



A New Look at the Bond Market

by Walter S. Frank, Chief Investment Officer

It all seemed obvious. Interest rates are going up. (The Fed has been signaling a rate rise for many weeks under their new "no surprises" policy). The obvious thing to do is to cut exposure to the most rate sensitive bonds, long-term bonds (ten years or more) and retreat to the less sensitive end of the bond market (five years or less). Everyone has been doing it, and so have we. It's almost a tradition.

Of course, shortening the maturity of one's bond holdings means giving up yield for safety. In the end, as we all know, it is total return that counts, and that higher yield is quickly eaten up as the value of a bond fund's NAV declines when rates rise.

With a Fed meeting coming up on June 30, anyone who has bonds or bond funds in their portfolios is undoubtedly frozen in place. The shortening moves have been made; the protective shields are up. Let the Fed act.

Obviously, we have no bone to pick with that approach. After all, it is the one we have chosen. But what if it turns out that events are beginning to pass the approach by? Put another way, what if it turns out that the very thing we are worried about (a sharp rise in long-term rates) has already occurred even before the Fed acts. It may be that the bond market has already gone a long way to discounting the rise in rates that lay ahead.

That is the position of two of Wall Street's top bond fund managers, Jeffrey Gundlach of the TCW Galileo Total Return Bond Fund and Dan Fuss, portfolio Manager of the Loomis Sayles Bond Fund (the fund is in two of our model portfolios).

1994?

Wall Street thrives on analogies. And the credit market position now resembles the situation in 1994. Then the Fed had lowered short-term rates to a very low level and held them there throughout 1993. Then, as now, the economy

started to pick up. The Fed then raised interest rates in early '94 (taking the markets by surprise at the timing, though rate rises were expected later in '94). The 10-year Treasury yield rose almost 2.50 percentage points from February '94 to early November, from about 5.75% to 8.0%. Obviously that is a big jump and bond funds took it on the chin, with long-term funds leading the way.

Wall Street has learned the '94 lesson well, hence today's defensive moves. But there is one major difference between '94 and now. As we said, the bond market was caught off guard in '94 by the timing of the Fed move. This time the Fed has done everything but whack us over the head to let us know that rate increases are coming.

Consequently there have been differences in the action of the bond market then, and now, prior to the rate increases. In '94 the 10-year rate hit a low in October '93 and then rose only about 0.5%, from 5¹/₄% to 5³/₄%, at the time the Fed acted. The big rise in rates came after the Fed acted.

This time we already have had a large rise in rates from a low of about 3³/₄% in March to about 4³/₄% now, even before the Fed acts. This raises the question of how much of the coming rate increases over the year the bond market has already anticipated? The other night on the Louis Rukeyser show Fuss estimated that about 85% of the downward bond move has occurred.

Gundlach estimated in a recent conference call that we are more than halfway through the adjustment. He pointed out that if investors are fearful that they have another '94 ahead of them, then they are implicitly saying that this bond bear market will be worse than 1994, when the total return of long-term bond funds dropped about 5%.

Rethinking our bond strategy

Both Gundlach and Fuss are telling us that the short-run outlook for the bond market is dicey. But as the year goes on and as we go into 2005, the bond market will become a more hospitable place for income investors. As Gundlach put it the risk in the bond market now is less than one year ago.

We haven't used the word inflation yet, and much depends on the course of prices. We think inflation, while higher than the last few years, will remain contained, and will not require heavy action from the Fed. That appears to be the view of many Fed policymakers. Some in the financial community are not convinced, and believe the Fed has a great deal of catching up to do

The two views will be put to the test over the next six months or so. If we are correct, then the time is quickly approaching for a bolder approach to the bond market. Meanwhile we wait for the bond market's reaction to the next Fed meeting.

(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	Higher	Flat/Lower
Dow	Higher	Higher
NASDAQ	Higher	Higher
Europe	Higher	Higher
Japan (Nikkei)	Higher	Higher
Hong Kong (Hang Seng)	Higher	Higher

(continued from page 1)

Fund changes

We have a large number of model transactions to report. Bear with us. The Hotline of May 18th recommended an allocation change involving the sale of all international funds in the Venturesome and Moderate model portfolios with the proceeds going to money funds. Here are the details as of Wednesday, May 19th:

MONEYLETTER Venturesome: Sold 836 shares of Matthews Pacific Tiger @ \$12.40. Purchased 10,369 shares of Charles Schwab Money Fund @ \$1.00. Sold 596 shares of Fidelity International Small Cap @ \$18.91. Purchased 11,275 shares of Schwab MF.
MONEYLETTER Moderate: Sold 975 shares of Pacific Tiger. Purchased 12,085 shares of Schwab MF. Sold 630 shares of International Small Cap. Purchased 11,907 shares of Schwab MF.

Fidelity Venturesome: Sold 455 shares of International Small Cap. Purchased 8,608 shares of Fidelity Cash Reserves @ \$1.00. Sold 578 shares of Fidelity Southeast Asia @ \$13.51. Purchased 7,805 shares of Cash Reserves. **Fidelity Moderate:** Sold 615 shares of International Small Cap. Purchased 11,631 shares of Cash Reserves. Sold 465 shares of Southeast Asia, Purchased 6,284 shares of Cash Reserves.

Vanguard Venturesome: Sold 1,605 shares of Vanguard Emerging Markets Index @ \$11.16. Purchased 17,908 shares of Vanguard Prime Portfolio @ \$1.00. **Vanguard Moderate:** Sold 373 shares of International Value @ \$25.93. Purchased 9,679 shares of Prime Portfolio. Sold 933 shares of Emerging Markets Index. Purchased 10,414 shares of Prime Portfolio.

The same Hotline also recommended fund switches for a number of funds. Here are those details as of Wednesday, May 19:

MONEYLETTER Venturesome: Sold 1,280 shares of Royce Opportunity @ \$11.71. Purchased 746 shares of Strong Midcap Disciplined @ \$20.10. **MONEYLETTER Moderate:** Sold 263 shares of Legg Mason Special @ \$43.48. Purchased 568 shares of Strong Midcap Disciplined. **MONEYLETTER Conservative:** Sold 1,305 shares of Needham Small Cap Growth @ \$16.31. Purchased 1,059 shares of Strong Midcap Disciplined.

Fidelity Venturesome: Sold 1,159 shares of Fidelity Small Cap Independence @ \$17.66. Purchased 426 shares of Fidelity Equity-Income @ \$48.09. Sold 1,159 shares of Small Cap Independence. Purchased 414 shares of Fidelity Contrafund @ \$49.50. **Fidelity Moderate:** Sold 565 shares of Small Cap Independence. Purchased 207 shares of Equity-Income.

Vanguard Venturesome: Sold 780 shares of Vanguard Extended Market Index @ \$26.25. Purchased 1,106 shares of Vanguard Value Index @ \$18.50. Sold 1,139 shares of Vanguard Strategic Equity @ \$18.37. Purchased 1,740 shares of Vanguard U.S. Value @ \$12.02. **Vanguard Moderate:** Sold 600 shares of

Extended Market Index. Purchased 852 shares of Value Index. Sold 713 shares of Strategic Equity. Purchased 1,089 shares of U.S. Value. **Vanguard Conservative:** Sold 439 shares of Extended Market Index. Purchased 623 shares of Value Index. Sold 806 shares of Strategic Equity. Purchased 1,232 shares of U.S. Value.

The Hotline of June 8 recommended an increase of 10% for the domestic stock fund allocation of Venturesome and Conservative investors and a corresponding decrease in the money fund allocation. Here are the details as of Wednesday, June 9:

MONEYLETTER Venturesome: Sold 10,824 shares of Charles Schwab Money Fund @ \$1.00. Purchased 759 shares of Baron Partners @ \$14.27. **MONEYLETTER Moderate:** Sold 11,998 shares of Schwab MF. Purchased 841 shares of Baron Partners.

Fidelity Venturesome: Sold 8,210 shares of Cash Reserves @ \$1.00. Purchased 528 shares of Aggressive Growth @ \$15.56. **Fidelity Moderate:** Sold 8,961 shares of Fidelity Cash Reserves. Purchased 576 shares of Fidelity Aggressive Growth.

Vanguard Venturesome: Sold 8,958 shares of Vanguard Prime Portfolio @ \$1.00. Purchased 661 shares of Vanguard Mid-cap Index @ \$13.55. **Vanguard Moderate:** Sold 10,050 shares of Prime Portfolio. Purchased 742 shares of Mid-cap Index. \$

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A Case of the Blahs

Here we are at the turning point of the year, and the markets are almost where they started last January. The same is true for the performance of our portfolios. Unlike some other years, there has been no niche, no segment of the market to play that would give an edge to performance.

The last few weeks have been particularly frustrating, as the market seemingly cannot get out of its own way. Not only is the market not going anywhere, but nobody seems to care. Volume has been very low, with investors—and this includes the funds and other institutions—sitting on their hands.

What is behind the apathy?

There's always the Fed

The major reason given is that investors are waiting for the Fed meeting on June 30. Until the Fed acts, no one wants to take the risk of making a dumb investment. Somehow we are not convinced by the explanation. Everybody knows that rates are going up on June 30. The only issue is by how much, and even there the odds are strong that this first rate increase will be $\frac{1}{4}\%$ (25 basis points).

If the only thing facing the market were the Fed meeting, we think the market would be much livelier. No, there is something deeper (and a bit more complicated). As we see it, what is bothering the market is the uncertainty of how the economy will develop now that we have left the post-bubble recession and its aftermath behind us.

What is normal?

We are returning to a normally functioning recovering economy, but we don't know anymore in 2004 how the normal economy behaves. The last "normal" economy we had was six years ago in 1998. Of course, the economic world of 2004 is much different than the world of 1998.

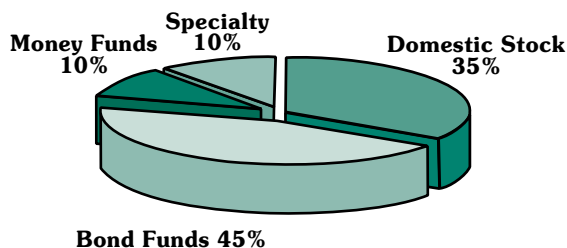
One key question is how prone to inflation are we now? We don't know. Now that companies have started to hire is our productivity boom over? We've had some iffy numbers lately on this score, and Wall Street, with its knee-jerk (or hedge fund) mentality, is already wringing its hands.

But even more serious observers are concerned that the Fed may be underestimating the price pressures to come as industrial production expands strongly and business finds price rises doable. Unfortunately, the inflationary threat, such as it is, is hard to fathom because of the skyrocketing price of oil. The recent price numbers have been disturbing, and they have left us confused.

Aside from inflation, and this is the other side of productivity, we don't know whether profits can continue to expand. Certainly not at recent rates (that is out of the question), but how rapidly? Margins now are sky-high. How long can they hold? The jury is out on these and other matters. Mr. Greenspan believes that the productivity increases will last for sometime. His views on this matter so far have been right. \$

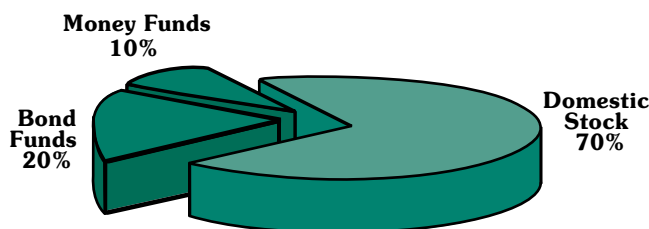
CONSERVATIVE

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



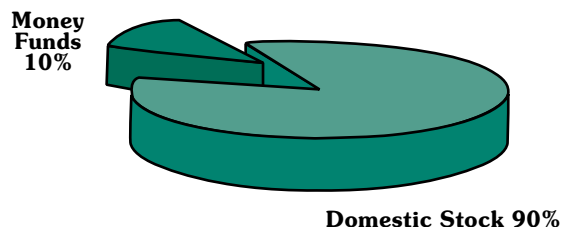
MODERATE

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



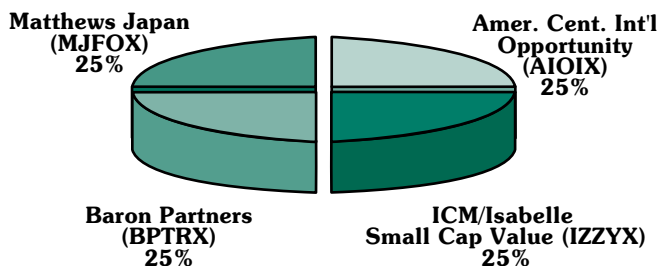
VENTURESOME

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	6/18	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	1	-		BPTRX	Baron Partners	MCGro	*	B	B	4.3%	18.5%	43.8%	\$14.13	28.6	1.26	FSW
2	5	9		WBSNX	WmBlair S-C Growth N (closed, 1%r<60d)	SCGro	B	B	B	7.0	11.3	41.3	23.83	30.1	1.12	FSW
3	2	37		BUFSX	Buffalo Small Cap (closed)	SCGro	B	B	B	3.4	14.0	38.7	24.84	31.2	1.25	SW
4	11	1		FLVCX	Fidelity Leveraged Co (\$10,000, 1.5%r<90d)	MC	*	B	B	9.2	9.8	37.9	20.47	36.3	1.39	Fw
5	30	2		HENLX	Henlopen Fund (1%r<30d)	SCGro	*	B	B	6.2	5.8	46.7	26.82	30.9	1.19	FSW
6	-	-		CHITX	ABN Amro Mid Cap	MC	*	(H)	(H)	6.1	13.1	27.8	23.63	26.4	1.29	FSW
7	39	74		TAVFX	Third Avenue Value (1%r<60d)	SC	(B)	(B)	(B)	8.5	10.4	30.8	45.06	17.2	0.79	FSW
8	4	7		RSPFX	RS Partners	SC	B	B	B	4.3	10.4	37.0	29.60	20.9	0.69	FSW
9	12	84		RYPX	Royce Premier (1%r<180d)	SC	B	B	B	5.6	12.1	30.2	14.24	19.4	0.84	FSW
10	25	3		RYPNX	Royce Opportunity (closed, 1%r<180d)	SCVal	B	B	B	7.3	5.7	42.6	12.53	30.8	1.18	fsw
11	7	-		PVLDX	PIMCO PEA Value D	LCVal	*	B	B	5.5	12.0	28.9	16.83	25.4	1.32	FSW
12	3	47		SMCDX	Strong Mid Cap Disciplined	MCVal	B	B	B	3.7	11.7	31.6	20.96	23.1	0.99	FSW
13	9	52		CRMMX	CRM Mid Cap Value Inv	MCVal	B	B	B	5.3	10.7	31.1	23.31	18.9	0.78	FSW
14	14	8		MOPIX	MainStay Small Cap Opportunity (closed)	SCVal	B	B	B	6.6	7.6	36.6	17.67	17.5	0.63	FSW
15	52	134		BSCFX	Baron Small Cap	SCGro	(B)	(B)	(B)	4.9	12.7	26.2	20.39	21.5	0.79	FSW
16	15	-		TGDVX	TCW Galileo Diversified Value N	LCVal	B	B	B	6.3	10.7	28.0	12.20	19.8	1.03	FW
17	17	99		ARTQX	Artisan Mid Cap Value	MCVal	H	H	H	6.0	10.5	28.3	14.92	19.8	0.87	FSW
18	13	11		BERWX	Berwyn Fund (1%r<180d)	SCVal	B	B	B	5.4	7.7	35.7	26.03	22.3	0.77	fsw
19	43	29		TUDRX	WPG Tudor	SC	H	H	H	7.3	8.6	29.9	17.33	27.0	1.22	fsw
20	22	80		ARTSX	Artisan Small Cap	SCGro	B	B	B	5.8	10.4	27.4	15.41	26.7	1.19	FSW
21	41	73		PRSVX	T. Rowe Price S-C Value (closed, 1%r<1yr)	SCVal	H	H	H	6.2	9.2	28.9	31.67	18.0	0.69	fsw
22	48	41		TASCX	Third Avenue Small-Cap Value (1%r<1yr)	SCVal	H	H	H	6.3	8.5	30.0	20.00	19.9	0.85	FSW
23	8	31		VHCOX	Vanguard Cap Opp (closed, \$25,000, 1%r<5yr)	MCGro	*	B	B	3.8	10.9	27.3	27.16	25.3	1.28	fsw
24	6	23		IZZYX	ICM/Isabelle Small Cap Value	SCVal	(H)	(H)	(H)	3.5	8.5	32.6	14.40	29.5	1.04	FSW
25	20	46		TRMCX	T. Rowe Price Mid Cap Value	MCVal	B	B	B	5.7	8.9	27.9	21.63	19.8	0.90	fsw
26	19	10		RSCOX	RS Contrarian Value	MC	B	B	B	5.1	6.3	34.9	17.64	18.6	0.60	FSW
27	23	22		BPSCX	Boston Ptnrs Smlcap Val (closed, 1%r<1yr)	SCVal	B	B	B	5.5	7.7	30.6	23.87	25.8	0.87	FSW
28	49	77		TWCVX	American Century Vista	MCGro	(B)	(B)	(B)	3.7	10.7	25.8	13.40	15.8	0.68	fsw
29	64	17		FSLCX	Fidelity Small Cap Stock (2%r<90d)	SCGro	H	H	H	7.4	5.6	32.8	16.94	21.5	0.94	F
30	46	168		ARGFX	Ariel Fund	SCVal	H	H	H	5.8	10.0	24.0	48.75	15.6	0.53	FSW
31	26	254		JMCVX	Janus Mid Cap Value	MCVal	B	B	B	5.3	8.5	28.2	21.74	20.4	0.93	fsw
32	27	19		JAVTX	Janus Venture (closed)	SCGro	*	(B)	(B)	6.0	6.7	31.2	51.68	29.0	1.25	FSW
33	16	192		BARAX	Baron Asset	MCGro	H	H	H	3.8	10.4	25.1	47.64	21.2	0.94	FSW
34	81	13		NESGX	Needham Small Cap Growth (.75%r<30d)	SCGro	H	H	H	7.8	4.8	32.9	17.47	-	-	FSW
35	40	61		MNSCX	Wells Fargo Montgomery Small Cap (closed)	SCGro	(B)	(B)	(B)	5.9	8.5	26.4	11.53	23.3	1.05	fS
36	69	42		SAFGX	Safeco Growth Opportunities (2%r<90d)	SC	H	H	H	6.0	7.4	28.8	25.97	29.8	1.18	fsw
37	37	186		BGRFX	Baron Growth	SCGro	H	H	H	4.5	10.2	23.9	38.40	18.4	0.72	FSW
38	21	20		WMCVX	Wasatch Small Cap Value (closed, 2%r<60d)	SCVal	B	B	B	3.8	6.6	33.9	5.54	26.6	0.96	FSW
39	57	86		FDVLX	Fidelity Value	MCVal	H	H	H	6.7	8.3	25.2	66.08	19.0	0.89	Fsw
40	59	51		VISVX	Vanguard Small-Cap Value Index	SCVal	H	H	H	6.5	6.8	28.9	12.04	22.4	0.90	fsw
41	62	113		NBGNX	Neuberger Berman Genesis (closed)	SC	H	H	H	5.0	8.5	26.8	27.75	15.5	0.63	fsw
42	29	-		TGIGX	TCW Galileo Dividend Focused N	MCVal	H	H	H	5.4	8.5	25.5	10.51	13.8	0.57	FW
43	55	48		FLPSX	Fidelity L P Stock (closed, 1.5%r<90d)	SCVal	H	H	H	5.5	7.6	27.5	36.76	18.0	0.75	fsw
44	28	54		PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	4.2	7.9	28.3	9.40	20.4	0.80	FSW
45	56	139		JAENX	Janus Enterprise	MCGro	H	H	H	5.7	9.2	22.5	33.47	21.4	1.09	FSW
46	18	35		CRMSX	CRM Small Cap Value Inv (closed)	SCVal	(H)	(H)	(H)	3.3	8.3	28.3	25.69	23.8	0.93	FSW
47	45	18		JSVAX	Janus Special Equity	MC	H	H	H	6.5	6.7	27.1	11.17	22.3	1.10	SW
48	42	28		TGVNX	TCW Galileo Value Opportunities	MC	*	(H)	(H)	5.1	7.4	26.9	21.22	29.2	1.32	FSW
49	111	38		LMASX	Legg Mason Special Investment Trust	MC	*	H	H	7.1	7.5	23.6	45.97	30.9	1.33	-
50	73	105		FBRVX	FBR Small Cap Value A (1%r<90d)	SCGro	H	H	H	3.9	8.5	24.8	34.95	23.4	0.82	FSW
51	31	103		SOPFX	Strong Opportunity	MCVal	H	H	H	4.8	8.8	22.7	41.91	22.2	1.17	FSW
52	65	33		NAESX	Vanguard SmallCap Index	SC	H	H	H	5.6	6.4	27.4	23.55	23.2	1.01	fsw
53	160	25		LMOPX	Legg Mason Opportunity Trust (1%r<1yr)	MC	*	H	H	8.1	7.8	20.0	14.30	35.1	1.48	-
54	32	40		LLSCX	Longleaf Partners Smallcap (closed)	SCVal	H	H	H	5.1	7.7	24.2	29.95	19.2	0.80	fw
55	96	155		RYSEX	Royce Special Equity (1%r<180d)	SCVal	H	H	H	4.6	8.4	22.9	19.12	16.5	0.51	Sw
56	67	92		BPMCX	Boston Partners Mid Cap Value	MCVal	H	H	H	5.2	7.8	22.9	13.49	20.1	0.93	FSW
57	53	97		MPEGX	MSI Mid Cap Growth	MCGro	*	H	H	4.6	7.5	24.4	18.24	22.2	1.17	fsw
58	24	-		BUFMX	Buffalo Mid Cap	MCGro	(H)	(H)	(H)	2.1	8.1	26.4	11.91	-	-	FSW
59	86	10		RSSGX	RS Smaller Company Growth	SCGro	*	H	H	4.4	3.7	33.8	20.93	28.5	1.23	FSW
60	112	121		WGROX	Wasatch Core Growth (closed, 2%r<60d)	SCGro	H	H	H	6.2	7.1	22.5	38.89	28.5	1.10	FSW
61	95	36		MERDX	Meridian Fund	MCGro	H	H	H	4.7	6.0	27.4	34.43	23.1	0.95	fw
62	104	66		VSEQX	Vanguard Strategic Equity	MCGro	H	H	H	5.9	6.2	25.2	19.49	17.8	0.83	fsw
63	36	90		DODGX	Dodge & Cox Stock (closed)	LCVal	H	H	H	4.6	8.2	21.9	118.90	17.6	0.85	sw
64	129	166		VALSX	Value Line Special Situations	MCGro	H	H	H	4.9	7.7	22.8	22.07	15.4	0.71	FSW
65	10	223		JAVLX	Janus Twenty (closed)	LCGro	H	H	H	3.1	11.0	17.0	39.05	17.3	0.93	FSW
66	74	-		TGONX	TCW Galileo Opportunity N	SC	H	H	H	6.6	5.2	26.2	13.26	22.5	0.90	FSW
67	33	56		PRNHX	T. Rowe Price New Horizons	SCGro	*	H	H	3.5	7.2	25.6	26.08	28.3	1.30	fsw
68	78	53		VISGX	Vanguard Small Cap Growth Index	SCGro	H	H	H	4.8	6.2	26.0	13.56	21.6	0.91	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	6/18 2004	1 Mo Ago	6 Mo Ago	Ticker Symbol	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	131	107	OTCFX	T. Rowe Price Small Cap Stock Fund	SC	S	S	S	5.7	6.5	23.3	29.28	19.2	0.84	fsw	
70	51	126	TWVLX	American Century Value	MCVal	S	S	S	4.6	8.2	20.5	7.86	16.6	0.82	FSW	
71	170	109	LSSCX	Loomis Sayles Small Cap Value	SC	S	S	S	5.7	6.2	23.5	24.85	18.4	0.78	sW	
72	35	96	VPMCX	Vanguard PRIMECAP (closed,\$25,000&1%r<5yr)	LC	H	H	H	3.3	7.8	22.5	56.16	21.7	1.13	fsw	
73	79	78	MPSCX	MSI Small Cap Value (closed)	SCVal	S	S	S	4.9	6.1	23.9	21.60	20.7	0.98	fsw	
74	70	110	RPMGX	T. Rowe Price Mid Cap Growth	MCGro	S	S	S	4.9	7.1	20.9	45.24	22.1	1.11	fsw	
75	34	150	VWNFX	Vanguard Windsor II	LCVal	H	H	H	4.5	8.5	17.7	28.10	16.2	0.82	fsw	
76	219	75	STDIX	Strong Discovery	MCGro	S	S	S	6.1	5.0	24.1	20.32	19.1	0.86	FSW	
77	54	122	NCTWX	Nicholas II	MCVal	S	S	S	3.9	7.1	22.0	22.47	19.5	0.96	w	
78	144	12	BOGLX	Bogle Small Cap Growth (closed)	SCGro	S	S	S	6.0	2.6	30.2	26.40	22.3	0.88	w	
79	99	59	VEXMX	Vanguard Extended Market Index	MC	S	S	S	4.8	5.5	24.2	27.55	21.5	1.02	fsw	
80	126	63	MUHLX	Muhlenkamp Fund	MCVal	S	S	S	6.9	4.8	22.8	65.81	27.9	1.24	FSW	
81	146	71	KAUFX	Federated Kaufmann Fund (0.2%)	MCGro	S	S	S	5.8	5.5	21.8	5.14	19.5	0.86	FSW	
82	60	39	RYLPX	Royce Low Priced Stock (1%r<180d)	SCVal	S	S	S	3.5	5.2	25.9	14.42	27.1	1.10	FSW	
83	199	32	CSMVX	Century Select Small Cap (1%r<180d)	SCGro	S	S	S	5.9	2.9	27.5	21.92	15.3	0.61	FSW	
84	115	100	VIMSX	Vanguard Mid-Cap Index	MC	H	H	H	5.3	5.4	21.7	13.59	20.1	0.97	fsw	
85	174	89	LMVTX	Legg Mason Value	LCVal	S	S	S	7.4	6.3	15.9	59.24	23.3	1.19	-	
86	107	69	SLSSX	Selected Special Shares	MCGro	S	S	S	4.9	5.2	22.4	12.03	21.3	1.09	sW	
87	113	79	CUEGX	CS Warburg Pincus Emerging Growth	MCGro	*	S	S	4.4	5.7	21.6	28.51	24.3	1.18	FSW	
88	84	225	OAKBX	Oakmark Equity&Income (2%r<90d)	Bal	S	S	S	3.3	7.9	17.5	23.43	10.7	0.49	FSW	
89	154	24	USCGX	USAA Capital Growth	MCGro	*	S	S	5.5	2.8	26.9	6.56	23.9	1.13	fsw	
90	118	95	FDSGX	Fidelity Small Cap Ind. (1.5%r<90d)	SC	S	S	S	4.0	5.2	23.0	18.38	16.7	0.58	Fsw	
91	148	101	PESPX	Dreyfus Mid Cap Index	MCGro	S	S	S	5.0	5.0	22.1	24.19	20.2	0.97	FSW	
92	50	93	CAMOX	Cambiar Opportunity	LC	S	S	S	2.9	6.3	21.7	15.10	18.4	0.94	FSW	
93	91	156	FCNTX	Fidelity Contrafund	LC	H	H	H	4.1	6.7	18.8	51.36	11.4	0.54	Fsw	
94	44	91	MPVLX	MSI Value Portfolio	LCVal	S	S	S	3.7	6.6	19.3	16.01	20.6	1.05	fsw	
95	100	135	ARTMX	Artisan Midcap (closed)	MCGro	S	S	S	4.7	5.9	19.4	26.77	23.1	1.17	FSW	
96	38	132	THPGX	Thompson Plumb Growth	LC	S	S	S	4.0	7.6	16.1	47.71	25.1	1.22	fsw	
125	101	127	VUVLX	Vanguard U.S. Value	LCVal	H	H	H	4.7	5.5	17.3	12.62	17.3	0.87	fsw	
126	106	147	FDEGX	Fidelity Aggressive Growth (1.5%r<90d)	MCGro	*	H	H	3.3	6.0	18.2	15.52	31.1	1.74	Fsw	
129	68	114	FEQIX	Fidelity Equity-Income	LCVal	H	H	H	4.7	5.3	16.9	50.13	17.8	0.96	Fsw	
131	77	124	VIVAX	Vanguard Value Index	LCVal	H	H	H	4.6	5.4	16.2	19.41	18.6	1.03	fsw	

Dow Jones
NASDAQ
S&P 500

4.5%
1.6%
12.1%
4.7
1.6
18.5
4.0
4.2
12.4

indexes do not
include dividends

International Stock Funds

1	1	9	MJFOX	Matthews Japan Fund (2%r<90d)	Japan	*	H	H	14.5%	22.3%	69.7%	\$15.31	15.2	-	FSW
2	3	20	PRJPX	T. Rowe Price Japan	Japan	*	H	H	14.6	20.5	57.5	8.22	14.4	-	s
3	5	10	SJPNX	Japan Fund (Scudder) (2%r<180d)	Japan	*	H	H	13.1	14.3	57.9	10.25	14.8	-	FSW
4	2	3	AIOIX	Amer.Cent.Intl Opportunity (2%r<180d)	Int'l	H	H	H	10.8	15.4	56.4	8.62	-	-	S
5	4	1	FISMX	Fidelity Intl Small Cap (2%r<90d)	Int'l	H	H	H	9.6	12.6	54.5	20.26	-	-	Fw
6	11	32	FJPNX	Fidelity Japan (1.5%<90d)	Japan	*	H	H	12.7	13.1	41.0	12.44	17.3	-	Fsw
7	6	-	ARTKX	Artisan Intl Value (2%r<90d)	Int'l	H	H	H	7.4	16.1	40.7	18.17	-	-	FSW
8	9	-	DODFX	Dodge&Cox Intl. Stock	Int'l	H	H	H	8.4	11.5	44.7	25.31	-	-	fsw
9	13	6	PRIDX	T. Rowe Price Intl Disc. (2%r<1yr)	Int'l	H	H	H	9.5	10.2	44.7	28.07	16.0	-	fsw
10	8	17	VINEX	Vanguard Intl Explorer (\$25,000,2%r<60d)	Int'l	H	H	H	7.3	11.8	40.5	13.89	16.3	-	fsw
11	7	15	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	H	H	H	6.2	11.9	41.7	17.39	20.4	-	FSW
12	12	-	WAIGX	Wasatch International Growth	Int'l	H	H	H	7.3	12.2	37.4	14.67	-	-	FSW
13	15	33	VPACX	Vanguard Pacific Stock Index (2%r<60d)	Pacific	*	H	H	10.7	10.4	36.7	8.52	13.7	-	fsw
14	14	40	WPJGX	CS Warburg Pincus Japan Grth (2%r<30d)	Japan	*	H	H	9.9	10.3	36.6	5.45	22.7	-	FSW
15	10	62	TBGVX	Tweedy, Browne Global Value (2%r<60d)	Global	H	H	H	3.4	12.4	29.2	21.61	11.9	-	fsw
16	27	12	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	H	H	H	7.3	6.5	36.3	16.16	-	-	SW
17	22	42	OAKIX	Oakmark International (2%r<90d)	Int'l	H	H	H	7.0	9.0	25.5	18.97	22.0	-	FSW
18	16	26	PIFX	Preferred International	Int'l	H	H	H	7.1	7.4	28.9	14.89	17.4	-	w
19	19	37	OAKGX	Oakmark Global (2%r<90d)	Global	H	H	H	6.2	8.6	26.3	20.33	26.5	-	FSW
20	35	35	FPBFX	Fidelity Pacific Basin (1.5%r<90d)	Pacific	H	H	H	8.4	5.8	29.7	17.73	14.7	-	Fsw
21	20	22	VTRIX	Vanguard International Value (2%r<60d)	Int'l	H	H	H	6.9	6.5	27.7	26.96	16.8	-	fsw
22	21	21	FIGRX	Fidelity International G & I (1%r<30d)	Int'l	H	H	H	6.7	5.9	29.0	24.60	15.2	-	Fsw
23	18	29	FDIVX	Fidelity Diversified Intl (1%r<30d)	Int'l	H	H	H	5.6	7.1	27.6	25.05	13.8	-	Fsw
24	17	52	LLINX	Longleaf Partners International	Int'l	H	H	H	4.6	7.7	27.4	14.75	19.4	-	fw
25	39	36	BJBIX	Julius Baer Intl Equity A (2%r<90d)	Int'l	H	H	H	6.5	7.0	25.3	27.20	12.5	-	FS
26	50	30	WBIGX	Wm. Blair Intl Growth N (closed,1%r<60d)	Int'l	H	H	H	8.6	5.2	26.7	18.90	14.6	-	FSW
27	38	51	ARTIX	Artisan International (2%r<90d)	Int'l	H	H	H	8.1	7.5	21.1	19.63	16.4	-	FSW
28	24	27	SGSCX	Scudder Global Discovery (closed)	Int'l	H	H	H	5.9	6.2	27.3	29.15	20.1	-	FSW
29	37	45	VWIGX	Vanguard International Growth (2%r<60d)	Int'l	S	S	S	7.1	7.1	22.4	16.67	15.5	-	fsw
30	25	23	HAINX	Harbor International (2%r<60d)	Int'l	H	H	H	6.7	5.9	25.5	37.47	17.9	-	Fsw
31	26	34	VEURX	Vanguard European Stock Index (2%r<60d)	Europe	S	S	S	6.5	7.1	22.6	22.80	17.4	-	fsw
32	41	49	CMISX	Columbia International Stock (2%r<60d)	Int'l	S	S	S	7.5	6.7	21.7	13.65	13.4	-	fsw
33	34	47	SWINX	Schwab International Index (1.5%<180d)	Int'l	S	S	S	6.9	7.0	21.6	14.29	14.1	-	S
34	43	46	GIETX	Columbia Intl Equity CIZ	Int'l	S	S	S	7.7	6.3	21.7	12.81	13.6	-	fw
35	65	4	FLATX	Fidelity Latin Amer. (1.5%<90d)	LatinA	*	H	H	7.3	2.1	32.2	14.83	29.8	-	Fs

Bond Funds (next issue on page 6: Specialty Funds)
 6/18/2004

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%	3.1%	\$9.90	-	3.11%	Fw
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	S	S	*	1.0	2.3	7.8	11.09	5.84	3.83	FSW
CMHYX	Columbia High Yield	HighYld	S	S	*	1.1	-2.7	-1.5	8.46	5.59	6.62	fSW
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	2.8	-2.3	5.7	7.79	14.26	8.22	Fsw
SPHIX	Fidelity High Income (1%r<90d)	HighYld	S	S	*	1.6	-0.5	7.6	8.71	9.79	8.05	Fsw
JAHYX	Janus High Yield (2%r<90d)	HighYld	S	S	*	1.4	-1.9	1.5	9.44	5.82	7.15	FSW
NTHSX	Northeast Investors Trust	HighYld	*	S	*	2.5	5.5	12.9	7.45	7.60	8.42	fw
PHYDX	PIMCO High Yield	HighYld	S	S	*	1.5	-1.9	3.5	9.38	9.03	6.93	SW
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	1.5	-1.1	5.0	7.56	10.47	7.17	FSW
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.4	-0.5	1.4	8.60	4.09	5.00	FSW
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	S	S	*	1.3	-1.8	3.5	6.85	7.36	8.19	sw
TGHNX	TCW Galileo High Yield Bond	HighYld	S	S	*	2.1	0.9	7.3	7.09	8.90	7.64	SW
VAGIX	Value Line Aggressive Inc (1%r<120d)	HighYld	*	S	*	1.4	0.2	4.8	4.97	8.57	6.13	FSW
VWEHX	Vanguard High Yield Corporate (1%r<1yr)	HighYld	S	H	*	2.1	0.8	6.1	6.18	7.02	7.61	sw
BEGBX	American Century Intl Bond	Int'l	*	*	*	2.1	-0.8	4.4	13.37	11.01	6.14	fSW
PYGFY	Payden Global Fixed Income	Int'l	*	*	*	0.4	-0.9	-2.5	9.82	4.13	4.63	fsw
SSTGX	Scudder Global Bond S-T (closed)	Int'l	*	*	*	1.1	-2.2	-0.6	9.96	5.82	4.65	FSW
RPBIX	T. Rowe Price Int'l Bond	Int'l	*	*	*	2.4	-2.0	3.0	9.85	9.94	2.45	fsw
BGNMXX	American Century Ginnie Mae	IntTerm	*	*	*	0.3	-2.1	-1.8	10.35	2.98	4.71	fSW
ACITX	American Century Inflation Adj	IntTerm	B	*	*	0.5	0.6	1.3	10.87	7.88	3.24	fSW
CPTNX	American Government Bond	IntTerm	H	*	*	0.0	-2.0	-3.2	10.57	5.07	2.55	f
BBHIX	BBH Inflation Indexed Sec	IntTerm	B	*	*	0.3	1.1	1.4	10.88	8.03	2.80	FSW
DODIX	Dodge & Cox Income	IntTerm	H	*	*	0.4	-0.6	0.5	12.70	3.82	4.57	fsw
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	0.4	-0.5	0.6	14.52	3.47	4.58	FSW
FGMNX	Fidelity GNMA	IntTerm	*	*	*	0.0	-1.7	-1.0	10.90	2.72	3.15	Fsw
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	0.1	0.2	0.9	10.93	-	2.45	Fw
FTHRX	Fidelity Intermediate Bond	IntTerm	H	*	*	0.1	-2.0	-2.7	10.35	4.25	3.54	Fsw
FSTGX	Fidelity Intermediate Govt	IntTerm	H	*	*	0.0	-0.8	-1.7	10.09	4.56	2.72	Fsw
FBNDX	Fidelity Investment Grade	IntTerm	H	*	*	0.7	-0.6	-0.5	7.36	4.73	3.23	Fsw
FBDFX	Fremont Bond	IntTerm	H	*	*	0.2	-1.1	-2.0	10.34	5.23	2.93	fsw
MWTRX	MetroWest Total Return	IntTerm	*	*	*	-0.3	-2.3	-0.6	9.62	6.04	6.06	SW
PRRDY	PIMCO Real Return	IntTerm	H	*	*	-0.2	-0.3	0.0	11.24	8.14	2.40	SW
PTTDY	PIMCO Total Return	IntTerm	H	*	*	0.2	-1.2	-2.4	10.59	5.17	2.42	SW
PTMDX	PIMCO Total Return Mortgage	IntTerm	H	*	*	0.4	-1.2	-0.4	10.62	3.41	2.43	SW
SCSBX	Scudder Income (closed)	IntTerm	H	*	*	0.6	-0.5	-0.2	12.65	4.65	3.84	FSW
STVSX	Strong Govt Securities	IntTerm	H	*	*	0.1	-2.3	-3.4	10.64	5.16	3.16	FSW
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	0.1	-1.9	-2.0	9.53	3.30	4.13	fsw
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	0.2	-2.1	-2.8	8.85	4.66	3.56	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	H	*	*	0.0	-0.1	0.5	9.67	3.43	5.80	SW
USAIX	USAA Income	IntTerm	H	*	*	0.7	-0.7	-0.5	12.14	5.21	4.48	w
VALBX	Value Line U.S. Govt Sec	IntTerm	H	*	*	0.2	-1.2	-2.4	11.65	4.88	3.56	FSW
VBMFX	Vanguard Bond Market	IntTerm	H	*	*	0.5	-0.7	-0.8	10.04	4.64	4.43	fsw
VFIX	Vanguard GNMA	IntTerm	B	*	*	0.7	-1.7	-2.6	10.24	3.71	4.79	fsw
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	0.3	1.1	2.2	12.34	7.91	3.36	sw
MNTRX	WellsFargo Montgomery Total Ret (closed)	IntTerm	H	*	*	0.4	-1.1	-2.0	12.08	4.87	3.29	fSW
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	0.9	0.5	4.4	10.64	4.45	5.68	FSW
WPGVX	WPG Core Bond	IntTerm	H	*	*	0.2	-1.4	-2.1	10.47	4.88	2.63	FsW
KIFIX	FifthThird Bond	LngTerm	*	*	*	0.3	-1.1	-1.7	9.90	5.36	3.47	w
MGFIX	Managers Bond	LngTerm	*	*	*	0.7	-1.5	-0.7	23.82	7.15	4.58	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	0.6	-2.5	-2.1	9.46	6.23	5.46	fsw
FSICX	Fidelity Strategic Income	Multi	B	B	*	1.9	-1.5	3.4	10.11	5.76	5.68	Fw
LSBRX	Loomis Sayles Bond Retail	Multi	B	B	*	2.1	-1.7	4.6	12.80	8.76	5.76	FW
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	1.3	-0.8	2.1	11.57	4.68	4.23	fsw
CUGGX	Columbia S-T Bond	ShTerm	B	*	*	-0.2	-1.1	-1.6	8.57	2.34	2.13	fW
FSGVX	Federated U.S. Govt Sec. 1-3	ShTerm	B	*	*	-0.3	-1.2	-1.4	10.62	1.58	1.76	fSw
FSHBX	Fidelity Short-Term Bond	ShTerm	B	*	*	-0.1	-0.8	-0.7	8.94	2.17	2.47	Fsw
JASBX	Janus S-T Bond	ShTerm	B	*	*	0.0	-0.5	0.5	2.92	1.64	2.50	FSW
MGIDX	Managers Int. Duration Govt	ShTerm	*	*	*	0.4	-0.3	1.4	10.50	3.12	1.94	FSW
MGSDX	Managers Short Duration Govt	ShTerm	B	*	*	0.2	0.4	1.4	9.65	1.03	2.52	FSW
MWLDX	MetroWest Low Duration	ShTerm	B	*	*	-0.5	-0.9	-0.7	9.34	3.08	4.40	SW
PTLCX	PIMCO Low Duration	ShTerm	B	*	*	-0.1	-0.7	-1.7	10.17	2.43	1.38	fw
SWBDX	Schwab S-T Bond Mkt Index	ShTerm	B	*	*	-0.2	-1.5	-1.7	10.06	2.86	2.87	S
SCSTX	Scudder Short-Term Bond (closed)	ShTerm	B	*	*	-0.1	-0.2	0.4	10.33	1.88	4.11	FSW
SSTBX	Strong S-T Bond	ShTerm	B	*	*	-0.2	-1.1	-0.9	8.72	2.36	3.59	FSW
PRWBX	T. Rowe Price S-T Bond	ShTerm	B	*	*	-0.2	-1.2	-1.5	4.75	2.13	2.86	fsw
VSGBX	Vanguard S-T Federal	ShTerm	*	*	*	-0.2	-1.4	-2.2	10.41	2.58	2.83	fsw
VFISX	Vanguard S-T Treasury	ShTerm	B	*	*	-0.3	-1.4	-1.9	10.47	2.71	2.54	fsw
VFSTX	Vanguard Short-Term Corporate	ShTerm	B	*	*	-0.3	-1.4	-1.9	10.62	2.23	3.69	fsw
MNSGX	WellsFargo Montgomery S Dur Govt (closed)	ShTerm	B	*	*	-0.1	-0.5	-0.5	10.11	2.25	2.18	fSW
BITNX	American Century Target 2010	ZeroCpn	*	*	*	0.4	-1.7	-4.9	82.59	10.50	4.51	fSW

Waiting for the Fed

The nation's money market funds appear to be in a holding pattern, waiting for more attractive yields prompted by Federal Reserve action. Money fund yields—both taxable and tax-free—have been exactly flat since mid-November, during which time \$91 billion have left the funds according to data from iMoneyNet's Money Fund Report. By comparison, assets of all other types of mutual funds increased by \$442 billion (or approximately 8.7%) from November 1, 2003 through April 30, 2004 (month-end May data is not yet available at press time), according to the Investment Company Institute. The S&P 500 increased by 5.39% over that period.

With the economy continuing to improve, money fund yields are expected to rise concurrent with a change in Fed policy. When evaluating money funds, remember: 1) if you shop, you can find above average funds—see the accompanying table of top-yielding funds; 2) double and triple tax-free funds (i.e. exempt from federal, plus state and/or local taxes) can provide an edge for investors in certain states or municipalities. To calculate the taxable equivalent yield of a tax-free fund for comparison purposes, take the tax-free yield and divide it by (1 minus your total effective tax bracket).

Money Fund Yields and Assets

	11/11/03	5/25/04	Change
7-Day All Taxable MFA	0.52%	0.52%	0.00%
7-Day All Tax-Free MFA	0.50%	0.50%	0.00%
Taxable Money Fund Assets	\$1.752T	\$1.656T	-\$96B
T-F Money Fund Assets	\$294B	\$299B	+\$5B
Total Money Fund Assets	\$2.046T	\$1.955T	-\$91B
All Other Mutual Funds ^	\$5.072T	\$5.514T	+\$422B

^ "All Other Mutual Funds" assets through month end October (03) and April (04).

Sources: iMoneyNet's Money Fund Report, (800) 343-5413
Investment Company Institute

* * *

Several subscribers have asked about the top taxable money market fund available, PayPal Money Market Fund. The fund, available to any PayPal account holder, currently sports a 1.05% 7-day yield, about twice the taxable money fund average. For an investor with \$100,000 in money market funds, the current yield advantage equates to approximately \$500 per year.

PayPal provides individuals and businesses a way to send and receive payments online, building upon the financial infrastructure of bank accounts and credit cards. The company was acquired by eBay Inc. in October 2002, and claims 45 million account members worldwide. The PayPal Money Market Fund was launched in November 1999, and has approximately \$185 million in assets.

For more information, including a prospectus on the PayPal Money Market Fund, call 402-935-2050, and dial "0" for an account representative. \$

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF	0.72%	0.69%	0.71%
Vanguard Treasury MMF	0.69	0.69	0.70
Fidelity Spartan US Treas MMF	0.63	0.63	0.63
Amer Century Capital Presv Fund/Inv	0.57	0.56	0.56
DBAB Cash Reserve Treasury	0.46	0.41	0.36
T Rowe Price US Treasury MF	0.46	0.47	0.51
RMK Select Treas MMF/CI A	0.41	0.36	0.33
Schwab US Treasury Money Fund	0.40	0.38	0.37
CMA Treasury Fund RIC	0.37	0.36	0.38
US Treasury MF of America/CI A	0.36	0.34	0.35

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	1.05%	1.05%	1.04%
Scudder Premium Money Mkt Shrs/AARP	0.95	0.94	0.81
Scudder Premium Money Mkt Shrs/CI S	0.93	0.92	0.81
TIAA-CREF Money Market Fund	0.87	0.85	0.83
Bunker Hill MMF	0.85	0.86	0.87
Scudder Prime Reserve MM/AARP	0.85	0.84	0.67
Harbor Money Market Fund	0.84	0.81	0.76
Flex-fund Money Market Fund	0.83	0.81	0.83
AIG Money Market Fund/CI B	0.82	0.82	0.79
Vanguard Prime MMF/Retail	0.82	0.77	0.77

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Vanguard Tax-Exempt MMF	0.95%	0.95%	0.86%
Strong Tax-Free Money Fund	0.86	0.89	0.87
Scudder Tax-Exempt Money Fund	0.72	0.72	0.63
Amer Century T-F MMF/Inv Class	0.70	0.70	0.64
Dreyfus BASIC Muni MMF	0.70	0.69	0.64
USAA Tax Exempt MMF	0.69	0.69	0.67
Fidelity Municipal MMF	0.67	0.69	0.64
Fidelity Tax Free Money Market	0.65	0.65	0.61
Strong Municipal MMF	0.64	0.69	0.73
T Rowe Price Summit Muni MMF	0.64	0.66	0.64

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	0.94%	0.94%	0.86%
Vanguard PA Tax-Exempt MMF	0.94	0.93	0.83
Vanguard CA Tax-Exempt MMF	0.92	0.91	0.82
Vanguard NY Tax-Exempt MMF	0.91	0.90	0.82
Vanguard NJ Tax-Exempt MMF	0.89	0.89	0.80
Fidelity FL Municipal MMF	0.63	0.63	0.57
Fidelity PA Municipal MMF	0.63	0.62	0.59
USAA Tax Exempt CA MMF	0.61	0.61	0.59
Amer Century CA T-F MMF/Inv Class	0.60	0.59	0.53
Fidelity CT Municipal MMF	0.59	0.59	0.53
Fidelity OH Municipal MMF	0.59	0.60	0.55

Funds are ranked by 7-day yields; 7-day and 30-day yields are compound yields as of 6/15/04. Third column refers to 1-year total return.

Source: Money Fund Report (800) 343-5413

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ABN AMRO Mid Cap Fund

It's a wonder that this fund has stayed as small as it has, with net assets of only \$333 million. Look at the record. The current manager, Thyra Zerhusen, has chalked up a 15% average annual return for the trailing five years through June 18—she took the helm a bit over five years ago, on June 1, 1999. But then, ABN AMRO may not be a household word to most people, and thus suffers from a lack of recognition.

ABN AMRO is a prominent international bank based in the Netherlands. Its origins date to 1825, when King Willem I created the *Nederlandsch Handel-Maatschappij* to facilitate trade between the Netherlands and the Dutch East Indies. Several mergers and 167 years later, the current ABN AMRO was formed. It ranks as the 11th largest bank in Europe and 23rd in the world. Yet even though ABN AMRO is the name on the fund, and the bank is the fund's advisor, it is Optimum Investment Advisors that is the subadvisor, and where Zerhusen is a vice president and portfolio manager.

Mid-Cap Opportunities

Zerhusen has immersed herself in the mid-cap marketplace for about 25 years. She says that the mid-cap area offers the best opportunities, with stocks falling between the cracks while investors focus on the large- and small-cap arenas. She finds that mid-cap firms often are not well covered by Wall Street, and thus less efficiently priced. Zerhusen notes that one stock previously in the portfolio, Wallace Computer, was not covered by any Wall Street analysts. The fund's returns benefited when Wallace was taken over last year. She is able to find stocks that sport faster growth than large-cap stocks, are more liquid than small-caps, and sell at lower valuations. And importantly to this manager, access to management is better in the mid-cap arena than in large-caps—and she welcomes the opportunity to determine which ones are trustworthy.

This fund is classified as a blend fund, but value plays a very strong role. Indeed, Zerhusen takes a deeply fundamental, bottom-up approach to selecting stocks. She looks for firms with growing market share, which often leads to improving sales and earnings growth. She favors those with niche businesses—especially those that make their clients more productive, that have products you cannot do without, or have one of the best technologies in their business. The balance sheet is important—key factors must be strong or at least improving, which provides a firm with options for attaining growth. Zerhusen requires low debt—no more than a 50% debt to capitalization

ratio. Finally, she considers a number of valuation criteria and aims to buy on the cheap, and often finds opportunities when a stock sells off for a short-term reason—such as missing a quarterly earnings projection.

When Zerhusen finds a stock she likes, she often will not hesitate to take a relatively large position. As you can see, the top two holdings each account for more than 5% of assets—though she does not let an individual holding expand to beyond 6% of assets. The fund is concentrated as well. There are only 39 stocks in the portfolio currently, and Zerhusen says that small number is self-imposed. It's a number she feels she could handle by herself, even if she had no research assistance—in fact, she does much of her own research. In addition, the manager will often weight specific industry sectors heavily. That concentration can make for an uneven ride at times. Zerhusen is the first to admit that sometimes she buys early, and a purchase may initially decline after being added to the portfolio.

Top Five Industries and Holdings (% of Assets)

Media	22.3%	Reader's Digest Assoc.	5.4%
Hardware	19.5	Unisys	5.1
Business Services	13.4	Andrew	3.8
Industrial Materials	10.6	Mattel	3.7
Healthcare	9.3	FMC Technologies	3.5

as of April 30, 2004

Top holding Reader's Digest is a prime example of a stock she bought early. The stock plunged when it had a couple of disappointing quarters, and Zerhusen was attracted by its valuation and the asset value of its proprietary mailing lists. Thus far in 2004, the stock has advanced nearly 9%. A big winner this year is Andrew, up 59%. Andrew is a good example of Zerhusen's disciplined selling. Initially, the stock was added to the portfolio in 1999 at \$14, and sold more than a year later after it had jumped. She repurchased the stock when it was under \$10 in 2003; it is now nearly \$19. This provider of wireless communications products has new management and has upped its earnings expectations.

The fund advanced 41.4% in 2003, and is ahead by 11.4% thus far this year. This year's performance places it at the pinnacle of Morningstar's mid-cap blend category. \$

ABN AMRO Mid Cap N (CHTTX)
 ABN AMRO Asset Management, Inc.
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