<5yr)	MCGro	*	B	B	-5.7	7.9	35.8	26.15	25.3	1.28	fsw	
21	85	210	THPGX	Thompson Plumb Growth	LC	H	H	H	-1.6	10.5	23.3	46.21	25.1	1.22	fsw	
22	60	110	BARAX	Baron Asset	MCGro	(B)	(B)	(B)	-3.7	8.4	31.5	46.03	21.2	0.94	FSW	
23	27	47	TWCVX	American Century Vista	MCGro	H	H	H	-5.6	8.1	34.4	13.00	15.8	0.68	fsw	
24	87	194	VWNFX	Vanguard Windsor II	LCVal	H	H	H	-2.4	9.7	24.7	27.02	16.2	0.82	fsw	
25	8	24	BPSCX	Boston Ptrns Smlcap Val (closed, 1%r<1yr)	SCVal	B	B	B	-6.6	6.5	38.8	22.80	25.8	0.87	FSW	
26	44	-	CAMOX	Cambiar Opportunity	LC	H	H	H	-2.5	7.6	29.4	14.73	18.4	0.94	FSW	
27	26	45	PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	-4.5	6.8	33.9	9.04	20.4	0.80	FSW	
28	46	71	ARTSX	Artisan Small Cap	SCGro	H	H	H	-3.9	7.2	32.0	14.64	26.7	1.19	FSW	
29	108	184	TWVLX	American Century Value	MCVal	H	H	H	-1.6	8.8	23.7	7.61	16.6	0.82	FSW	
30	67	-	TGIGX	TCW Galileo Dividend Focused N	MCVal	H	H	H	-3.3	7.8	28.7	10.00	13.8	0.57	FW	
31	82	66	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	H	H	H	-2.9	6.6	30.7	28.52	19.2	0.80	fw	
32	72	156	MPVLX	MSI Value Portfolio	LCVal	H	H	H	-2.6	7.8	27.2	15.47	20.6	1.05	fsw	
33	56	89	NBGX	Neuberger Berman Genesis (closed)	SC	H	H	H	-2.2	7.0	28.4	26.65	15.5	0.63	fsw	
34	29	31	PRNHX	T. Rowe Price New Horizons	SCGro	*	B	B	-5.3	6.3	34.4	25.33	28.3	1.30	fsw	
35	62	132	SOPFX	Strong Opportunity	MCVal	H	H	H	-3.9	7.5	28.8	40.14	22.2	1.17	FSW	
36	73	77	PRSVX	T. Rowe Price S-C Value (closed, 1%r<1yr)	SCVal	H	H	H	-3.3	6.9	29.5	29.89	18.0	0.69	fsw	
37	17	-	BUFMX	Buffalo Mid Cap	MCGro	H	H	H	-7.2	7.2	34.6	11.68	-	-	FSW	
38	81	146	DODGX	Dodge & Cox Stock (closed)	LCVal	H	H	H	-3.4	7.8	26.9	113.90	17.6	0.85	sw	
39	10	15	EEGFX	MainStay Small Cap Opportunity (closed)	SCVal	H	H	H	-6.6	5.1	38.3	16.59	17.5	0.63	FSW	
40	3	3	RYPNX	Royce Opportunity (closed, 1%r<180d)	SCVal	(H)	(H)	(H)	-9.1	1.5	50.9	11.75	30.8	1.18	fsw	
41	77	84	AVALX	Aegis Value Fund	SCVal	H	H	H	-3.4	6.3	30.2	16.97	13.3	0.48	fw	
42	96	114	ARGFX	Ariel Fund	SCVal	H	H	H	-3.6	7.6	27.0	46.19	15.6	0.53	FSW	
43	88	121	VPMCX	Vanguard PRIMECAP (closed, \$25,000&1%r<5yr)	LC	H	H	H	-3.1	7.2	27.1	54.58	21.7	1.13	FSW	
44	5	1	HENLX	Henlopen Fund (1%r<30d)	SCGro	*	(H)	(H)	-9.2	1.6	49.5	25.41	30.9	1.19	FSW	
45	121	195	OAKBX	Oakmark Equity & Income (2%r<90d)	Bal	H	H	H	-1.2	8.3	20.6	22.80	10.7	0.49	FSW	
46	9	53	TUDRX	WPG Tudor	SC	(H)	(H)	(H)	-8.1	6.2	35.9	16.23	27.0	1.22	Fsw	
47	47	56	BSCFX	Baron Small Cap	SCGro	H	H	H	-3.1	4.9	31.3	19.53	21.5	0.79	FSW	
48	76	90	BGRFX	Baron Growth	SCGro	H	H	H	-4.5	6.6	28.4	36.79	18.4	0.72	FSW	
49	39	65	TGVNX	TCW Galileo Value Opportunities	MC	H	H	H	-5.4	5.2	33.0	20.31	29.2	1.32	FSW	
50	25	34	SAFGX	Safeco Growth Opportunities (2%r<90d)	SC	H	H	H	-5.4	3.6	36.8	24.74	29.8	1.18	fsw	
51	49	57	FLPSX	Fidelity L P Stock (closed, 1.5%r<90d)	SCVal	H	H	H	-4.8	5.1	31.7	34.98	18.0	0.75	fsw	
52	80	106	NCTWX	Nicholas II	MCVal	H	H	H	-3.4	6.1	27.1	21.69	19.5	0.96	w	
53	100	150	SSHFX	Sound Shore	LCVal	H	H	H	-3.0	6.9	24.1	33.42	17.3	0.79	sW	
54	71	58	TASCX	Third Avenue Small-Cap Value (1%r<1yr)	SCVal	H	H	H	-4.4	4.5	32.1	18.85	19.9	0.85	FSW	
55	64	135	FDVLX	Fidelity Value	MCVal	H	H	H	-4.1	7.1	25.2	62.15	19.0	0.89	Fsw	
56	126	211	HOVLX	Homestead Value	MCVal	H	H	H	-1.8	7.5	20.3	27.33	16.5	0.81	-	
57	138	188	VIVAX	Vanguard Value Index	LCVal	H	H	H	-2.4	6.9	22.4	18.62	18.6	1.03	fsw	
58	55	108	BPMCX	Boston Partners Mid Cap Value	MCVal	H	H	H	-4.2	6.0	26.9	12.89	20.1	0.93	FSW	
59	53	64	FBRVX	FBR Small Cap Value A (1%r<90d)	SCGro	H	H	H	-4.0	6.2	26.1	33.72	23.4	0.82	FSW	
60	34	48	JSVAX	Janus Special Equity	MC	(H)	(H)	(H)	-7.1	5.4	32.5	10.59	22.3	1.10	SW	
61	128	119	NICSX	Nicholas Fund	LC	H	H	H	-1.4	5.5	23.3	55.38	16.1	0.84	w	
62	21	6	RSSGX	RS Smaller Company Growth	SCGro	*	(H)	(H)	-9.0	0.9	45.9	20.19	28.5	1.23	FSW	
63	137	200	LSGIX	Loomis Sayles Value	LCVal	H	H	H	-2.2	6.9	20.3	15.16	16.4	0.89	fsw	
64	90	104	MPMVX	MSI Mid Cap Value	MCVal	S	S	S	-3.6	4.6	28.1	20.15	23.1	1.18	fsw	
65	153	168	SCDUX	Scudder Large Co Value	LCVal	S	S	S	-1.3	5.7	21.8	23.33	16.8	0.92	FSW	
66	52	68	VISVX	Vanguard Small-Cap Value Index	SCVal	H	H	H	-4.7	5.1	28.3	11.30	22.4	0.90	fsw	
67	132	199	FEQIX	Fidelity Equity-Income	LCVal	H	H	H	-3.2	7.0	21.2	48.32	17.8	0.96	Fsw	
68	30	19	JAVTX	Janus Venture (closed)	SCGro	*	H	H	-6.5	2.3	37.8	48.99	29.0	1.25	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	5/14	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	147	237	PRFDX	T. Rowe Price Equity-Income	LCVal	S	S	S	-1.9	6.9	19.4	23.90	16.3	0.83	fsw	
70	148	174	PRWCX	T. Rowe Price Cap Appreciation	LCVal	S	S	S	-2.2	6.6	20.5	17.53	11.0	0.49	fsw	
71	125	153	SLASX	Selected American Shares	LCVal	H	H	H	-3.3	6.1	23.2	33.11	16.1	0.86	sW	
72	19	27	RYPX	Royce Low Priced Stock (1%r<180d)	SCVal	(H)	(H)	(H)	-7.0	4.0	33.8	13.95	27.1	1.10	FSW	
73	106	96	RPMGX	T. Rowe Price Mid Cap Growth	MCGro	S	S	S	-3.2	4.6	26.4	43.19	22.1	1.11	fsw	
74	42	91	MPSCX	MSI Small Cap Value (closed)	SCVal	H	H	H	-5.6	4.9	29.1	20.68	20.7	0.98	fsw	
75	113	105	RYSEX	Royce Special Equity (1%r<180d)	SCVal	S	S	S	-3.5	5.6	23.8	18.24	16.5	0.51	Sw	
76	168	233	TWEIX	American Century Equity Income	MCVal	H	H	H	-1.5	6.7	18.1	7.73	12.6	0.62	FSW	
77	99	138	DNLDX	Dreyfus New Leaders	MCGro	S	S	S	-3.6	5.1	25.2	41.24	18.6	0.90	FSW	
78	89	103	JAENX	Janus Enterprise	MCGro	*	S	S	-4.8	5.5	26.0	31.74	21.4	1.09	FSW	
79	20	32	MNSCX	WellsFargo Montgomery Small Cap (closed)	SCGro	*	H	H	-8.2	4.9	32.2	10.96	23.3	1.05	fS	
80	135	154	CAAPX	Ariel Appreciation	MCVal	S	S	S	-3.2	4.6	25.3	43.14	19.2	0.83	FSW	
81	111	148	VUVLX	Vanguard U.S. Value	LCVal	H	H	H	-3.7	5.7	23.1	12.12	17.3	0.87	fsw	
82	143	206	HAVLX	Harbor Value	LCVal	S	S	S	-2.9	6.3	20.3	14.39	18.1	0.94	Fsw	
83	35	36	MERDX	Meridian Fund	MCGro	H	H	H	-5.6	3.0	32.4	33.06	23.1	0.95	fw	
84	59	70	MPEGX	MSI Mid Cap Growth	MCGro	*	H	H	-5.0	3.4	30.4	17.49	22.2	1.17	fsw	
85	157	151	WWALX	Weitz Value Fund	MCVal	S	S	S	-2.7	6.0	20.2	36.19	16.7	0.82	SW	
86	45	42	NAESX	Vanguard SmallCap Index	SC	S	S	S	-5.9	3.6	31.1	22.33	23.2	1.01	fsw	
87	162	178	BIGRX	American Century Income & Growth	LCVal	S	S	S	-2.6	5.6	20.9	27.41	17.4	0.97	FSW	
89	32	29	FSLCX	Fidelity Small Cap Stock (2%r<90d)	SCGro	H	H	H	-7.5	3.4	33.6	16.56	21.5	0.94	F	
95	144	117	FCNTX	Fidelity Contrafund	LC	H	H	H	-3.9	4.8	22.6	49.46	11.4	0.54	Fsw	
101	65	52	VEXMX	Vanguard Extended Market Index	MC	(S)	(S)	(S)	-5.7	3.1	29.2	26.33	21.5	1.02	fsw	
102	33	-	TGONX	TCW Galileo Opportunity N	SC	(S)	(S)	(S)	-7.5	3.7	30.2	12.48	22.5	0.90	FSW	
111	92	50	VSEQX	Vanguard Strategic Equity	MCGro	(S)	(S)	(S)	-5.3	2.6	28.9	18.42	17.8	0.83	fsw	
117	61	76	FDSCX	Fidelity Small Cap Ind.(1.5%r<90d)	SC	(S)	(S)	(S)	-5.6	3.5	26.4	17.71	16.7	0.58	Fsw	
121	13	14	CGMFX	CGM Focus	SCVal	*	(S)	(S)	-10.7	2.2	37.1	27.63	37.9	1.03	fsw	
122	63	38	LMASX	Legg Mason Special Investment Trust	MC	*	(S)	(S)	-7.4	2.8	30.5	43.42	30.9	1.33		
140	22	8	NESGX	Needham Small Cap Growth (.75%r<30d)	SCGro	(S)	(S)	(S)	-7.0	-2.1	39.8	16.23	-	-	FSW	
171	12	61	GSETX	Columbia Small Company Equity ClZ	SCGro	(S)	(S)	(S)	-10.3	2.1	30.1	16.92	24.9	1.14	fw	
174	69	46	VEXPX	Vanguard Explorer	SCGro	(S)	(S)	(S)	-7.6	1.0	28.2	63.97	24.2	1.12	fsw	
229	43	20	NBSX	Neuberger Berman Focus	LCVal	*	(S)	(S)	-11.9	-2.3	31.9	34.09	37.8	1.80	fsw	
236	11	22	USRLX	Undiscovered Small Cap Growth (\$10,000)	SCGro	*	(S)	(S)	-14.1	-2.5	32.0	9.72	44.2	1.85	fw	

Dow Jones
NASDAQ
S&P 500

-3.5% 2.5% 15.8%
-6.0 -1.4 24.1
-2.9 4.3 16.7

indexes do not
include dividends

International Stock Funds

1	14	-	ARTIX	Artisan Intl Value (2%r<90d)	Int'l	H	H	H	-3.2%	12.0%	44.0%	\$16.96	-	-	FSW
2	8	12	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	H	H	H	-4.0	9.3	46.2	16.42	20.4	-	FSW
3	3	1	FISMX	Fidelity Intl Small Cap (2%r<90d)	Int'l	(S)	(S)	(S)	-9.7	8.1	56.9	18.73	-	-	Fw
4	2	4	AIOIX	Amer.Cent.Intl Opportunity (2%r<180d)	Int'l	(H)	(H)	(H)	-11.4	7.6	59.7	8.06	-	-	S
5	1	2	MJFOX	Matthews Japan Fund (2%r<90d)	Japan	*	(H)	(H)	-14.5	8.5	61.7	13.65	15.2	-	FSW
6	10	13	VINEX	Vanguard Intl Explorer (\$25,000,2%r<60d)	Int'l	(H)	(H)	(H)	-6.8	9.0	45.0	13.08	16.3	-	fsw
7	37	45	TBGVX	Tweedy, Browne Global Value (2%r<60d)	Global	H	H	H	-2.7	10.6	32.6	20.98	11.9	-	fsw
8	12	-	DODFX	Dodge&Cox Intl. Stock	Int'l	(H)	(H)	(H)	-7.0	7.3	43.3	23.41	-	-	fsw
9	23	-	WAIGX	Wasatch International Growth	Int'l	H	H	H	-7.1	6.5	40.5	13.88	-	-	FSW
10	35	23	OAKGX	Oakmark Global (2%r<90d)	Global	H	H	H	-3.3	5.3	35.3	19.25	26.5	-	FSW
11	7	6	PRIDX	T. Rowe Price Intl Disc. (2%r<1yr)	Int'l	(H)	(H)	(H)	-9.8	4.2	44.9	26.06	16.0	-	fsw
12	41	31	LLINX	Longleaf Partners International	Int'l	H	H	H	-6.0	5.1	35.8	14.19	19.4	-	fw
13	48	38	OAKIX	Oakmark International (2%r<90d)	Int'l	(H)	(H)	(H)	-3.9	5.1	30.5	17.75	22.0	-	FSW
14	52	43	VEURX	Vanguard European Stock Index (2%r<60d)	Europe	H	H	H	-3.4	6.2	26.8	21.37	17.4	-	fsw
15	33	34	FDIVX	Fidelity Diversified Intl (1%r<30d)	Int'l	H	H	H	-7.7	6.2	32.3	23.71	13.8	-	Fsw
16	49	33	PFIFX	Preferred International	Int'l	H	H	H	-5.6	4.7	32.7	13.93	17.4	-	w
17	16	9	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	H	H	H	-8.4	4.4	37.4	15.24	-	-	SW
18	5	14	PRJPX	T. Rowe Price Japan	Japan	*	(H)	(H)	-14.7	5.2	44.5	7.27	14.4	-	s
19	31	22	SGSXX	Scudder Global Discovery (closed)	Int'l	H	H	H	-7.2	4.8	33.9	27.75	20.1	-	FSW
20	4	3	SJPNX	Japan Fund (Scudder) (2%r<180d)	Japan	*	(H)	(H)	-16.7	1.9	54.5	9.12	14.8	-	FSW
21	59	60	USAWX	USAA World Growth	Int'l	S	S	S	-3.8	6.7	22.8	15.50	15.6	-	w
22	51	53	USIFX	USAA International	Int'l	H	H	H	-5.2	6.8	24.5	19.46	15.0	-	w
23	30	30	FIGRX	Fidelity International G & I (1%r<30d)	Int'l	H	H	H	-8.4	5.2	33.1	23.11	15.2	-	Fsw
24	44	36	GIGRX	Gabelli Intl Growth (2%r<60d)	Int'l	H	H	H	-5.5	4.0	28.9	15.55	13.1	-	FSW
25	39	25	VTRIX	Vanguard International Value (2%r<60d)	Int'l	(S)	(S)	(S)	-7.0	2.9	33.5	25.35	16.8	-	fsw
26	43	37	MACSX	Matthews Asia G & I (closed,2%r<90d)	Pacific	H	H	H	-8.2	4.3	31.1	13.64	11.4	-	FSW
31	26	19	FIEUX	Fidelity Europe (1%r<30d)	Europe	(S)	(S)	(S)	-8.1	2.4	31.9	25.64	22.5	-	Fsw
34	34	26	VPACX	Vanguard Pacific Stock Index (2%r<60d)	Pacific	*	(S)	(S)	-12.9	3.2	33.5	7.77	13.7	-	fsw
38	24	7	MAPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	*	(S)	(S)	-12.9	-2.2	45.3	12.28	23.6	-	FSW
59	17	-	DREGX	Driehaus Emerging Mkts Gr (2%r<60d)	Int'l	(S)	(S)	(S)	-14.7	-2.1	36.1	18.50	24.9	-	FSW
60	13	10	VEIEX	Vanguard Emerging Mkts Stk Index (.5%r)	Int'l	*	(S)	(S)	-16.1	-1.9	36.6	10.90	22.6	-	fsw
61	21	11	PRASX	T. Rowe Price New Asia	Pacific	*	(S)	(S)	-15.9	-4.6	42.3	7.80	19.7	-	fsw
64	11	17	FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	(S)	(S)	(S)	-17.2	-1.2	32.7	9.76	-	-	Fsw
66	9	16	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	(S)	(S)	-18.3	-5.1	37.9	13.21	21.1	-	Fsw
68	22	5	ICHKX	Guinness China & Hong Kong (2%r<30d)	Pacific	*	(S)	(S)	-17.8	-6.7	38.0	14.46	19.6	-	FSW

Bond Funds (next issue on page 6: Specialty Funds)
 5/14/2004

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	*	*	-0.4%	0.6%	3.6%	\$9.86	-	3.13%	Fw
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	S	S	*	-1.1	2.4	10.6	11.11	5.95	3.82	FSW
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	-5.2	-2.3	7.7	7.59	14.29	7.93	Fsw
SPHIX	Fidelity High Income (1%r<90d)	HighYld	S	S	*	-3.7	0.2	9.4	8.57	9.76	7.88	Fsw
JAHYX	Janus High Yield (2%r<90d)	HighYld	S	S	*	-3.4	-1.6	1.3	9.29	5.75	7.09	FSW
NTHEX	Northeast Investors Trust	HighYld	*	S	*	-2.0	5.4	11.8	\$7.41	7.59	7.77	fw
PHYDX	PIMCO High Yield	HighYld	S	S	*	-4.4	-1.6	4.2	9.21	9.02	6.86	SW
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	-3.5	0.2	5.9	7.44	10.47	7.07	FSW
STHBX	Strong S-T High Yield	HighYld	*	*	*	-1.4	-0.6	1.5	8.55	4.09	5.06	FSW
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	S	S	*	-3.6	-0.6	4.3	6.78	7.79	8.10	sw
TGHNX	TCW Galileo High Yield Bond	HighYld	S	S	*	-3.4	1.9	8.0	7.01	8.85	7.23	SW
VAGIX	Value Line Aggressive Inc (1%r<120d)	HighYld	*	S	*	-2.8	-0.2	6.4	4.89	8.65	6.16	FSW
VWEHX	Vanguard High Yield Corporate (1%r<1yr)	HighYld	S	H	*	-3.2	0.7	5.7	6.10	6.95	7.46	sw
BGBX	American Century Intl Bond	Int'l	*	*	*	-1.7	1.8	4.1	13.02	11.17	6.21	fsw
PYGFY	Payden Global Fixed Income	Int'l	*	*	*	-2.0	-0.7	-2.0	9.79	4.08	4.63	fsw
SSTGX	Scudder Global Bond S-T (closed)	Int'l	*	*	*	-2.0	-1.2	-0.4	9.86	5.84	4.66	FSW
RPIBX	T. Rowe Price Int'l Bond	Int'l	*	*	*	-2.9	-1.1	1.5	9.56	9.97	2.52	fsw
BGNMX	American Century Ginnie Mae	IntTerm	*	*	*	-1.6	-2.2	-2.3	10.31	2.96	4.69	fsw
ACITX	American Century Inflation Adj	IntTerm	B	*	*	-1.9	-0.4	1.7	10.80	7.85	3.25	FSW
CPTNX	American Government Bond	IntTerm	H	*	*	-1.5	-2.0	-3.1	10.55	5.05	2.57	f
BBHIX	BBH Inflation Indexed Sec	IntTerm	B	*	*	-1.7	0.0	1.7	10.80	8.01	2.75	FSW
SRBFX	Columbia Intermediate Bond Clz	IntTerm	H	*	*	-2.5	-2.5	-0.7	8.88	4.35	5.03	FSW
DODIX	Dodge & Cox Income	IntTerm	H	*	*	-1.7	-0.2	0.8	12.62	3.79	4.54	fsw
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	-1.7	-0.7	-0.2	14.48	3.45	4.48	FSW
FGMNX	Fidelity GNMA	IntTerm	*	*	*	-1.4	-1.5	-1.4	10.88	2.71	3.07	Fsw
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	-1.9	-0.7	1.2	10.93	-	1.48	Fw
FTHRX	Fidelity Intermediate Bond	IntTerm	H	*	*	-1.9	-1.6	-2.1	10.41	4.22	3.55	Fsw
FSTGX	Fidelity Intermediate Govt	IntTerm	H	*	*	-1.3	-0.6	-1.3	10.09	4.55	2.72	Fsw
FBNDX	Fidelity Investment Grade	IntTerm	H	*	*	-1.9	-0.7	-0.5	7.36	4.71	3.22	Fsw
FBDFX	Fremont Bond	IntTerm	H	*	*	-2.1	-0.8	-1.8	10.29	5.21	3.02	fsw
MWTRX	MetroWest Total Return	IntTerm	*	*	*	-3.5	-1.8	1.9	9.59	6.04	6.00	SW
PRRDX	PIMCO Real Return	IntTerm	H	*	*	-2.0	-0.8	0.4	11.17	8.12	2.68	SW
PITDX	PIMCO Total Return	IntTerm	H	*	*	-1.8	-1.1	-2.2	10.55	5.15	2.52	SW
PTMDX	PIMCO Total Return Mortgage	IntTerm	H	*	*	-1.3	-1.4	-1.0	10.56	3.40	2.52	SW
SCSBX	Scudder Income (closed)	IntTerm	H	*	*	-2.0	-0.2	-0.1	12.59	4.62	3.74	FSW
STVSX	Strong Govt Securities	IntTerm	H	*	*	-2.0	-1.9	-3.3	10.61	5.15	3.18	FSW
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	-1.6	-1.6	-2.4	9.51	3.29	4.12	fsw
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	-1.9	-1.8	-2.5	8.81	4.65	3.58	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	H	*	*	-1.3	0.4	0.5	9.69	3.38	5.88	SW
USAIX	USAA Income	IntTerm	H	*	*	-1.9	-0.8	-0.3	12.07	5.21	4.46	w
VALBX	Value Line U.S. Govt Sec	IntTerm	H	*	*	-1.6	-1.0	-2.0	11.61	4.86	3.54	FSW
VBMFX	Vanguard Bond Market	IntTerm	H	*	*	-1.7	-0.6	-0.8	10.01	4.63	4.43	fsw
VFIX	Vanguard GNMA	IntTerm	B	*	*	-1.4	-2.3	-3.6	10.20	3.70	4.78	fsw
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	-1.6	0.1	2.4	12.19	7.87	3.41	sw
MNTRX	Wells Fargo Montgomery Total Ret (closed)	IntTerm	H	*	*	-2.1	-1.5	-2.3	12.02	4.84	3.35	fsw
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	-2.0	0.6	5.0	10.56	4.41	5.56	FSW
WPGVX	WPG Core Bond	IntTerm	H	*	*	-2.1	-1.2	-1.9	10.43	4.86	2.66	FsW
FGOVX	Fidelity Government Income	LngTerm	*	*	*	-2.0	-1.8	-3.7	9.98	5.95	2.96	Fsw
KIFIX	FifthThird Bond	LngTerm	*	*	*	-1.9	-0.9	-1.6	9.89	5.35	3.56	w
MGFIX	Managers Bond	LngTerm	*	*	*	-2.6	-0.7	0.5	23.71	7.15	4.39	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	-3.1	-1.7	-1.4	9.38	6.21	5.44	fsw
FSICX	Fidelity Strategic Income	Multi	B	B	*	-3.8	-1.3	3.8	9.94	5.67	5.57	Fw
LSBRX	Loomis Sayles Bond Retail	Multi	B	B	*	-4.7	-1.0	6.5	12.53	8.70	5.69	FW
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	-2.4	0.0	2.9	11.41	4.67	4.25	fsw
CUGGX	Columbia S-T Bond	ShTerm	B	*	*	-0.8	-0.7	-1.4	8.58	2.32	2.15	fW
FSGVX	Federated U.S. Govt Sec. 1-3	ShTerm	B	*	*	-0.6	-0.7	-1.0	10.65	1.59	1.78	fSw
FSHBX	Fidelity Short-Term Bond	ShTerm	B	*	*	-0.9	-0.4	-0.5	8.94	2.16	2.54	Fsw
JASBX	Janus S-T Bond	ShTerm	B	*	*	-0.7	0.0	0.8	2.92	1.62	2.47	FSW
MGIDX	Managers Int. Duration Govt	ShTerm	*	*	*	-1.2	-0.4	0.8	10.46	3.09	2.02	FSW
MGSDX	Managers Short Duration Govt	ShTerm	B	*	*	-0.2	0.6	1.5	9.67	1.03	2.56	FSW
MWLDX	MetroWest Low Duration	ShTerm	B	*	*	-1.7	-0.6	0.6	9.36	3.09	4.50	SW
PTLCX	PIMCO Low Duration	ShTerm	B	*	*	-0.7	-0.7	-1.6	10.17	2.44	1.44	fw
SWBDX	Schwab S-T Bond Mkt Index	ShTerm	B	*	*	-1.1	-0.9	-1.4	10.07	2.84	2.92	S
SCSTX	Scudder Short-Term Bond (closed)	ShTerm	B	*	*	-0.6	0.1	1.0	10.37	1.87	4.09	FSW
SSTBX	Strong S-T Bond	ShTerm	B	*	*	-1.1	-0.4	-0.4	8.73	2.38	3.66	FSW
PRWBX	T. Rowe Price S-T Bond	ShTerm	B	*	*	-0.8	-0.8	-0.9	4.76	2.11	2.95	fsw
VSGBX	Vanguard S-T Federal	ShTerm	*	*	*	-1.1	-1.1	-1.9	10.43	2.55	2.83	fsw
VFSX	Vanguard S-T Treasury	ShTerm	B	*	*	-0.9	-1.1	-1.5	10.49	2.70	2.53	fsw
VFSTX	Vanguard Short-Term Corporate	ShTerm	B	*	*	-1.1	-1.1	-1.4	10.64	2.21	3.75	fsw
MNSGX	WellsFargo Montgomery S Dur Govt (closed)	ShTerm	B	*	*	-0.8	-0.2	-0.7	10.13	2.23	2.27	fSw

“Asset Allocation” and “Select” Are On Different Tracks

Several subscribers have recently asked if the “Select” model portfolio is our best advice. In a word, the answer is no. Despite its name, the Select model is simply another way to look at investing for the long term. The key to evaluating the *MONEYLETTER* portfolios is to remember that nine of the models follow an “asset allocation” discipline; the tenth—the Select—follows a completely different “technical” methodology.

The *MONEYLETTER* Conservative, Moderate, and Venturesome portfolios are constructed in two separate phases. First, Chief Economist Walter Frank recommends how much each portfolio should place in the various asset classes we follow (domestic stock funds, international stock funds, specialty funds, bond funds, and money funds). These asset allocations are determined based on Mr. Frank’s economic analysis and the risk level appropriate to that model. Second, *MONEYLETTER*’s fund selection system identifies the funds that are eligible to Buy, Hold, or Sell in each of those portfolios. (Fidelity-only and Vanguard-only alternatives are listed for readers as well).

How is the Select methodology different from the asset allocation approach? The Select model does not rely on Walter Frank’s economic analysis or opinions on proper asset allocation. It simply utilizes a variation of the fund selection system to assertively upgrade fund positions. It is a completely mechanical approach, which is a far cry from the nine asset allocation models.

One other difference worth highlighting: the Select model chooses funds from the entire *MONEYLETTER* database of funds, including bond funds, specialty funds, etc. It applies our momentum-based system to the entire list in an attempt to highlight funds that are in tune with the market right now. Thus, you may see funds recommended in the Select model that are not being recommended for the asset allocation models. One recent example is Guinness Atkinson China & Hong Kong, which moved up the list but was not favored in Walter Frank’s risk-conscious analysis.

Which approach is best? It depends on the investor, of course. And it’s probably too early to tell, as the Select model has only been published since September 2002. But one thing is clear: the Select model is not for the faint of heart. It requires attention, more frequent trading, and a willingness to accept some losing trades in exchange for the opportunity for big winners. With the markets currently in the midst of a shakeup and clouded by uncertainty, these are not the best conditions for the Select model to perform.

If a consistent trend were to develop, the Select model can be an effective long-term approach to investing. But always remember... the “asset allocation” and “Select” trains travel on two separate tracks. \$

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	0.68%	0.68%	0.72%
Gabelli US Treasury MMF	0.65	0.67	0.73
Fidelity Spartan US Treas MMF	0.64	0.62	0.65
Amer Century Capital Presv Fund/Inv	0.52	0.55	0.58
T Rowe Price US Treasury MF	0.50	0.51	0.53
HSBC Investor US Treas MMF/CI D	0.40	0.41	0.39
DBAB Cash Reserve Treasury	0.37	0.38	0.38
CMA Treasury Fund RIC	0.36	0.35	0.39
Schwab US Treasury Money Fund	0.36	0.35	0.39
US Treasury MF of America/CI A	0.36	0.37	0.37

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	1.03%	1.02%	1.06%
Scudder Premium Money Mkt Shrs/AARP	0.91	0.92	0.82
Scudder Premium Money Mkt Shrs/CI S	0.90	0.90	0.81
Bunker Hill MMF	0.86	0.86	0.89
TIAA-CREF Money Market Fund	0.84	0.82	0.84
Scudder Prime Reserve MM/AARP	0.82	0.82	0.67
AIM MMF/Investor Class	0.80	0.80	-
AIG Money Market Fund/CI B	0.79	0.78	0.78
Flex-fund Money Market Fund	0.77	0.78	0.84
Harbor Money Market Fund	0.77	0.73	0.76

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Vanguard Tax-Exempt MMF	0.94%	0.94%	0.88%
Strong Tax-Free Money Fund	0.90	0.92	0.89
Strong Municipal MMF	0.73	0.75	0.75
Scudder Tax-Exempt Money Fund	0.71	0.72	0.64
Fidelity Municipal MMF	0.69	0.68	0.66
USAA Tax Exempt MMF	0.68	0.70	0.69
Dreyfus BASIC Muni MMF	0.67	0.68	0.65
Amer Century T-F MMF/Inv Class	0.65	0.70	0.66
T Rowe Price Summit Muni MMF	0.65	0.66	0.66
Fidelity Tax Free Money Market	0.64	0.65	0.62

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	0.92%	0.94%	0.87%
Vanguard CA Tax-Exempt MMF	0.91	0.91	0.84
Vanguard PA Tax-Exempt MMF	0.91	0.92	0.84
Vanguard NY Tax-Exempt MMF	0.89	0.90	0.83
Vanguard NJ Tax-Exempt MMF	0.88	0.90	0.82
Fidelity FL Municipal MMF	0.62	0.62	0.59
Fidelity OH Municipal MMF	0.62	0.58	0.57
Fidelity PA Municipal MMF	0.62	0.63	0.61
USAA Tax Exempt CA MMF	0.60	0.62	0.61
Fidelity CT Municipal MMF	0.57	0.58	0.55
Fidelity NJ Municipal MMF	0.57	0.56	0.52

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 5/11/04. 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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PIMCO PEA Value D: Not the Typical Value Fund

PIMCO, without a doubt, is best known for its fixed-income funds, and for Bill Gross, its bond guru. But if the family keeps dishing up good performing stock funds like the PIMCO PEA Value fund (PVLDX), it may soon gain a great reputation among stock fund families as well. John Schneider of PEA Capital, subadvisor to the fund, has managed the fund since May 2000. While the fund was a decent performer prior to that time, under Schneider's hand, results have been more impressive. In 2000, the fund gained 30.7%, during a time when the average Lipper large-cap value fund advanced only 7.7%. The 2001 year was similarly impressive, with a 15.2% gain vs. a category average of -5.6%. The fund lagged a bit in 2002 (more on that later) losing 25.1% vs. the Lipper average fund loss of -20.0%. But things were back on track last year, as PEA Value jumped 44.0%, vs. an average peer gain of 28.3%. For the trailing one-, three-, and five-year periods through March 31, 2004, the fund ranks in the top 2% of its Lipper category.

Value, discipline, and commitment

At the most basic level, the fund aims to invest in undervalued large-cap securities that exhibit "catalysts"—factors likely to spark positive price performance. From a broad "monitor" list of 350-400 securities, stocks are ranked according to their value characteristics. Then, the manager searches the candidates for those with catalysts for positive change. Such a catalyst is essential to prevent the fund from falling into the so-called "value trap," the risk that cheap, undervalued stocks languish or even become cheaper. Catalysts can include management changes, sector or industry changes, hidden or undervalued assets, free cash flow generation, or favorable product cycles. JC Penney is a good example of a stock with a catalyst. Schneider purchased the stock in 2001 when a new CEO, Allen Questrom, joined the firm. Questrom turned the retailer around, and the stock was the best performer in the S&P 500 in 2001. Currently the stock is the seventh largest holding in the portfolio, and is one of the better performers thus far this year, up 23% through May 14.

Once catalysts are identified, the remaining list of stocks is subject to rigorous fundamental analysis before any purchase decision is made. Finally, the fund's diversification is monitored as investments are made. The fund typically holds one or two stocks in each of approximately 50 industries, no one holding can account for more than about 6% of assets, and no industry can exceed 30% of the portfolio.

While John Schneider, like many other value managers, takes an opportunistic approach to investing, buying cheap stocks with a catalyst, the portfolio has characteristics that

differentiate it from many of its peers. Despite the diversification steps taken in the portfolio (as described above), the fund is highly concentrated, as it generally contains only about 40 stocks, and a number of individual holdings often top 4% of assets. Additionally, portfolio turnover tends to be more rapid than the typical value fund.

Schneider's approach means he is sometimes "early" to invest, and may have to wait out volatility or dips before his picks pay off. Indeed, that was the problem behind the fund's sub-par showing in 2002. In the spring of that year, Schneider overweighted cyclical stocks such as those in the basic materials, industrial cyclical, and cyclical technology areas. These investments did not pay off in 2002, but Schneider held on until they did, which was during the following year. More recently, the manager reduced the fund's large stake in technology-hardware firms, which were strong in 2003, focusing more heavily on industrial-type firms, which should benefit from an improving economy. Additionally, Schneider notes that although he is a bottom-up stock picker, he views the weak U.S. dollar as the most important macro factor in management's decision-making. He likes U.S. manufacturing and basic materials firms that will benefit from the weak dollar when selling abroad.

Top Five Sectors and Holdings (% of Assets)

Financial Services	20.0%	Boeing	5.0%
Consumer Discretionary	11.0	Liberty Media	4.5
Producer Durables	9.0	Bank of America	4.4
Consumer Staples	9.0	Alcan Inc.	4.4
Materials & Processing	8.0	Citigroup	4.3

as of March 31, 2004

Outlook

PIMCO expects the global economic recovery to continue for the next six to 12 months. And the firm expects the accompanying profit recovery to produce solid market returns over the next year or so. It notes that U.S. stocks have historically delivered total returns of about 10% a year, and expects the stock market to move toward this average, with high single-digit returns in coming years. Schneider expects the good performance of value stocks to continue. He asserts that growth stocks outperformed value stocks for so long that it will take more than a year or two of good performance by value stocks to narrow the valuation disparity between the two types of equities. Moreover, he likes the outlook for large-cap over small-cap stocks. The investment team's research indicates that large-cap stocks have lower relative valuations than small-caps, following a number of years of strong performance by small-cap issues. That means large-caps will eventually outperform.

*PIMCO PEA Value D (PVLDX), PIMCO Advisors
840 Newport Center Drive, Newport Beach, CA 92660
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