



## Rising Risk, Lowering Exposure Decreasing Stock Fund Allocations

by Walter S. Frank, Chief Investment Officer

We have become more and more uneasy as the economic and corporate news has rolled in over the summer. The first big shock to our confidence in the economic outlook came with the June employment report in early July. The report showed far, far fewer jobs created in June than we, along with everyone else, expected. This was followed by less than reassuring guidance coming from corporations, particularly in technology, as the second quarter earnings reports came flooding in.

Our first reaction was to assume that this was temporary, just a blip. Our mid-year outlook called it a speed bump, a temporary, short-term interruption in the expected robust economic growth. Then came the July employment report in early August. This too was a shocker. Instead of the anticipated resumption of job growth, the report showed even fewer new jobs created than in July.

That was enough for us. All in all we have taken a fairly aggressive stance toward the market. We have had a 90% domestic stock fund allocation for Venturesome investors. Our Moderate allocation was less aggressive (as to be expected) but certainly had a bullish tilt.

As we reacted to the economic numbers, and the concurrent corporate guidance, we concluded that the probability attached to our firmly positive view of the outlook for the economy and the market was lower than before. The new numbers (and earnings guidance from corporations) simply called for more caution, in our opinion, in the recommended allocations for the two risk-tolerant portfolios.

Consequently, we decided to cut the domestic stock fund allocations for both Venturesome and Moderate investors. The Hotline of Tuesday, August 10th first carried the new recommended allocations as well as the fund changes we intended to make in the model portfolios.

### Allocation changes

For Venturesome investors, we recommend that the domestic stock fund allocation be cut from 90% to 70%. At the same time, we recommend an increase in the money fund allocation from 10% to 30%. The new allocation for Venturesome portfolios will now be 70% stock funds and 30% money market funds.

For Moderate investors we recommend a cut of 10% in the domestic stock fund allocation from 70% to 60% along with an increase in the money fund allocation to 20% from 10%. The new allocation for Moderate investors will now be 60% domestic stock funds, 20% bond funds and 20% money funds.

Please note that there is no change recommended for Conservative investors. Our Conservative allocation is defensive and low risk (the word is all-weather) as a matter of course.

### Model fund changes

Here are the changes made in the model portfolios to meet the new allocation guidelines. **MONEYLETTER Venturesome:** Sell Baron Partners and Henlopen Fund. Buy 20,000 shares of Schwab Money Market Fund. Invest the remainder of the proceeds in FBR Small Cap. **Fidelity Venturesome:** Sell Fidelity Aggressive Growth. Sell \$7,000 of Fidelity Small Cap Stock. Purchase Fidelity Cash reserves with the proceeds. **Vanguard Venturesome:** Sell Vanguard Mid-Cap Index. Also sell \$5,000 of Vanguard U.S. Value. Purchase Vanguard Prime Portfolio (money fund) with the proceeds.

**MONEYLETTER Moderate:** Sell Henlopen Fund. Buy \$11,000 of Schwab Money Fund. Invest the balance in Artisan Mid Cap Value. **Fidelity Moderate:** Sell Fidelity Aggressive Growth. Also sell \$5,000 of Small Cap Stock. Purchase Fidelity Cash Reserves with the proceeds. **Vanguard Moderate:** Sell Vanguard Mid-Cap Index. Buy Vanguard Prime Portfolio with the proceeds.

### A turn to caution

The first thing we want to say about this new advice is that it represents a turn to caution, not a change of view about the market. The second thing is that we expect the new guidelines to be temporary. We can hear the question now: how temporary is temporary?

We don't know. But let's go through a couple of what-ifs. What if the August employment report, due early next month, shows a robust employment gain (with most of all the other employment numbers going along)? In that case, we would start the process of reconfiguring the probability of our original economic outlook. We would look for

### 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	Flat	Higher
Japan (Nikkei)	Higher	Higher
Hong Kong (Hang Seng)	Higher	Higher

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confirmation in the upcoming string of monthly numbers that indeed June and July were simply an extended speed bump. If the confirmation came, we would become more aggressive. If not, of course, we would wait.

Another what-if is that employment growth picks up but only moderately. In that case we would almost certainly need another employment report, at least, before we became satisfied that the economy was resuming moderately rapid economic growth. Again, other economic reports would also have to point in the right direction as confirmation that the economy was again firing on all cylinders. That is the key, to become satisfied that healthy economic growth is resuming.

The answer to the “temporary” question, then, is anywhere from one month to three months if our current view of the economy is correct.

### One step back

To avoid any misunderstanding we want to make clear that our basic outlook for the economy has not changed. We still see the economy in an economic upturn that has many months to run. Right now, as others have also pointed out, we are in a transition phase of the upturn. The dynamic powering the upturn is passing from consumers to business.

The tax cuts and rebates that spurred consumer spending for cars and other goods are vanishing. The low interest rates that drove home buying are starting to rise. Now it is the turn of business to spend, for new machinery and for inventory.

We look for business to step up to the plate and play its role as the new dynamo of the upturn. So far, the signs are not clear. The weak employment numbers tell us that business still has a quick trigger finger when it comes to layoffs. As the economists at JPMorgan Chase Bank pointed out we saw large layoffs in July in those sectors where business had just turned weak, such as financial services and retail stores. The layoffs were almost simultaneous with the weakness. That is not the action of a robustly confident business sector.

The wobbling by business (strong reports on new orders from the purchasing managers, weak reports from the employment front) is what has produced our caution. To borrow a term from the Olympics, it is not clear that the handoff of the baton from the consumer to business is going all that smoothly. In that case, prudence dictates caution.

### The markets

The stock market, of course, has reacted to the weaker economic numbers. The market kept going down all last month despite the barrage of good earnings reports that would normally have sent prices up. But the earnings were telling us about the past, while the guidance and the economic numbers were telling us about the future.

As growth slackens, the earnings outlook has turned cloudier than it has been for some quarters. Thomson First Call tells us that pre-announcement statements for this quarter have taken a “negative shift.” The ratio of negative

to positive statements is still less than the long-term average, but the ratio is higher than those for the last two quarters at a comparable time in the quarter.

In one way this should not surprise us, we would expect the spring slowdown to show up in business reports from the front. On the other hand, if the slowdown is temporary then that should be reflected in the guidance, and the guidance is most definitely mixed. The economic uncertainty has translated into market uncertainty.

The argument can justly be made that the market is cheap, with a price-earnings ratio of 15.8, using current analyst estimates for earnings over the next twelve months. But there’s the rub. Will the analysts’ estimates hold up? So far, they are sticking to their guns. In fact, First Call tells us that the analysts even just raised their earnings estimate slightly for this quarter, This after all the guidance. Let us hope they’re right.

Meanwhile we look at the uncertainty woven through the economy and the market and have decided to advise a step back. Our new allocations still contain a substantial position in stock funds, 70% and 60%. At the same time the portfolios are less exposed if we are in for more than a “soft patch.” This is a time to acknowledge what we don’t know. \$

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**Note: There will be 3 weeks between issues.**

## Sliding On Oil

While we only see the direct effects of oil at the pump, it is the indirect effect that is hurting even more. An important indirect effect is the effect on consumer spending. True, retail sales last month rose 0.7%, but that was due mainly to autos and renewed incentives. Take out autos and gas, and what is left is a gain of 0.3%. Not bad, but not very good either. More important, the trend in sales has not been encouraging.

Not all the weakness we have seen lately can be attributed to oil, but a livelier consumer sector would certainly help. It is hard to know what is bothering business, but something surely is. We don't put too much weight on the New York Fed manufacturing survey, but the latest one (for August) showed a very sharp drop in new orders. This was one of the reports that earlier told us business was sailing along. Why the sudden drop?

The only thing we can conclude is that the consumer weakness (think oil) has penetrated to the manufacturing level. This is not a good sign. We need oil prices to move lower, and soon.

### Fund Changes

The Hotline of Tuesday, August 3rd recommended the sale of ICM Isabelle in the *MONEYLETTER* Conservative Portfolio to be replaced by Artisan Mid Cap Value. Here are the details as of Wednesday, August 4. Sold 669 shares of ICM Isabelle @ \$13.36 per share. Purchased 601 shares of Artisan Mid Cap Value @ \$14.86 per share.

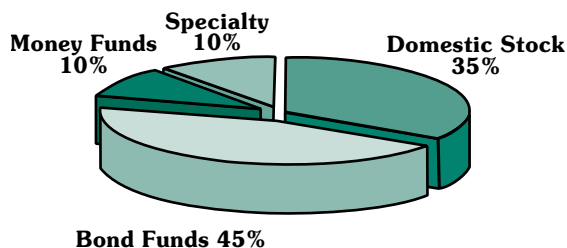
The Hotline of Tuesday, August 10th recommended the various portfolio fund changes as described on the opening pages of this issue. Here are the details as of Wednesday August 11.

**MONEYLETTER Venturesome:** Sold 759 shares of Baron Partners @ \$12.86 per share. Sold 586 shares of Henlopen Fund @ \$24.12 per share. Purchased 20,000 shares of Schwab Money Market Fund @ 1.00 per share. Also purchased 112 shares of FBR Small Cap @ \$34.75 per share. **Fidelity Venturesome:** Sold 528 shares of Fidelity Aggressive Growth @ \$13.97 per share. Sold 442 shares of Fidelity Small Cap Stock @ \$15.82 per share. Purchased 14,371 shares of Fidelity Cash Reserves @ \$1.00 per share. **Vanguard Venturesome:** Sold 661 shares of Vanguard Mid-Cap Index @ \$12.80 per share. Sold 408 shares of Vanguard U.S. Value @ \$12.26 per share. Purchased 13,462 shares of Vanguard Prime Portfolio @ \$1.00 per share.

**MONEYLETTER Moderate:** Sell 859 shares of Henlopen @ \$24.12 per share. Purchase 11,000 shares of Schwab Money Market Fund @ \$1.00 per share. Also purchase 669 shares of Artisan Mid Cap @ \$14.53 per share. **Fidelity Moderate:** Sell 576 shares of Aggressive Growth @ \$13.97 per share. Sell 316 shares of Small Cap Stock @ \$15.82 per share. Purchase 13,046 shares of Fidelity Cash Reserves @ \$1.00 per share. **Vanguard Moderate:** Sell 742 shares of Vanguard Mid-Cap Index @ \$12.80 per share. Buy 9,494 shares of Vanguard Prime Portfolio @ \$1.00 per share. \$

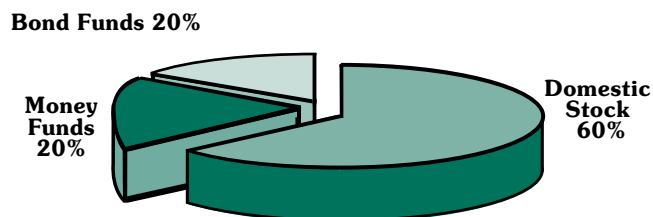
### CONSERVATIVE

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



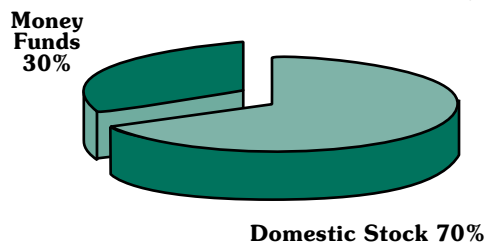
### MODERATE

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



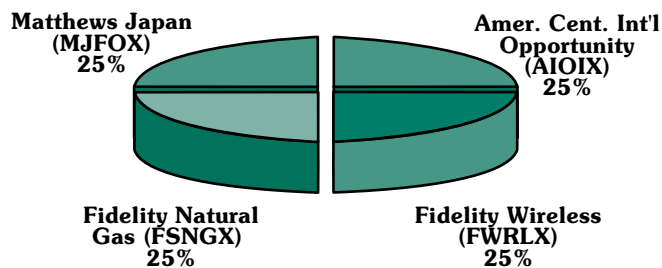
### VENTURESOME

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	8/13 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	6	9	BERWX	Berwyn Fund (1%r<180d)	SCVal	B	B	B	-3.5%	-1.6%	31.2%	\$25.58	22.3	0.77	fsw	
2	4	80	TAVFX	Third Avenue Value (1%r<60d)	SC	B	B	B	-4.7	1.1	25.2	43.78	17.2	0.79	FSW	
<b>3</b>	<b>1</b>	<b>53</b>	<b>ARTQX</b>	<b>Artisan Mid Cap Value</b>	<b>MCVal</b>	<b>B</b>	<b>B</b>	<b>B</b>	<b>-3.4</b>	<b>0.9</b>	<b>23.6</b>	<b>14.43</b>	<b>19.8</b>	<b>0.87</b>	<b>FSW</b>	
4	5	10	RSPFX	RS Partners (closed)	SC	B	B	B	-3.2	-0.9	26.4	28.63	20.9	0.69	FSW	
<b>5</b>	<b>20</b>	<b>100</b>	<b>FBRVX</b>	<b>FBR Small Cap (1%r&lt;90d)</b>	<b>SCGro</b>	<b>B</b>	<b>B</b>	<b>B</b>	<b>-2.4</b>	<b>1.3</b>	<b>19.5</b>	<b>34.49</b>	<b>23.4</b>	<b>0.82</b>	<b>FSW</b>	
<b>6</b>	<b>2</b>	<b>34</b>	<b>SMCDX</b>	<b>Strong Mid Cap Disciplined</b>	<b>MCVal</b>	<b>B</b>	<b>B</b>	<b>B</b>	<b>-3.7</b>	<b>0.5</b>	<b>22.3</b>	<b>20.16</b>	<b>23.1</b>	<b>0.99</b>	<b>FSW</b>	
<b>7</b>	<b>3</b>	<b>8</b>	<b>RSCOX</b>	<b>RS Contrarian Value</b>	<b>MC</b>	<b>B</b>	<b>B</b>	<b>B</b>	<b>-2.6</b>	<b>-1.7</b>	<b>24.2</b>	<b>17.32</b>	<b>18.6</b>	<b>0.60</b>	<b>FSW</b>	
8	42	192	TWEIX	American Century Equity Income	MCVal	H	H	H	-1.5	0.0	14.8	7.78	12.6	0.62	FSW	
9	10	5	MOPIX	MainStay Small Cap Opportunity (closed)	MCVal	B	B	B	-5.3	-5.2	30.7	16.96	17.5	0.63	FSW	
<b>10</b>	<b>26</b>	<b>85</b>	<b>VWNFX</b>	<b>Vanguard Windsor II</b>	<b>LCVal</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>-2.8</b>	<b>-2.1</b>	<b>18.4</b>	<b>26.93</b>	<b>16.2</b>	<b>0.82</b>	<b>fsw</b>	
11	22	48	TASCX	Third Avenue Small-Cap Value (1%r<1yr)	SCVal	B	B	B	-4.7	-2.7	22.1	19.21	19.9	0.85	FSW	
12	27	171	PRWCX	T. Rowe Price Cap Appreciation	LCVal	B	B	B	-2.8	-1.3	15.4	17.74	11.0	0.49	fsw	
13	21	-	PVLDX	PIMCO PEA Value D	LCVal	B	B	B	-4.4	-3.7	23.4	16.05	25.4	1.32	FSW	
14	9	30	CRMMX	CRM Mid Cap Value Inv	MCVal	B	B	B	-5.3	-2.8	22.7	21.88	18.9	0.78	FSW	
15	8	88	RYPX	Royce Premier (1%r<180d)	SC	B	B	B	-5.5	-1.0	17.8	13.36	19.4	0.84	FSW	
16	16	91	AVALX	Aegis Value Fund	SCVal	B	B	B	-3.7	-1.8	17.4	17.06	13.3	0.48	fw	
17	15	108	ARGFX	Ariel Fund	SCVal	B	B	B	-4.6	-1.0	16.3	46.80	15.6	0.53	FSW	
18	39	105	TWVLX	American Century Value	MCVal	B	B	B	-3.0	-2.3	16.9	7.54	16.6	0.82	FSW	
19	13	256	JMCVX	Janus Mid Cap Value	MCVal	B	B	B	-4.5	-2.9	20.4	20.67	20.4	0.93	fsw	
20	17	68	PRSVX	T. Rowe Price S-C Value (closed,1%r<1yr)	SCVal	B	B	B	-5.4	-2.2	18.9	29.95	18.0	0.69	fsw	
21	35	146	HOVLX	Homestead Value	MCVal	H	H	H	-4.0	-1.7	15.7	27.29	16.5	0.81	-	
22	55	226	OAKBX	Oakmark Equity&Income (2%r<90d)	Bal	H	H	H	-2.7	-1.3	12.6	22.40	10.7	0.49	FSW	
<b>23</b>	<b>18</b>	<b>32</b>	<b>VISVX</b>	<b>Vanguard Small-Cap Value Index</b>	<b>SCVal</b>	<b>B</b>	<b>B</b>	<b>B</b>	<b>-4.8</b>	<b>-3.8</b>	<b>21.9</b>	<b>11.55</b>	<b>22.4</b>	<b>0.90</b>	<b>fsw</b>	
24	25	120	BEGRX	Mutual Beacon (1%) CIZ	MCVal	H	H	H	-2.5	-2.5	15.1	14.36	12.5	0.57	sw	
25	31	170	MUTHX	Mutual Shares (1%) CIZ	MCVal	H	H	H	-2.4	-2.4	13.8	20.99	12.0	0.56	sw	
26	24	28	TRMCX	T.Rowe Price Mid Cap Value	MCVal	B	B	B	-4.3	-4.0	20.4	20.48	19.8	0.90	fsw	
27	73	140	GEVIX	Columbia Disciplined Value CIZ	LC	H	H	H	-2.6	-2.6	14.2	12.45	19.8	1.06	fw	
28	30	126	MQIFX	Mutual Qualified (1%) CIZ	MCVal	H	H	H	-2.7	-2.9	14.8	17.87	13.3	0.61	sw	
<b>29</b>	<b>63</b>	<b>101</b>	<b>VIVAX</b>	<b>Vanguard Value Index</b>	<b>LCVal</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>-2.6</b>	<b>-3.2</b>	<b>15.2</b>	<b>18.72</b>	<b>18.6</b>	<b>1.03</b>	<b>fsw</b>	
30	36	50	TGIGX	TCW Galileo Dividend Focused N	MCVal	H	H	H	-3.9	-3.9	18.0	9.95	13.8	0.57	FW	
31	53	124	WVALX	Weitz Value Fund	MCVal	H	H	H	-2.7	-3.2	14.3	34.53	16.7	0.82	SW	
32	58	138	LSGIX	Loomis Sayles Value	LCVal	H	H	H	-3.2	-3.0	13.7	15.15	16.4	0.89	fsw	
33	29	36	TGDIVX	TCW Galileo Diversified Value N	LCVal	B	B	B	-4.8	-4.3	19.1	11.40	19.8	1.03	FW	
34	78	187	VEIPX	Vanguard Equity-Income	LCVal	H	H	H	-2.4	-3.1	11.7	21.87	14.9	0.79	fsw	
35	34	39	FLPSX	Fidelity L.P. Stock (closed,1.5%r<90d)	SCVal	H	H	H	-4.6	-4.5	17.8	35.01	18.0	0.75	Fsw	
36	14	4	CGMFX	CGM Focus	SCVal	*	H	H	-4.9	-6.3	22.7	27.95	37.9	1.03	fsw	
37	72	136	PRFDX	T. Rowe Price Equity-Income	LCVal	H	H	H	-3.0	-3.8	13.5	23.75	16.3	0.83	fsw	
38	7	-	BPTRX	Baron Partners	MCGro	*	(H)	(H)	-7.5	-5.2	23.3	12.67	28.6	1.26	FSW	
39	48	58	MPVLX	MSI Value Portfolio	LCVal	H	H	H	-2.7	-4.7	14.9	15.35	20.6	1.05	fsw	
<b>40</b>	<b>104</b>	<b>86</b>	<b>VUVLX</b>	<b>Vanguard U.S. Value</b>	<b>LCVal</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>-2.8</b>	<b>-5.2</b>	<b>16.3</b>	<b>12.13</b>	<b>17.3</b>	<b>0.87</b>	<b>fsw</b>	
41	12	112	NBGNX	Neuberger Berman Genesis (closed)	SC	(H)	(H)	(H)	-6.1	-3.0	15.6	25.98	15.5	0.63	fsw	
42	23	20	MUHLX	Muhlenkamp Fund	MCVal	H	H	H	-4.4	-6.1	20.4	62.69	27.9	1.24	FSW	
43	47	115	LSSCX	Loomis Sayles Small Cap Value	SC	H	H	H	-5.2	-3.8	15.5	23.67	18.4	0.78	sW	
44	99	191	OAKMX	Oakmark Fund (2%r<90d)	MCVal	H	H	H	-3.0	-4.0	11.5	37.24	16.7	0.85	FSW	
45	46	173	RYTRX	Royce Total Return (1%r<180d)	SCVal	H	H	H	-4.4	-3.6	12.3	10.59	15.7	0.66	FSW	
46	54	29	SAFGX	Safeco Growth Opportunities (2%r<90d)	SC	H	H	H	-5.3	-4.5	15.8	24.42	29.8	1.18	fsw	
<b>47</b>	<b>19</b>	<b>72</b>	<b>FDVLX</b>	<b>Fidelity Value</b>	<b>MCVal</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>-5.7</b>	<b>-4.6</b>	<b>16.8</b>	<b>62.04</b>	<b>19.0</b>	<b>0.89</b>	<b>Fsw</b>	
48	40	54	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	H	H	H	-5.8	-5.3	18.2	28.11	19.2	0.80	fw	
49	91	175	HAVLX	Harbor Value	LCVal	H	H	H	-3.5	-4.1	11.7	14.25	18.1	0.94	Fsw	
50	102	122	BIGRX	American Century Income & Growth	LCVal	H	H	H	-4.1	-4.7	13.8	27.03	17.4	0.97	FSW	
51	75	65	SLASX	Selected American Shares	LCVal	H	H	H	-3.8	-5.6	15.0	32.75	16.1	0.86	sW	
52	43	77	MPSCX	MSI Small Cap Value (closed)	SCVal	H	H	H	-5.2	-5.0	15.3	20.47	20.7	0.98	fsw	
53	109	128	SCDUX	Scudder Large Co Value	LCVal	H	H	H	-3.6	-5.0	12.6	22.96	16.8	0.92	FSW	
54	33	71	PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	-6.1	-5.1	16.4	8.81	20.4	0.80	Fsw	
55	62	168	JAVLX	Janus Twenty (closed)	LCGro	H	H	H	-5.5	-3.5	11.7	36.04	17.3	0.93	FSW	
56	28	123	RYSEX	Royce Special Equity (1%r<180d)	SCVal	H	H	H	-6.4	-3.7	12.6	17.83	16.5	0.51	Sw	
57	121	152	VCVXS	Vanguard Convertible Securities	Convr	H	H	H	-2.4	-6.9	13.8	12.81	11.6	0.51	fsw	
58	66	151	NBFSX	Neuberger Berman Fasciano Inv	SCGro	H	H	H	-5.4	-4.8	13.0	38.48	17.9	0.69	FSW	
<b>59</b>	<b>86</b>	<b>118</b>	<b>FEQIX</b>	<b>Fidelity Equity-Income</b>	<b>LCVal</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>-4.0</b>	<b>-5.5</b>	<b>12.4</b>	<b>47.62</b>	<b>17.8</b>	<b>0.96</b>	<b>Fsw</b>	
60	76	84	VPMCX	Vanguard PRIMECAP (closed,\$25,000&1%r<5yr)	LC	H	H	H	-5.6	-5.3	14.4	52.68	21.7	1.13	fsw	
61	100	139	BEGGX	American Century Equity Growth	LCVal	S	S	S	-4.6	-5.4	12.9	19.08	17.2	0.97	FSW	
62	112	163	TWEBX	Tweedy, Browne American Value	MCVal	S	S	S	-3.3	-5.7	10.9	23.36	13.0	0.61	fsw	
<b>63</b>	<b>11</b>	<b>1</b>	<b>FLVCX</b>	<b>Fidelity Leveraged Co (\$10,000,1.5%r&lt;90d)</b>	<b>MC</b>	<b>*</b>	<b>(H)</b>	<b>(H)</b>	<b>-7.8</b>	<b>-9.3</b>	<b>26.6</b>	<b>18.66</b>	<b>36.3</b>	<b>1.39</b>	<b>Fw</b>	
64	90	143	NGUAX	Neuberger Berman Guardian	LCVal	S	S	S	-4.5	-5.2	11.2	13.96	18.0	0.99	f	
65	106	49	JSVAX	Janus Special Equity	MC	S	S	S	-4.0	-7.9	17.0	10.47	22.3	1.10	SW	
66	145	233	FGRIX	Fidelity Growth & Income	LC	S	S	S	-2.7	-4.9	7.4	34.69	12.6	0.72	Fsw	
67	50	70	DODGX	Dodge & Cox Stock (closed)	LCVal	H	H	H	-4.8	-6.2	13.7	111.30	17.6	0.85	sw	
68	122	130	VQNPX	Vanguard Growth & Income	LC	S	S	S	-4.5	-5.9	11.7	26.82	17.0	0.96	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	8/13 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	1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
69	51	107		SSHF	Sound Shore	LCVal	S	S	S	-5.2	-5.9	12.5	32.93	17.3	0.79	sW
70	131	241		GAATX	Columbia Asset Allocation CIZ	G&I	S	S	S	-3.3	-5.1	7.7	14.51	10.8	0.61	fw
71	108	195		DGAGX	Dreyfus Appreciation	LC	S	S	S	-3.9	-5.4	9.2	36.15	13.8	0.77	FSW
72	134	194		YACKX	Yacktman Fund	MCVal	S	S	S	-3.4	-6.0	10.0	14.71	19.5	0.78	FW
73	88	193		SAOPX	Salomon Brothers Opportunity	MCVal	S	S	S	-3.7	-5.9	9.9	41.36	13.0	0.67	sw
74	114	75		VWNDX	Vanguard Windsor	LCVal	S	S	S	-4.7	-6.8	13.4	15.59	19.6	1.02	fsw
<b>75</b>	<b>45</b>	<b>159</b>		<b>FCNTX</b>	<b>Fidelity Contrafund</b>	<b>LC</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>-6.0</b>	<b>-5.2</b>	<b>11.2</b>	<b>48.14</b>	<b>11.4</b>	<b>0.54</b>	<b>Fsw</b>
76	160	169		FEQTX	Fidelity Equity-Income II	LCVal	S	S	S	-2.8	-6.3	8.6	21.55	18.7	1.01	Fsw
77	87	235		HSGFX	Hussman Strategic Growth (1.5%r<180d)	MCGro	S	S	S	-3.9	-4.8	6.3	15.08	8.4	0.09	fsw
78	68	98		SOPFX	Strong Opportunity	MCVal	S	S	S	-6.0	-6.3	13.0	38.88	22.2	1.17	FSW
79	118	181		PRDGX	T. Rowe Price Dividend Growth	LCVal	S	S	S	-4.0	-6.0	8.9	20.04	15.1	0.85	fsw
80	139	165		VFINX	Vanguard 500 Index	LC	S	S	S	-4.4	-6.4	9.9	98.59	17.3	1.00	fsw
81	140	166		FSMKX	Fidelity Spartan 500 Index (.5%r<90d)	LC	S	S	S	-4.4	-6.4	9.9	73.72	17.3	1.00	Fw
82	136	185		FFIDX	Fidelity Fund	LC	S	S	S	-4.2	-6.4	8.9	27.00	17.9	0.99	Fsw
83	117	119		THPGX	Thompson Plumb Growth	LC	S	S	S	-5.0	-6.8	10.9	44.07	25.1	1.22	fsw
84	98	66		CAMOX	Cambiar Opportunity	LC	S	S	S	-5.2	-7.9	13.8	13.93	18.4	0.94	FSW
85	93	205		FTQGX	Fidelity Focused Stock (.75%r<30d)	LC	*	S	S	-6.0	-5.7	9.4	8.44	17.2	1.00	Fw
86	111	46		VCVLX	Vanguard Capital Value	LCVal	S	S	S	-5.0	-7.9	13.4	9.85	-	-	fsw
87	113	145		LLPFX	Longleaf Partners	MCVal	S	S	S	-5.8	-6.3	10.3	28.63	18.0	0.77	fw
88	67	7		WMCVX	Wasatch Small Cap Value (closed,2%r<60d)	SCVal	S	S	S	-6.0	-9.3	18.1	5.17	26.6	0.96	FSW
89	146	182		OAKLX	Oakmark Select (closed) (2%r<90d)	MCVal	S	S	S	-3.3	-7.4	9.1	29.66	16.8	0.77	FSW
90	142	167		SNXFX	Schwab 1000 Fund (.75%r<180d)	LC	S	S	S	-4.5	-6.7	9.4	30.47	17.1	0.98	S
91	41	25		TUDRX	WPG Tudor	SC	S	S	S	-7.0	-8.1	16.4	16.00	27.0	1.22	FsW
92	124	127		PRGX	T. Rowe Price Growth & Income	LC	S	S	S	-4.2	-7.3	10.1	20.77	17.9	1.00	fsw
94	77	87		VIMSX	Vanguard Mid-Cap Index	MC	(\$)	(\$)	(\$)	-5.8	-7.7	13.4	12.64	20.1	0.97	fsw
95	38	114		BARAX	Baron Asset	MCGro	(\$)	(\$)	(\$)	-7.3	-6.1	11.7	43.64	21.2	0.94	FSW
<b>128</b>	<b>49</b>	<b>22</b>		<b>FSLCX</b>	<b>Fidelity Small Cap Stock (2%r&lt;90d)</b>	<b>MCGro</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>-7.7</b>	<b>-9.8</b>	<b>16.8</b>	<b>15.53</b>	<b>21.5</b>	<b>0.94</b>	<b>F</b>
135	57	17		BPSCX	Boston Ptnrs Smlcap Val (closed,1%r<1yr)	SCVal	(\$)	(\$)	(\$)	-7.7	-9.6	14.2	21.72	25.8	0.87	FSW
155	59	21		CRMSX	CRM Small Cap Value Inv (closed)	SCVal	(\$)	(\$)	(\$)	-8.4	-10.2	12.5	23.28	23.8	0.93	FSW
162	60	11		WBSNX	WmBlair S-C Growth N (closed,1%r<60d)	SCGro	(\$)	(\$)	(\$)	-11.1	-10.8	14.8	20.72	30.1	1.12	FSW
203	167	129		FDEGX	Fidelity Aggressive Growth (1.5%r<90d)	MCGro	*	(\$)	(\$)	-9.4	-12.2	5.2	13.73	31.1	1.74	Fsw
205	32	6		HENLX	Henlopen Fund (1%r<30d)	SCGro	*	(\$)	(\$)	-9.9	-15.0	12.4	23.80	30.9	1.19	FSW

Dow Jones  
NASDAQ  
S&P 500

-4.1% -7.6% 6.0%  
-9.0 -14.4 4.2  
-4.5 -7.1 8.2

indexes do not  
include dividends

International Stock Funds

1	1	32		<b>MJFOX</b>	<b>Matthews Japan Fund (2%r&lt;90d)</b>	<b>Japan</b>	<b>*</b>	<b>H</b>	<b>H</b>	<b>-9.5%</b>	<b>7.6%</b>	<b>43.0%</b>	<b>\$14.23</b>	<b>15.2</b>	<b>-</b>	<b>FSW</b>
2	8	4		OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	H	H	H	-1.0	0.8	39.5	17.56	20.4	-	FSW
3	2	57		PRJPX	T. Rowe Price Japan	Japan	*	H	H	-9.3	6.1	33.6	7.64	14.4	-	s
4	-	-		NBISX	Neuberger Berman International	Int'l	H	H	H	-2.7	0.1	33.3	15.14	16.3	-	fSw
5	6	15		DODFX	Dodge&Cox Intl. Stock	Int'l	H	H	H	-3.1	0.2	33.2	24.95	-	-	fsw
6	5	8		ARTKX	Artisan Intl Value (2%r<90d)	Int'l	H	H	H	-3.5	-0.1	33.4	17.63	-	-	FSW
7	9	9		VINEX	Vanguard Intl Explorer (\$25,000,2%r<60d)	Int'l	H	H	H	-3.1	-1.7	32.5	13.71	16.3	-	fsw
8	31	48		MACSX	Matthews Asia G & I (closed,2%r<90d)	Pacific	H	H	H	0.6	-1.6	25.6	14.30	11.4	-	FSW
9	11	46		TBGVX	Tweedy, Browne Global Value (2%r<60d)	Global	H	H	H	-2.4	0.3	24.3	21.13	11.9	-	fsw
10	13	2		FLATX	Fidelity Latin Amer. (1.5%r<90d)	LatinA	*	H	H	-0.3	-6.1	33.2	15.35	29.8	-	Fs
11	3	1		FISMX	Fidelity Intl Small Cap (2%r<90d)	Int'l	H	H	H	-7.0	-3.7	34.0	19.28	-	-	Fw
12	20	5		PRLAX	T.Rowe Price Latin America (2%r<1yr)	LatinA	*	H	H	0.1	-7.4	29.1	11.69	29.7	-	fsw
13	7	7		PRIDX	T.Rowe Price Intl Disc. (2%r<1yr)	Int'l	H	H	H	-6.1	-4.3	30.1	27.06	16.0	-	fsw
14	14	58		VPACX	Vanguard Pacific Stock Index (2%r<60d)	Pacific	*	H	H	-6.8	-1.9	24.4	8.11	13.7	-	fsw
15	17	53		LLINX	Longleaf Partners International	Int'l	H	H	H	-3.9	-0.5	15.8	14.33	19.4	-	fw
16	16	55		SJPNX	Japan Fund (Scudder) (2%r<180d)	Japan	*	H	H	-10.9	-1.3	27.0	9.18	14.8	-	FSW
17	19	39		PFIFX	Preferred International	Int'l	H	H	H	-3.7	-4.1	22.9	14.37	17.4	-	w
<b>18</b>	<b>4</b>	<b>3</b>		<b>AIOIX</b>	<b>Amer.Cent.Intl Opportunity (2%r&lt;180d)</b>	<b>Int'l</b>	<b>H</b>	<b>H</b>	<b>H</b>	<b>-7.6</b>	<b>-5.3</b>	<b>31.3</b>	<b>8.16</b>	<b>-</b>	<b>-</b>	<b>S</b>
19	15	67		FJPNX	Fidelity Japan (1.5%r<90d)	Japan	*	H	H	-10.7	0.6	17.7	11.28	17.3	-	Fsw
20	30	29		VTRIX	Vanguard International Value (2%r<60d)	Int'l	H	H	H	-3.4	-6.0	21.0	26.15	16.8	-	fsw
21	18	38		BJBIX	Julius Baer Intl Equity A (2%r<90d)	Int'l	H	H	H	-3.6	-6.3	21.9	26.36	12.5	-	FS
22	35	17		DRFMX	Dreyfus Emerging Market (1%r)	Int'l	*	H	H	-2.1	-7.9	23.3	16.62	21.6	-	FSW
23	10	-		WAIGX	Wasatch International Growth	Int'l	H	H	H	-6.7	-5.6	24.5	13.89	-	-	FSW
24	22	35		OAKIX	Oakmark International (2%r<90d)	Int'l	H	H	H	-3.9	-5.4	19.8	18.05	22.0	-	FSW
25	41	14		SLAFX	Scudder Latin America	LatinA	*	H	H	0.0	-8.9	22.7	23.73	27.3	-	FSW
26	28	44		SWINX	Schwab International Index (1.5%r<180d)	Int'l	H	H	H	-4.1	-5.2	18.3	13.67	14.1	-	S
27	29	31		HAINX	Harbor International (2%r<60d)	Int'l	H	H	H	-3.9	-6.0	19.9	36.24	17.9	-	Fsw
28	25	25		VEURX	Vanguard European Stock Index (2%r<60d)	Europe	H	H	H	-3.8	-6.3	20.6	21.73	17.4	-	fsw
29	12	12		ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	H	H	H	-5.3	-7.3	24.2	15.47	-	-	SW
30	21	28		FDIVX	Fidelity Diversified Intl (1%r<30d)	Int'l	S	S	S	-4.8	-6.2	20.5	23.87	13.8	-	Fsw
31	26	56		USAWX	USAA World Growth	Int'l	S	S	S	-4.8	-4.5	15.3	15.41	15.6	-	w
32	24	41		USIFX	USAA International	Int'l	S	S	S	-4.9	-5.5	17.6	19.55	15.0	-	w
33	27	42		GIGRX	Gabelli Intl Growth (2%r<60d)	Int'l	S	S	S	-4.3	-6.9	20.1	15.67	13.1	-	FSW
34	34	43		VWIGX	Vanguard International Growth (2%r<60d)	Int'l	S	S	S	-4.2	-6.5	17.8	15.97	15.5	-	fsw
35	23	10		FIEUX	Fidelity Europe (1%r<30d)	Europe	S	S	S	-4.9	-7.9	21.3	26.20	22.5	-	Fsw

**Bond Funds** (next issue on page 6: Specialty Funds)  
 8/13/2004

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	*	*	-0.1%	0.4%	2.9%	\$9.91	-	3.08%	Fw
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	*	*	*	-0.5	0.7	9.6	11.13	5.83	3.87	FSW
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	-0.9	-2.7	9.9	7.82	14.27	8.16	Fsw
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	-0.8	-1.9	10.4	8.73	9.54	8.06	Fsw
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	0.4	0.0	7.9	9.59	5.67	7.10	FSW
NTHSX	Northeast Investors Trust	HighYld	*	*	*	-0.1	3.2	16.7	7.57	7.71	8.17	fw
PHYDX	PIMCO High Yield	HighYld	*	*	*	0.4	-1.1	10.4	9.55	9.02	6.82	SW
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	0.3	0.2	9.9	7.66	10.30	7.11	FSW
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.1	0.3	3.3	8.64	3.85	4.85	FSW
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	-0.1	-1.3	7.6	6.91	7.23	8.09	sw
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	0.7	1.5	14.5	7.14	8.88	7.95	SW
VAGIX	Value Line Aggressive Inc (1%r<120d)	HighYld	*	*	*	-0.4	-0.2	8.4	4.98	8.60	6.69	FSW
<b>VWEHX</b>	<b>Vanguard High Yield Corporate (1%r&lt;1yr)</b>	<b>HighYld</b>	<b>*</b>	<b>B</b>	<b>*</b>	<b>1.0</b>	<b>1.9</b>	<b>12.8</b>	<b>6.27</b>	<b>6.82</b>	<b>7.49</b>	<b>sw</b>
BEGBX	American Century Intl Bond	Int'l	*	*	*	1.3	-1.7	12.8	13.76	10.85	6.17	fsw
FNMIK	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	2.7	-1.6	10.1	13.52	12.78	5.88	Fsw
PYGFY	Payden Global Fixed Income	Int'l	*	*	*	1.3	0.3	3.0	9.95	4.06	4.53	fsw
SSTGX	Scudder Global Bond S-T (closed)	Int'l	*	*	*	1.1	-1.7	5.5	10.13	5.77	4.59	FSW
RPBIX	T. Rowe Price Int'l Bond	Int'l	*	*	*	0.6	-3.3	9.4	10.03	9.85	2.47	fsw
<b>ACITX</b>	<b>American Century Inflation Adj</b>	<b>IntTerm</b>	<b>B</b>	<b>*</b>	<b>*</b>	<b>2.8</b>	<b>2.9</b>	<b>11.3</b>	<b>11.19</b>	<b>7.80</b>	<b>4.31</b>	<b>FSW</b>
BBHIX	BBH Inflation Indexed Sec	IntTerm	B	*	*	2.9	3.6	11.5	11.24	8.02	3.52	FSW
SRINX	Columbia Income CIZ	IntTerm	H	*	*	1.3	-0.8	5.3	9.98	5.11	6.01	FSW
SRBFX	Columbia Intermediate Bond CIZ	IntTerm	H	*	*	1.3	-0.9	4.0	9.07	4.24	5.01	FSW
<b>DODIX</b>	<b>Dodge &amp; Cox Income</b>	<b>IntTerm</b>	<b>H</b>	<b>*</b>	<b>*</b>	<b>1.1</b>	<b>0.3</b>	<b>5.7</b>	<b>12.81</b>	<b>3.66</b>	<b>4.49</b>	<b>fsw</b>
DRBDX	Dreyfus A Bonds Plus	IntTerm	H	*	*	1.3	-1.2	2.7	13.70	5.34	3.86	FSW
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	1.2	0.3	5.4	14.74	3.36	4.50	FSW
FTRGX	Federated Total Return Govt	IntTerm	H	*	*	1.1	-0.6	3.2	10.95	6.10	4.25	sw
FGMNK	Fidelity GNMA	IntTerm	*	*	*	0.9	-0.1	2.7	11.09	2.62	3.53	Fsw
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	2.8	2.6	10.6	11.37	-	1.42	Fw
<b>FSTGX</b>	<b>Fidelity Intermediate Govt</b>	<b>IntTerm</b>	<b>H</b>	<b>*</b>	<b>*</b>	<b>1.2</b>	<b>0.4</b>	<b>4.0</b>	<b>10.28</b>	<b>4.47</b>	<b>2.73</b>	<b>Fsw</b>
<b>FBNDX</b>	<b>Fidelity Investment Grade</b>	<b>IntTerm</b>	<b>H</b>	<b>*</b>	<b>*</b>	<b>1.6</b>	<b>1.0</b>	<b>6.6</b>	<b>7.53</b>	<b>4.60</b>	<b>3.26</b>	<b>Fsw</b>
FBDFX	Fremont Bond	IntTerm	H	*	*	1.5	0.6	6.2	10.64	4.92	2.84	fsw
MWTRX	MetroWest Total Return	IntTerm	*	*	*	0.6	-1.8	5.7	9.73	5.94	6.13	SW
PRRDY	PIMCO Real Return	IntTerm	H	*	*	2.3	1.5	9.3	11.60	8.11	3.17	SW
PTTDY	PIMCO Total Return	IntTerm	H	*	*	1.4	0.3	4.9	10.87	4.83	2.29	SW
PTMDX	PIMCO Total Return Mortgage	IntTerm	H	*	*	1.2	0.6	4.1	10.86	3.27	2.56	SW
SCSBX	Scudder Income (closed)	IntTerm	H	*	*	1.5	1.0	6.8	12.91	4.53	3.92	FSW
STVSX	Strong Govt Securities	IntTerm	H	*	*	1.1	-0.8	2.8	10.86	5.04	3.22	FSW
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	0.8	-0.4	2.1	9.68	3.17	4.24	fsw
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	1.1	-0.5	3.5	9.04	4.49	3.59	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	H	*	*	1.3	1.1	4.9	9.86	3.30	5.33	SW
USAIK	USAA Income	IntTerm	H	*	*	1.4	0.7	6.5	12.37	5.08	4.49	w
VALBX	Value Line U.S. Govt Sec	IntTerm	H	*	*	1.2	0.1	3.8	11.81	4.79	3.53	FSW
<b>VFIIX</b>	<b>Vanguard GNMA</b>	<b>IntTerm</b>	<b>B</b>	<b>*</b>	<b>*</b>	<b>1.4</b>	<b>0.8</b>	<b>3.5</b>	<b>10.43</b>	<b>3.62</b>	<b>4.70</b>	<b>fsw</b>
<b>VIPSX</b>	<b>Vanguard Inflation Protected Sec</b>	<b>IntTerm</b>	<b>B</b>	<b>*</b>	<b>*</b>	<b>2.7</b>	<b>3.2</b>	<b>11.8</b>	<b>12.59</b>	<b>7.87</b>	<b>3.55</b>	<b>sw</b>
<b>VBMFX</b>	<b>Vanguard Total Bond Market Index</b>	<b>IntTerm</b>	<b>H</b>	<b>*</b>	<b>*</b>	<b>1.6</b>	<b>1.0</b>	<b>6.3</b>	<b>10.27</b>	<b>4.50</b>	<b>4.29</b>	<b>fsw</b>
MNTRX	WellsFargo Montgomery Total Ret (closed)	IntTerm	H	*	*	1.2	0.3	4.6	12.35	4.73	3.28	fsw
WTBIX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	1.2	1.6	10.0	10.81	4.32	5.70	FSW
WPGVX	WPG Core Bond	IntTerm	H	*	*	1.6	0.4	5.0	10.73	4.75	2.69	Fsw
DRGBX	Dreyfus 100 Treasury L-T	LngTerm	*	*	*	2.3	-0.6	0.5	15.72	8.82	4.29	F W
FGOVX	Fidelity Government Income	LngTerm	*	*	*	1.3	-0.3	3.8	10.26	5.82	2.92	Fsw
KIFIX	FifthThird Bond	LngTerm	*	*	*	1.5	0.3	5.5	10.14	5.17	3.35	w
MGFIX	Managers Bond	LngTerm	*	*	*	1.5	-0.2	8.9	24.34	7.02	4.58	FSW
STCBX	Strong Corporate Bond	LngTerm	*	*	*	1.5	-1.6	5.5	10.48	6.93	4.93	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	1.3	-1.2	6.5	9.67	6.11	5.39	fsw
PRULX	T. Rowe Price U.S. Treas. L-T	LngTerm	*	*	*	2.2	-0.5	5.4	11.79	10.01	4.45	fsw
VUSTX	Vanguard L-T Treasury	LngTerm	*	*	*	2.7	-0.7	5.6	11.43	11.55	5.06	fsw
VWESX	Vanguard Long-Term Corporate	LngTerm	*	*	*	3.0	-0.7	7.2	9.30	10.59	5.79	fsw
<b>FSICX</b>	<b>Fidelity Strategic Income</b>	<b>Multi</b>	<b>B</b>	<b>B</b>	<b>*</b>	<b>1.0</b>	<b>0.0</b>	<b>10.7</b>	<b>10.31</b>	<b>5.76</b>	<b>5.65</b>	<b>Fw</b>
<b>LSBRX</b>	<b>Loomis Sayles Bond Retail</b>	<b>Multi</b>	<b>B</b>	<b>B</b>	<b>*</b>	<b>1.4</b>	<b>-0.6</b>	<b>15.1</b>	<b>13.16</b>	<b>8.73</b>	<b>5.72</b>	<b>FW</b>
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	0.1	-1.5	6.8	11.66	4.59	4.23	fsw
JASBX	Janus S-T Bond	ShTerm	B	*	*	0.3	0.1	1.8	2.94	1.59	2.60	FSW
MGIDX	Managers Int. Duration Govt	ShTerm	B	*	*	1.3	1.2	5.4	10.72	3.07	1.97	FSW
MGSDX	Managers Short Duration Govt	ShTerm	B	*	*	0.4	0.5	1.9	9.66	1.00	2.46	FSW
PTLCX	PIMCO Low Duration	ShTerm	B	*	*	0.5	-0.1	1.2	10.27	2.30	1.32	f w
SCSTX	Scudder Short-Term Bond (closed)	ShTerm	B	*	*	0.5	0.4	2.3	10.39	1.83	4.12	FSW
MNSGX	WellsFargo Montgomery S Dur Govt (closed)	ShTerm	B	*	*	0.4	0.0	1.5	10.20	2.20	2.21	fsw
BTINX	American Century Target 2010	ZeroCpn	*	*	*	2.0	0.5	6.9	85.97	10.26	4.44	FSW
BTFIX	American Century Target 2015	ZeroCpn	*	*	*	3.6	2.2	13.9	70.59	15.32	5.16	fsw
BITTX	American Century Target 2020	ZeroCpn	*	*	*	4.4	2.4	18.3	50.77	19.09	4.79	fsw
BITRX	American Century Target 2025	ZeroCpn	*	*	*	5.4	2.8	22.0	42.18	21.83	4.90	fsw

## Orange Ripe for Picking

**Q** I have a question about ING Direct. I'm wondering why you do not recommend the ING Orange Savings Account for cash investments. It is currently yielding 2.2%, and I know it is FDIC insured. This looks like a great place to store your cash. Is there anything unsafe about it?

— P.K., Franklin, MA

**A** The Orange Account is an attractive alternative for investors who maintain a significant and ongoing cash balance in their portfolio. This product is offered by ING Direct, an online bank that also offers home loan and investment products. It currently sports a very competitive yield and does offer FDIC insurance protection (up to \$100,000 coverage for individual accounts, and another \$100,000 for joint accounts).

The yield on the Orange Account, currently 2.2%, is at the top of the range for cash alternatives.

Account	Yield
Bank of America:	
Savings	0.25%
Money Market Savings	0.25% - 1.00%
CD, 1 Year	1.55% - 2.00%
<b>ING Direct Orange Account</b>	<b>2.20%</b>
Middlesex Bank (metro Boston):	
Savings	0.80%
Money Fund Account	0.80% - 0.90%
CD, 1 Year	2.20%
Top Yielding Money Market Fund	1.38%

(source iMoneynet.com)

Of course, when evaluating cash alternatives, liquidity is a key factor. For example, at a traditional bank you can usually improve upon your savings account rate by using CDs, but the drawbacks of locking your money in for one or more years are obvious. The Money Market Fund is at the other end of the spectrum, with most offering checking privileges. The Orange Account is set up by a link to an existing personal checking account at another institution. According to ING Direct, funds generally move between an Orange Account and the linked checking account within 3 days. Transactions can be completed online at [ingdirect.com](http://ingdirect.com), by using their Interactive Phone System, or by calling 1-800-ING-DIRECT.

Regarding your safety concerns, ING Direct (the operating name for ING Bank, fsb) is backed by ING, a worldwide banking, insurance and asset management institution. ING has more than 112,000 employees in 65 countries and been operating in the U.S. for more than 100 years. More importantly, FDIC insurance protects your Orange Account deposits within the limits mentioned above.

Why doesn't *MONEYLETTER* recommend accounts like the Orange Account for our subscribers' cash balances? For two fundamental reasons:

1) We're a mutual fund letter...that's where our expertise lies. For 25 years *MONEYLETTER* has developed and perfected strategies using funds. Tracking and analyzing the

### 100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	0.97%	0.94%	0.70%
Fidelity Spartan US Treas MMF	0.88	0.83	0.63
Gabelli US Treasury MMF	0.84	0.82	0.71
Amer Century Capital Presv Fund/Inv	0.78	0.74	0.56
T Rowe Price US Treasury MF	0.66	0.63	0.51
US Treasury MF of America/CI A	0.64	0.50	0.33
CMA Treasury Fund RIC	0.62	0.56	0.37
HSBC Investor US Treas MMF/CI D	0.61	0.57	0.40
RMK Select Treas MMF/CI A	0.60	0.57	0.34
Schwab US Treasury Money Fund	0.60	0.55	0.37

### GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	1.39%	1.34%	1.05%
Scudder Premium Money Mkt Shrs/AARP	1.24	1.19	0.85
Scudder Premium Money Mkt Shrs/CI S	1.16	1.13	0.84
Scudder Prime Reserve MM/AARP	1.14	1.09	0.71
TIAA-CREF Money Market Fund	1.13	1.10	0.84
Vanguard Prime MMF/Retail	1.12	1.08	0.79
GE Money Market Fund	1.10	1.07	0.83
AIG Money Market Fund/CI B	1.08	1.06	0.82
E*TRADE MMF/Premier	1.06	0.99	0.00
Flex-fund Money Market Fund	1.05	1.00	0.84

### TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Vanguard Tax-Exempt MMF	1.04%	1.02%	0.88%
Strong Tax-Free Money Fund	0.90	0.89	0.88
Amer Century T-F MMF/Inv Class	0.74	0.73	0.66
USAA Tax Exempt MMF	0.74	0.70	0.67
Strong Municipal MMF	0.73	0.71	0.73
Dreyfus BASIC Muni MMF	0.72	0.70	0.65
Fidelity Municipal MMF	0.72	0.70	0.64
Tax-Exempt Cash Managed Shares	0.71	0.69	0.58
Scudder Tax-Exempt Money Fund	0.68	0.67	0.64
T Rowe Price Summit Muni MMF	0.68	0.65	0.63

### TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard CA Tax-Exempt MMF	1.02%	0.98%	0.85%
Vanguard OH Tax-Exempt MMF	1.02	0.96	0.88
Vanguard NY Tax-Exempt MMF	0.99	0.95	0.84
Vanguard NJ Tax-Exempt MMF	0.98	0.94	0.83
Vanguard PA Tax-Exempt MMF	0.97	0.95	0.85
Fidelity PA Municipal MMF	0.67	0.64	0.60
Fidelity FL Municipal MMF	0.66	0.64	0.58
Amer Century CA T-F MMF/Inv Class	0.65	0.61	0.55
Fidelity OH Municipal MMF	0.65	0.61	0.56
USAA Tax Exempt CA MMF	0.64	0.62	0.59

**Taxable equivalent yield = yield / (1—total effective tax bracket).** Funds are ranked by 7-day yields; 7-day and 30-day yields are compound yields as of 8/10/04. Third column refers to 1-year total return. Criteria for inclusion include: top-yielding unrestricted retail funds only, with minimum initial investment <\$25,000 and assets >\$100 million.

Source: Money Fund Report (800) 343-5413

tens of thousands of bank products would be daunting and would certainly dilute our efforts.

2) Opportunity cost...particularly for Moderate and Venturesome investors we generally consider money fund holdings as money that is "parked" waiting for a new opportunity. When that opportunity presents itself, we want the convenience and flexibility of next-day telephone switching at a fund family or discount broker. As we mentioned earlier, for investors with a sizable, ongoing cash position, the thought process may be a little different. \$

## Four Funds Bucking the Market's Trend

It's been a tough period recently for stocks, and the funds that invest in them. However, while a large majority of equity funds are suffering along with the market, a number are bucking the trend, even gaining ground over the past month or so. We spoke to four funds that fall into this group, to see what accounts for their relatively good performance. These four funds have gained between 1.3% and 1.7% for the year-to-date through August 13, while the major market indices are in the red. As might be expected, all fall into the value camp in investing strategy.

### American Century Equity Income (TWEIX)

Phil Davidson notes that the fund's "value yield" strategy, which has been in place for ten years since the inception of the fund, "is a time-tested way to outperform." Davidson and co-manager Scott Moore look for stocks in the cheapest half of the market, and place a great deal of emphasis on high dividend yield. In fact, they aim to create a portfolio with a yield that is two percentage points higher than the S&P 500, with an emphasis on convertible securities and common stock dividends. "Recently," explains Davidson, "higher yielding, lower P/E stocks have outperformed on a relative basis." Davidson also attributes recent performance to the managers' "quality bias, which has benefited the fund over the last month as well as the long term." Finally, industry and sector allocations have been a plus as well. "We were underweight in technology, which underperformed recently, and overweight in utilities, which outperformed. We were underweight in brokerage stocks, which underperformed. Meanwhile, selected regional bank stocks, such as SunTrust Banks and Commerce Bancshares, were actually up during the period." (800) 345-2021

### T. Rowe Price Capital Appreciation (PRWCX)

Manager Steve Boesel is able to be flexible with the portfolio's asset allocation—recently he has eschewed bonds, believing that higher interest rates will ultimately hurt the category. And traditionally, the fund has had a significant portion of assets in convertible securities; as of June 30, convertibles comprised 16% of the portfolio. Boesel expects convertibles to achieve a higher return than bonds with less volatility than equities over the longer term. Boesel explained to *MONEYLETTER* that the primary reason the fund has outperformed is because of stock selection. While the fund has 65% in stocks, that portion of the portfolio is up 3% in price to date this year, while the S&P 500 is down about 3.5%. In addition, the fund has a 20% cash stake, which has helped stabilize performance in a declining stock market environment. Boesel previously stated that as investment opportunities arise, the

priorities for investing this unusually high cash position will be higher-quality convertible securities first, then higher-yielding bonds, and finally, common stocks. (800) 638-5660

### RS Contrarian Value (RSCOX)

RS Contrarian Value is run by Andy Pilara, along with co-managers David Kelley and Joe Wolf. When queried about the fund's relatively good recent performance, Wolf attributed it to the fund's investment philosophy. "Our philosophy is to protect the downside," he says. "We aim to lose less, not make more. We seek to optimize returns, not maximize them. We spend an intense amount of time focused on margin of safety." The fund invests in undervalued stocks with market capitalizations between \$1.0 billion and 120% of the largest company in the Russell Midcap Index. The managers calculate the intrinsic value of a company and compare that to the current value. The difference between the two is defined as the margin of safety. "We require at least at least a 50% upside [current value to intrinsic value] for positions we hold," he says. This process limits the fund's downside risk. He sums up the fund's typical performance this way: "When the market is down, the fund is down a fraction of the market. When the stock market does well, it is easy to do well as a fund." (800) 766-3863

### Weitz Value (WVALX)

Fund manager Wally Weitz looks for companies selling at a substantial discount to the price he believes a rational buyer would pay, and he has a strong selling discipline. Quoc Tran, one of five research analysts on the fund, states, "The fund's large cash position has helped in a down market." But, he adds, "Stock picking and our discipline of selling" are a main factor. Tran explains, "We hold a concentrated portfolio of 50 to 60 companies. We feel we have a good understanding of these companies and their industries. We tend to prefer service firms over manufacturers. We calculate private value, focusing on free cash, and try to buy at a substantial discount. That discount gives us a margin of safety. After we buy, as a stock approaches its price target, we revisit the firms. We'll trim the stock if there is no change, or we will revise the price target if there is new information. We are not afraid to hold cash if there is nothing to buy with the proceeds. In fact, the fund had 30% of assets in cash going into the second quarter." Tran also points to a number of recent winners in the portfolio. Caesars Entertainment, for example, was a strong performer, as Harrah's will acquire it. Another winner is Countryside Financial, which will do well even as interest rates rise, owing to its huge servicing portfolio. Tran concludes, "We are contrarian investors. We usually buy when others are selling, and vice versa. In fact, last month, we switched from being net sellers to net buyers." (800) 232-4161 \$

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