



Stuck In A "Soft Patch" Third Quarter Review

by Walter S. Frank, Chief Investment Officer

Let's state the obvious: this has been an unrewarding year for investors. The markets have not taken anything away, but neither have they given. It's as if after last year, the market gods said, "enough." There have been a few sectors that outperformed meaningfully, but they either seemed unlikely (real estate) or well valued (natural resources) by the time they became noticed generally.

Basically, the market was working uphill throughout the quarter. As Mr. Greenspan's term "soft patch" indicates the economic numbers softened last quarter, after being considerably stronger earlier this year (this does not apply to GDP). Of course, what worried investors most were oil and other energy prices and their effects on the economy. The worries were abetted by a series of economic reports showing the economy slowing. Of course, the economic numbers were affected by the hurricanes that hit the Southeast late in the quarter. This requires some unknown adjustment. But the slowing was evident before the arrival of the hurricanes. The hurricanes did not cause the "soft patch."

The standout example of the slowdown came from the employment reports during the quarter. After employment growth boomed from March through May, it decelerated sharply during the third quarter, averaging 103,000 jobs per month, after running at a near 300,000 per month for a period during the spring months.

While the economic slowing was clearly evident to anyone who cared to look, another slowing was developing, and this one much closer to investors' daily concerns. We are referring to a slowing in profit growth. After four quarters of 20% profit growth, slowing growth came as no surprise to Wall Street. It had been widely heralded, and it was a feature of all the analysts' consensus estimates. It certainly

affected the prices that Wall Street was willing to pay for earnings. One feature of last quarter was the decline in price-earnings ratios. Of course, there were a fair number of earnings disappointments. Combine the disappointments with a general wariness about the profit growth rate going forward, and you have a market reluctant to pay high prices for earnings.

Summing up the quarter overall (as if that can be done), we would say the quarter was marked by oil and profit concerns.

Shape of the quarter

If you look at the charts of any of the major stock indexes, you will see that the quarter had two distinct periods. The first was a sharp decline from early July through mid-August. The second was a slow, persistent recovery that recovered virtually all the losses of the first period, the Nasdaq Composite excepted. We dubbed the second period, the "stealth recovery," because there was nothing in the economic environment to justify the market's recovery. The one thing going for the markets was internal to the market, and that was valuation.

Perhaps there was something else, and that was the action of the bond market. While oil prices rose and the Fed began its slow raising of interest rates, longer-term bond yields fell, with the 10-year Treasury yield falling almost one-half percent from roughly 4.5% to 4.0%. In theory, the justified price-earnings ratio should rise as interest rates fall, and maybe that explains the "stealth rally."

What we do know is that as the first half slide hit bottom, we heard portfolio managers, such as Robert Costomiris, manager of the Strong Mid Cap Disciplined Fund, tell us that they were finding stocks to buy again. It appears to us that the market had a bias to the upside that developed as the quarter went on.

The portfolios

As you know, and as Table 1 (on page 2) shows, the overall market, and consequently the universe of U.S. diversified equity funds, were slightly negative during the quarter. (The recovery did not quite reach the level before the slide.) But we are speaking about very small numbers. The S&P 500 (dividends included) was down a hair less than 2.0% over the three months.

Seven of our ten portfolios did better than the S&P 500, while all ten did better than the Lipper U.S. Diversified Equity Fund index for the quarter. All this is fine but we are not about to beat our chest about the performances. We are talking pretty small numbers, none greater than plus or minus 3%. In the grand scheme of things, these numbers will be swallowed

Market Trends

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

(continued on page 2)

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up when anyone looks at longer-term performance. Also, three of the seven outperformers were the Conservative portfolios, and those portfolios, not being designed for performance, have a large bond allocation in today's market. They profited from the bond market's relatively good, and unexpected, performance.

Before we go on, a word about the growth portfolios and closed funds. As a practice, when a fund in a portfolio closes we remove the fund from the portfolio and replace it with another, open fund. We do this so that the many subscribers who wish to follow the portfolios can do so. We do this even though it may, and has, cost in terms of performance.

An example is RS Partners. The fund closed at the beginning of August and we then removed the fund from the *MONEYLETTER* portfolios and replaced it with RS Contrarian Value. From August 4th to September 30th Partners rose 10% while Contrarian Value gained 7%—a 3% difference over three months. Given RS Partners weight in the portfolios, the swap cost about 0.5% in performance. We haven't calculated how much our "closed fund" policy may have cost in performance over the year-to-date, but keep the policy in mind when judging portfolio performance.

A closer look

Looking at the portfolios first, the best performing portfolios over the quarter were, you guessed it, the Conservative portfolios. The next were the Moderate portfolios, and behind them, the Venturesome and Select portfolios. There were two reasons for this ranking. First, bonds—the more bonds the better. The Venturesome portfolios had no bonds. Second, the more aggressive the portfolio, the worse it did, within a narrow range. This mirrored the performance of the various markets. Risk-taking was not rewarded in the third quarter.

Taking a longer view, and looking at the year as a whole, we could repeat the paragraph above. The only difference is to point out that there are no losses. Moreover, for the year so far, all our portfolios (except the Select) outperformed the S&P 500, though again we are not talking big numbers.

When it comes to the funds themselves, it was bond funds that contributed the most to performance. Funds that stood out (relatively) were Loomis Sayles Bond, the two Tip funds (American Century and Vanguard) and Fidelity Strategic Income. As for equity funds, two funds stand out, Artisan Mid Cap Value and RS Contrarian.

Finally, we should note how the portfolios changed over the quarter. For Venturesome and Moderate portfolios, we introduced a new international equity allocation and raised the cash allocation. At the same time, the growth portfolios tilted somewhat in the direction of value.

As we look at the world today, we expect the direction of the adjustment of the portfolios to continue. The word "caution" has entered our vocabulary. \$

Table 1
Portfolio Performance (2004)

Portfolio	(June 30–Sept. 30) (Yr. To Sept. 30)	
MONEYLETTER		
Venturesome	-2.7%	1.6%
Moderate	0.1	3.6
Conservative	2.1	4.3
Fidelity		
Venturesome	-2.5%	1.6%
Moderate	-1.2	2.9
Conservative	0.8	3.9
Vanguard		
Venturesome	0.0%	2.2%
Moderate	0.8	3.2
Conservative	1.7	4.4
MONEYLETTER Select	-2.5%	0.1%
Vanguard Index 500	-1.9%	1.4%
U.S. Diversified Equity	-2.8	N/A

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Double, Double Oil And Trouble

Perhaps the witches of Macbeth are behind it, but oil is now the bane of the economy and the markets. The economy's slowing cannot all be laid at the feet of oil, but oil has certainly played its part. How much we do not know yet. Chairman Greenspan, never shy, has tried to give us a feel for the effect of oil on the economy and has come up with about 3/4 percent of GDP.

The amount does not cripple the economy, but considering that the economy was slowing anyhow, the oil price rise simply buries the notion of a second half upturn. It is not going to happen.

Even the more optimistic observers, such as the economists at J.P. Morgan, are lowering their forecasts for this quarter and the quarter ahead. And they point, rightly, to a slowing of consumer spending. Oil prices, as we said, are the main cause of the consumer slowdown. But as the economy developed since the late spring, it was clear then that other things were going on.

The employment numbers were the tip off. Employment has been disappointing since June. Everyone, including ourselves, was counting on robust hiring to provide the incomes necessary to drive the economy ahead. Last year's tax cuts were a thing of the past after April 15. Additionally, the Fed was raising rates, putting a damper on refinancings that were so important in boosting consumer spending over the last year.

In general, consumer spending has slackened as expected, except for the occasional bump caused by strong incentives from the auto industry, as it works to reduce bloated inventories. The slower economy has had its effect on profits, but so far as we can see, not as much as we expected. Profit forecast have come down, but only slightly. Analysts are still looking for double-digit profit gains for next quarter and the first quarter of next year. The expected gains are slowing, of course. By the end of next year, many are talking of year-over-year profit gains in the single-digit range.

Given all the negatives, the U.S. market is holding up remarkably well. We attribute the performance to low interest rates and low inflation. Oil will play a role in how long either condition will last. The Street expects prices to come down. We share that view, but cross your fingers.

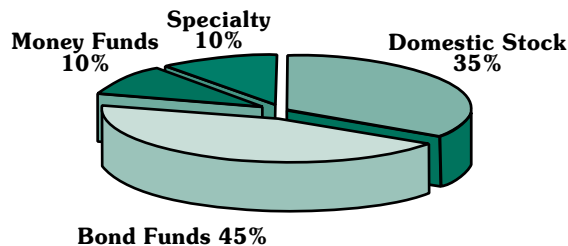
Meanwhile, though no one escapes the drag of oil, the promise of growth as next year rolls on comes from abroad. We think the best opportunities over the next year will reside overseas.

Portfolio changes

The Hotline of Tuesday, October 5th recommended the sale of Fidelity Equity-Income in both the Fidelity family Venturesome and Moderate portfolios. Here are the details as of Wednesday, October 6th. **Venturesome**—Sold 427 shares of Equity-Income @ \$51.05 per share. Purchased 2,323 shares of Fidelity Focused Stock @ \$9.39 per share. **Moderate**—Sold 208 shares of Equity-Income. Purchased 1,132 shares of Focused Stock. \$

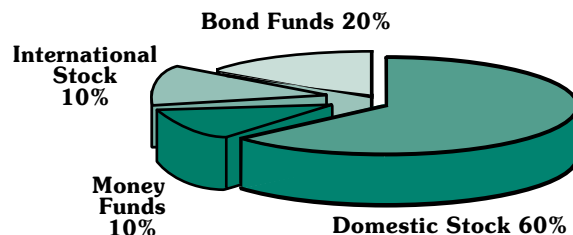
CONSERVATIVE

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



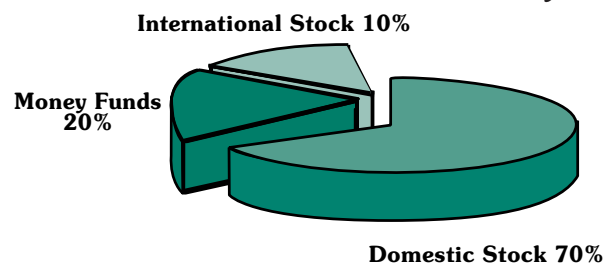
MODERATE

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



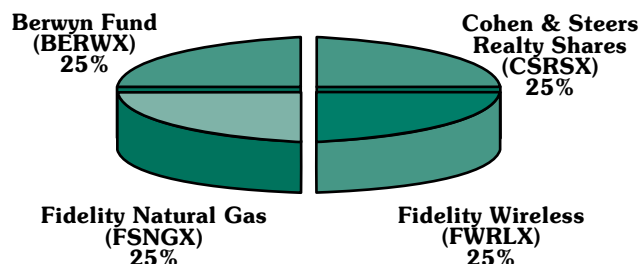
VENTURESOME

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	10/15	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	2	7	BERWX	Berwyn Fund (1%r<180d)	SCVal	B	B	B	1.1%	6.2%	27.2%	\$27.50	22.3	0.77	fsw	
2	1	2	RSPFX	RS Partners (closed)	SC	B	B	B	1.8	5.2	27.0	31.70	20.9	0.69	FSW	
3	3	-	BPTRX	Baron Partners	MCGro	*	B	B	2.6	3.7	28.4	14.34	28.6	1.26	FSW	
4	4	-	WEHIX	Weitz Hickory	Sc	*	B	B	0.4	6.6	23.7	30.13	29.1	1.38	FSW	
5	5	16	ARTGX	Artisan Mid Cap Value	MCVal	B	B	B	1.6	5.8	22.9	15.53	19.8	0.87	FSW	
6	32	6	FLVCX	Fidelity Leveraged Co (\$10,000,1.5%r<90d)	MC	*	(B)	(B)	4.0	3.2	22.8	19.83	36.3	1.39	Fw	
7	9	42	PRSVX	T. Rowe Price S-C Value (closed,1%r<1yr)	SCVal	B	B	B	1.3	5.8	18.7	32.66	18.0	0.69	fsw	
8	6	40	MOPIX	MainStay Small Cap Opportunity (closed)	SCVal	B	B	B	1.0	3.7	23.9	18.46	17.5	0.63	FSW	
9	10	72	TAVFX	Third Avenue Value (1%r<60d)	SC	B	B	B	0.4	6.3	16.7	46.94	17.2	0.79	FSW	
10	12	63	VISVX	Vanguard Small-Cap Value Index	SCVal	B	B	B	0.6	5.1	18.7	12.52	22.4	0.90	fsw	
11	20	24	RSCOX	RS Contrarian Value	MC	B	B	B	1.3	3.8	19.8	18.53	18.6	0.60	FSW	
12	8	41	ARGFX	Ariel Fund	SCVal	B	B	B	0.1	5.3	17.3	50.39	15.6	0.53	FSW	
13	7	62	TASCX	Third Avenue Small-Cap Value (1%r<1yr)	SCVal	B	B	B	0.3	5.2	16.0	20.70	19.9	0.85	FSW	
14	11	20	CRMMX	CRM Mid Cap Value Inv	MCVal	B	B	B	1.0	2.7	18.6	23.45	18.9	0.78	FSW	
15	13	19	TRMCX	T. Rowe Price Mid Cap Value	MCVal	B	B	B	0.1	3.1	18.9	21.82	19.8	0.90	fsw	
16	17	55	FDVLX	Fidelity Value	MCVal	B	B	B	0.8	3.3	17.2	67.16	19.0	0.89	Fsw	
17	19	56	JAVLX	Janus Twenty (closed)	LCGro	(H)	(H)	(H)	0.3	3.8	15.6	39.58	17.3	0.93	FSW	
18	72	36	BGRFX	Baron Growth	SCGro	H	H	H	3.5	2.2	14.3	39.14	18.4	0.72	FSW	
19	28	4	SMCDX	Strong Mid Cap Disciplined	MCVal	B	B	B	-0.3	1.9	20.5	21.01	23.1	0.99	FSW	
20	18	14	RYPRX	Royce Premier (1%r<180d)	SC	B	B	B	1.3	1.8	18.3	14.34	19.4	0.84	Fsw	
21	21	58	FBRVX	FBR Small Cap (closed,1%r<90d)	SCGro	B	B	B	0.4	2.9	16.7	36.21	23.4	0.82	FSW	
22	24	52	MPVLX	MSI Value Portfolio	LCVal	B	B	B	0.8	3.0	15.7	16.31	20.6	1.05	fsw	
23	23	45	VWNFX	Vanguard Windsor II	LCVal	B	B	B	0.0	2.7	17.2	28.18	16.2	0.82	fsw	
24	52	95	LSGIX	Loomis Sayles Value	LCVal	H	H	H	1.2	3.0	14.3	16.00	16.4	0.89	fsW	
25	31	103	VIVAX	Vanguard Value Index	LCVal	H	H	H	-0.3	3.5	14.3	19.57	18.6	1.03	fsw	
26	48	83	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	H	H	H	1.8	2.2	13.9	29.95	19.2	0.80	fw	
27	78	118	MQUIFX	Mutual Qualified (1%) CIZ	MCVal	H	H	H	0.6	2.4	14.9	18.68	13.3	0.61	sw	
28	34	27	JMCVX	Janus Mid Cap Value	MCVal	B	B	B	-0.1	1.5	17.1	21.76	20.4	0.93	fSw	
29	60	119	WVALX	Weitz Value Fund	MCVal	H	H	H	0.1	2.8	13.2	36.37	16.7	0.82	SW	
30	36	26	NBGNX	Neuberger Berman Genesis (closed)	SC	H	H	H	0.3	1.6	15.9	27.84	15.5	0.63	fsw	
31	50	31	FLPSX	Fidelity L P Stock (closed,1.5%r<90d)	SCVal	H	H	H	0.8	1.6	14.5	35.57	18.0	0.75	Fsw	
32	33	78	HOVLX	Homestead Value	LCVal	B	B	B	-0.4	2.6	13.7	28.58	16.5	0.81	W	
33	29	109	PRWCX	T. Rowe Price Cap Appreciation	LCVal	B	B	B	-0.9	2.7	14.1	18.46	11.0	0.49	fsw	
34	-	-	LSCRX	Loomis Sayles Small Cap Value Ret	SC	H	H	H	-0.2	2.5	13.6	25.34	17.2	0.80	FSW	
35	41	29	PENNX	Royce Penn Mutual (1%r<180d)	SCVal	(B)	(B)	(B)	1.4	0.6	15.6	9.55	20.4	0.80	Fsw	
36	104	106	BEGRX	Mutual Beacon (1%) CIZ	MCVal	H	H	H	0.6	1.6	14.0	14.90	12.5	0.57	sw	
37	30	110	PRFDX	T. Rowe Price Equity-Income	LCVal	H	H	H	-0.6	2.4	13.0	24.84	16.3	0.83	fsw	
38	40	74	VPMCX	Vanguard PRIMECAP (closed,\$25,000&1%r<5yr)	LC	H	H	H	0.8	1.4	12.8	57.00	21.7	1.13	fsw	
39	88	13	JSVAX	Janus Special Equity	MC	H	H	H	3.2	-0.1	12.9	11.35	22.3	1.10	SW	
40	14	88	MUHLX	Muhlenkamp Fund	MCVal	(H)	(H)	(H)	-1.1	2.1	13.7	67.05	27.9	1.24	FSW	
41	22	33	TGDVX	TCW Galileo Diversified Value N	LCVal	(H)	(H)	(H)	-0.7	1.6	14.1	12.09	19.8	1.03	FW	
42	70	227	FTQGX	Fidelity Focused Stock (.75%r<30d)	LC	*	H	H	0.3	3.1	8.7	9.02	17.2	1.00	Fw	
43	108	61	AVALX	Aegis Value Fund	SCVal	H	H	H	0.7	1.0	13.1	17.75	13.3	0.48	fw	
44	53	89	OTCFX	T. Rowe Price Small Cap Stock Fund	SC	H	H	H	1.0	0.9	13.0	29.41	19.2	0.84	fsw	
45	44	162	VEIPX	Vanguard Equity-Income	LCVal	H	H	H	-0.6	2.6	11.0	22.70	14.9	0.79	fsw	
46	61	38	MPSCX	MSI Small Cap Value (closed)	SCVal	H	H	H	1.0	0.6	13.5	22.10	20.7	0.98	fsw	
47	55	138	RYTRX	Royce Total Return (1%r<180d)	SCVal	H	H	H	0.0	2.1	11.1	11.22	15.7	0.66	FSW	
48	47	51	DODGX	Dodge & Cox Stock (closed)	LCVal	H	H	H	0.1	0.9	13.8	118.20	17.6	0.85	sw	
49	76	96	VSEQX	Vanguard Strategic Equity	MCGro	H	H	H	1.4	1.2	11.0	19.61	17.8	0.83	fsw	
50	71	134	VIMSX	Vanguard Mid-Cap Index	MC	H	H	H	1.1	1.0	11.6	13.70	20.1	0.97	fsw	
51	66	121	NGUAX	Neuberger Berman Guardian	LCVal	H	H	H	0.8	0.9	12.4	14.82	18.0	0.99	f	
52	111	102	MUTHX	Mutual Shares (1%) CIZ	MCVal	H	H	H	0.5	0.6	13.2	21.70	12.0	0.56	sw	
53	27	60	TGIGX	TCW Galileo Dividend Focused N	MCVal	H	H	H	-1.0	0.9	14.6	10.40	13.8	0.57	FW	
54	37	93	TWEIX	American Century Equity Income	MCVal	H	H	H	-1.5	2.0	12.3	7.92	12.6	0.62	FSW	
55	103	124	MXXIX	Marsico 21st Century (2%r<30d)	LC	H	H	H	2.4	1.6	7.4	10.29	21.1	0.95	FSW	
56	16	3	WBSNX	WmBlair S-C Growth N (closed,1%r<60d)	SCGro	(H)	(H)	(H)	1.5	-1.1	15.5	23.64	30.1	1.12	FSW	
57	62	76	MPEGX	MSI Mid Cap Growth	MCGro	*	H	H	1.9	0.3	11.1	18.39	22.2	1.17	fsw	
58	35	23	SAFGX	Safeco Growth Opportunities (2%r<90d)	SC	H	H	H	-0.8	1.0	13.3	26.31	29.8	1.18	fsw	
59	73	68	SSHFX	Sound Shore	LCVal	H	H	H	0.1	0.9	12.1	34.73	17.3	0.79	sW	
60	26	-	PVLDX	PIMCO PEA Value D	LCVal	*	H	H	-1.8	-0.1	17.4	16.62	25.4	1.32	FSW	
61	43	136	GEVTX	Columbia Disciplined Value CIZ	LC	H	H	H	-1.2	1.9	11.3	12.83	19.8	1.06	fw	
62	83	182	SAOPX	Salomon Brothers Opportunity	MCVal	S	S	S	-0.6	2.4	8.9	43.60	13.0	0.67	sw	
63	64	5	BUFSX	Buffalo Small Cap (closed)	SCGro	H	H	H	1.8	-2.5	17.5	24.80	31.2	1.25	SW	
64	42	94	RPMGX	T. Rowe Price Mid Cap Growth	MCGro	H	H	H	0.4	0.8	11.3	44.90	22.1	1.11	fsw	
65	59	70	NBFSX	Neuberger Berman Fasciano Inv	SCGro	S	S	S	-0.1	0.8	12.0	40.77	17.9	0.69	FSW	
66	84	35	ARTSX	Artisan Small Cap	SCGro	S	S	S	1.3	-0.2	12.3	15.10	26.7	1.19	FSW	
67	86	141	VALSX	Value Line Special Situations	MCGro	S	S	S	1.0	0.2	11.3	22.03	15.4	0.71	FSW	
68	46	84	VUVLX	Vanguard U.S. Value	LCVal	H	H	H	-1.1	0.9	12.8	12.69	17.3	0.87	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	10/15	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	RISK		NTF/wff
										1 mo.	6 mo.	12 mo.		Std. Dev.	Beta	
69	69	15	BARAX	Baron Asset	MCGro	S	S	S	1.0	-0.4	12.9	47.42	21.2	0.94	FSW	
70	15	129	CGMFX	CGM Focus	SCVal	*	(H)	(H)	0.1	0.8	10.9	31.00	37.9	1.03	fsf	
71	65	64	NAESX	Vanguard SmallCap Index	SC	S	S	S	0.4	-0.1	12.0	23.68	23.2	1.01	fsf	
72	118	65	OAKBX	Oakmark Equity&Income (2%r<90d)	Bal	S	S	S	0.6	-0.5	12.1	23.05	10.7	0.49	FSW	
73	82	139	BEQGX	American Century Equity Growth	LCVal	S	S	S	-0.2	1.1	9.1	20.06	17.2	0.97	FSW	
74	79	128	NPRTX	Neuberger Berman Partners	LCVal	H	H	H	0.1	-0.4	12.4	22.14	20.7	1.10	f	
75	63	122	FCNTX	Fidelity Contrafund	LC	H	H	H	0.6	0.3	9.9	51.53	11.4	0.54	Fsw	
76	74	116	BIGRX	American Century Income & Growth	LCVal	S	S	S	-0.6	0.8	10.2	28.05	17.4	0.97	FSW	
77	45	43	BPMCX	Boston Partners Mid Cap Value	MCVal	S	S	S	0.2	-1.0	12.6	13.33	20.1	0.93	FSW	
78	38	34	VHCOX	Vanguard Cap Opp (closed,\$25,000,1%r<5yr)	MCGro	*	S	S	1.0	-1.5	12.8	27.13	25.3	1.28	fsf	
79	49	127	SCDUX	Scudder Large Co Value	LCVal	S	S	S	-1.3	0.8	10.4	23.90	16.8	0.92	FSW	
80	128	200	MGRIX	Marsico Growth & Income (2%r<30d)	G&I	S	S	S	1.2	0.8	6.4	15.88	15.2	0.75	FSW	
81	68	117	OAKMX	Oakmark Fund (2%r<90d)	MCVal	S	S	S	-0.9	0.8	9.5	38.65	16.7	0.85	FSW	
82	85	87	GABAX	Gabelli Asset	MC	S	S	S	0.5	-0.3	9.8	37.41	17.8	0.91	FSW	
83	89	73	VEXMX	Vanguard Extended Market Index	MC	S	S	S	0.6	-0.8	10.4	27.64	21.5	1.02	fsf	
84	57	44	SOPFX	Strong Opportunity	MCVal	H	H	H	-0.3	-0.8	11.2	41.39	22.2	1.17	FSW	
85	98	207	ACBGX	USGlobal Holmes Growth (.25%r<30d)	MCGro	S	S	S	2.2	-0.2	6.1	14.12	15.3	0.57	FSW	
86	95	145	VQNPX	Vanguard Growth & Income	LC	S	S	S	-0.2	0.0	8.5	28.27	17.0	0.96	fsf	
87	121	28	FSLCX	Fidelity Small Cap Stock (2%r<90d)	SCGro	S	S	S	0.8	-2.2	12.2	16.74	21.5	0.94	F	
88	54	10	TUDRX	WPG Tudor	SC	*	S	S	-0.2	-2.7	14.8	17.12	27.0	1.22	Fsw	
89	90	79	SLASX	Selected American Shares	LCVal	S	S	S	-1.1	-0.7	10.9	33.93	16.1	0.86	sW	
90	132	80	MPMVX	MSI Mid Cap Value	MCVal	S	S	S	0.3	-0.8	8.5	20.74	23.1	1.18	fsf	
91	173	12	WMCVX	Wasatch Small Cap Value (closed,2%r<60d)	SCVal	S	S	S	1.0	-2.7	12.1	4.75	26.6	0.96	FSW	
92	67	98	FEQIX	Fidelity Equity-Income	LCVal	S	S	S	-1.3	-0.6	9.9	49.34	17.8	0.96	Fsw	
93	56	90	HAVLX	Harbor Value	LCVal	S	S	S	-1.7	-0.3	9.8	14.70	18.1	0.94	Fsw	
94	163	239	SMDCX	Strong Advisor Midcap Growth	MCGro	S	S	S	3.5	-1.3	4.3	12.18	26.2	1.35	FSW	
95	122	184	RSPVX	RS Value+Growth	MCGro	S	S	S	1.5	-0.9	6.2	17.41	18.2	0.97	FSW	
96	39	39	TWVLX	American Century Value (closed)	MCVal	H	H	H	-2.8	-0.7	12.1	7.64	16.6	0.82	fSW	
97	80	167	PRDGX	T. Rowe Price Dividend Growth	LCVal	S	S	S	-1.0	0.1	7.4	20.87	15.1	0.85	fsf	
98	92	111	DNLDX	Dreyfus New Leaders	MCGro	S	S	S	-0.1	-1.5	9.9	42.20	18.6	0.90	FSW	
99	116	256	FDSVX	Fidelity Discovery	LC	S	S	S	-0.1	-0.2	6.5	10.31	16.1	0.89	Fsw	
129	51	114	FEXPX	Fidelity Export & Multinat'l (.75%r<30d)	LC	H	H	H	-1.7	-1.7	8.8	17.88	20.3	1.07	Fsw	

Dow Jones
NASDAQ
S&P 500

-2.9% **-4.5%** **1.3%**
0.8 **-4.5** **-1.4**
-1.1 **-1.8** **5.9**

indexes do not
include dividends

International Stock Funds

1	1	54	FLATX	Fidelity Latin Amer. (1.5%r<90d)	LatinA	*	H	H	5.5%	9.1%	34.7%	\$17.68	29.8	-	Fs
2	2	64	PRLAX	T. Rowe Price Latin America (2%r<1yr)	LatinA	*	H	H	6.3	9.1	32.5	13.44	29.7	-	fsf
3	3	68	SLAFX	Scudder Latin America	LatinA	*	H	H	6.2	8.1	28.3	27.38	27.3	-	FSW
4	7	8	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	*	B	B	3.1	7.4	27.8	18.43	20.4	-	FSW
5	9	6	ARTKX	Artisan Intl Value (2%r<90d)	Int'l	*	B	B	2.8	7.2	27.9	18.72	-	-	FSW
6	5	-	NBISX	Neuberger Berman Intl (2%r<180d)	Int'l	*	B	B	3.2	7.0	27.7	16.07	16.3	-	fsw
7	4	10	DODFX	Dodge & Cox Intl Stock	Int'l	*	B	B	2.3	6.7	24.5	26.80	23.4	-	fsw
8	10	26	FIEUX	Fidelity Europe (1%r<30d)	Europe	*	B	B	4.8	5.3	22.3	29.50	22.5	-	Fsw
9	18	36	VEURX	Vanguard European Stock Index (2%r<60d)	Europe	*	B	B	3.2	5.0	19.0	23.24	17.4	-	fsf
10	15	5	VINEX	Vanguard Intl Explorer (\$25,000,2%r<60d)	int'l	*	H	H	2.5	2.6	21.2	14.34	16.3	-	fsf
11	17	3	FISMX	Fidelity Intl Small Cap (2%r<90d)	Int'l	*	H	H	3.9	1.2	22.0	20.89	-	-	Fw
12	6	38	MACSX	Matthews Asia G & I (closed,2%r<90d)	Pacific	*	B	B	0.7	4.1	19.3	15.17	11.4	-	FSW
13	12	60	ICHKX	Guinness China & Hong Kong (2%r<30d)	Pacific	*	H	H	2.9	2.5	18.6	17.75	19.6	-	FSW
14	23	31	DREGX	Driehaus Emerging Mkts Gr (2%r<60d)	Int'l	*	(B)	(B)	4.8	0.7	18.9	21.64	24.9	-	FSW
15	22	44	HAINX	Harbor International (2%r<60d)	Int'l	*	H	H	2.7	3.1	15.8	38.96	17.9	-	Fsw
16	40	52	SCGEX	Scudder Greater Europe (2%r<180d)	Europe	*	H	H	3.6	2.6	15.2	24.26	16.8	-	FSW
17	16	27	VTRIX	Vanguard International Value (2%r<60d)	Int'l	*	B	B	1.8	3.0	16.0	27.98	16.8	-	fsw
18	21	37	OAKIX	Oakmark International (2%r<90d)	Int'l	*	H	H	1.5	3.4	15.1	19.11	22.0	-	FSW
19	13	9	PRIDX	T. Rowe Price Intl Disc. (2%r<1yr)	Int'l	*	H	H	2.8	0.9	19.1	28.96	16.0	-	fsf
20	20	24	PFIFX	Preferred International	Int'l	*	H	H	1.7	3.4	14.5	15.17	17.4	-	w
21	37	51	PRESX	T. Rowe Price European	Europe	*	H	H	3.1	2.4	14.8	17.82	18.0	-	fsf
22	25	35	USIFX	USAA International	Int'l	*	H	H	2.6	2.1	16.1	20.84	15.0	-	w
23	34	43	SWINX	Schwab International Index (1.5%r<180d)	Int'l	*	H	H	2.9	2.6	13.9	14.52	14.1	-	S
24	36	41	BUBIX	Julius Baer Intl Equity A (2%r<90d)	Int'l	*	H	H	3.5	1.5	14.8	28.22	12.5	-	FS
25	19	11	TBGVX	Tweedy, Browne Global Value (2%r<60d)	Global	*	H	H	0.2	1.3	18.5	21.86	11.9	-	fsf
26	28	14	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	*	H	H	3.2	0.5	15.8	16.67	-	-	SW
27	32	30	GIGRX	Gabelli Intl Growth (2%r<60d)	Int'l	*	H	H	2.3	1.5	14.4	16.65	13.1	-	FSW
28	24	45	USAWX	USAA World Growth	Int'l	*	H	H	1.3	1.5	14.0	16.30	15.6	-	w
29	11	21	DRFMX	Dreyfus Emerging Market (1%r)	Int'l	*	H	H	2.3	-1.0	18.0	18.24	21.6	-	FSW
30	51	48	FECAX	Fidelity Europe Capital App. (1%r<30d)	Europe	*	S	S	4.0	-0.3	13.2	19.22	18.8	-	Fw
31	27	12	WAIGX	Wasatch International Growth	int'l	*	S	S	2.6	-0.3	14.5	14.76	-	-	FSW
32	41	46	VWIGX	Vanguard International Growth (2%r<60d)	Int'l	*	S	S	2.3	0.2	13.4	16.97	15.5	-	fsf
33	39	22	FDIVX	Fidelity Div Intl (closed,1%r<30d)	Int'l	*	S	S	2.5	-0.5	14.5	25.47	13.8	-	Fsw
34	14	39	VEIEX	Vanguard Emerging Mkts Stk Index (.5%r)	Int'l	*	(H)	(H)	2.4	-2.2	17.7	12.65	22.6	-	fsf
35	8	17	MAPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	*	H	H	0.1	0.4	13.9	14.00	23.6	-	FSW

Bond Funds (next issue on page 6: Specialty Funds)
 10/15/2004

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.				
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	*	*	*	1.2%	2.8%	7.7%	\$11.32	4.80	3.66%	FSW
CMHYX	Columbia High Yield	HighYld	*	*	*	0.8	1.6	3.4	8.81	5.09	6.35	fSW
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	1.7	3.3	7.7	8.15	13.62	7.98	Fsw
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	1.0	1.4	6.8	8.93	8.17	7.90	Fsw
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	1.2	3.5	5.7	9.79	4.72	6.89	FSW
NTHEX	Northeast Investors Trust	HighYld	*	*	*	0.8	4.8	13.8	7.62	6.15	8.30	fw
PHYDX	PIMCO High Yield	HighYld	*	*	*	1.5	3.6	7.7	9.80	8.75	6.63	SW
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	1.2	3.0	7.2	7.81	8.87	6.98	FSW
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	1.2	2.5	5.9	7.06	6.20	7.87	sw
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	1.0	4.1	10.9	7.27	7.77	7.95	SW
VAGIX	Value Line Aggressive Inc (1%r<120d)	HighYld	*	*	*	0.6	2.1	5.9	5.08	7.65	6.42	FSW
VWEHX	Vanguard High Yield Corporate (1%r<1yr)	HighYld	*	B	*	1.1	4.7	10.0	6.39	6.14	7.30	sw
BEGBX	American Century Intl Bond	Int'l	*	*	*	3.2	5.6	11.3	13.83	10.58	7.46	fSW
FNMX	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	2.1	4.9	7.7	14.08	12.54	5.67	Fsw
PYGFY	Payden Global Fixed Income	Int'l	*	*	*	0.7	1.9	3.6	9.98	4.12	4.48	fSW
SSTGX	Scudder Global Bond S-T (closed)	Int'l	*	*	*	1.4	2.6	4.5	10.23	5.74	4.43	FSW
RPBIX	T. Rowe Price Int'l Bond	Int'l	*	*	*	2.9	4.4	7.2	10.21	9.57	2.37	fsw
ACITX	American Century Inflation Adj	IntTerm	B	*	*	1.2	4.5	9.3	11.23	7.92	4.18	fSW
CPTNX	American Government Bond	IntTerm	H	*	*	0.5	1.5	1.4	10.81	4.77	2.46	f
BBHIX	BBH Inflation Indexed Sec	IntTerm	H	*	*	1.3	4.8	9.3	11.27	8.14	3.61	FSW
CFISX	Columbia Fixed Income Sec	IntTerm	H	*	*	0.5	1.2	1.9	13.54	4.41	4.16	fSW
SRINX	Columbia Income CIZ	IntTerm	H	*	*	1.1	2.6	4.4	10.11	4.97	5.89	FSW
SRBFX	Columbia Intermediate Bond CIZ	IntTerm	H	*	*	0.8	2.2	3.6	9.16	4.23	4.91	FSW
DODIX	Dodge & Cox Income	IntTerm	H	*	*	0.5	2.5	4.8	12.85	3.69	4.45	fsw
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	1.0	1.9	1.4	13.80	5.12	3.79	FSW
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	0.4	2.0	4.2	14.73	3.35	4.45	FSW
FTRGX	Federated Total Return Govt	IntTerm	H	*	*	0.3	1.5	2.4	10.99	6.01	4.17	sw
FGMNX	Fidelity GNMA	IntTerm	*	*	*	0.5	1.9	2.4	11.13	2.61	3.83	Fsw
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	1.4	4.2	8.5	11.44	-	1.36	Fw
FTHR	Fidelity Intermediate Bond	IntTerm	H	*	*	0.6	1.4	2.3	10.60	4.13	3.45	Fsw
FSTGX	Fidelity Intermediate Govt	IntTerm	H	*	*	0.4	2.1	3.6	10.32	4.39	2.75	Fsw
FBNDX	Fidelity Investment Grade	IntTerm	H	*	*	0.7	3.4	6.0	7.60	4.64	3.19	Fsw
FBDFX	Fremont Bond	IntTerm	H	*	*	0.7	3.0	5.1	10.76	4.94	2.37	fsw
PRRDX	PIMCO Real Return	IntTerm	H	*	*	1.4	3.1	7.1	11.64	8.23	3.28	SW
PITDX	PIMCO Total Return	IntTerm	H	*	*	0.7	2.7	4.3	10.97	4.83	2.08	SW
PTMDX	PIMCO Total Return Mortgage	IntTerm	H	*	*	0.6	2.8	3.2	10.93	3.25	2.52	SW
SFUSX	Safeco U.S. Government (2%r<90d)	IntTerm	H	*	*	0.4	1.6	1.5	9.53	3.93	4.10	FSW
SCSBX	Scudder Income (closed)	IntTerm	H	*	*	1.0	3.5	6.7	13.04	4.61	3.98	FSW
STVSX	Strong Govt Securities	IntTerm	H	*	*	0.6	1.9	2.7	10.93	5.03	3.19	FSW
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	0.4	1.5	2.1	9.69	3.16	4.32	fsw
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	0.9	2.5	3.7	9.12	4.52	3.58	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	H	*	*	1.1	3.5	5.9	9.99	3.32	4.69	SW
USAIX	USAA Income	IntTerm	H	*	*	0.8	3.3	5.9	12.47	5.13	4.40	w
VALBX	Value Line U.S. Govt Sec	IntTerm	H	*	*	0.4	1.9	3.2	11.81	4.71	3.48	FSW
VFII	Vanguard GNMA	IntTerm	B	*	*	0.5	3.1	3.0	10.46	3.62	4.70	fsw
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	1.3	4.5	9.7	12.53	8.01	4.37	sw
VFITX	Vanguard Intermediate Treas.	IntTerm	H	*	*	0.8	2.0	1.6	11.41	6.39	4.38	fsw
VBMFX	Vanguard Total Bond Market Index	IntTerm	H	*	*	0.8	3.3	5.7	10.33	4.57	4.39	fsw
MNTRX	WellsFargo Montgomery Total Ret (closed)	IntTerm	H	*	*	0.7	2.6	4.3	12.45	4.76	3.37	fSW
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	0.7	3.7	8.3	10.91	4.33	5.45	FSW
WPGVX	WPG Core Bond	IntTerm	H	*	*	0.5	2.5	4.3	10.82	4.81	2.74	FsW
DRGBX	Dreyfus 100 Treasury L-T	LngTerm	*	*	*	1.3	4.0	-1.5	15.96	9.06	4.25	F W
FGOVX	Fidelity Government Income	LngTerm	*	*	*	0.6	2.1	3.4	10.31	5.82	2.94	Fsw
KIFIX	FifthThird Bond	LngTerm	*	*	*	0.8	2.8	5.0	10.22	5.17	3.25	w
MGFIX	Managers Bond	LngTerm	*	*	*	1.0	3.3	7.6	24.59	6.90	4.34	FSW
STCBX	Strong Corporate Bond	LngTerm	*	*	*	1.0	2.7	4.7	10.64	6.94	4.73	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	1.3	3.1	6.0	9.85	6.11	5.15	fsw
PRULX	T. Rowe Price U.S. Treas. L-T	LngTerm	*	*	*	1.3	4.4	5.6	11.95	10.12	4.27	fsw
VJUSTX	Vanguard L-T Treasury	LngTerm	*	*	*	1.6	5.0	5.9	11.63	11.70	4.90	fsw
VWESX	Vanguard Long-Term Corporate	LngTerm	*	*	*	1.7	5.2	7.1	9.48	10.81	5.56	fsw
FSICX	Fidelity Strategic Income	Multi	B	B	*	1.7	4.8	8.7	10.58	5.55	5.45	Fw
JAFIX	Janus Flexible Income	Multi	*	*	*	0.8	1.5	2.5	9.75	4.95	4.64	FSW
LSBRX	Loomis Sayles Bond Retail	Multi	B	B	*	2.4	6.1	13.4	13.56	8.48	5.35	FW
RPSEX	T. Rowe Price Spectrum Income	Multi	*	*	*	0.9	2.5	5.8	11.85	4.52	4.13	fsw
MGIDX	Managers Int. Duration Govt	ShTerm	*	*	*	0.4	3.1	5.0	10.79	3.02	2.18	FSW
SCSTX	Scudder Short-Term Bond (closed)	ShTerm	B	*	*	0.4	1.3	2.3	10.39	1.77	4.12	FSW
BTINX	American Century Target 2010	ZeroCpn	*	*	*	0.9	3.9	6.4	87.26	10.25	4.32	fSW
BTFTX	American Century Target 2015	ZeroCpn	*	*	*	1.8	8.4	13.6	72.77	15.58	4.91	fSW
BTITX	American Century Target 2020	ZeroCpn	*	*	*	2.6	10.9	17.9	52.84	19.47	4.49	fSW
BTIRX	American Century Target 2025	ZeroCpn	*	*	*	3.2	13.6	21.7	44.24	22.45	4.53	fSW

Touching All the Bases—Part I

With Major League Baseball's playoffs in full swing, it's a good time to go "around the horn" with some thoughtful subscriber questions provided by B.L. of Overland Park, Kansas ...

Q Like most investors, I continually monitor the performance of my portfolio and look for ways that could make returns better—even when they are already good. As I have followed MONEYLETTER for a couple of years, I have some questions:

1) There seems to be a lot of switching between funds and that causes a lot of my gains to be taxed as short term capital gains. This is a huge drag on my after-tax returns. I know that you'll say that you only switch when you feel it is necessary (the other investment letters I follow say the same thing). Does this bother you, like it does me? Sometimes I think I would be better off merely going back to my days of a market index held for the long term.

A Your comments come as no surprise as investors are generally more sensitive to switching when the markets are down or flat than they are when the markets are trending up. While it certainly would be convenient if fund switching were kept to a minimum, volatility in the markets since the technology bubble has caused an increase in activity. MONEYLETTER's fund selection system is constantly trying to identify the hot area—small caps, value, growth etc.—and when the market gyrates as it has this year, it's inevitable that we'll have some trades with less than desirable results.

Would you be better off using a buy-and-hold strategy with index funds? A quick look at the total return data for our portfolios vs. the S&P 500 on pages two and three of the October 8th issue will provide the answer. All nine of our Asset Allocation Portfolios have matched or exceeded the index for the year-to-date. And for the trailing 3 years, MONEYLETTER's results are far ahead of the index. In our opinion, minimizing switching for convenience or tax purposes is not worth the risk of diminished performance.

2) Why is your benchmark the S&P 500 (large caps) when you choose your stock funds from the whole universe of small, medium, and large cap funds? It seems like it would be a fairer comparison to use the total market index?

We could use a broader index—say the Wilshire 5000—but tradition dictates this call. If the S&P 500 is good enough for Barron's, Business Week, and other mainstream financial press outlets, it's good enough for MONEYLETTER. Keep in mind we do include the returns of the Asset Allocation funds, which are a direct comparison to our work (excluding the Select Model which does not use an asset allocation strategy). \$

If you have an investment question that may be of interest to MONEYLETTER subscribers, please send it to: MONEYLETTER PO Box 6020 Holliston, MA 01746
Fax: 508-429-0940

Email: service@moneyletter.com

We cannot guarantee that your question will be answered or printed in MONEYLETTER. Also, we cannot address questions regarding your holdings or specific financial situation.

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	1.39%	1.33%	0.78%
Fidelity Spartan US Treas MMF	1.24	1.18	0.70
Gabelli US Treasury MMF	1.22	1.14	0.75
Amer Century Capital Presv Fund/Inv	1.13	1.05	0.62
HSBC Investor US Treas MMF/CI D	1.07	0.97	0.47
T Rowe Price US Treasury MF	0.99	0.90	0.55
US Treasury MF of America/CI A	0.96	0.89	0.39
CMA Treasury Fund RIC	0.94	0.90	0.44
RMK Select Treas MMF/CI A	0.94	0.88	0.41
Dreyfus 100% US Treas MMF	0.89	0.84	0.38
Schwab US Treasury Money Fund	0.89	0.82	0.43

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	1.75%	1.69%	1.13%
Scudder Premium Money Mkt Shrs/AARP	1.55	1.49	0.95
Scudder Premium Money Mkt Shrs/CI S	1.53	1.47	0.93
Vanguard Prime MMF/Retail	1.49	1.43	0.87
Harbor Money Market Fund	1.46	1.42	0.88
Scudder Prime Reserve MM/AARP	1.44	1.39	0.82
TIAA-CREF Money Market Fund	1.44	1.37	0.91
MFS Money Market Fund	1.40	1.35	0.70
AIG Money Market Fund/CI B	1.39	1.35	0.89
Marshall MMF/Investor Class	1.39	1.34	0.80

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Vanguard Tax-Exempt MMF	1.53%	1.42%	0.96%
Strong Tax-Free Money Fund	1.42	1.32	0.93
Fidelity Municipal MMF	1.25	1.12	0.70
Tax-Exempt Cash Managed Shares	1.23	1.11	0.65
USAA Tax Exempt MMF	1.22	1.12	0.72
Amer Century T-F MMF/Inv Class	1.21	1.13	0.72
Fidelity Tax Free Money Market	1.21	1.11	0.67
Scudder Tax-Exempt Money Fund	1.17	1.05	0.70
Dreyfus BASIC Muni MMF	1.15	1.07	0.70
T Rowe Price Summit Muni MMF	1.14	1.05	0.67

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard CA Tax-Exempt MMF	1.50%	1.40%	0.93%
Vanguard OH Tax-Exempt MMF	1.50	1.40	0.95
Vanguard NJ Tax-Exempt MMF	1.48	1.38	0.90
Vanguard PA Tax-Exempt MMF	1.48	1.38	0.93
Vanguard NY Tax-Exempt MMF	1.45	1.36	0.91
Fidelity FL Municipal MMF	1.20	1.08	0.64
Fidelity PA Municipal MMF	1.19	1.07	0.66
USAA Tax Exempt CA MMF	1.16	1.06	0.64
Fidelity CT Municipal MMF	1.15	1.04	0.60
Amer Century CA T-F MMF/Inv Class	1.14	1.04	0.61
Fidelity CA Municipal MMF	1.14	1.00	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 10/12/04. 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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New International Fund Buys

In the *MONEYLETTER* issue of September 24 we restored our allocation to international stock funds, with a number of funds rated as new buys. Here's a quick look at the three that were added to the model portfolios.

Dodge & Cox International (DODFX)

As with other Dodge & Cox funds, the international fund is invested with a value discipline and a long-run view. Its value orientation causes a focus on firms that are temporarily undervalued by the stock market but have favorable outlooks for long term growth. The management team scrutinizes the fundamentals, including financial strength, economic condition, competitive advantage, and quality of business franchise, as well as prospects for future earnings, cash flow, and dividends.

In contrast to some international funds that organize their research by country, Dodge and Cox organizes its research teams by industry. The managers believe this allows them to better understand and analyze the long-term prospects for each company. The reason? The financial and operational factors used to analyze companies in one industry may be far different from those in another. For example, an analysis of research & development spending is quite relevant in health care or technology, but not so in banks.

Recently, the managers have found attractive opportunities in South Korea, Brazil, and Mexico. By region, the firm has 38% of its assets in Europe (excluding the U.K.), followed by Japan (16%), the U.K. (15%), and the Pacific, excluding Japan (13%). By industry, the greatest weighting is in industrials (19%), followed by financials (19%), consumer discretionary (16%), energy (10%), and consumer staples (8%). The fund ranks in the top 1% of its Morningstar category (foreign large value) for the trailing one- and three-year periods, and the top 5% for the trailing five years through October 15.

*Dodge & Cox Funds, 555 California Street, 40th Floor,
San Francisco, CA 94104; (800)621-3979*

Fidelity International Small Cap (FISMIX)

Fidelity International Small Cap has undergone some changes in its short life span (inception was September 2002). It got off to a strong start, with a return of 80.3% in its first full calendar year (2003), far outpacing its category average and ranking in the top 5% of its Morningstar category. Thus far in 2004 (through October 15), it's a bit off that pace, but a return of 11.9% is enough to place it in the top 35% of the foreign small/mid cap category. Meanwhile, assets in the fund have soared to more than \$1 billion in two years, and the number of issues held has risen from 150 at the start of 2003 to more than 400 today. Finally, manager L.C. Kvaal, who started with the fund, left

at the end of 2003. Ben Paton, who joined the fund at the start of 2004, concentrates on European stocks as Kvaal did. He has stated he does not anticipate changing the successful formula followed by Kvaal, which was basically growth at a reasonable price (GARP). Tokuya Sano, who has been with the fund from its start, looks at Asian stocks.

Paton recently likened his investment process to "looking for the ugliest building on the best site." In other words, he looks for companies that may appear unattractive at first glance, but actually have solid business fundamentals. He notes that the result of using a GARP process is a portfolio where about a quarter of the holdings have a very low price-earnings (P/E) ratio, a small proportion have an infinite P/E (because the firms have no earnings currently), and the remainder have average valuations. In that middle category, such firms may have suffered a temporary setback, but are expected to return to profitability. The largest portion of assets is now in Japan (28%), followed by the U.K. (16%), Australia (9%), and Germany (8%). Consumer stocks weigh in most heavily by sector (22%), followed by industrials, information technology, and materials (each between 14% and 15%).

*Fidelity Investments, 82 Devonshire Street,
Boston, MA 02109; (800) 621-3979*

Vanguard International Value (VTRIX)

This Vanguard offering can invest in any market capitalization range, and in developed and emerging markets in Europe, Asia, the Far East, and Latin America. Until April of this year, Hansberger Global was the sole subadvisor for the fund, managing all assets. In April, Vanguard gave about a quarter of the assets to AllianceBernstein to manage. Bernstein's international group looks to buy the greatest amount of long-term earnings for the most attractive price.

Hansberger Global uses a value strategy, searching not only for stocks that are cheap, but also ones with a catalyst for price appreciation. Ajit Dayal of Hansberger recently explained that the companies they target are out of favor and selling at cheap prices relative to historic and peer valuations. They look at earnings growth, cash flow, and asset value among other factors. He notes that despite challenges such as high oil prices, rising interest rates, and election uncertainty, the global economy continues to recover. And he expects that many emerging markets could show even higher rates of growth. In fact, the fund has 15% of assets in emerging markets now. By country, France is most heavily represented in the portfolio at more than 15% of assets, followed by Japan (13%), and Germany (8%). The fund's 6.6% year-to-date return puts it in the top 12% of Morningstar's foreign large blend category. \$

*Vanguard Group, P.O. Box 2600, V26,
Valley Forge, PA 19482; (800) 662-7447*

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