



The Rally From Nowhere

by Walter S. Frank, Chief Investment Officer

Very quietly, and without any fanfare, the stock market—in the form of the S&P 500 and the Russell 2000—has staged an impressive comeback. After the summer slide, which particularly savaged the Nasdaq (read tech stocks), both the S&P 500 and the Russell 2000 are flirting with their 52-week highs. (The small-cap S&P 600 has already surpassed the old 52-week high).

All of this would suggest that the economy is giving off all the right signals after forecasting stormy weather ahead. Clearly, the economic news is brighter now than it was during the summer. We recently raised our growth outlook for the quarter just passed, as has almost everybody else, mainly, but not only, on the strength of consumer spending the past few months.

Behind the curtain

But as we look at the details closely, what we see is a sort of misleading glow on the face of the economy. The economy is not as healthy as it appears. Take consumer spending. Driving the upbeat reports was auto sales. Sales boomed in July and September because incentives were stretched and are now stretched further than ever. Auto inventories are bloated and the companies are determined to reduce them. After they are reduced, though, what then?

We are also hearing a good deal about strong business investment spending (see the October 11th issue of *Business Week*). There is certainly every reason to be positive about such spending. But before breaking out the champagne, we need to look at the indicators of future spending and they do not indicate a boom ahead. New factory orders in August for non-defense investment goods (excluding aircraft) fell a bit, and are up only slightly over the last three months.

A matter of profits

As we move into the final quarter of the year, the profit outlook still looks good, although the days of 20% profit growth are over. Having gone through the soft patch (are we out?), we have been watching the earnings estimates to see whether they have been materially reduced. Overall, the answer is no.

For the short-run (the rest of this year) this is reassuring. But as we look into next year's estimates, the numbers are considerably smaller than anything we have seen over the past two years.

This gets us back to the quietly rallying market. What do investors see? We're back to the old standbys: valuation and interest rates. According to Thomson Financial's First Call the S&P 500 is now selling at 16.6 times expected earnings for the twelve months ahead. At this level the market is cheap compared to the 10-year Treasury yield.

Of course, with the Fed likely raising rates throughout next year, this raises the question about where bond yields are headed. Certainly higher. How much higher? Our best guess now is no higher than the vicinity of 5%. If we are right, there is still room for market gains of 10-15% over the months ahead, before full valuation. But there is not much room for bad luck (oil, inflation).

While we grow, faster growth again will be coming from Asia, assuming China avoids a hard landing. This is good news for international markets. In particular, the Asian and emerging markets should reflect China's growth. With growth here and in Asia, we remain cautiously optimistic about equities.

Fund changes

The Hotline of Tuesday, September 21 recommended a new international allocation of 10% for all Venturesome and Moderate portfolios. Here are the details, as of Wednesday, September 22, of the changes made to the model portfolios. **MONEYLETTER Venturesome**—Sold 10,284 shares of Schwab Money Market Fund. Purchased 389 shares of Dodge & Cox International @ \$26.41 per share. **MONEYLETTER Moderate**—Sold 11,511 shares of Schwab Money Fund. Purchased 436 shares of Dodge & Cox International. **Fidelity Venturesome**—Sold 4,205 shares of Fidelity Cash Reserves. Purchased 455 shares of Fidelity International Small Cap @ \$20.24 per share. **Fidelity Moderate**—Sold 11,020 shares of Cash Reserves. Purchased 545 shares of International Small Cap. **Vanguard Venturesome**—Sold 10,151 shares of Vanguard Prime Portfolio Money Fund. Purchased 368 shares of Vanguard International Value @ \$27.62 per share. **Vanguard Moderate**—Sold 9,790 shares of Prime Portfolio. Purchased 354 shares of International Value.

The Hotline of Tuesday, October 5 recommended the sale of Fidelity Equity-Income in the Fidelity Venturesome and Moderate model portfolios. Purchase Fidelity Focused Stock Fund with the proceeds.

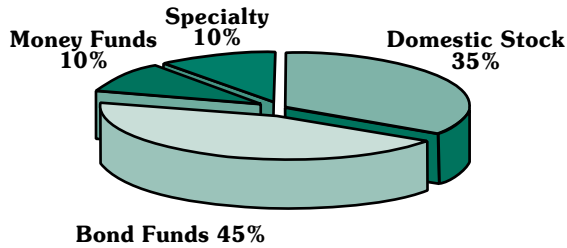
There was an error in the details reported for the switch into Fidelity Inflation Protected Bond from Fidelity Intermediate Government Income Fund in the Fidelity Conservative model portfolio. Here are the correct numbers as of September 15: Sold 1154 shares of Intermediate Government @ \$10.30 per share. Purchased 1052 shares of Inflation Protected Bond @ \$11.30 per share. \$

Market Trends

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

CONSERVATIVE

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

**MONEYLETTER Conservative**

Fund Name	Buy Date	Return Since Buy	Shares	Share Price	Current Value
Schwab Money Market	Yield YTD	0.4%	10,108	\$1.00	\$10,108
Gateway Fund	11/27/02	12.8	601	23.72	14,265
Loomis Sayles Bond	03/17/04	3.2	1,141	13.44	15,338
RS Contrarian Value	08/04/04	7.0	1,228	18.76	23,032
Artisan Mid Cap Value	08/04/04	4.6	601	15.55	9,349
AmerCent Inflation Adj.	02/12/03	10.9	1,612	11.19	18,041
Strong Mid Cap Disciplined	05/19/04	6.2	1,059	21.35	22,601
Dodge & Cox Income	02/19/03	8.0	1,003	12.80	12,834
TOTAL VALUE					\$125,568

TOTAL RETURNS (as of 09/30/04)

1-mo	6-mo	1-yr	3-yr	YTD
2.0%	0.8%	12.8%	37.7%	4.3%

Fidelity Conservative

Fund Name	Buy Date	Return Since Buy	Shares	Share Price	Current Value
Fidelity Cash Reserves	Yield YTD	0.6%	8,695	\$1.00	\$8,695
Fidelity Balanced	11/27/02	27.3	795	16.56	13,162
Fidelity Strategic Income	03/17/04	2.5	1,704	10.50	17,887
Fidelity Value	04/21/04	3.6	333	67.54	22,522
Fidelity Export & Multi	09/08/04	1.5	787	18.78	14,775
Fidelity Inflation-Protected	09/15/04	0.9	1,053	11.39	11,997
Fidelity Investment Grade	02/19/03	7.5	1,725	7.57	13,055
TOTAL VALUE					\$102,093

TOTAL RETURNS (as of 09/30/04)

1-mo	6-mo	1-yr	3-yr	YTD
2.0%	0.9%	10.1%	21.5%	3.9%

Vanguard Conservative

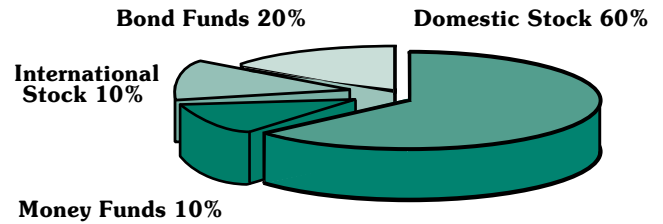
Fund Name	Buy Date	Return Since Buy	Shares	Share Price	Current Value
Vanguard Prime Port MM	Yield YTD	0.7%	8,469	\$1.00	\$8,469
Vanguard Balanced Index	11/27/02	19.8	576	18.42	10,613
Vanguard Total Bond Index	02/19/03	6.9	730	10.29	7,510
Vanguard Inflation Protect	02/19/03	11.5	1,087	12.48	13,567
Vanguard US Value	05/19/04	6.7	1,232	12.82	15,798
Vanguard Value Index	05/19/04	7.0	630	19.58	12,334
Vanguard Small Cap Value	03/24/04	7.0	1,359	12.56	17,066
Vanguard GNMA	03/17/04	1.3	1,681	10.43	17,535
TOTAL VALUE					\$102,892

TOTAL RETURNS (as of 09/30/04)

1-mo	6-mo	1-yr	3-yr	YTD
1.1%	0.6%	12.0%	20.3%	4.4%

MODERATE

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

**MONEYLETTER Moderate**

Fund Name	Buy Date	Return Since Buy	Shares	Share Price	Current Value
Schwab Money Market	Yield YTD	0.3%	11,519	\$1.00	\$11,519
Dodge & Cox International	09/22/04	1.4	436	26.78	11,673
Baron Partners	06/09/04	1.8	841	14.53	12,217
Loomis Sayles Bond	03/17/04	3.2	1,597	13.44	21,462
Artisan Mid Cap Value	08/11/04	7.0	669	15.55	10,399
RS Contrarian Value	08/04/04	7.0	1,004	18.76	18,828
Fidelity Leveraged Company	01/28/04	2.1	1,201	19.73	23,704
Strong Mid Cap Disciplined	05/19/04	6.2	568	21.35	12,127
TOTAL VALUE					\$121,929

TOTAL RETURNS (as of 09/30/04)

1-mo	6-mo	1-yr	3-yr	YTD
4.0%	-2.5%	18.0%	62.1%	3.6%

Fidelity Moderate

Fund Name	Buy Date	Return Since Buy	Shares	Share Price	Current Value
Fidelity Cash Reserves	Yield YTD	0.3%	11,030	\$1.00	\$11,030
Fidelity Int'l Small Cap	09/22/04	1.7	544	20.58	11,205
Fidelity Leveraged Company	12/10/03	16.9	791	19.73	15,599
Fidelity Strategic Income	03/17/04	2.5	2,485	10.50	26,090
Fidelity Export & Multi	09/01/04	1.5	923	18.78	17,327
Fidelity Value	04/21/04	3.6	328	67.54	22,166
Fidelity Equity-Income	05/19/04	4.0	208	49.82	10,371
TOTAL VALUE					\$113,788

TOTAL RETURNS (as of 09/30/04)

1-mo	6-mo	1-yr	3-yr	YTD
2.8%	-1.8%	14.3%	39.3%	2.9%

Vanguard Moderate

Fund Name	Buy Date	Return Since Buy	Shares	Share Price	Current Value
Vanguard Prime Port MM	Yield YTD	0.3%	9,800	\$1.00	\$9,800
Vanguard Int'l Value	09/22/04	0.5	354	27.76	9,839
Vanguard FI Hi-Yld Corp	01/17/01	25.1	3,449	6.36	21,937
Vanguard Value Index	05/19/04	7.0	861	19.58	16,857
Vanguard Windsor II	05/12/04	5.8	693	28.19	19,528
Vanguard Small Cap Value	03/24/04	7.0	1,406	12.56	17,657
Vanguard US Value	05/19/04	6.7	1,089	12.82	13,960
TOTAL VALUE					\$109,578

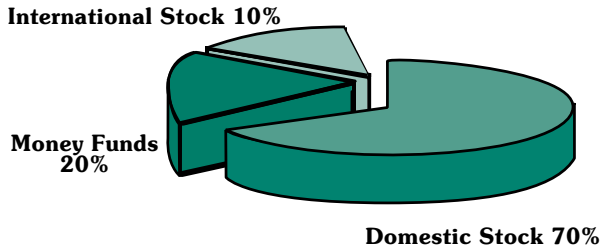
TOTAL RETURNS (as of 09/30/04)

1-mo	6-mo	1-yr	3-yr	YTD
1.5%	-1.6%	15.6%	33.0%	3.2%

Note: Asset Allocation Portfolios were indexed to \$100,000 on January 1, 2000. Pie charts show allocations at press time.

VENTURESOME

Seeks maximum long-term growth by accepting greater short-term volatility



MONEYLETTER Venturesome

Fund Name	Buy Date	Return Since Buy	Shares	Share Price	Current Value
Schwab Money Market	Yield YTD	0.3%	20,579	\$1.00	\$20,579
Dodge & Cox International	09/22/04	1.4	389	26.78	10,428
Artisan Mid Cap Value	07/26/04	6.4	1,165	15.55	18,109
FBR Small Cap	08/11/04	5.2	112	35.64	4,086
Strong Mid Cap Disciplined	05/19/04	6.2	746	21.35	15,918
Fidelity Leveraged Company	01/28/04	2.1	955	19.73	18,849
RS Contrarian Value	08/04/04	7.0	1,298	18.76	24,350
TOTAL VALUE					\$112,319

TOTAL RETURNS (as of 09/30/04)

1-mo	6-mo	1-yr	3-yr	YTD
3.4%	-5.7%	17.9%	61.7%	1.6%

Fidelity Venturesome

Fund Name	Buy Date	Return Since Buy	Shares	Share Price	Current Value
Fidelity Cash Reserves	Yield YTD	0.4%	18,424	\$1.00	\$18,424
Fidelity Int'l Small Cap	09/22/04	1.7	455	20.58	9,359
Fidelity Leveraged Company	12/10/03	16.9	900	19.73	17,752
Fidelity Contrafund	05/19/04	5.2	414	52.07	21,531
Fidelity Equity-Income	05/19/04	4.0	427	49.82	21,289
Fidelity Value	04/21/04	3.6	261	67.54	17,643
Fidelity Export & Multi	09/01/04	1.5	639	18.78	11,993
TOTAL VALUE					\$117,991

TOTAL RETURNS (as of 09/30/04)

1-mo	6-mo	1-yr	3-yr	YTD
3.0%	-2.8%	13.7%	37.9%	1.6%

Vanguard Venturesome

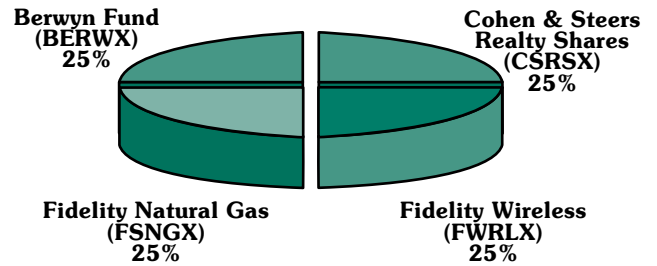
Fund Name	Buy Date	Return Since Buy	Shares	Share Price	Current Value
Vanguard Prime Port MM	Yield YTD	0.4%	20,319	\$1.00	\$22,319
Vanguard International Value	09/22/04	0.5	368	27.76	10,202
Vanguard Windsor II	05/12/04	5.8	812	28.19	22,897
Vanguard US Value	05/19/04	6.7	1,020	12.82	13,082
Vanguard Value Index	05/19/04	7.0	914	19.58	17,905
Vanguard Small Cap Value	03/24/04	7.0	1,821	12.56	22,875
TOTAL VALUE					\$109,280

TOTAL RETURNS (as of 09/30/04)

1-mo	6-mo	1-yr	3-yr	YTD
1.6%	-3.0%	16.0%	34.4%	2.2%

SELECT

Seeks maximum long-term growth by assertively upgrading fund positions



MONEYLETTER Select

Fund Name	Buy Date	Return Since Buy	Shares	Share Price	Current Value
Fidelity Natural Gas	08/11/04	15.9%	1180	\$28.30	\$33,395
Fidelity Wireless	07/07/04	2.0	5,892	5.12	30,169
Cohen & Steers Realty	08/25/04	1.8	520	63.75	33,163
Berwyn Fund	09/22/04	1.7	934	27.57	25,746
TOTAL VALUE					\$122,473

TOTAL RETURNS (as of 09/30/04)

1-mo	6-mo	1-yr	Incep. (9/30/02)	YTD
3.7%	-7.1%	12.4%	22.5%	0.1%

MONEYLETTER Select Commentary

The Hotline of Tuesday, September 21 recommended the sale of Matthews Japan (MJFOX) to be exchanged for Berwyn Fund (BERWX). The recommended trade was executed at the market close September 22, 2004. Details: Sold 1,792 shares of Matthews Japan @ \$14.12 per share. Purchased 934 shares of Berwyn Fund (BERWX) @ \$27.10 per share.

The model remains fully invested in equity funds. However, "focused" or "sector" choices have replaced more diversified alternatives.

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Please note: The recommendations presented for the Select Portfolio are based strictly upon "technical" data. As such, these exchanges should NOT be considered for investors following our Asset Allocation Portfolios (i.e. Conservative, Moderate or Venturesome).

Total Returns—September 30, 2004

	1-mo	6-mo	1-yr	3-yr	YTD
S&P 500	1.1%	-0.3%	13.8%	12.6%	1.6%
Asset Allocation Funds (Avg) 84 Funds	1.5	-0.6	11.4	19.4	2.0

Domestic Stock Funds

RANK	10/01 2004	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	RISK		NTF/wtf
										1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
1	2	4		RSPFX	RS Partners (closed)	SC	B	B	B	7.2%	7.2%	35.0%	\$32.55	20.9	0.69	FSW
2	4	-		BPTRX	Baron Partners	MCGro	* B	B	B	7.8	5.8	35.9	14.58	28.6	1.26	FSW
3	1	18		BERWX	Berwyn Fund (1%r<180d)	SCVal	B	B	B	4.3	7.5	35.2	27.99	22.3	0.77	fsW
4	13	10		MOPIX	MainStay Small Cap Opportunity (closed)	SCVal	B	B	B	7.7	3.2	34.2	19.06	17.5	0.63	FSW
5	5	41		ARTQX	Artisan Mid Cap Value	MCVal	B	B	B	5.1	6.6	29.2	15.75	19.8	0.87	FSW
6	65	2		FLVCX	Fidelity Leveraged Co (\$10,000, 1.5%r<90d)	MC	* (B)	(B)	(B)	7.7	3.4	32.2	20.08	36.3	1.39	Fw
7	10	73		PRSVX	T. Rowe Price S-C Value (closed, 1%r<1yr)	SCVal	B	B	B	6.1	5.9	26.0	33.42	18.0	0.69	fsW
8	17	23		RYPX	Royce Premier (1%r<180d)	SC	B	B	B	6.4	5.2	26.3	14.78	19.4	0.84	FsW
9	50	13		CGMFX	CGM Focus	SCVal	* B	B	B	9.8	2.9	26.1	32.63	37.9	1.03	fsW
10	117	6		WBSNX	WmBlair S-C Growth N (closed, 1%r<60d)	SCGro	(B)	(B)	(B)	9.9	2.3	26.1	24.51	30.1	1.12	FSW
11	19	24		RSCOX	RS Contrarian Value	MC	B	B	B	5.2	4.0	28.3	18.91	18.6	0.60	FSW
12	24	40		TRMCX	T. Rowe Price Mid Cap Value	MCVal	B	B	B	4.3	4.5	26.2	22.32	19.8	0.90	fsW
13	-	-		WEHIX	Weitz Hickory	SC	* (B)	(B)	(B)	1.9	4.7	28.7	30.28	29.1	1.38	FSW
14	8	96		ARGFX	Ariel Fund	SCVal	B	B	B	3.7	5.6	22.9	51.26	15.6	0.53	FSW
15	33	64		FDVLX	Fidelity Value	MCVal	(B)	(B)	(B)	4.9	4.5	23.8	68.49	19.0	0.89	Fsw
16	9	71		TASCX	Third Avenue Small-Cap Value (1%r<1yr)	SCVal	B	B	B	3.8	5.0	23.7	21.00	19.9	0.85	FSW
17	11	52		VISVX	Vanguard Small-Cap Value Index	SCVal	B	B	B	4.7	3.0	26.2	12.78	22.4	0.90	fsW
18	39	72		MPVLX	MSI Value Portfolio	LCVal	(B)	(B)	(B)	3.9	5.0	21.7	16.67	20.6	1.05	fsW
19	48	26		PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	6.9	2.6	23.2	9.82	20.4	0.80	FSW
20	28	70		MUHLX	Muhlenkamp Fund	MCVal	(B)	(B)	(B)	5.3	2.7	23.2	69.21	27.9	1.24	FSW
21	7	15		SMCDX	Strong Mid Cap Disciplined	MCVal	B	B	B	2.2	3.9	24.8	21.46	23.1	0.99	FSW
22	3	83		TAVFX	Third Avenue Value (1%r<60d)	SC	B	B	B	2.6	4.0	23.7	47.35	17.2	0.79	FSW
23	36	56		NBGNX	Neuberger Berman Genesis (closed)	SC	H	H	H	4.0	3.7	22.1	28.41	15.5	0.63	fsW
24	23	105		LSSCX	Loomis Sayles Small Cap Value	SC	B	B	B	4.6	3.2	22.1	26.17	18.4	0.78	sW
25	12	36		CRMMX	CRM Mid Cap Value Inv	MCVal	B	B	B	3.8	2.6	24.7	23.73	18.9	0.78	FSW
26	70	88		VPMCX	Vanguard PRIMECAP (closed, \$25,000&1%r<5yr)	LC	H	H	H	5.2	3.4	20.4	58.08	21.7	1.13	fsW
27	14	156		JAVLX	Janus Twenty (closed)	LCGro	B	B	B	5.2	3.6	20.1	40.04	17.3	0.93	FSW
28	21	126		HOVLX	Homestead Value	LCVal	B	B	B	2.9	4.8	19.7	29.23	16.5	0.81	W
29	6	53		FBRVX	FBR Small Cap (closed, 1%r<90d)	SCGro	B	B	B	2.8	4.1	21.5	36.76	23.4	0.82	FSW
30	107	84		OTCFX	T. Rowe Price Small Cap Stock Fund	SC	H	H	H	6.6	2.3	19.8	30.12	19.2	0.84	fsW
31	20	148		PRWCX	T. Rowe Price Cap Appreciation	LCVal	B	B	B	3.0	4.4	19.5	18.89	11.0	0.49	fsW
32	31	25		SAFGX	Safeco Growth Opportunities (2%r<90d)	SC	H	H	H	5.2	2.4	21.1	27.26	29.8	1.18	fsW
33	38	54		TGDVX	TCW Galileo Diversified Value N	LCVal	B	B	B	3.5	2.8	22.6	12.35	19.8	1.03	FW
34	25	256		JMCVX	Janus Mid Cap Value	MCVal	B	B	B	3.1	2.8	23.0	22.18	20.4	0.93	fsW
35	18	87		VWNFX	Vanguard Windsor II	LCVal	B	B	B	3.0	3.4	21.8	28.59	16.2	0.82	fsW
36	84	62		SOPFX	Strong Opportunity	MCVal	H	H	H	5.2	2.7	19.3	42.77	22.2	1.17	FSW
37	83	106		RPMGX	T. Rowe Price Mid Cap Growth	MCGro	H	H	H	5.3	3.1	18.2	45.94	22.1	1.11	fsW
38	98	59		MPEGX	MSI Mid Cap Growth	MCGro	* H	H	H	6.1	2.2	18.6	18.73	22.2	1.17	fsW
39	47	49		FLPSX	Fidelity L P Stock (closed, 1.5%r<90d)	SCVal	H	H	H	4.7	1.8	21.4	36.23	18.0	0.75	FSW
40	37	147		PRFDX	T. Rowe Price Equity-Income	LCVal	H	H	H	2.9	4.3	18.0	25.33	16.3	0.83	fsW
41	71	76		BGRFX	Baron Growth	SCGro	H	H	H	6.5	2.0	18.1	39.22	18.4	0.72	FSW
42	145	28		VHCOX	Vanguard Cap Opp (closed, \$25,000, 1%r<5yr)	MCGro	* H	H	H	6.2	0.2	22.8	27.71	25.3	1.28	fsW
43	52	42		MPSCX	MSI Small Cap Value (closed)	SCVal	H	H	H	4.6	1.3	21.8	22.60	20.7	0.98	fsW
44	129	244		FTQGX	Fidelity Focused Stock (.75%r<30d)	LC	* H	H	H	6.2	3.1	14.7	9.26	17.2	1.00	Fw
45	22	138		VIVAX	Vanguard Value Index	LCVal	(H)	(H)	(H)	2.4	3.6	18.8	19.85	18.6	1.03	fsW
46	15	168		TWEIX	American Century Equity Income	MCVal	(H)	(H)	(H)	1.7	4.7	17.0	8.12	12.6	0.62	FSW
47	78	100		SSHFX	Sound Shore	LCVal	H	H	H	4.3	2.6	18.1	35.67	17.3	0.79	sW
48	45	146		RYTRX	Royce Total Return (1%r<180d)	SCVal	H	H	H	4.2	2.9	17.2	11.48	15.7	0.66	FsW
49	60	123		NGUAX	Neuberger Berman Guardian	LCVal	H	H	H	4.2	2.6	17.7	15.17	18.0	0.99	f
50	155	37		SMTVX	Strong Multi-Cap Value	MCVal	H	H	H	7.1	0.0	19.8	58.15	22.4	1.01	FSW
51	152	46		ARTSX	Artisan Small Cap	SCGro	H	H	H	5.7	0.9	19.7	15.37	26.7	1.19	FSW
52	35	67		TGIGX	TCW Galileo Dividend Focused N	MCVal	(H)	(H)	(H)	2.8	2.0	21.1	10.60	13.8	0.57	FW
53	32	137		LSGIX	Loomis Sayles Value	LCVal	H	H	H	2.7	3.0	18.7	16.15	16.4	0.89	fsW
54	104	97		NPRTX	Neuberger Berman Partners	LCVal	H	H	H	5.7	0.8	19.4	22.80	20.7	1.10	f
55	68	81		DODGX	Dodge & Cox Stock (closed)	LCVal	H	H	H	4.0	1.5	19.8	120.30	17.6	0.85	sw
56	102	1		BUFSX	Buffalo Small Cap (closed)	SCGro	H	H	H	7.0	-2.7	25.5	25.28	31.2	1.25	SW
57	54	82		LLSCX	Longleaf Partners Smallcap (closed)	SCVal	H	H	H	3.9	2.1	18.2	30.12	19.2	0.80	fw
58	151	33		TGONX	TCW Galileo Opportunity N	SC	H	H	H	6.9	-0.7	20.7	13.65	22.5	0.90	FSW
59	53	107		NBFSX	Neuberger Berman Fasciano Inv	SCGro	H	H	H	4.1	2.0	18.0	41.71	17.9	0.69	FSW
60	26	108		TWVLX	American Century Value (closed)	MCVal	H	H	H	1.8	2.9	18.9	7.92	16.6	0.82	fsW
61	137	34		JSVAX	Janus Special Equity	MC	H	H	H	5.8	0.0	20.2	11.43	22.3	1.10	SW
62	77	122		FEXPX	Fidelity Export & Multinat'l (.75%r<30d)	LC	H	H	H	4.2	2.5	16.2	19.10	20.3	1.07	FSW
63	16	-		PVLDX	PIMCO PEA Value D	LCVal	* (H)	(H)	(H)	0.9	1.3	24.4	16.92	25.4	1.32	FSW
64	43	60		BARAX	Baron Asset	MCGro	H	H	H	5.1	1.0	18.4	48.25	21.2	0.94	FSW
65	58	55		BPMCX	Boston Partners Mid Cap Value	MCVal	H	H	H	4.6	0.9	19.4	13.68	20.1	0.93	FSW
66	59	144		FCNTX	Fidelity Contrafund	LC	H	H	H	4.7	1.9	16.5	52.59	11.4	0.54	Fsw
67	29	183		VEIPX	Vanguard Equity-Income	LCVal	H	H	H	2.1	3.6	16.0	23.10	14.9	0.79	fsW
68	81	109		VIMSX	Vanguard Mid-Cap Index	MC	H	H	H	4.7	0.9	18.6	13.97	20.1	0.97	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 (continued)

RANK	10/01 2004	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	RISK		NTF/wff
										1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
69	206	5	HENLX	Henlopen Fund (1%r<30d)	SCGro	*	S	S	8.9	-2.7	21.3	27.55	30.9	1.19	FSW	
70	159	3	RYPNX	Royce Opportunity (1%r<180d)	SCVal	S	S	S	6.9	-1.9	22.5	12.71	30.8	1.18	fsw	
71	132	187	ACBGX	USGlobal Holmes Growth (.25%r<30d)	MCGro	S	S	S	6.6	1.2	15.0	14.32	15.3	0.57	FSW	
72	30	155	GEVTX	Columbia Disciplined Value CIZ	LC	H	H	H	2.1	2.8	17.3	13.13	19.8	1.06	fw	
73	94	92	VSEQX	Vanguard Strategic Equity	MCGro	S	S	S	5.8	0.1	18.5	20.01	17.8	0.83	fsw	
74	82	45	NAESX	Vanguard SmallCap Index	SC	H	H	H	5.3	-0.4	20.4	24.22	23.2	1.01	fsw	
75	34	124	MQIFX	Mutual Qualified (1%) CIZ	MCVal	S	S	S	2.8	1.8	18.5	18.92	13.3	0.61	sw	
76	61	113	RYSEX	Royce Special Equity (1%r<180d)	SCVal	S	S	S	4.4	0.9	17.8	19.24	16.5	0.51	Sw	
77	40	111	VUVLX	Vanguard U.S. Value	LCVal	H	H	H	2.6	1.2	19.3	12.98	17.3	0.87	fsw	
78	125	90	MPMVX	MSI Mid Cap Value	MCVal	S	S	S	4.1	1.4	16.2	21.40	23.1	1.18	fsw	
79	27	157	WVALX	Weitz Value Fund	MCVal	S	S	S	2.1	1.7	18.3	36.73	16.7	0.82	SW	
80	44	153	SCDUX	Scudder Large Co Value	LCVal	S	S	S	2.1	2.1	16.7	24.37	16.8	0.92	FSW	
81	72	235	SAOPX	Salomon Brothers Opportunity	MCVal	S	S	S	3.0	2.2	14.4	44.29	13.0	0.67	sw	
82	146	19	RYLPX	Royce Low Priced Stock (1%r<180d)	SCVal	S	S	S	6.3	-1.8	19.3	14.92	27.1	1.10	FsW	
83	202	75	USCGX	USAA Capital Growth	MCGro	*	S	S	7.7	-1.3	15.8	6.68	23.9	1.13	fsw	
84	75	179	BEQGX	American Century Equity Growth	LCVal	S	S	S	3.6	1.5	15.0	20.44	17.2	0.97	FSW	
85	103	173	TGCNX	TCW Galileo Select Equity	LCGro	*	S	S	5.5	1.5	11.8	17.58	28.1	1.46	FSW	
86	62	162	BIGRX	American Century Income & Growth	LCVal	S	S	S	2.6	1.5	16.1	28.57	17.4	0.97	FSW	
87	63	89	JAENX	Janus Enterprise	MCGro	S	S	S	4.2	0.4	16.4	33.24	21.4	1.09	FSW	
88	74	118	VALSX	Value Line Special Situations	MCGro	S	S	S	4.8	-0.1	16.6	22.38	15.4	0.71	FSW	
89	160	170	NMANX	Neuberger Berman Manhattan	MCGro	*	S	S	5.1	0.5	14.6	6.21	23.4	1.15	f	
90	172	130	RSPVX	RS Value+Growth	MCGro	S	S	S	6.2	-0.2	14.6	17.80	18.2	0.97	FSW	
91	173	200	SGRTX	Strong Growth 20	LCGro	*	S	S	7.6	-0.5	13.3	13.33	17.6	0.92	FSW	
92	57	166	OAKMX	Oakmark Fund (2%r<90d)	MCVal	S	S	S	2.0	2.4	14.1	39.15	16.7	0.85	FSW	
93	89	99	DNLDX	Dreyfus New Leaders	MCGro	S	S	S	4.1	-0.1	17.3	43.39	18.6	0.90	FSW	
94	46	131	BEGRX	Mutual Beacon (1%) CIZ	MCVal	S	S	S	2.2	0.9	17.2	15.04	12.5	0.57	sw	
95	99	133	GABAX	Gabelli Asset	MC	S	S	S	3.6	0.8	15.3	37.95	17.8	0.91	FSW	
96	115	65	VEXMX	Vanguard Extended Market Index	MC	S	S	S	4.8	-1.2	17.8	28.17	21.5	1.02	fsw	
97	111	202	MGRIX	Marsico Growth & Income (2%r<30d)	G&I	S	S	S	5.3	1.1	11.4	16.10	15.2	0.75	FSW	
98	66	44	CAMOX	Cambiar Opportunity	LC	S	S	S	3.0	-0.4	18.5	14.97	18.4	0.94	FSW	
99	114	116	MXIX	Marsico 21st Century (2%r<30d)	LC	S	S	S	5.5	-0.3	14.3	10.30	21.1	0.95	FSW	
100	56	132	FEQIX	Fidelity Equity-Income	LCVal	Ⓢ	Ⓢ	Ⓢ	2.0	1.1	15.7	50.54	17.8	0.96	Fsw	

Dow Jones
NASDAQ
S&P 500

0.2%
5.7
2.5

-1.6%
-2.6
0.5

7.6%
6.0
11.1

indexes do not
include dividends

International Stock Funds

1	8	6	FLATX	Fidelity Latin Amer. (1.5%r<90d)	LatinA	*	H	H	10.0%	7.2%	40.9%	\$17.94	29.8	-	Fs
2	11	15	PRLAX	T. Rowe Price Latin America (2%r<1yr)	LatinA	*	H	H	10.5	7.2	37.6	13.63	29.7	-	fsw
3	21	29	SLAFX	Scudder Latin America	LatinA	*	H	H	10.9	6.0	33.3	27.86	27.3	-	FSW
4	4	12	DODFX	Dodge&Cox Intl. Stock	Int'l	*	B	B	5.0	6.5	32.0	27.20	-	-	fsw
5	5	14	ARTKX	Artisan Intl Value (2%r<90d)	Int'l	*	B	B	5.1	5.0	32.6	18.71	-	-	FSW
6	6	8	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	*	B	B	3.2	5.4	33.6	18.25	20.4	-	FSW
7	2	-	NBISX	Neuberger Berman International	Int'l	*	B	B	3.6	4.6	32.8	16.06	16.3	-	fsw
8	15	26	FIEUX	Fidelity Europe (1%r<30d)	Europe	*	B	B	7.5	3.0	27.2	29.19	22.5	-	Fsw
9	19	52	VEURX	Vanguard European Stock Index (2%r<60d)	Europe	*	Ⓢ	Ⓢ	4.7	3.2	24.9	23.30	17.4	-	fsw
10	22	18	DRFMX	Dreyfus Emerging Market (1%r)	Int'l	*	Ⓢ	Ⓢ	6.3	0.8	27.3	18.44	21.6	-	FSW
11	7	43	MACSX	Matthews Asia G & I (closed,2%r<90d)	Pacific	*	B	B	2.8	4.1	23.4	15.21	11.4	-	FSW
12	18	24	MAPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	*	Ⓢ	Ⓢ	5.0	2.2	24.1	14.20	23.6	-	FSW
13	26	22	ICHKX	Guinness China & Hong Kong (2%r<30d)	Pacific	*	Ⓢ	Ⓢ	4.0	1.8	26.7	17.87	19.6	-	FSW
14	32	40	HAINX	Harbor International (2%r<60d)	Int'l	*	H	H	4.8	2.2	24.3	39.42	17.9	-	Fsw
15	38	17	DREGX	Driehaus Emerging Mkts Gr (2%r<60d)	Int'l	*	H	H	7.5	-0.7	26.9	21.55	24.9	-	FSW
16	16	39	VTRIX	Vanguard International Value (2%r<60d)	Int'l	*	B	B	3.7	1.8	24.2	28.13	16.8	-	fsw
17	17	13	VEIEX	Vanguard Emerging Mkts Stk Index (.5%r)	Int'l	*	Ⓢ	Ⓢ	6.2	-0.9	26.7	12.77	22.6	-	fsw
18	13	37	TBGVX	Tweedy, Browne Global Value (2%r<60d)	Global	*	H	H	2.0	2.8	23.2	21.97	11.9	-	fsw
19	46	63	SCGEX	Scudder Greater Europe (2%r<180d)	Europe	*	H	H	5.5	1.7	20.7	24.42	16.8	-	FSW
20	12	3	FISMX	Fidelity Intl Small Cap (2%r<90d)	Int'l	*	Ⓢ	Ⓢ	4.8	-1.3	28.9	20.78	-	-	Fw
21	10	7	PRIDX	T. Rowe Price Intl Disc. (2%r<1yr)	Int'l	*	Ⓢ	Ⓢ	4.3	-0.4	25.5	28.98	16.0	-	fsw
22	33	51	USIFX	USAA International	Int'l	*	H	H	4.3	1.0	21.6	21.00	15.0	-	w
23	17	49	PIFIX	Preferred International	Int'l	*	H	H	3.2	1.7	21.0	15.32	17.4	-	w
24	20	48	OAKIX	Oakmark International (2%r<90d)	Int'l	*	H	H	3.4	1.4	21.1	19.13	22.0	-	FSW
25	39	53	PRESX	T. Rowe Price European	Europe	*	H	H	5.2	0.5	20.8	17.94	18.0	-	fsw
26	29	59	USAWX	USAA World Growth	Int'l	*	H	H	3.5	1.6	19.5	16.49	15.6	-	w
27	9	10	VINEX	Vanguard Intl Explorer (\$25,000,2%r<60d)	Int'l	*	Ⓢ	Ⓢ	2.2	-0.4	26.3	14.27	16.3	-	fsw
28	25	55	SWINX	Schwab International Index (1.5%r<180d)	Int'l	*	S	S	3.6	1.0	19.8	14.57	14.1	-	S
29	28	23	WAIGX	Wasatch International Growth	Int'l	*	H	H	4.5	-1.3	21.8	14.80	-	-	FSW
30	30	44	GIGRX	Gabelli Intl Growth (2%r<60d)	Int'l	*	S	S	3.7	-0.2	19.8	16.72	13.1	-	FSW
31	47	32	SCOPX	Scudder Pacific Opportunity (2%r<1yr)	Pacific	*	S	S	4.7	-1.8	21.4	12.23	19.0	-	FSW
32	57	11	FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	*	S	S	7.6	-4.4	23.3	11.24	-	-	Fsw
33	40	31	SGSCX	Scudder Global Discovery (closed)	Int'l	*	S	S	4.7	-0.9	18.8	29.69	20.1	-	FSW
34	35	33	FDIVX	Fidelity Diversified Intl (1%r<30d)	Int'l	*	S	S	4.2	-1.5	20.6	25.63	13.8	-	Fsw
35	31	45	BJBIX	Julius Baer Intl Equity A (2%r<90d)	Int'l	*	S	S	4.0	-1.9	21.7	28.10	12.5	-	FS

Specialty Funds (next issue on page 6: Bond Funds)

RANK	10/01 2004	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME (Max. Load)	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	RISK		NTF/wf
										1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
1	4	-		ICENX	ICON Energy	NatfRes	*	*	*	10.8%	23.0%	60.4%	\$22.24	24.60	0.67	FSW
2	3	2		FSNGX	Fidelity Natural Gas (.75%r<30d)	Utility	*	*	*	10.7	26.7	51.2	28.78	27.70	0.61	Fsw
3	21	15		RYVIX	Rydex Energy Services	NatfRes	*	*	*	10.4	23.5	44.8	26.31	37.90	1.15	fsw
4	5	6		VGEXX	Vanguard Energy (1%r<1yr)	NatfRes	*	*	*	9.4	21.1	48.0	38.27	24.50	0.64	fsw
5	11	5		RYEIX	Rydex Energy	NatfRes	*	*	*	9.4	21.7	46.0	14.33	21.30	0.66	fsw
6	23	24		FSESX	Fidelity Energy Services (.75%r<30d)	NatfRes	*	*	*	9.9	22.6	39.7	41.55	46.40	1.18	Fsw
7	15	12		FSENX	Fidelity Energy (.75%r<30d)	NatfRes	*	*	*	8.8	19.3	40.9	31.38	22.10	0.70	Fsw
8	10	18		PRNEX	T. Rowe Price New Era	NatfRes	*	*	*	9.1	17.5	43.1	33.43	18.80	0.55	fsw
9	2	16		FSCHX	Fidelity Chemicals (.75%r<30d)	Cycls	*	*	*	6.0	15.2	43.0	60.33	21.60	0.82	Fsw
10	19	17		FNARX	Fidelity Natrl Resources (.75%r<30d)	NatfRes	*	*	*	8.2	15.7	37.3	17.09	21.90	0.78	Fsw
11	7	-		ICBMX	ICON Materials	Cycls	*	*	*	6.6	13.2	44.0	9.16	22.30	0.94	FSW
12	28	1		FWRLX	Fidelity Wireless (.75%r<30d)	Tech	*	*	*	7.4	6.8	50.0	5.22	-	-	Fsw
13	16	19		FSDAX	Fidelity Defense & Aero (.75%r<30d)	Cycls	*	*	*	4.6	13.3	34.7	61.75	19.50	0.76	Fsw
14	18	26		FCYIX	Fidelity Cyclical Ind (.75%r<30d)	Cycls	*	*	*	4.8	11.7	32.6	17.78	22.00	0.98	Fsw
15	22	25		RYBIX	Rydex Basic Materials	Cycls	*	*	*	5.8	9.4	32.1	28.01	23.40	0.90	fsw
16	34	73		FSRFX	Fidelity Transportation (.75%r<30d)	Cycls	*	*	*	8.4	12.5	18.0	37.16	23.00	0.88	Fsw
17	31	34		FSDPX	Fidelity Indust Matrls (.75%r<30d)	Cycls	*	*	*	8.1	6.3	29.6	37.11	23.00	0.87	Fsw
18	26	62		FSUTX	Fidelity Utilities Growth (.75%r<30d)	Utility	*	*	*	4.1	10.1	24.6	37.00	17.50	0.95	Fsw
19	1	66		CSRSX	Cohen & Steers Realty Shares (1%r<180d)	RealEs	*	*	*	2.0	5.8	35.4	64.80	14.60	0.23	FSW
20	24	9		FSHCX	Fidelity Med Del (.75%r<30d)	Health	*	*	*	3.8	5.4	31.2	34.64	23.10	0.07	Fsw
21	20	33		FSHOX	Fidelity Const & Housing (.75%r<30d)	Cycls	*	*	*	4.7	4.7	28.4	39.19	24.40	0.80	Fsw
22	14	23		CGMRX	CGM Realty	RealEs	*	*	*	6.4	1.6	33.3	28.40	17.50	0.21	sw
23	33	85		RYPIX	Rydex Transportation	Cycls	*	*	*	6.0	9.9	12.6	20.83	20.80	0.76	fsw
24	12	10		EUEYX	Alpine U.S. Real Estate Equity CIY	RealEs	*	*	*	4.8	1.9	32.7	34.64	32.70	0.87	FSW
25	8	83		TRREX	T. Rowe Price Real Estate (1%r<180d)	RealEs	*	*	*	2.0	4.8	28.0	15.75	13.70	0.16	fsw
26	40	-		ICTRX	ICON Industrials	Cycls	*	*	*	7.3	4.7	18.6	10.72	19.30	0.88	FSW
27	9	84		FRESX	Fidelity Real Estate (.75%r<90d)	RealEs	*	*	*	1.9	3.3	26.9	26.44	13.90	0.20	Fsw
28	58	4		PRMTX	T. Rowe Price Media & Telecommunications	Utility	*	*	*	6.8	0.5	26.0	24.43	30.00	1.53	fsw
29	44	8		FSCGX	Fidelity Industrial Equip (.75%r<30d)	Cycls	*	*	*	4.2	1.4	25.1	24.89	22.90	1.11	Fsw
30	13	87		VGSIX	Vanguard REIT Index (1%r<1yr)	RealEs	*	*	*	1.9	2.6	25.4	17.00	13.70	0.14	fsw
31	62	46		VGPMX	Vanguard Precious Metals (closed, 1%r<1yr)	NatfRes	*	*	*	9.3	-0.2	19.7	16.05	32.70	0.56	fsw
32	35	28		FSMEX	Fidelity Medical Equip (.75%r<30d)	Health	*	*	*	3.7	3.9	17.2	21.84	15.50	0.29	fsw
33	30	80		RYKIX	Rydex Banking	FinServ	*	*	*	2.0	3.6	19.5	10.69	27.50	0.70	fsw
34	17	78		CSEIX	Cohen & Steers Equity Income (1%r<180d)	RealEs	*	*	*	1.7	1.2	25.2	15.96	13.10	0.13	FSW
35	53	68		FSAXX	Fidelity Air Transport (.75%r<30d)	Cycls	*	*	*	4.9	5.4	10.0	31.13	28.50	1.14	Fsw
36	43	29		FSPFX	Fidelity Paper & Forest (.75%r<30d)	Cycls	*	*	*	3.8	2.5	18.6	32.24	24.70	0.80	Fsw
37	39	-		ICFSX	ICON Financial	FinServ	*	*	*	4.6	0.2	22.8	13.57	19.70	1.00	FSW
38	75	37		FSTCX	Fidelity Telecomm (.75%r<30d)	Utility	*	*	*	5.3	-1.1	22.2	34.23	25.00	1.38	Fsw
39	29	70		FSVLX	Fidelity Home Finance (.75%r<30d)	FinServ	*	*	*	2.0	0.8	21.8	68.13	25.80	0.37	Fsw
40	42	35		FBSOX	Fidelity Bus Services (.75%r<30d)	Tech	*	*	*	4.0	2.2	14.7	14.86	22.60	1.03	Fsw
41	32	82		RYUIX	Rydex Utilities	Utility	*	*	*	1.7	3.8	13.7	21.54	20.80	0.60	fsw
42	25	89		STMDX	Stratton Mthly Div REIT (1.5%r<120d)	RealEs	*	*	*	2.1	0.4	20.9	35.15	13.20	0.17	fsw
43	36	59		RYFIX	Rydex Financial Services	FinServ	*	*	*	2.5	0.4	17.3	11.25	24.10	0.93	fsw
44	48	53		FSRPX	Fidelity Retailing (.75%r<30d)	Consmr	*	*	*	3.6	0.6	12.3	47.42	19.80	0.89	Fsw
45	70	27		FDLSX	Fidelity Leisure (.75%r<30d)	Consmr	*	*	*	5.4	-1.4	14.6	71.06	21.20	1.10	Fsw
46	37	81		FSRBX	Fidelity Banking (.75%r<30d)	FinServ	*	*	*	1.7	0.6	14.8	40.78	24.50	0.70	Fsw
47	60	-		ICLEX	ICON Leisure & Consumer Staples	Consmr	*	*	*	3.2	-0.7	15.5	14.75	21.20	0.88	FSW
48	54	38		FSPCX	Fidelity Insurance (.75%r<30d)	FinServ	*	*	*	3.8	-1.6	16.7	58.08	27.70	0.56	fsw
49	52	14		PRHSX	T. Rowe Price Health Sciences	Health	*	*	*	4.3	-1.8	16.4	21.48	22.60	0.84	fsw
50	69	20		RYLIX	Rydex Leisure	Consmr	*	*	*	5.3	-3.5	17.9	26.85	22.00	1.10	fsw
51	56	-		ICTUX	ICON Telecommunications & Utilities	Utility	*	*	*	3.6	-2.3	17.3	6.69	15.30	0.68	FSW
52	61	63		FBALX	Fidelity Balanced	Hybrid	B	*	*	2.9	-0.4	11.8	16.72	10.50	0.54	Fsw
53	86	13		USERX	U.S.Global Gold Shares (.25%r<30d)	NatfRes	*	*	*	14.3	-10.5	19.8	7.92	42.40	0.41	fsw
54	45	88		GATEX	Gateway Fund	AltRes	B	*	*	1.3	2.4	6.5	23.85	7.84	0.40	FSW
55	41	42		VGHCX	Vanguard Health Care (\$25k&1%r<5yr)	Health	*	*	*	0.7	0.2	12.7	123.20	15.00	0.37	fsw
56	50	79		VBINX	Vanguard Balanced Index	Hybrid	B	*	*	1.8	0.5	9.6	18.56	10.70	0.57	fsw
57	87	7		RYIIX	Rydex Internet	Tech	*	*	*	8.0	-6.3	17.0	33.92	41.00	2.70	fsw
58	59	92		BRMIX	AXARosenberg Value L/S (2%r<30d)	Value	*	*	*	2.2	2.0	4.7	9.98	18.90	-0.58	FSW
59	51	58		PRISX	T. Rowe Price Financial Services	FinServ	*	*	*	2.0	-1.9	13.1	22.33	20.00	0.80	fsw
60	72	96		SCGDIX	Scudder Gold (closed)	NatfRes	*	*	*	10.3	-9.2	19.0	19.15	31.90	0.28	FSW
61	47	49		FSPHX	Fidelity Health Care (.75%r<30d)	Health	*	*	*	1.4	0.0	8.5	121.60	15.30	0.28	Fsw
62	65	21		FBIOX	Fidelity Biotechnology (.75%r<30d)	Health	*	*	*	4.0	-3.3	12.2	55.55	53.10	0.88	Fsw
63	46	72		FIDSX	Fidelity Finl Serv (.75%r<30d)	FinServ	*	*	*	1.7	-2.3	13.0	116.90	21.80	0.79	Fsw
64	78	54		BGEIX	Amer. Cent. Global Gold (1%r<60d)	NatfRes	*	*	*	9.0	-6.7	11.9	12.05	36.90	0.15	FSW
65	80	56		RYPMX	Rydex Precious Metals	NatfRes	*	*	*	9.2	-8.2	14.6	40.88	31.70	0.24	fsw
66	67	-		ICHCX	ICON Healthcare	Health	*	*	*	2.4	-2.9	11.0	13.80	16.00	0.49	FSW
67	88	44		RYMIX	Rydex Telecommunications	Utility	*	*	*	5.6	-6.4	13.7	14.73	21.60	1.52	fsw
68	57	55		FSLEX	Fidelity Environmental Ser (.75%r<30d)	Cycls	*	*	*	1.3	-1.2	5.9	13.05	19.70	0.59	fsw
69	76	40		FSAVX	Fidelity Automotive (.75%r<30d)	Cycls	*	*	*	2.6	-4.1	9.5	31.55	25.10	0.93	Fsw
70	64	39		RYHIX	Rydex Health Care	Health	*	*	*	1.0	-3.3	7.0	12.16	15.50	0.31	fsw

A Case For Active Management

Due to a technical problem this Walter Frank article was not printed in its entirety in the 9/24 issue. Below is the entire text. We regret any inconvenience. —Editor

After the bear market of 2000–2002, the indexing craze lost much of its appeal. An index manager stuck with a fixed basket of stocks could only wring his hands. But we still hear the mantra repeated, again and again, that 90% of the actively managed funds fail to “beat the index” (presumably the S&P 500) over some reasonable period of time (three years, five years). Therefore, indexing is the way to go for the average mutual fund investor.

Our traditional answer has been that if 10% of the managers manage to beat the index, find that 10% and invest with them. Ten percent of the broadly invested, domestic mutual fund universe gives you plenty of funds to invest in. Our fund selection system is designed to find that 10% by putting you in the best performing funds in our various lists, and to keep you in them as long as they perform. In a sense, we are constantly searching for the 10% of funds that will turn out to have beaten the index when we look back five years from now.

Our rationale for not embracing indexing is pragmatic. If 10% of the funds have beaten the index, then find those funds if you are trying to outperform. However, Mark Hulbert presents a powerful, theoretical argument that supports the pursuit of active managers in his New York Times article, “Are Fund Managers Irrelevant? An 18th Century Theory Suggests Not.” (Obviously, the fund manager is mostly, but not completely, irrelevant for indexing.)

Enter Rev. Bayes

In the 18th century, the Reverend Thomas Bayes founded a branch of statistics now widely used in finance and known as (what else?) Bayesian statistics. Grossly simplified, this theory states that as information is received, it can be used to change the current accepted probability of an event’s occurrence.

What does this have to do with active management? The answer is that if you know that a certain number of funds have shown the ability to beat the index in the past, and as time goes on some continue to beat the index, the probability increases that these funds will continue to beat the index.

One of the main arguments for indexing, at least as presented by Vanguard’s John Bogle, is that this doesn’t happen. Over the long-run, he argues, superior performance will not last and the fund’s performance will turn out to be no better than its category average. We accept the point.

But there is no contradiction of the Bayesian approach. If, as time goes on, a superior fund begins to falter, that in itself is new information to be assimilated by the Bayesian system. The probability of superior performance going forward lessens. As the probability falls, it becomes time to move to another fund where the probability of superior performance going forward is still high.

Back on earth

MONEYLETTER has not constructed some Bayesian machine that will crank out long-term probabilities of out-performance for funds in our system. Past performance should guide one’s judgment about future performance. And that is precisely what our fund selection system does.

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	1.32%	1.24%	0.73%
Fidelity Spartan US Treas MMF	1.17	1.10	0.66
Gabelli US Treasury MMF	1.11	1.06	0.72
Amer Century Capital Presv Fund/Inv	1.05	0.97	0.59
RMK Select Treas MMF/CI A	0.88	0.80	0.37
CMA Treasury Fund RIC	0.87	0.82	0.40
T Rowe Price US Treasury MF	0.87	0.81	0.52
US Treasury MF of America/CI A	0.87	0.80	0.35
Dreyfus 100% US Treas MMF	0.85	0.75	0.34
Schwab US Treasury Money Fund	0.80	0.75	0.40

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	1.69%	1.58%	1.08%
Scudder Premium Money Mkt Shrs/AARP	1.50	1.42	0.89
Scudder Premium Money Mkt Shrs/CI S	1.48	1.38	0.88
Harbor Money Market Fund	1.42	1.34	0.83
Vanguard Prime MMF/Retail	1.42	1.33	0.82
Scudder Prime Reserve MM/AARP	1.40	1.32	0.76
AIG Money Market Fund/CI B	1.38	1.27	0.85
GE Money Market Fund	1.38	1.31	0.86
MFS Money Market Fund	1.36	1.27	0.64
Marshall MMF/Investor Class	1.36	1.25	0.76
TIAA-CREF Money Market Fund	1.36	1.30	0.87

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Vanguard Tax-Exempt MMF	1.38%	1.29%	0.92%
Strong Tax-Free Money Fund	1.30	1.17	0.90
Amer Century T-F MMF/Inv Class	1.10	1.00	0.69
Strong Municipal MMF	1.09	0.98	0.74
Fidelity Municipal MMF	1.08	0.96	0.67
Fidelity Tax Free Money Market	1.08	0.95	0.63
Tax-Exempt Cash Managed Shares	1.08	0.95	0.61
USAA Tax Exempt MMF	1.08	0.98	0.69
Dreyfus BASIC Muni MMF	1.04	0.94	0.67
Scudder Tax-Exempt Money Fund	1.02	0.93	0.67
T Rowe Price Summit Muni MMF	1.02	0.91	0.65

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	1.38%	1.26%	0.91%
Vanguard CA Tax-Exempt MMF	1.37	1.26	0.88
Vanguard PA Tax-Exempt MMF	1.36	1.24	0.89
Vanguard NJ Tax-Exempt MMF	1.35	1.24	0.86
Vanguard NY Tax-Exempt MMF	1.33	1.23	0.87
Fidelity FL Municipal MMF	1.05	0.92	0.60
Fidelity PA Municipal MMF	1.03	0.90	0.63
USAA Tax Exempt CA MMF	1.03	0.91	0.61
Amer Century CA T-F MMF/Inv Class	1.02	0.90	0.58
Fidelity CT Municipal MMF	1.00	0.89	0.57

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 9/28/04. 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

As the boilerplate says, “past performance is no guarantee of future performance.” But it is certainly useful, and whoever thought that there were any guarantees in the world of stock investing anyhow? \$

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Filling Out Our Fidelity Coverage

With the Fidelity fund family portfolios in mind, we will be adding two more Fidelity equity funds to our fund lists with the next issue.

Fidelity Japan Smaller Companies (FJSCX)

A rather unique focus sets this fund apart from all other Japan equity funds. Japan Smaller Companies, as its name states, concentrates on securities of Japanese issuers with smaller market capitalizations. Only one other mutual fund, to our knowledge, follows a similar strategy. That fund, Dimensional Japanese Small Company, even differs from this one, sporting a value orientation and a smaller average market cap. This Fidelity offering has surged to the top of the services' Japan fund lists, with a top quintile or better performance in the sector over the trailing one-, three-, and five-year periods. That is not to say every calendar year has been a smooth ride. 30% and 50% losses in 1997 and 2000 pushed the fund into the bottom deciles in those years. On the other hand, the fund recorded a stratospheric return of 237% in 1999.

Fund manager Kenichi Mizushita has headed the fund since December 1996 (the fund started up a year earlier). Mizushita chooses investments solely from a bottom-up basis. He likes companies that are industry leaders, have sustainable good earnings growth, attractive valuations, and have shareholder-oriented management teams. He asserts that it is imperative to understand the business of each company, and how its earnings and valuation are changing. He invests for the long term; portfolio turnover is around 40% a year.

Japan has struggled over the past 14 years to rejuvenate its economy and generate a solid recovery, yet efforts have repeatedly failed. Banking issues, deflation, problems in the political structure, and lackluster consumer spending have all taken a toll. But recently, there have been signs that Japan's economy may be headed for a true turnaround. Economic growth is picking up, Japanese business sentiment is on the upswing, and household consumption is growing. With its focus on the consumer discretionary sector, the fund has certainly benefited from the latter. Mizushita recently noted, however, that valuations have risen, and so he will pay even closer attention to valuations in order to find the best long-term opportunities for the fund.

Fidelity Value Strategies

After being closed to new investors for 18 years, Fidelity Value Strategies was re-opened to retail investors on January 29 of this year. The fund was initially closed when Fidelity launched the Advisor class shares of the fund (Fidelity Advisor Value Strategies), available solely through investment professionals at financial institutions. The retail version of the fund was originally launched in December 1983. During the time it was closed, Value Strategies was run in parallel to the Advisor version. The decision to reopen the fund was a result of Fidelity's efforts to expand its value fund lineup to retail investors.

The fund can be invested in any range of market capitalizations, though it uses the Russell Midcap Value Index as its benchmark. Recently, the portfolio was divided 19% in large-cap stocks, 34% in mid-caps, 30% in small-caps, and 17% in micro-caps. Fund manager Harris Leviton, who has run the fund since 1996, looks for companies that are undervalued relative to the market, with regard to factors such as assets, sales, earnings, or growth potential. He first determines if a company is cheap, and why it is cheap. He favors firms with significant hidden assets, a dominant or near-dominant market position, and a proven track record of consistent revenue or earnings growth.

But that is not enough. The key item Leviton looks for is a catalyst for change. That could include a new product cycle, management restructuring, a cyclical turn, a better use of cash, or merger/acquisition activity. Leviton recently stated that he often will purchase a firm whose business has stumbled, when the stock price falls to a point he deems excessive to the firm's business prospects. The market is now very short-term oriented, while he has a longer-term view. He's willing to endure short-term weakness for long-term gain. It's a strategy he says he has used effectively.

Leviton does make significant sector bets in the portfolio, given his attraction to beaten-down growth stocks, and sometimes takes large positions in individual stocks. For example, the fund has a hefty portion of its assets in technology, which has worked both for and against the fund as that sector has ebbed and flowed. Some of the fund's biggest winners this year are retailers Jack In the Box (the sixth-largest holding, up 51% through October 1) and American Eagle Outfitters (up 124%), and tech firms palmOne (the number three holding as of June 30, ahead 174%) and Ericsson Telephone (up 80%). \$

Fidelity Investments

82 Devonshire Street, Boston, MA 02109
(800) 343-3548; Minimum investment \$2,500/\$2,500 IRA

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