



The Reluctant Market The Mid-Year 2004 Outlook

by Walter S. Frank, Chief Investment Officer

It all seemed set, some six months or so ago, as we went into this year. The economy was doing very well, and profits were moving along with the economy. Yes, the market had run very hot in 2003 and stocks were no longer on sale. But there was no reason to believe that stock prices reflected all the growth that was in store. So we looked for a good, though not great, year for investors ahead. We wound up by saying that "we think it is reasonable to look for a 10-12% gain in the broad averages." Not to keep you in suspense, we still think that is a reasonable expectation.

If the market hits our target, all the gain is going to have to come in the second half of this year. Had you asked me at the beginning of the year, I would have said it would be just the opposite, first half strong, second half less so. But that is the story of the first half of this year, performing well below expectations, at least with respect to the market.

Meanwhile, the economy has performed more or less as expected (except as we approached mid-year). We need to qualify that. There were two major surprises, both concerning potential inflation. The first was the soaring price of oil. The second was China's powerful pull on industrial commodity prices, particularly metals (and oil as well).

As we look over the next 6-9 months how do things look at the start? The economy has slowed (a surprise to all). Economists are cutting their forecasts for the quarter just passed, and there is the consequential caution about the outlook going forward. Prices have become something of a worry. The Fed has begun the process of withdrawing stimulus (i.e. raising rates). The major stock averages are all under water, and growth has become a four-letter word. Iraq is still on the boil. The presidential election is only a few months away and we have no clue from the polls about the outcome. Anyone so inclined can paint an ugly picture.

The economy

But is that all there is? Let's start with the economy. Is the sharp slowdown we experienced in June the harbinger of things to come? Is sluggish growth the new bottom line? "By no means," says Robert Dederick of RGD Economics and a former Undersecretary of Commerce. We agree. "We've hit a speed bump in the expansion. That's all. And it is not uncommon." As Dederick noted, we have a worldwide expansion going on and the U.S. is being supported by the expansion. For example, U.S. exports are rising nicely. They should continue to do so.

All signs point to a continued strong business investment spending. With profits good and business stuffed with cash, why should investment peter out? Yes, the consumer has pulled back recently. Considering the oil shock that is understandable. But again, with strong job growth expected, there is no reason for consumer spending to collapse. The consumer is not going to lead the expansion going forward, but neither will that sector be a drag.

As for inflation, the best news is behind us. But there is excess capacity here, certainly for labor. Opinions differ on the excess in industrial capacity, but few claim there is no excess. Productivity gains will surely slow but they should continue more rapidly than the prior trend. Business will be under some pressure to raise prices. What matters, though, is the magnitude of the increase in underlying inflation as we move ahead. Dederick thinks, and we agree, that we will be looking at an inflation rate of 2-2.5%. If so, this won't startle the Fed.

When we put it all together, we see a fairly benign environment for stocks as far as the economy is concerned. But then there is the all-important matter of interest rates. Considering the inflation outlook, we don't see why the Fed need change their measured approach. We see the fed funds rate at 2% by year-end and 2.5% by mid-year 2005.

U.S. stock market

Cody Willard, a Real Money.com Contributor and a portfolio manager specializing in technology, put it very succinctly the other day when he wrote that you believe the earnings projections numbers or you don't. Right now the market doesn't and hence the persistent selling we have seen all summer.

As Willard points out, "many technology stocks are trading with single-digit price-to earnings ratios, the market is saying there's no way these companies will make second-half projections." Putting it bluntly, Willard says it all "comes down to one basic question: Is the economy OK and/or improving, or is the economy teetering and about to collapse?"

Market Trends

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

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There is much to Willard's observations. The bears are on a tear again and skepticism is once more fashionable. Of course, in our new hedge fund world, skepticism is never far below the surface. And we have material for the skeptics to chew on. Oil prices, for one, and their impact on the inflation numbers and consumer incomes. For another, there is China's effort to slow its economy, and its effect on all the big Asian economies, in particular Japan. Finally, there is the sudden June slowdown for the U.S. economy. As Willard implies, does this mean that all the earnings projections belong in the trash can? The skeptics are busily getting to yes.

We think the skeptics have it mainly wrong. Most important, we believe the profit numbers will hold up reasonably well. Accordingly to the latest First Call readings, analysts have not pulled their profit estimates for the rest of this year, despite the opposite tack by some strategists.

The overall market is now selling at a price-earnings multiple of about 16 times analysts' estimates of earnings over the next twelve months, a historically reasonable multiple to begin with. Then look at interest rates. Even allowing for a "measured" increase in yields, there is room for the price-earnings ratio to rise. All this, without considering any further increase in profit projections as we move into 2005 and further, if slower, earnings growth later in that year.

A stockpicker's market

Speaking of price-earnings ratios and values, we spoke with Robert Costomiris, portfolio manager of the Strong Mid Cap Disciplined Fund. The fund is one of the best performers in our domestic list so far this year. Costomiris takes the word "disciplined" seriously and he is a disciplined value investor. Near the end of last year, he said, it was "difficult to find any value in the market." By November he said, the fund found itself buying energy stocks, and "energy is not a sector the fund loves to love."

He sees this year as a stockpicker's market and he expects that to continue. He does not see a bear market ahead. For Costomiris we have a market he can live with, one that provides opportunity for performance.

As stocks have come down recently, Costomiris threw out that "we are just beginning to find, in the last couple of days, stocks that will begin to represent value again." He is finding these stocks both in the small- and mid cap area.

This fits with our own view (and Willard's as well) that the sell-off is providing an opportunity to buy stocks at very reasonable prices once more. When a crack value investor such as Costomiris is finding opportunity again, it is a commentary on current valuations.

Let's put it together. We have a market that is reasonably valued, so reasonably that value investors can see themselves nibbling again, if not even more. Looking

out three or four quarters we see the economy's growth continuing at a good 3.5-4.0% rate. The Fed will be raising rates, but rates are coming off an extraordinarily low base and their intention is not to crimp growth over the outlook period.

We have left out the extra-market uncertainties: Iraq and the election. So long as the U.S. position in Iraq does not become untenable, we believe the market can move ahead. As for the election, we do believe that election concerns will be a damper on the market until early November. Afterward, we should see a vigorous year-end rally, whatever the outcome.

Overseas (actually Asia)

We departed from the international markets just two months ago, as institutional investors panicked when China took measures to slow its headlong growth. We said at the time that our leaving was temporary, because we believed then and believe now that the highest sustainable economic and profit growth rates over the next few years will be found in Asia. Market opportunities go hand in glove with rapid growth.

The key to Asia, for market investors, is China. How is the slowing process going? Official Chinese reports indicate that the process is moving along reasonably well. The latest

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Next Issue: Volume 25, No. 15

Mails: August 6, 2004

Internet: August 4, 2004, 12:00pm (ET)

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GDP report for last quarter showed growth slowing drastically. So far so good.

We asked Paul Matthews, co-manager of Matthews Pacific Tiger Fund, his views on potential developments in Asia now. "China has had some success in the early days of its program," he offered. He added that car sales are down and industrial production has come down. After our talk, the GDP numbers came out.

One problem we have, along with others, is how can we judge whether China in succeeding in slowing without overdoing it? One area to look at, said Matthews is credit growth and construction. Also, he added, we need to see a slowing in the indicators of cyclical activity. This is already occurring.

There is one other step we need, and it is still a bit early to tell, and that is that China will not overdo and slow only to the government's target rate of 7.5%, which is still extremely rapid. Matthews, who weighs his words carefully, offered that "the risks of a Chinese hard landing are less than they were."

While the Chinese experiment continues, with some hopeful signs, Japan has been a "surprise on the upside. People," said Matthews, "are spending again. That is where the surprises are coming from." The big bank merger which just occurred has no economic implications, he said, but it does symbolize a willingness to change and that is encouraging investors.

Our conclusion is that China will probably get its act together over the course of the rest of this year and settle down to a still very rapid growth rate. Together with Japan we could very well see the Asian growth story back in play by next year.

Allocation conclusion

We see our domestic stock allocation as being about right. We continue to believe that looking out beyond the elections, U.S. stocks will do well enough to meet our modest 10-12% growth target. We also think that growth stocks, the pariahs of this market, will make a comeback next year.

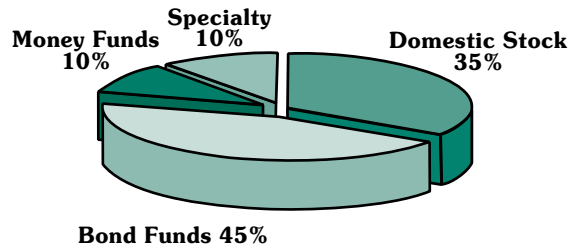
We still believe that the best performance will come from Asian markets. We are considering our reentry there carefully.

Fund changes

The Hotline of Tuesday, July 20 recommended the sale of RS Small Company Growth in the *MONEYLETTER* Venturesome Portfolio to be switched into Artisan Mid Cap Value. \$

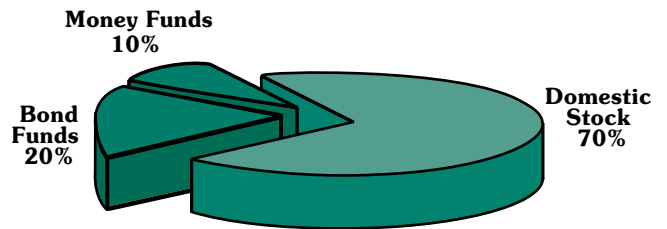
CONSERVATIVE

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



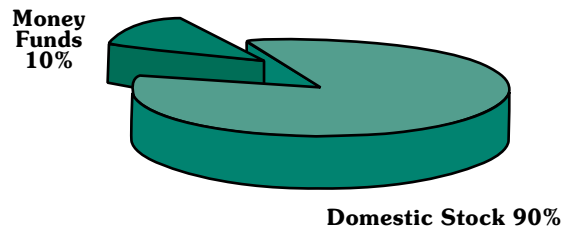
MODERATE

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



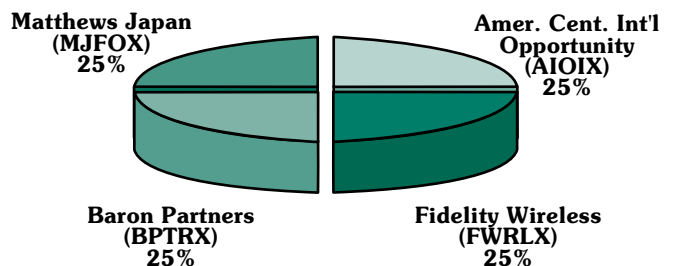
VENTURESOME

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	7/16 2004	1 Mo Ago	6 Mo Ago	Ticker Symbol	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	17	107	ARTGX	Artisan Mid Cap Value	MCVal	B	B	B	1.4%	8.4%	29.4%	\$15.01	19.8	0.87	FSW	
2	12	75	SMCDX	Strong Mid Cap Disciplined	MCVal	B	B	B	0.7	7.8	31.8	20.94	23.1	0.99	FSW	
3	26	19	RSCOX	RS Contrarian Value	MC	H	H	H	2.4	3.8	36.3	17.92	18.6	0.60	FSW	
4	7	69	TAVFX	Third Avenue Value (1%r<60d)	SC	B	B	B	1.6	6.6	29.5	45.74	17.2	0.79	FSW	
5	8	24	RSPFX	RS Partners	SC	B	B	B	0.6	5.4	33.6	29.72	20.9	0.69	FSW	
6	18	19	BERWX	Berwyn Fund (1%r<180d)	SCVal	B	B	B	1.7	2.8	35.1	26.41	22.3	0.77	fsw	
7	1	-	BPTRX	Baron Partners	MCGro	*	B	B	-4.6	7.9	29.4	13.50	28.6	1.26	FSW	
8	9	98	RYPRX	Royce Premier (1%r<180d)	SC	B	B	B	-0.6	5.5	27.8	14.05	19.4	0.84	FSW	
9	13	54	CRMMX	CRM Mid Cap Value Inv	MCVal	B	B	B	-0.4	4.2	30.3	23.11	18.9	0.78	FSW	
10	14	10	MOPIX	MainStay Small Cap Opportunity (closed)	SCVal	B	B	B	1.8	1.4	33.8	17.93	17.5	0.63	FSW	
11	4	1	FLVCX	Fidelity Leveraged Co (\$10,000,1.5%r<90d)	MC	*	B	B	0.8	0.2	35.5	20.35	36.3	1.39	Fw	
12	41	145	NBGNX	Neuberger Berman Genesis (closed)	SC	(B)	(B)	(B)	-0.3	5.1	24.2	27.55	15.5	0.63	fsw	
13	31	257	JMCVX	Janus Mid Cap Value	MCVal	B	B	B	-0.1	3.4	27.2	21.65	20.4	0.93	fsw	
14	156	38	CGMFX	CGM Focus	SCVal	*	S	S	3.0	2.3	25.3	29.50	37.9	1.03	fsw	
15	30	155	ARGFX	Ariel Fund	SCVal	B	B	B	-0.1	5.3	21.0	48.68	15.6	0.53	FSW	
16	98	100	AVALX	Aegis Value Fund	SCVal	H	H	H	2.3	3.3	22.3	17.74	13.3	0.48	fw	
17	21	78	PRSVX	T. Rowe Price S-C Value (closed,1%r<1yr)	SCVal	B	B	B	0.1	3.4	25.4	31.56	18.0	0.69	fsw	
18	40	63	VISVX	Vanguard Small-Cap Value Index	SCVal	(B)	(B)	(B)	1.2	2.0	26.4	12.09	22.4	0.90	fsw	
19	39	95	FDVLX	Fidelity Value	MCVal	H	H	H	0.3	2.7	25.6	65.83	19.0	0.89	Fsw	
20	50	90	FBRVX	FBR Small Cap Value A (1%r<90d)	SCGro	H	H	H	0.7	4.2	20.5	35.01	23.4	0.82	FSW	
21	11	-	PVLDX	PIMCO PEA Value D	LCVal	*	B	B	-0.8	1.4	28.4	16.60	25.4	1.32	FSW	
22	22	41	TASCX	Third Avenue Small-Cap Value (1%r<1yr)	SCVal	B	B	B	0.9	0.8	27.1	20.08	19.9	0.85	FSW	
23	80	33	MUHLX	Muhlenkamp Fund	MCVal	H	H	H	0.8	1.8	24.3	65.69	27.9	1.24	FSW	
24	25	72	TRMCX	T. Rowe Price Mid Cap Value	MCVal	B	B	B	-0.9	1.5	26.5	21.30	19.8	0.90	fsw	
25	148	180	BEGRX	Mutual Beacon(1%)CIZ	MCVal	H	H	H	1.4	2.6	19.7	14.75	12.5	0.57	sw	
26	75	131	VWNFX	Vanguard Windsor II	LCVal	H	H	H	-0.3	2.8	21.2	27.58	16.2	0.82	fsw	
27	137	206	PRWCX	T. Rowe Price Cap Appreciation	LCVal	H	H	H	1.2	2.4	19.5	18.22	11.0	0.49	fsw	
28	55	204	RYSEX	Royce Special Equity (1%r<180d)	SCVal	H	H	H	-1.4	3.9	19.5	18.86	16.5	0.51	SW	
29	16	82	TGDVX	TCW Galileo Diversified Value N	LCVal	B	B	B	-1.7	1.4	25.3	11.90	19.8	1.03	FW	
30	146	165	MQIFX	Mutual Qualified (1%) CIZ	MCVal	H	H	H	1.5	1.8	19.2	18.40	13.3	0.61	sw	
31	167	207	MUTHX	Mutual Shares (1%) CIZ	MCVal	H	H	H	1.2	2.5	17.9	21.56	12.0	0.56	sw	
32	5	6	HENLX	Henlopen Fund (1%r<30d)	SCGro	*	B	B	-1.0	-4.6	38.8	26.46	30.9	1.19	FSW	
33	44	62	PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	-0.4	0.5	24.9	9.31	20.4	0.80	Fsw	
34	43	68	FLPSX	Fidelity L P Stock (closed,1.5%r<90d)	SCVal	H	H	H	-0.2	0.9	23.4	36.47	18.0	0.75	Fsw	
35	102	184	HOVLX	Homestead Value	MCVal	H	H	H	0.3	1.9	19.4	28.38	16.5	0.81	-	
36	42	116	TGIGX	TCW Galileo Dividend Focused N	MCVal	H	H	H	-1.5	0.9	24.4	10.25	13.8	0.57	FW	
37	3	20	BUFSX	Buffalo Small Cap (closed)	SCGro	B	B	B	-4.0	1.3	26.0	23.87	31.2	1.25	SW	
38	33	128	BARAX	Baron Asset	MCGro	H	H	H	-2.1	2.8	18.7	46.67	21.2	0.94	FSW	
39	70	146	TWVLX	American Century Value	MCVal	H	H	H	-1.7	1.6	20.6	7.70	16.6	0.82	FSW	
40	54	44	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	H	H	H	-0.5	0.6	21.4	29.74	19.2	0.80	fw	
41	19	42	TUDRX	WPG Tudor	SC	(H)	(H)	(H)	-1.0	0.7	21.4	17.08	27.0	1.22	Fsw	
42	165	229	TWEIX	American Century Equity Income	MCVal	H	H	H	-0.1	2.0	16.6	7.88	12.6	0.62	FSW	
43	73	79	MPSCX	MSI Small Cap Value (closed)	SCVal	H	H	H	-0.2	0.7	20.2	21.46	20.7	0.98	fsw	
44	56	96	BPMCX	Boston Partners Mid Cap Value	MCVal	H	H	H	-1.4	1.0	21.0	13.26	20.1	0.93	FSW	
45	93	211	FCNTX	Fidelity Contrafund	LC	H	H	H	-0.7	1.5	18.5	50.90	11.4	0.54	Fsw	
46	97	174	RYTRX	Royce Total Return (1%r<180d)	SCVal	H	H	H	-0.1	1.5	17.2	11.04	15.7	0.66	FSW	
47	71	124	LSSCX	Loomis Sayles Small Cap Value	SC	H	H	H	-0.2	0.4	19.7	24.69	18.4	0.78	sw	
48	94	111	MPVLX	MSI Value Portfolio	LCVal	H	H	H	-0.4	0.7	19.0	15.78	20.6	1.05	fsw	
49	29	35	FSLCX	Fidelity Small Cap Stock (2%r<90d)	SCGro	H	H	H	-0.8	-2.0	26.0	16.73	21.5	0.94	F	
50	63	83	DODGX	Dodge & Cox Stock (closed)	LCVal	H	H	H	-1.0	-0.3	21.9	116.60	17.6	0.85	sw	
51	99	120	SSHFX	Sound Shore	LCVal	H	H	H	-1.1	0.2	19.9	34.56	17.3	0.79	sw	
52	64	134	VALSX	Value Line Special Situations	MCGro	H	H	H	-1.7	0.9	18.8	21.71	15.4	0.71	FSW	
53	124	157	WWALX	Weitz Value Fund	MCVal	H	H	H	0.4	1.3	14.7	35.62	16.7	0.82	SW	
54	36	81	SAFGX	Safeco Growth Opportunities (2%r<90d)	SC	H	H	H	-1.7	0.7	18.9	25.52	29.8	1.18	fsw	
55	88	236	OAKBX	Oakmark Equity&Income (2%r<90d)	Bal	H	H	H	-1.8	2.2	15.2	22.92	10.7	0.49	FSW	
56	24	18	IZZYX	ICM/Isabelle Small Cap Value	SCVal	H	H	H	-1.5	-2.4	25.5	14.05	29.5	1.04	FSW	
57	27	23	BPSCX	Boston Ptnrs Smlcap Val (closed,1%r<1yr)	SCVal	H	H	H	-1.7	-1.4	23.1	23.43	25.8	0.87	FSW	
58	107	185	LSGIX	Loomis Sayles Value	LCVal	H	H	H	-1.2	0.9	16.4	15.53	16.4	0.89	fsw	
59	46	52	CRMSX	CRM Small Cap Value Inv (closed)	SCVal	H	H	H	-1.7	-0.9	21.7	25.17	23.8	0.93	Fsw	
60	2	12	WBSNX	WmBlair S-C Growth N. (closed,1%r<60d)	SCGro	(H)	(H)	(H)	-4.2	-2.0	27.8	22.87	30.1	1.12	FSW	
61	119	118	DNLDX	Dreyfus New Leaders	MCGro	H	H	H	-0.8	-0.4	19.0	42.34	18.6	0.90	FSW	
62	65	216	JAVLX	Janus Twenty (closed)	LCGro	H	H	H	-3.2	2.8	14.4	37.87	17.3	0.93	FSW	
63	131	132	VIVAX	Vanguard Value Index	LCVal	H	H	H	-0.6	-0.3	18.0	19.09	18.6	1.03	fsw	
64	122	66	SMTVX	Strong Multi-Cap Value	MCVal	H	H	H	1.8	-3.7	22.5	55.78	22.4	1.01	FSW	
65	45	140	JAENX	Janus Enterprise	MCGro	H	H	H	-3.2	0.9	18.3	32.49	21.4	1.09	FSW	
66	110	117	NBFSX	Neuberger Berman Fasciano Inv	SCGro	H	H	H	-0.6	-0.5	17.7	40.35	17.9	0.69	FSW	
67	38	16	WMCVX	Wasatch Small Cap Value (closed,2%r<60d)	SCVal	(H)	(H)	(H)	-2.5	-2.3	24.5	5.44	26.6	0.96	FSW	
68	51	76	SOPFX	Strong Opportunity	MCVal	H	H	H	-1.6	-1.0	19.7	41.13	22.2	1.17	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	7/16 2004	1 Mo Ago	6Mo Ago	Ticker Symbol	FUND NAME	Fund Type	Conservative			Moderate			Venturesome			TOTAL RETURN			PRICE PER SHARE	RISK		NTF/wff
							S	S	S	S	S	S	S	S	S	1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
69	82	48		RYLPX	Royce Low Priced Stock (1%r<180d)	SCVal	S	S	S				-0.8	-2.7	22.6	14.25	27.1	1.10	FSW			
70	60	92		WGROX	Wasatch Core Growth (closed,2%r<60d)	SCGro	H	H	H				-1.5	0.3	16.0	38.34	28.5	1.10	FSW			
71	37	137		BGRFX	Baron Growth	SCGro	S	S	S				-3.5	1.3	16.3	37.04	18.4	0.72	FSW			
72	143	177		PRFDX	T. Rowe Price Equity-Income	LCVal	S	S	S				-0.8	-0.3	16.2	24.34	16.3	0.83	fsw			
73	123	162		GEVIX	Columbia Disciplined Value CIZ	LC	S	S	S				-1.0	-0.2	15.8	12.68	19.8	1.06	fw			
74	28	89		TWCVX	American Century Vista	MCGro	(H)	(H)	(H)				-3.3	-1.1	21.0	13.06	15.8	0.68	fSW			
75	100	121		SLASX	Selected American Shares	LCVal	S	S	S				-2.1	-0.3	17.2	33.74	16.1	0.86	sW			
76	72	87		VPMCX	Vanguard PRIMECAP (closed,\$25,000&1%r<5yr)	LC	H	H	H				-2.2	-1.0	18.5	55.02	21.7	1.13	fsw			
77	84	94		VIMSX	Vanguard Mid-Cap Index	MC	S	S	S				-1.6	-1.8	19.6	13.36	20.1	0.97	fsw			
78	178	228		VEIPX	Vanguard Equity-Income	LCVal	S	S	S				-0.8	-0.2	14.1	22.28	14.9	0.79	fsw			
79	62	57		VSEQX	Vanguard Strategic Equity	MCGro	S	S	S				-1.8	-2.0	20.0	19.10	17.8	0.83	fsw			
80	66	31		TGONX	TCW Galileo Opportunity N	SC	S	S	S				-0.6	-3.6	22.2	13.05	22.5	0.90	FSW			
81	91	108		PESPX	Dreyfus Mid Cap Index	MCGro	S	S	S				-1.9	-1.4	18.3	23.75	20.2	0.97	FSW			
82	57	93		MPEGX	MSI Mid Cap Growth	MCGro	*	S	S				-3.1	-0.5	17.6	17.78	22.2	1.17	fsw			
83	136	169		GABAX	Gabelli Asset	MC	S	S	S				-1.5	-0.6	15.5	37.03	17.8	0.91	FSW			
84	74	129		RPMGX	T. Rowe Price Mid Cap Growth	MCGro	S	S	S				-2.3	-0.6	16.6	44.11	22.1	1.11	fsw			
85	52	40		NAESX	Vanguard SmallCap Index	SC	S	S	S				-1.7	-2.9	21.5	23.11	23.2	1.01	fsw			
86	129	153		FEQIX	Fidelity Equity-Income	LCVal	H	H	H				-1.3	-1.2	16.6	49.18	17.8	0.96	Fsw			
87	216	253		HSGFX	Hussman Strategic Growth (1.5%r<180d)	MCGro	S	S	S				-0.3	1.0	9.6	15.68	8.4	0.09	fsw			
88	209	220		SAOPX	Salomon Brothers Opportunity	MCVal	S	S	S				0.3	-1.5	14.5	42.90	13.0	0.67	sw			
101	6	-		CHITX	ABN Amro Mid Cap	MC	*	(H)	(H)				-4.7	-1.5	19.8	22.37	26.4	1.29	FSW			
103	20	49		ARTSX	Artisan Small Cap	SCGro	(H)	(H)	(H)				-3.7	-1.3	17.8	14.82	26.7	1.19	FSW			
104	125	106		VUVLX	Vanguard U.S. Value	LCVal	H	H	H				-1.4	-2.4	17.0	12.40	17.3	0.87	fsw			
105	23	14		VHCOX	Vanguard Cap Opp (closed,\$25,000,1%r<5yr)	MCGro	*	(H)	(H)				-3.4	-3.7	23.1	26.25	25.3	1.28	fsw			
110	15	125		BSCFX	Baron Small Cap	SCGro	(S)	(S)	(S)				-6.3	0.1	17.3	19.38	21.5	0.79	FSW			
120	10	4		RYPNX	Royce Opportunity (closed,1%r<180d)	SCVal	(H)	(H)	(H)				-2.8	-7.2	27.5	12.14	30.8	1.18	fsw			
125	67	46		PRNHX	T. Rowe Price New Horizons	SCGro	*	(S)	(S)				-3.4	-3.4	18.0	25.27	28.3	1.30	fsw			
133	58	-		BUFMX	Buffalo Mid Cap	MCGro	(S)	(S)	(S)				-4.4	-3.4	17.7	11.44	-	-	FSW			
135	48	27		TGVNX	TCW Galileo Value Opportunities	MC	*	(S)	(S)				-4.4	-5.0	21.1	20.35	29.2	1.32	FSW			
167	126	150		FDEGX	Fidelity Aggressive Growth (1.5%r<90d)	MCGro	*	(H)	(H)				-4.4	-4.3	13.2	14.91	31.1	1.74	Fsw			
181	59	8		RSSGX	RS Smaller Company Growth	SCGro	*	(S)	(S)				-3.9	-8.3	19.4	20.11	28.5	1.23	FSW			
208	35	28		MNSCX	WellsFargo Montgomery Small Cap (closed)	SCGro	(S)	(S)	(S)				-6.4	-7.3	14.7	10.76	23.3	1.05	fs			

Dow Jones
NASDAQ
S&P 500

-2.3%
-5.8
-2.8

-4.4%
-12.0
-3.4

11.5%
7.7
10.8

indexes do not
include dividends

International Stock Funds

1	1	5		MJFOX	Matthews Japan Fund (2%r<90d)	Japan	*	H	H				0.9%	13.6%	54.5%	\$15.31	15.2	-	FSW
2	2	22		PRJPX	T. Rowe Price Japan	Japan	*	H	H				1.6	13.5	49.1	8.32	14.4	-	s
3	5	1		FISMX	Fidelity Intl Small Cap (2%r<90d)	Int'l	H	H	H				2.4	6.7	51.8	20.49	-	-	Fw
4	4	2		AIOIX	Amer.Cent.Intl Opportunity (2%r<180d)	Int'l	H	H	H				2.1	6.2	51.2	8.71	-	-	S
5	7	-		ARTKX	Artisan Intl Value (2%r<90d)	Int'l	H	H	H				1.7	9.1	42.3	18.27	-	-	FSW
6	8	-		DODFX	Dodge&Cox Intl. Stock	Int'l	H	H	H				3.6	7.1	43.2	25.94	-	-	fsw
7	9	4		PRIDX	T. Rowe Price Intl Disc. (2%r<1yr)	Int'l	H	H	H				3.0	5.9	44.3	28.71	16.0	-	fsw
8	11	3		OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	H	H	H				2.9	5.7	45.1	17.69	20.4	-	FSW
9	10	12		VINEX	Vanguard Intl Explorer (\$25,000,2%r<60d)	Int'l	H	H	H				2.6	6.8	40.7	14.15	16.3	-	fsw
10	12	-		WAIGX	Wasatch International Growth	Int'l	H	H	H				0.4	4.8	35.9	14.78	-	-	FSW
11	15	49		TBGVX	Tweedy, Browne Global Value (2%r<60d)	Global	H	H	H				-0.2	5.9	29.3	21.52	11.9	-	fsw
12	16	10		ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	H	H	H				1.8	1.8	35.3	16.31	-	-	SW
13	35	7		FLATX	Fidelity Latin Amer. (1.5%<90d)	LatinA	*	H	H				6.7	-2.7	38.3	15.72	29.8	-	Fs
14	13	33		VPACX	Vanguard Pacific Stock Index (2%r<60d)	Pacific	*	H	H				0.5	3.9	30.5	8.52	13.7	-	fsw
15	6	52		FJPNX	Fidelity Japan (1.5%<90d)	Japan	*	H	H				-1.3	4.6	29.5	12.21	17.3	-	Fsw
16	3	8		SJPNX	Japan Fund (Scudder) (2%r<180d)	Japan	*	H	H				-2.5	1.8	36.9	9.95	14.8	-	FSW
17	24	64		LLINX	Longleaf Partners International	Int'l	H	H	H				-0.5	5.3	22.6	14.79	19.4	-	fw
18	25	39		BJBIX	Julius Baer Intl Equity A (2%r<90d)	Int'l	H	H	H				1.9	0.9	29.4	27.43	12.5	-	FS
19	18	31		PIFIX	Preferred International	Int'l	H	H	H				0.6	1.2	29.6	14.90	17.4	-	w
20	45	17		PRLAX	T. Rowe Price Latin America (2%r<1yr)	LatinA	*	H	H				5.8	-3.2	32.8	11.98	29.7	-	fsw
21	23	36		FDIVX	Fidelity Diversified Intl (1%r<30d)	Int'l	H	H	H				0.6	1.5	28.7	25.00	13.8	-	Fsw
22	17	34		OAKIX	Oakmark International (2%r<90d)	Int'l	H	H	H				0.2	1.7	28.7	18.76	22.0	-	FSW
23	40	15		FIEUX	Fidelity Europe (1%r<30d)	Europe	H	H	H				1.3	-0.5	32.1	27.42	22.5	-	Fsw
24	36	56		USIFX	USAA International	Int'l	H	H	H				0.8	2.1	26.3	20.59	15.0	-	w
25	31	40		VEURX	Vanguard European Stock Index (2%r<60d)	Europe	H	H	H				0.3	0.9	28.6	22.59	17.4	-	fsw
26	39	65		USAWX	USAA World Growth	Int'l	H	H	H				0.3	3.3	22.4	16.21	15.6	-	w
27	37	37		GIGRX	Gabelli Intl Growth (2%r<60d)	Int'l	H	H	H				0.3	0.4	29.4	16.36	13.1	-	FSW
28	33	54		SWINX	Schwab International Index (1.5%<180d)	Int'l	S	S	S				0.5	1.2	25.9	14.24	14.1	-	S
29	30	32		HAINX	Harbor International (2%r<60d)	Int'l	S	S	S				1.1	0.1	27.6	37.64	17.9	-	Fsw
30	21	30		VTRIX	Vanguard International Value (2%r<60d)	Int'l	H	H	H				0.6	0.2	27.7	27.02	16.8	-	fsw
31	38	38		MACSX	Matthews Asia G & I (closed,2%r<90d)	Pacific	H	H	H				1.0	1.1	24.8	14.09	11.4	-	FSW
32	22	23		FIGRX	Fidelity International G & I (1%r<30d)	Int'l	H	H	H				0.2	-0.9	28.7	24.48	15.2	-	Fsw
33	14	55		WPJGX	CS Warburg Pincus Japan Grth (2%r<30d)	Japan	*	S	S				-0.7	0.7	24.3	5.43	22.7	-	FSW
34	29	51		VWIGX	Vanguard International Growth (2%r<60d)	Int'l	S	S	S				0.4	0.1	24.0	16.62	15.5	-	fsw
35	50	21		DRFMX	Dreyfus Emerging Market (1%)	Int'l	*	S	S				2.9	-2.6	26.5	16.95	21.6	-	FSW

Bond Funds (next issue on page 6: Specialty Funds)
 7/16/2004

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	*	*	0.3%	0.5%	2.9%	\$9.93	-	3.08%	Fw
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	*	*	*	1.0	1.5	8.8	11.19	5.85	3.88	FSW
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	2.3	-3.1	7.2	7.91	14.25	8.13	Fsw
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	1.3	-1.5	8.4	8.81	9.53	8.04	Fsw
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	2.3	-1.5	3.8	9.58	5.68	7.15	FSW
NTHEX	Northeast Investors Trust	HighYld	*	*	*	2.2	4.4	14.6	7.59	7.69	8.26	fw
PHYDX	PIMCO High Yield	HighYld	*	*	*	2.6	-2.2	6.6	9.55	9.02	6.88	SW
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	2.1	-1.2	6.7	7.66	10.25	7.14	FSW
STHBX	Strong S-T High Yield	HighYld	*	*	*	1.0	-0.1	2.5	8.64	3.85	4.97	FSW
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	2.1	-2.1	5.2	6.94	7.22	8.14	sw
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	2.4	0.1	9.3	7.18	8.88	7.80	SW
VAGIX	Value Line Aggressive Inc (1%r<120d)	HighYld	*	*	*	1.6	0.0	6.1	5.01	8.58	6.11	FSW
VWEHX	Vanguard High Yield Corporate (1%r<1yr)	HighYld	*	H	*	2.2	0.7	8.4	6.27	6.82	7.54	sw
BEGBX	American Century Intl Bond	Int'l	*	*	*	4.2	1.5	12.9	13.77	11.01	6.14	fSW
FNMX	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	4.1	-4.8	7.1	13.36	13.17	5.98	Fsw
PYGFY	Payden Global Fixed Income	Int'l	*	*	*	1.3	-0.7	0.5	9.89	4.14	4.58	fsw
SSTGX	Scudder Global Bond S-T (closed)	Int'l	*	*	*	2.3	-1.1	4.3	10.10	5.82	4.61	FSW
RPBIX	T. Rowe Price Int'l Bond	Int'l	*	*	*	3.8	-0.3	10.1	10.09	9.90	2.43	fsw
BGNMXX	American Century Ginnie Mae	IntTerm	*	*	*	1.5	-0.7	-0.4	10.44	3.00	4.61	fSW
ACITX	American Century Inflation Adj	IntTerm	B	*	*	2.1	1.3	6.2	11.01	7.88	3.62	fSW
BBHIX	BBH Inflation Indexed Sec	IntTerm	B	*	*	2.5	2.2	6.5	11.07	8.03	3.01	FSW
SRINX	Columbia Income CIZ	IntTerm	H	*	*	2.2	-2.2	1.4	9.94	5.19	6.05	FSW
SRBFX	Columbia Intermediate Bond CIZ	IntTerm	H	*	*	2.0	-2.0	0.9	9.03	4.38	5.03	FSW
DODIX	Dodge & Cox Income	IntTerm	H	*	*	1.6	-0.2	3.1	12.74	3.82	4.52	fsw
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	1.6	0.4	3.1	14.67	3.46	4.58	FSW
FTRGX	Federated Total Return Govt	IntTerm	H	*	*	2.0	-1.2	-0.3	10.88	6.25	4.31	sw
FGMNXX	Fidelity GNMA	IntTerm	*	*	*	1.7	-0.1	0.7	11.04	2.73	3.34	Fsw
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	2.3	1.2	5.9	11.14	-	1.44	Fw
FSTGX	Fidelity Intermediate Govt	IntTerm	H	*	*	1.5	-0.1	1.2	10.22	4.56	2.72	Fsw
FBNDX	Fidelity Investment Grade	IntTerm	H	*	*	2.2	0.3	3.0	7.48	4.73	3.26	Fsw
FBDFX	Fremont Bond	IntTerm	H	*	*	2.2	-0.1	2.0	10.53	5.23	2.87	fsw
MWTRX	MetroWest Total Return	IntTerm	*	*	*	2.2	-1.7	2.3	9.77	6.03	6.03	SW
PRRDXX	PIMCO Real Return	IntTerm	H	*	*	2.1	0.6	4.8	11.40	8.14	2.71	SW
PITDXX	PIMCO Total Return	IntTerm	H	*	*	2.1	-0.3	1.0	10.77	5.17	2.35	SW
PTMDX	PIMCO Total Return Mortgage	IntTerm	H	*	*	2.0	0.1	1.6	10.78	3.41	2.54	SW
SCSBX	Scudder Income (closed)	IntTerm	H	*	*	2.1	0.3	3.5	12.84	4.65	3.89	FSW
STVSX	Strong Govt Securities	IntTerm	H	*	*	1.9	-1.4	-0.1	10.79	5.16	3.19	FSW
PRGMXX	T. Rowe Price GNMA	IntTerm	*	*	*	1.8	-0.8	0.2	9.64	3.31	4.18	fsw
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	1.9	-1.1	0.7	8.98	4.66	3.58	fsw
TGMNXX	TCW Galileo Total Return Bond	IntTerm	H	*	*	1.8	0.7	2.6	9.80	3.43	5.62	SW
USAIX	USAA Income	IntTerm	H	*	*	2.0	0.2	3.0	12.31	5.21	4.46	w
VALBX	Value Line U.S. Govt Sec	IntTerm	H	*	*	1.6	-0.4	0.8	11.72	4.88	3.56	FSW
VBMFX	Vanguard Bond Market	IntTerm	H	*	*	2.2	0.2	2.8	10.20	4.64	4.33	fsw
VFIIX	Vanguard GNMA	IntTerm	B	*	*	2.0	-0.2	-0.1	10.37	3.72	4.75	fsw
VIPXX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	2.2	2.0	7.1	12.34	7.91	3.58	sw
MNTRX	WellsFargo Montgomery Total Ret (closed)	IntTerm	H	*	*	2.0	0.0	1.5	12.27	4.87	3.26	fSw
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	2.2	1.0	7.7	10.80	4.46	5.72	FSW
WPGVX	WPG Core Bond	IntTerm	H	*	*	2.1	-0.4	1.3	10.64	4.88	2.66	Fsw
FGOVXX	Fidelity Government Income	LngTerm	*	*	*	1.9	-1.1	0.2	10.17	5.95	2.93	Fsw
KIFIX	FifthThird Bond	LngTerm	*	*	*	2.0	-0.2	1.8	10.08	5.36	3.40	w
MGFIX	Managers Bond	LngTerm	*	*	*	2.4	-0.8	4.3	24.21	7.15	4.65	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	2.3	-1.9	2.3	9.61	6.23	5.46	fsw
PRULX	T. Rowe Price U.S. Treas. LT	LngTerm	*	*	*	3.3	-1.9	-1.0	11.65	10.26	4.48	fsw
FSICX	Fidelity Strategic Income	Multi	B	B	*	2.6	-0.7	7.6	10.30	5.76	5.67	Fw
LSBRX	Loomis Sayles Bond Retail	Multi	B	B	*	4.3	-0.8	12.0	13.09	8.75	5.79	FW
RPSEX	T. Rowe Price Spectrum Income	Multi	*	*	*	1.8	-1.0	5.4	11.69	4.64	4.21	fsw
FSHBX	Fidelity Short-Term Bond	ShTerm	B	*	*	0.7	-0.7	0.2	8.99	2.18	2.44	Fsw
JASBX	Janus S-T Bond	ShTerm	B	*	*	0.6	-0.2	1.6	2.93	1.65	2.54	FSW
MGIDX	Managers Int. Duration Govt	ShTerm	*	*	*	1.9	0.7	3.1	10.65	3.12	1.93	FSW
MGSDX	Managers Short Duration Govt	ShTerm	B	*	*	0.3	0.6	1.3	9.65	1.02	2.47	FSW
MWLDX	MetroWest Low Duration	ShTerm	B	*	*	0.9	-0.9	0.1	9.39	3.07	4.36	SW
PTLCX	PIMCO Low Duration	ShTerm	B	*	*	0.9	-0.3	-0.4	10.24	2.44	1.34	fw
SWBDX	Schwab S-T Bond Mkt Index	ShTerm	B	*	*	1.1	-0.8	-0.1	10.14	2.86	2.83	S
SCSTX	Scudder Short-Term Bond (closed)	ShTerm	B	*	*	1.0	0.3	1.5	10.39	1.88	4.13	FSW
SSTBX	Strong S-T Bond	ShTerm	B	*	*	1.0	-0.5	0.3	8.78	2.36	3.58	FSW
MNSGX	WellsFargo Montgomery S Dur Govt (closed)	ShTerm	B	*	*	0.8	0.0	0.5	10.17	2.25	2.11	fsw
BTINX	American Century Target 2010	ZeroCpn	*	*	*	2.8	-0.5	1.6	84.81	10.49	4.49	FSW
BTFIX	American Century Target 2015	ZeroCpn	*	*	*	4.6	0.0	3.5	69.05	15.70	5.27	fSW
BITTX	American Century Target 2020	ZeroCpn	*	*	*	5.8	-0.1	4.2	49.54	19.43	4.90	fSW
BITRX	American Century Target 2025	ZeroCpn	*	*	*	6.7	0.0	4.4	40.97	22.39	5.01	fSW

Keeping Portfolios In Line

Q I am a subscriber, and it looks like the percentages for stocks and bonds are reversed in the Conservative Portfolio vs. the pie chart. I come up with 43.7% stocks, 36.4% bonds, 8.31% money market, and 11.6% specialty. How come? — M.P., Urbana, OH

A Using the month-end May portfolio accounting (June 11 issue), your figures are right on. The reason for the variation from the allocation percentages you see in the pie charts is relative performance. That is to say the stock funds in our Conservative Portfolio have outperformed the bond funds since the last rebalancing (at the beginning of the year).

Let's take a closer look at how the individual positions have done this year. We'll use 5/31/04 to remain consistent with your data.

Fund	YTD 5/31
Schwab MMF	+0.10%
Gateway Fund	+1.65%
Loomis Sayles Bond	-2.78%
RS Partners	+5.88%
Royce Opportunity	+1.40% (sold 5/19)
Amer. Cent. Inflation Adj.	+1.50%
Needham Small Cap	+3.03% (sold 5/19)
Dodge & Cox Income	-0.64%

As you can see, all three stock fund positions we held (Royce Opportunity and Needham Small-Cap were held for most of the period) were in the black. Two of the three bond positions lost money, but not much. RS Partners (+5.9%) did more than its share to create the imbalance, as it represents nearly 18% of the portfolio.

The pie charts represent target allocations, for both new and long-term subscribers. On occasions like this, when the allocations of our model portfolios vary significantly from the targets, we are forced to "re-balance." We do this at the beginning of each calendar year, as a matter of course, and then only as needed during the year. It looks like two of our ten portfolios qualify: the *MONEYLETTER* Conservative and the Vanguard Conservative. This re-balancing will be done for the next issue.

MONEYLETTER Directory

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100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	0.90%	0.79%	0.69%
Gabelli US Treasury MMF	0.79	0.76	0.70
Fidelity Spartan US Treas MMF	0.78	0.70	0.62
Amer Century Capital Presv Fund/Inv	0.70	0.62	0.55
DBAB Cash Reserve Treasury	0.59	0.52	0.36
HSBC Investor US Treas MMF/CI D	0.56	0.52	0.38
T Rowe Price US Treasury MF	0.56	0.51	0.50
JENNDRY/Dryden Govt SecTr/US Treas/D	0.54	0.43	0.33
RMK Select Treas MMF/CI A	0.51	0.45	0.33
Citi US Treasury Reserves	0.49	0.41	0.28

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	1.19%	1.14%	1.03%
Scudder Premium Money Mkt Shrs/AARP	1.15	1.07	0.81
Scudder Premium Money Mkt Shrs/CI S	1.13	1.05	0.81
TIAA-CREF Money Market Fund	1.08	0.95	0.83
Scudder Prime Reserve MM/AARP	1.05	0.96	0.68
Vanguard Prime MMF/Retail	1.02	0.95	0.77
AIG Money Market Fund/CI B	1.00	0.92	0.80
Bunker Hill MMF	1.00	0.94	0.86
GE Money Market Fund	1.00	0.92	0.81
Flex-fund Money Market Fund	0.95	0.90	0.82

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Vanguard Tax-Exempt MMF	0.95%	0.97%	0.86%
Strong Tax-Free Money Fund	0.85	0.88	0.86
Strong Municipal MMF	0.69	0.68	0.71
Amer Century T-F MMF/Inv Class	0.68	0.71	0.64
Dreyfus BASIC Muni MMF	0.67	0.70	0.63
Scudder Tax-Exempt Money Fund	0.66	0.69	0.63
Tax-Exempt Cash Managed Shares	0.66	0.67	0.55
USAA Tax Exempt MMF	0.66	0.69	0.66
Fidelity Municipal MMF	0.65	0.67	0.63
Fidelity Tax Free Money Market	0.62	0.65	0.60
T Rowe Price Summit Muni MMF	0.62	0.65	0.62

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard CA Tax-Exempt MMF	0.94%	0.94%	0.82%
Vanguard OH Tax-Exempt MMF	0.92	0.95	0.86
Vanguard PA Tax-Exempt MMF	0.91	0.94	0.83
Vanguard NY Tax-Exempt MMF	0.90	0.92	0.82
Vanguard NJ Tax-Exempt MMF	0.89	0.91	0.80
Fidelity FL Municipal MMF	0.60	0.63	0.57
Fidelity PA Municipal MMF	0.60	0.63	0.59
USAA Tax Exempt CA MMF	0.59	0.61	0.58
CMA CA Municipal Money Fund	0.58	0.54	0.45
Fidelity NJ Municipal MMF	0.57	0.58	0.50
Fidelity OH Municipal MMF	0.57	0.61	0.54

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 7/13/04. Third column refers to 1-year total return. Criteria for inclusion include: top-yielding unrestricted retail funds only, with minimum initial investment <\$25,000 and assets >\$100 million.

Source: Money Fund Report (800) 343-5413

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Causeway International Value: Young Fund, Proven Method

While this fund is not yet three years old, its managers have a significant history of international investing. At the helm of the fund are veteran international value professionals Harry Hartford, Sarah Ketterer, and James Doyle. Hartford and Ketterer co-managed the former Hotchkis & Wiley International Value fund, while Doyle was the head of the international equity research department there. Merrill Lynch purchased Hotchkis & Wiley in 1996, and renamed the fund the Mercury International Value fund. When Merrill Lynch started shopping the Hotchkis & Wiley unit in late 2000, the trio decided to set out on their own. They, along with 22 members of their international investing team, left to establish Causeway Capital Management in June 2001. The Causeway International Value fund was launched in October of that year, and since then has grown to more than \$600 million in assets. Interestingly, all of the employees today, with the exception of one sales professional, were part of that initial team from the Hotchkis & Wiley unit of Merrill Lynch. The investment philosophy driving the fund is unchanged as well.

The fund started out of the gate strong, rallying in the last three months of 2001. However, shareholders endured an 11% loss in a difficult market environment in 2002 (although that was better than the category average), but were rewarded with an above average 45% gain in 2003. This year, the fund is up nearly 9% through mid-July, which puts it within the top 5% of its Lipper category.

The three managers divvy up the investment duties. Doyle, a director of Causeway, is responsible for investment research in the Japan and Asia-Pacific regions, as well as technology and autos/parts. Hartford is president of Causeway. His investment research responsibilities cover the U.K., Ireland, and Continental Europe, plus basic materials and banks. Ketterer handles investment research in Asia-Pacific, Japan, and Canada, and covers insurance and health care.

The proven method

Part of the fund's stated investment philosophy is that "companies derive their value from the contribution of yield and profitable re-investment back into the company." Hence, the managers emphasize dividend paying companies and those repurchasing their shares. The managers use a fundamental, bottom-up approach, and do not target country, sector, or industry weightings. Instead, they let individual stock selection drive weightings. That said, however, there is a limit to country weightings at 30% of assets (35% for the U.K.) and the fund will normally be invested in

at least 10 foreign markets. Typically, there will be between 60 and 80 stocks in the portfolio.

The managers focus their efforts on mid- to large-size companies, primarily in developed markets. They start by screening more than 3,400 companies with market capitalizations of at least \$750 million, using value and quantitative screens to whittle down the prospective list of investment candidates. They are looking for companies that are cheap by a number of valuation measures, have superior return prospects, and as stated earlier, pay dividends or are repurchasing shares. The managers pay close attention to dividend yield, which they define as all returns of capital to investors. That includes stock buybacks as well as dividends. A firm's dividend yield has to be above that of its native market to pass muster. From there, the stock candidates that made the cut are subject to in-depth analysis by the investment team. Financials, competitors, industry, management, etc. are all scrutinized. A two-year expected return is developed for each candidate, as well as a "risk score," which assigns a value to the volatility the stock might add to the portfolio. The stocks that are purchased are those that offer the best risk-adjusted returns.

Top Five Countries and Holdings (% of Assets)

United Kingdom	32.8%	Samsung Electronics	2.6%
Japan	13.6	Honda Motor	2.5
France	9.2	Aventis	2.4
Netherlands	8.7	Canon	2.3
Switzerland	7.6	Konica Minolta Hldgs	2.3

as of June 30, 2004

Given the bottom-up nature of the investment process, the managers are not hesitant to have country or sector weightings that differ significantly from the fund's peer group or from the MSCI EAFE index. The fund currently has a higher exposure to the U.K. and the Netherlands than its typical peer, and less to Japan. Also, the managers recently have been shifting away from cyclical issues and telecommunications firms that have reached fair value and into stocks that feature steady earnings growth. Looking ahead, the management team expects that "the global economic climate for equities should remain salutary this year." \$

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(866) 947-7000; Minimum Investment: \$5,000

MONEYLETTER® (ISSN:1526-5110) is published twice each month for \$150 per year (24 issues) by PRI Financial Publishing Inc., 360 Woodland St., P.O. Box 6020, Holliston, MA 01746-6020. First Class Postage paid at Holliston, MA and at additional mailing offices. POSTMASTER: send address changes to MONEYLETTER, 360 Woodland St., P.O. Box 6020, Holliston, MA 01746-6020. Chief Investment Officer/Chief Economist: Walter Frank. Contributing Editor: Cynthia Andrade. Editorial Assistant: Christa Mohr. Publisher: Brian W. Kelly. Address all subscription and editorial inquiries to PRI Financial Publishing Inc., 360 Woodland St., P.O. Box 6020, Holliston, MA 01746-6020, (800) 890-9670. Paid advertising which appears in or accompanies this publication does not constitute an endorsement of products or services offered. Employees and staff of MONEYLETTER may from time to time maintain positions in recommended securities. PRI Financial Publishing Inc. is affiliated with PRI Financial Advisors Inc. (formerly Principal Resource Inc.), a registered investment advisor. Walter Frank also serves as an independent economic consultant to PRI Financial Advisors. MONEYLETTER is not produced as a solicitation for PRI Financial Advisors. Views presented are the opinion of the Chief Investment Officer/Chief Economist and contributing editors, and should not be treated as fact. MONEYLETTER does not purport to provide legal, tax or individual investment advice. While carefully screened, the accuracy of the statistical data in MONEYLETTER cannot be guaranteed. Readers should carefully review investment prospectuses before investing. MONEYLETTER provides a twice-weekly Hotline: call (410) 528-1804. Back copies \$5 each. Reproduction in whole or in part by any means is strictly forbidden without written permission. © Copyright 2004 PRI Financial Publishing Inc.