



Raising the International Allocation

by Walter S. Frank, Chief Investment Officer

As we look into next year, we have decided to recommend an increase in the international allocation for Venturesome and Moderate investors, with a corresponding decrease in the domestic allocation recommended for those investors. These changes in allocations do not affect Conservative investors—their allocations remain unchanged. Also, the total equity fund allocation is not changed. What we are recommending is a shift from domestic to international stock funds, leaving the total stock fund allocation unchanged.

We recommend an increase of 10% in the international stock fund allocation for Venturesome and Moderate investors and a similar reduction in their domestic stock fund allocation. The new recommended allocations are: Venturesome—Domestic Stock Funds, 60%, International Stock Funds, 20%, Money Funds, 20%. Moderate—Domestic Stock Funds, 50%, International Stock Funds, 20%, Bond Funds, 20%, Money Funds, 10%.

Here are the fund changes we are making to the model portfolios. **MONEYLETTER Venturesome:** Sell Strong Mid Cap Disciplined. With \$11,000 of the proceeds buy Artisan International Value. With the remainder, buy Weitz Hickory. **MONEYLETTER Moderate:** Sell Strong Mid Cap Disciplined. Buy Artisan International Value with the proceeds. **Fidelity Venturesome:** Sell \$12,000 of Contrafund. Purchase Fidelity Europe with the proceeds. **Fidelity Moderate:** Sell \$5,000 of Export & Multinational and also \$5,000 of Fidelity Value. Buy Fidelity Europe with the total proceeds. **Vanguard Venturesome:** Sell Vanguard U.S. Value. Buy \$11,000 of Vanguard European Stock Index. Buy Vanguard Value Index, already in the portfolio, with the remainder of the proceeds. **Vanguard Moderate:** Sell U.S. Value. Buy \$11,000 of European Stock Index. Invest the remainder in Vanguard Small Cap Value Index, already in the portfolio.

Spreading the net

In some ways, this may seem an odd time to be cutting back domestically. After months of going nowhere, the U.S. market has finally kicked up its heels in a rally that picked up steam as the election ended. The rally has been helped along by better economic news, suggesting that the “soft patch” is indeed behind us.

In contrast, the news from abroad is mixed. The U.K. economy is slowing down. The other big Western European economies are ticking slowly. As for Asia, the big Kahuna, China, is struggling to slow down its pell-mell growth. The outcome of the struggle is by no means assured. A slowdown in China that’s considerably worse than expected would do significant damage to the Asian and other economies.

This is all true. But it also doesn’t give the full story, looking ahead. The U.S. economy has slowed down. It is still running at a good rate, about 3.5%, but we don’t see growth running faster next year. Significantly, profit growth is slowing down. It has already begun, and analysts are telling us that as next year rolls on, we’ll be lucky to see double-digit growth again.

Next year, the contrast between the effervescent U.S. economy and the rest of the non-China world will become less marked. Opportunities to find attractively priced companies, it appears to us, will be about the same here and abroad.

Perhaps it already is. If you take a look at the best performing domestic funds in our list and the best performing international funds (leave out Latin America), you will not find much difference. We think by increasing international exposure, we are adding to the total opportunity pool next year.

Notice, we have not said anything about diversification. The reason is that we believe the virtues of international diversification have been overblown in the new world of globalization. There is some effect, but noticeably less than formerly.

Ssh, the dollar

Another reason for going abroad is that we see a continued decline of the dollar. We are far from being currency experts. Nor would we make any recommendation on that basis. But the huge U.S. trade imbalance will continue for some time, putting pressure on the dollar. If international funds look good anyhow, they have the added advantage of some currency move in their direction at this time. Currency gains could add a few percentage points to performance next year.

Overall, then, we think it wise to move some further assets abroad as we close out the year.

Market Trends

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

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Looking Back On '04

As the year winds down, we thought we would look back over our advice during the past year. It is a useful exercise. Looking at the twists and turns of the year—and this year had more than the usual share—we can judge how we reacted to events. Looking back prepares the way for our look ahead, which will appear next month.

Cautiously Positive, then and now

When we looked at this year's economy almost one year ago, we anticipated a strong first half, with growth at 4-5% followed by a slower second half, with growth at about 3.5%. We thought interest rates would be about 1.5-2.0% (federal funds rate) by year-end (they were then at 1%). We also thought they would be going higher as the economy moved into '05. Just as important, if not more (from an investor's point of view), we looked for the broad averages (think S&P 500) to rise by 10-12% over the year. Even with such a relatively positive view we began looking abroad. Why?

We entered '04 after a spectacular year for both of our growth portfolios (45.6% and 41.7%). The equity portions of our portfolios were invested only in domestic funds. The Venturesome was 100% invested in domestic equity funds, and the moderate, 80%. Given our view that the heady gains of '03 were now behind the U.S. market, we thought that some diversification was in order. Moreover, after the run up here, world markets looked cheaper.

So abroad we went in a measured way. In the first issue of '04, we restored an international allocation for the Venturesome and Moderate portfolios. Our new international fund holdings had a distinct Pacific, ex-Japan tilt. We wanted to share directly or indirectly in the China boom.

The Fed and mini-panic

We were also concerned about high-yield funds as the year began. The funds had served us well in '03, but the time for a Fed rate increase was approaching and high-yield funds were no longer relatively attractive. In mid-March we switched out of high-yield funds and into the go-anywhere strategic income funds. For months, the move appeared pointless as the returns from both fund categories appeared equal. Lately, however, the strategic funds have nosed out high-yield. All in all, though, high-yield has performed better than we expected. At the same time, though, our concern over rates was justified as Wall Street became increasingly concerned, and the market started a decline that continued with the usual ups and downs until August.

Meanwhile, China roiled the markets fiercely in late April by making it clear that it intended to slow the China Express before it left the tracks. Every hedge fund in the world, it seemed, had been playing China, and China's first moves sent the Asian markets into free-fall, as the funds fled. For example, from mid-April to mid-May, Matthews Pacific Tiger dropped 19.1%.

Prudence dictated that we, too, head for the exits, however reluctantly. And we sold all our international funds, eliminating the international allocation. With 20/20 hindsight, this was not our finest moment—we sold close to the lows of the year. And Pacific Tiger is now at a new high for the year. But in this new hedge fund world, stampedes are bound to happen, and our first requisite is to get out of the way. Not all have happy endings.

The "soft patch"

After the Asian panic, the market continued to trend down, again with some short swings, as the economy apparently softened. By mid-August, concerned about the disappointing economic numbers, we cut our domestic allocations back from a very aggressive 90% (Venturesome) to 70%. Again this was a safety measure, and we held the funds raised as part of our temporary cash reserves.

By September, we put some of the cash back to work, this time in international funds (again). For the rest of the year, the domestic market trended up, but not without a sizeable dip or two (think hurricanes and elections). But then the market has taken off, hitting new highs in a post-election rally.

A bird's-eye perspective

Looking back at our expectations for the U.S., our overall economic expectations look reasonably close. Our market expectations were a mite too high. But we were (correctly) relatively cautious, coming off the boom year of '03. We had difficulty with Asia. The hedge funds wreaked havoc with those thinner markets, and we were caught in the storm.

With all the movement around the edges of our portfolios, the bulk of our growth portfolios' investments remained in U.S. equity funds throughout the year. Looking at the numbers so far, our decision to stick with stocks is being rewarded. \$

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Note: There will be 3 weeks between issues.

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What Soft Patch?

The question is not totally serious, but the employment report for October has had us all spinning around. We are not talking only about the number of new jobs reported. The number is important, but it had a few holes in it, namely we don't know how many of the jobs reported were due to the recovery after the hurricanes. We will only have a feel for the hurricane effect next month, when the new employment report is released.

No, what really sealed the deal were the revisions in the report to the last two months' employment numbers. When those are taken into account, it turns out that the economy was generating jobs at an average of 225,000 per month over the past three months. During the three months of the "soft patch" the average was 130,000, with two months (June and July) of under 100,000 new jobs.

When the new jobs report is combined with other recent data—retail sales, monthly activity surveys, and confidence indexes—it all adds up to an economy that is growing at a moderately good rate, say about 3.5%. This is not a blowout rate, and it is less than had been hoped for at this stage of the recovery from the bubble (4.0-4.5%). Still the data put an end to the concern that had even reached the Federal Reserve that the economy was losing altitude. That is behind us now.

Also behind us is the election. The market, then, has had two pieces of news to chew on: the election results and the better view of the economy. The result has been a rally that has refused to quit. Since our last issue, the S&P 500 and the Nasdaq are both up about 5%. The power of the rally has changed many skeptical heads on Wall Street including many of the technical inhabitants of the Street. A powerful rally can do wonders.

Can the rally go much further? We think it can over the short-run. The rally started with a relatively cheap market, with a forward price-earnings ratio less than 16 times. At last look, the ratio had risen to the mid-16 times. This still leaves some room on the upside.

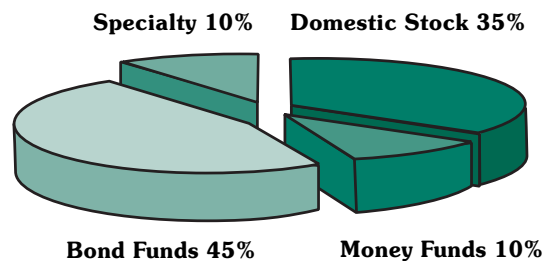
But there is a ceiling. The market is losing its overhead room. And as we move into next year, we will be facing slower growing profits and undoubtedly higher interest rates, both short and long. These put a limit on the market gains we can expect from here.

That, though, is for the intermediate-term. Looking immediately ahead, the market has much going for it. Aside from the economy, financial conditions continue extremely favorable for the market. As Brian Reynolds, a crack bond observer has been pointing out on Minyanville.com, corporate bonds are being snatched up by the bushel by the bond market. Firms are finding it easy to raise money for acquisitions and buybacks. They have been doing both. It augurs well for the market.

The precise details of the fund changes recommended in this issue will be carried in the next issue. \$

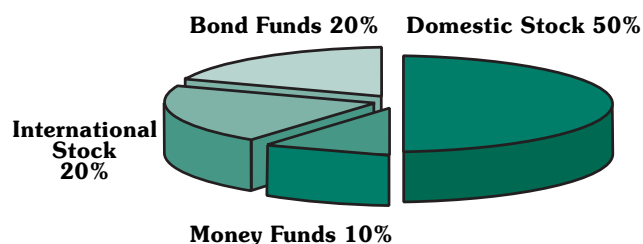
CONSERVATIVE

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



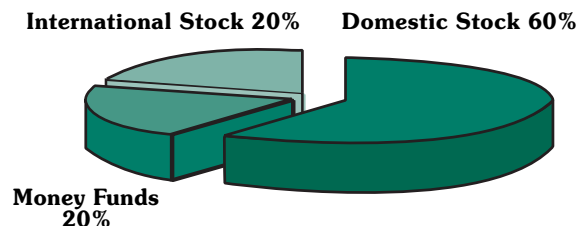
MODERATE

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



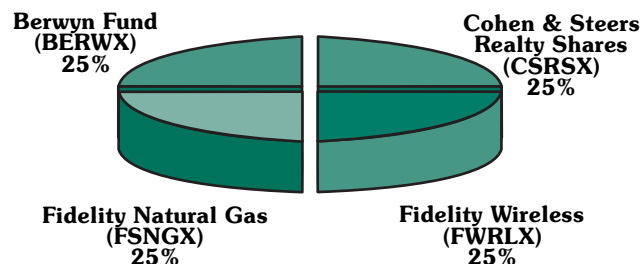
VENTURESOME

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	11/12	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	3	1		BPTRX	Baron Partners	MCGro	*	B	B	10.6%	18.9%	40.1%	\$16.00	28.6	1.26	FSW
2	11	12		RSCOX	RS Contrarian Value	MC	B	B	B	9.9	23.2	30.4	20.62	18.6	0.60	FSW
3	26	46		LLSCX	Longleaf Partners Smallcap (closed)	SCVal	B	B	B	14.2	21.7	27.1	29.35	19.2	0.80	fw
4	2	3		RSPFX	RS Partners (closed)	SC	B	B	B	7.8	21.8	35.9	34.72	20.9	0.69	FSW
5	6	5		FLVCX	Fidelity Leveraged Co (\$10,000,1.5%r<90d)	MC	*	B	B	9.6	21.7	31.4	21.97	36.3	1.39	Fw
6	9	39		TAVFX	Third Avenue Value (1%r<60d)	SC	B	B	B	7.2	20.7	24.3	50.46	17.2	0.79	FSW
7	10	40		VISVX	Vanguard Small-Cap Value Index	SCVal	B	B	B	7.0	19.8	25.2	13.56	22.4	0.90	fsw
8	7	37		PRSVX	T. Rowe Price S-C Value (closed,1%r<1yr)	SCVal	B	B	B	7.9	18.5	26.5	35.65	18.0	0.69	fsw
9	14	11		CRMMX	CRM Mid Cap Value Inv	MCVVal	B	B	B	9.6	16.0	27.0	25.84	18.9	0.78	FSW
10	21	50		FBRVX	FBR Small Cap (closed,1%r<90d)	SCGro	B	B	B	8.4	17.9	24.0	39.74	23.4	0.82	FSW
11	40	108		MUHLX	Muhlenkamp Fund	MCVVal	H	H	H	8.4	18.9	21.2	73.34	27.9	1.24	FSW
12	5	29		ARTGX	Artisan Mid Cap Value	MCVal	B	B	B	5.4	17.5	28.4	16.51	19.8	0.87	FSW
13	8	9		MOPIX	MainStay Small Cap Opportunity (closed)	SCVal	B	B	B	4.4	19.0	24.3	19.68	17.5	0.63	FSW
14	56	4		WBSNX	WmBlair S-C Growth N (closed,1%r<60d)	SCGro	(B)	(B)	(B)	8.5	15.8	25.1	26.05	30.1	1.12	FSW
15	39	53		JSVAX	Janus Contrarian	MC	H	H	H	9.4	15.9	23.3	12.47	22.3	1.10	SW
16	58	58		SAFGX	Safeco Growth Opportunities (2%r<90d)	SC	(B)	(B)	(B)	9.1	17.0	20.7	29.01	29.8	1.18	fsw
17	63	2		BUFSX	Buffalo Small Cap (closed)	SCGro	(B)	(B)	(B)	11.3	13.9	25.0	27.65	31.2	1.25	SW
18	16	49		FDVLX	Fidelity Value	MCVal	B	B	B	6.7	16.5	24.7	72.56	19.0	0.89	Fsw
19	49	82		VSEQX	Vanguard Strategic Equity	MCGro	H	H	H	8.7	17.2	19.4	21.57	17.8	0.83	fsw
20	70	99		CGMFX	CGM Focus	SCVal	*	H	H	3.3	19.5	21.0	32.86	37.9	1.03	fsw
21	1	16		BERWX	Berwyn Fund (1%r<180d)	SCVal	B	B	B	3.8	15.9	29.2	28.94	22.3	0.77	fsw
22	55	186		MXIX	Marsico 21st Century (2%r<30d)	LC	H	H	H	10.2	16.7	17.6	11.28	21.1	0.95	fSW
23	18	62		BGRFX	Baron Growth	SCGro	H	H	H	8.2	15.1	22.0	42.46	18.4	0.72	FSW
24	20	14		RYPRX	Royce Premier (1%r<180d)	SC	B	B	B	7.7	13.9	24.1	15.47	19.4	0.84	Fsw
25	12	42		ARGFX	Ariel Fund	SCVal	B	B	B	5.3	15.1	23.9	53.58	15.6	0.53	FSW
26	50	87		VIMSX	Vanguard Mid-Cap Index	MC	H	H	H	8.3	15.6	18.0	14.96	20.1	0.97	fsw
27	4	-		WEHIX	Weitz Hickory	SC	*	B	B	3.2	15.9	24.5	31.31	29.1	1.38	fsw
28	15	19		TRMCX	T. Rowe Price Mid Cap Value	MCVal	B	B	B	6.4	14.2	23.8	23.48	19.8	0.90	fsw
29	44	96		OTCFX	T. Rowe Price Small Cap Stock Fund	SC	H	H	H	8.2	14.6	19.8	32.10	19.2	0.84	fsw
30	31	56		FLPSX	Fidelity L P Stock (closed,1.5%r<90d)	SCVal	H	H	H	7.1	14.7	20.6	38.44	18.0	0.75	FSW
31	71	55		NAESX	Vanguard SmallCap Index	SC	H	H	H	7.9	15.0	18.5	25.84	23.2	1.01	fsw
32	69	54		BARAX	Baron Asset	MCGro	H	H	H	9.0	12.8	21.8	52.02	21.2	0.94	FSW
33	-	-		FFSCX	Forward Hoover Small Cap	SCGro	H	H	H	7.0	15.7	17.5	18.83	20.1	0.85	FSW
34	195	193		BRAIX	Bridgeway Aggressive Investors 2	MCGro	*	H	H	12.0	15.8	9.1	13.26	-	-	fsw
35	17	8		JAVLX	Janus Twenty (closed)	LCGro	H	H	H	7.2	11.9	25.5	42.46	17.3	0.93	FSW
36	57	70		MPEGX	MSI Mid Cap Growth	MCGro	*	H	H	8.4	14.3	17.6	20.06	22.2	1.17	fsw
37	74	101		NPRTX	Neuberger Berman Partners	LCVal	H	H	H	6.9	14.3	19.7	24.06	20.7	1.10	f
38	48	52		DODGX	Dodge & Cox Stock (closed)	LCVal	H	H	H	7.2	13.3	21.8	128.20	17.6	0.85	sw
39	34	-		LSCRX	Loomis Sayles Small Cap Value Ref	SC	H	H	H	6.1	15.4	18.3	27.26	17.2	0.80	FSW
40	126	41		WGROX	Wasatch Core Growth (closed,2%r<60d)	SCGro	H	H	H	8.8	14.5	15.9	41.22	28.5	1.10	FSW
41	13	34		TASCX	Third Avenue Small-Cap Value (1%r<1yr)	SCVal	(H)	(H)	(H)	4.9	15.3	19.6	21.79	19.9	0.85	FSW
42	22	65		MPVLX	MSI Value Portfolio	LCVal	(H)	(H)	(H)	5.6	13.7	22.3	17.39	20.6	1.05	fsw
43	23	57		VWNFX	Vanguard Windsor II	LCVal	H	H	H	5.8	13.0	23.3	30.11	16.2	0.82	fsw
44	41	26		TGDVX	TCW Galileo Diversified Value N	LCVal	H	H	H	6.3	12.9	22.1	13.05	19.8	1.03	FW
45	35	38		PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	6.6	13.1	20.7	10.28	20.4	0.80	Fsw
46	66	24		ARTSX	Artisan Small Cap	SCGro	H	H	H	8.2	12.4	19.9	16.56	26.7	1.19	FSW
47	51	115		NGUAX	Neuberger Berman Guardian	LCVal	H	H	H	7.5	13.1	19.2	16.11	18.0	0.99	f
48	53	33		TGIGX	TCW Galileo Dividend Focused N	MCVVal	H	H	H	6.7	12.7	21.0	11.24	13.8	0.57	FW
49	94	243		SMDCX	Strong Advisor Midcap Growth	MCGro	H	H	H	8.5	15.8	10.7	13.23	26.2	1.35	FSW
50	25	103		VIVAX	Vanguard Value Index	LCVal	H	H	H	5.3	13.5	20.3	20.86	18.6	1.03	fsw
51	125	151		SMTVX	Strong Multi-Cap Value	MCVal	H	H	H	6.5	13.6	17.9	59.99	22.4	1.01	FSW
52	115	47		JAENX	Janus Enterprise	MCGro	H	H	H	9.1	12.2	17.7	35.70	21.4	1.09	FSW
53	78	7		VHCOX	Vanguard Cap Opp (closed,\$25,000,1%r<5yr)	MCGro	*	H	H	7.8	11.6	20.0	29.37	25.3	1.28	fsw
54	64	68		RPMGX	T. Rowe Price Mid Cap Growth	MCGro	H	H	H	7.7	12.9	17.0	48.87	22.1	1.11	fsw
55	28	21		JMCVX	Janus Mid Cap Value	MCVal	(H)	(H)	(H)	5.8	12.2	21.1	23.20	20.4	0.93	fsw
56	77	64		BPMCX	Boston Partners Mid Cap Value	MCVal	H	H	H	7.3	12.4	18.3	14.50	20.1	0.93	FSW
57	60	10		PVLDX	PIMCO PEA Value D	LCVal	*	H	H	5.9	10.9	23.9	17.79	25.4	1.32	FSW
58	83	78		VEXMX	Vanguard Extended Market Index	MC	H	H	H	7.3	13.1	16.1	29.92	21.5	1.02	fsw
59	47	167		RYTRX	Royce Total Return (1%r<180d)	SCVal	H	H	H	5.9	13.4	16.8	12.02	15.7	0.66	Fsw
60	42	181		FTGGX	Fidelity Focused Stock (.75%r<30d)	LC	*	H	H	4.9	14.2	15.9	9.67	17.2	1.00	Fw
61	67	94		VALSX	Value Line Special Situations	MCGro	H	H	H	7.4	12.6	15.5	23.76	15.4	0.71	FSW
62	24	84		LSGIX	Loomis Sayles Value	LCVal	H	H	H	5.4	12.2	19.2	16.93	16.4	0.89	fsw
63	88	45		TUDRX	WPG Tudor	SC	*	S	S	5.7	11.9	19.5	18.30	27.0	1.22	Fsw
64	46	112		MPSCX	MSI Small Cap Value (closed)	SCVal	S	S	S	5.1	12.6	18.4	23.54	20.7	0.98	fsw
65	32	98		HOVLX	Homestead Value	LCVal	H	H	H	5.1	11.7	20.3	30.30	16.5	0.81	W
66	84	36		SOPFX	Strong Opportunity	MCVal	H	H	H	6.1	11.4	18.9	44.68	22.2	1.17	FSW
67	170	250		VLIFX	Value Line Fund	LCGro	S	S	S	8.3	14.4	8.1	15.35	13.1	0.73	FSW
68	27	134		MQIFX	Mutual Qualified (1%) CIZ	MCVal	H	H	H	4.9	12.5	17.8	19.75	13.3	0.61	sw

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	11/12	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	189	122		STDIX	Strong Discovery	MCGro	S	S	S	9.5	12.1	11.4	21.48	19.1	0.86	FSW
70	62	216		SAOPX	Salomon Brothers Opportunity	MCVal	H	H	H	5.5	12.6	16.0	46.54	13.0	0.67	sw
71	45	187		VEIPX	Vanguard Equity-Income	LCVal	H	H	H	5.4	12.3	16.8	24.25	14.9	0.79	fsw
72	30	74		NBGNX	Neuberger Berman Genesis (closed)	SC	Ⓢ	Ⓢ	Ⓢ	5.7	11.3	18.7	29.67	15.5	0.63	fsw
73	105	154		USCGX	USAA Capital Growth	MCGro	S	S	S	7.9	13.0	11.1	7.11	23.9	1.13	fsw
74	117	13		HENLX	Henlopen Fund (1%r<30d)	SCGro	*	S	S	6.0	12.9	14.3	28.67	30.9	1.19	FSW
75	85	204		ACBGX	USGlobal Holmes Growth (.25%r<30d)	MCGro	S	S	S	7.7	12.6	12.1	15.24	15.3	0.57	FSW
76	87	44		FSLCX	Fidelity Small Cap Stock (2%r<90d)	SCGro	S	S	S	6.0	11.9	16.4	17.90	21.5	0.94	F
77	33	138		PRWCX	T. Rowe Price Cap Appreciation	LCVal	H	H	H	4.4	11.8	19.0	19.57	11.0	0.49	fsw
78	82	152		GABAX	Gabelli Asset	MC	S	S	S	7.1	11.1	16.4	40.26	17.8	0.91	FSW
79	193	229		WAAEX	Wasatch Small Cap Grth (closed,2%r<60d)	SCGro	S	S	S	10.8	12.8	6.6	37.64	27.1	1.17	FSW
80	138	28		RYPNX	Royce Opportunity (1%r<180d)	SCVal	S	S	S	6.5	12.2	14.3	13.36	30.8	1.18	fsw
81	101	213		NMANX	Neuberger Berman Manhattan	MCGro	*	S	S	8.2	12.4	11.2	6.63	23.4	1.15	f
82	113	93		PESPX	Dreyfus Mid Cap Index	MCGro	S	S	S	7.2	11.8	13.7	25.87	20.2	0.97	FSW
83	90	124		MPMVX	MSI Mid Cap Value	MCVal	S	S	S	6.4	11.5	15.3	22.47	23.1	1.18	fsw
84	68	117		VUVLX	Vanguard U.S. Value	LCVal	Ⓢ	Ⓢ	Ⓢ	4.8	11.7	17.3	13.51	17.3	0.87	fsw
85	61	129		GEVTX	Columbia Disciplined Value CIZ	LC	S	S	S	4.8	11.7	17.0	13.68	19.8	1.06	fw
86	224	180		RSEGX	RS Emerging Growth (closed)	SCGro	*	S	S	9.5	12.3	8.3	30.71	30.0	1.48	FSW
87	37	116		PRFDX	T. Rowe Price Equity-Income	LCVal	S	S	S	4.6	10.9	18.2	26.31	16.3	0.83	fsw
88	73	150		BEGGX	American Century Equity Growth	LCVal	S	S	S	5.7	11.3	15.7	21.48	17.2	0.97	FSW
89	144	140		VCVLX	Vanguard Capital Value	LCVal	S	S	S	6.2	11.2	14.7	11.11	-	-	fsw
90	91	15		WMCVX	Wasatch Small Cap Value (closed,2%r<60d)	SCVal	S	S	S	5.6	10.7	17.0	5.10	26.6	0.96	FSW
91	98	75		DNLDX	Dreyfus New Leaders	MCGro	S	S	S	6.7	10.9	14.8	45.60	18.6	0.90	FSW
92	131	127		VWNDX	Vanguard Windsor	LCVal	S	S	S	6.2	11.1	14.8	17.57	19.6	1.02	FSW
93	150	85		MERDX	Meridian Fund	MCGro	S	S	S	8.4	10.2	13.6	36.88	23.1	0.95	fw
94	168	73		NBNGX	SIT Mid Cap Growth (2%r<30d)	MCGro	*	S	S	9.1	10.2	12.6	10.63	23.5	1.23	FSW
95	38	51		VPMCX	Vanguard PRIMECAP (closed,\$25,000&1%r<5yr)	LC	H	H	H	5.3	10.2	18.0	60.36	21.7	1.13	fsw
96	75	92		FCNTX	Fidelity Contrafund	LC	H	H	H	5.9	10.7	15.7	54.90	11.4	0.54	Fsw
97	188	71		VISGX	Vanguard Small Cap Growth Index	SCGro	S	S	S	9.0	10.2	12.1	14.46	21.6	0.91	fsw
98	129	72		FEXPX	Fidelity Export & Multinat'l (.75%r<30d)	LC	H	H	H	5.8	10.1	17.1	19.31	20.3	1.07	Fsw
99	36	142		BEGRX	Mutual Beacon (1%) CIZ	MCVal	H	H	H	4.5	11.1	16.6	15.67	12.5	0.57	sw
100	19	6		SMCDX	Strong Mid Cap Disciplined	MCVal	Ⓢ	Ⓢ	Ⓢ	3.3	8.8	23.9	21.98	23.1	0.99	FSW

Dow Jones
NASDAQ
S&P 500

4.6%
8.3
5.6

4.9%
8.3
7.9

7.0%
5.7
11.9

indexes do not
include dividends

International Stock Funds

1	1	39		FLATX	Fidelity Latin Amer. (1.5%r<90d)	LatinA	*	H	H	6.1%	38.8%	40.9%	\$19.10	29.8	-	Fs
2	2	49		PRLAX	T. Rowe Price Latin America (2%r<1yr)	LatinA	*	H	H	5.6	36.4	37.4	14.44	29.7	-	fsw
3	3	65		SLAFX	Scudder Latin America	LatinA	*	H	H	4.7	35.1	34.9	29.21	27.3	-	FSW
4	7	8		DODFX	Dodge & Cox Intl Stock	Int'l	*	B	B	7.6	23.0	33.5	28.96	23.4	-	fsw
5	8	46		FEIUX	Fidelity Europe (1%r<30d)	Europe	*	B	B	8.6	22.9	30.0	31.73	22.5	-	Fsw
6	-	-		TREM	T. Rowe Price Emg Europe&Med.	Europe	*	H	H	6.8	18.1	31.9	14.75	29.2	-	fw
7	5	6		ARTIX	Artisan Intl Value (2%r<90d)	Int'l	*	B	B	7.0	16.7	33.6	19.95	-	-	FSW
8	34	26		VEIEX	Vanguard Emerging Mkts Stk Index (.5%r)	Int'l	*	Ⓢ	Ⓢ	6.0	20.6	23.8	13.57	22.6	-	fsw
9	9	31		VEURX	Vanguard European Stock Index (2%r<60d)	Europe	*	B	B	8.8	17.5	27.0	25.09	17.4	-	fsw
10	6	-		NBISX	Neuberger Berman Intl (2%r<180d)	Int'l	*	B	B	5.4	16.1	33.9	16.89	16.3	-	fsw
11	38	23		SGSCX	Scudder Global Discovery (closed)	Int'l	*	H	H	10.9	16.3	24.2	32.71	20.1	-	FSW
12	29	38		DRFMX	Dreyfus Emerging Market (1%r)	Int'l	*	Ⓢ	Ⓢ	6.4	19.0	23.9	19.52	21.6	-	FSW
13	4	7		OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	*	B	B	5.0	16.9	30.9	19.42	20.4	-	FSW
14	13	30		ICHKX	Guinness China & Hong Kong (2%r<30d)	Pacific	*	Ⓢ	Ⓢ	2.7	21.1	23.0	18.75	19.6	-	FSW
15	24	37		BUBIX	Julius Baer Intl Equity A (2%r<90d)	Int'l	*	Ⓢ	Ⓢ	7.5	17.3	24.7	30.19	12.5	-	FS
16	71	69		JVEIX	Janus Intl Equity (1%r<90d)	Int'l	*	Ⓢ	Ⓢ	7.5	16.2	27.2	16.98	13.9	-	FSW
17	11	3		FISMX	Fidelity Intl Small Cap (2%r<90d)	Int'l	*	H	H	6.1	15.9	29.2	22.22	-	-	Fw
18	15	20		HAINX	Harbor International (2%r<60d)	Int'l	*	H	H	6.6	16.9	24.0	41.57	17.9	-	Fsw
19	21	48		PRESX	T. Rowe Price European	Europe	*	H	H	9.6	15.2	23.5	19.39	18.0	-	fsw
20	14	55		DREGX	Driehaus Emerging Mkts Gr (2%r<60d)	Int'l	*	H	H	3.6	19.6	21.3	22.76	24.9	-	FSW
21	18	24		OAKIX	Oakmark International (2%r<90d)	Int'l	*	H	H	7.8	15.3	24.1	20.70	22.0	-	FSW
22	10	10		VINEX	Vanguard Intl Explorer (\$25,000,2%r<60d)	Int'l	*	Ⓢ	Ⓢ	6.5	14.5	27.7	15.19	16.3	-	fsw
23	48	47		FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	*	H	H	6.0	17.3	20.9	11.86	-	-	Fsw
24	35	21		MAPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	*	H	H	5.6	17.0	21.8	15.02	23.6	-	FSW
25	23	43		SWINX	Schwab International Index (1.5%r<180d)	Int'l	*	H	H	7.6	15.4	22.6	15.57	14.1	-	S
26	36	34		ARTIX	Artisan International (2%r<90d)	Int'l	*	H	H	7.7	15.3	21.2	21.08	16.4	-	FSW
27	26	15		ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	*	H	H	7.1	15.2	21.9	17.87	-	-	SW
28	17	19		VTRIX	Vanguard International Value (2%r<60d)	Int'l	*	H	H	5.9	15.7	22.2	29.65	16.8	-	fsw
29	20	16		PIFIX	Preferred International	Int'l	*	H	H	6.2	15.3	22.3	16.17	17.4	-	w
30	22	25		USIFX	USAA International	Int'l	*	H	H	7.2	13.9	24.1	22.30	15.0	-	w
31	16	60		SCGEX	Scudder Greater Europe (2%r<180d)	Europe	*	H	H	7.6	14.5	22.0	26.01	16.8	-	FSW
32	33	18		FDIVX	Fidelity Div Intl (closed,1%r<30d)	Int'l	*	H	H	7.2	13.2	22.9	27.29	13.8	-	Fsw
33	19	12		PRIDX	T. Rowe Price Intl Disc. (2%r<1yr)	Int'l	*	Ⓢ	Ⓢ	5.7	14.0	22.7	30.59	16.0	-	fsw
34	40	44		WBIGX	Wm. Blair Intl Growth N (closed,1%r<60d)	Int'l	*	S	S	7.2	14.7	18.4	20.69	14.6	-	FSW
35	37	17		FIGRX	Fidelity Intl Discovery (2%r<30d)	Int'l	*	S	S	7.7	13.0	21.5	26.55	15.2	-	Fsw

Bond Funds (next issue on page 6: Specialty Funds)
 11/12/2004

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	*	*	*	2.2%	6.1%	9.1%	\$11.57	4.82	3.59%	fSW
CMHYX	Columbia High Yield	HighYld	*	*	*	0.8	6.0	4.2	8.87	4.77	6.26	fSW
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	2.7	11.0	9.6	8.36	13.67	7.80	Fsw
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	1.8	6.4	7.5	9.09	8.24	7.76	Fsw
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	1.0	7.5	6.4	9.88	4.50	6.77	FSW
NTHSX	Northeast Investors Trust	HighYld	*	*	*	1.7	8.1	14.5	7.76	5.94	8.20	fw
PHYDX	PIMCO High Yield	HighYld	*	*	*	1.0	8.8	8.0	9.90	8.73	6.49	SW
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	1.2	7.3	8.3	7.90	8.86	6.88	FSW
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.1	2.5	2.4	8.69	2.64	4.60	FSW
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	1.6	7.2	7.1	7.16	6.03	7.72	sw
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	1.9	8.7	11.7	7.35	7.72	7.82	SW
VAGIX	Value Line Aggressive Inc (1%r<120d)	HighYld	*	*	*	1.0	5.4	6.1	5.13	7.59	6.28	FSW
VWEHX	Vanguard High Yield Corporate (1%r<1yr)	HighYld	*	B	*	1.6	9.0	10.7	6.44	6.14	7.19	sw
BGBX	American Century Intl Bond	Int'l	*	*	*	6.0	12.5	16.6	14.49	10.79	7.19	fSW
FNMI	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	0.6	14.8	10.0	14.27	12.58	5.66	Fsw
PYGF	Payden Global Fixed Income	Int'l	*	*	*	0.7	4.5	4.4	10.00	3.89	4.46	fsw
SSTGX	Scudder Global Bond S-T (closed)	Int'l	*	*	*	3.0	7.5	7.3	10.45	5.75	4.32	FSW
RPBIX	T. Rowe Price Int'l Bond	Int'l	*	*	*	5.3	11.4	11.7	10.63	9.80	2.26	fsw
ACITX	American Century Inflation Adj	IntTerm	B	*	*	0.5	6.5	7.4	11.23	7.83	3.81	fSW
BBHIX	BBH Inflation Indexed Sec	IntTerm	B	*	*	0.5	6.7	8.0	11.27	8.03	3.37	FSW
CFISX	Columbia Fixed Income Sec	IntTerm	H	*	*	-0.3	3.0	1.6	13.48	4.29	4.14	fSW
SRINX	Columbia Income CIZ	IntTerm	H	*	*	0.1	5.4	3.5	10.10	4.93	5.79	FSW
SRBF	Columbia Intermediate Bond CIZ	IntTerm	H	*	*	-0.1	4.4	2.6	9.13	4.20	4.88	FSW
DODIX	Dodge & Cox Income	IntTerm	H	*	*	0.2	4.3	4.8	12.86	3.62	4.43	fsw
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	0.2	4.7	1.4	13.75	5.02	3.92	FSW
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	0.1	3.8	3.7	14.68	3.32	4.43	FSW
DSINX	Dreyfus Strategic Income	IntTerm	*	*	*	-0.1	4.2	0.4	14.63	4.79	3.99	FSW
FGMNX	Fidelity GNMA	IntTerm	*	*	*	-0.3	3.2	2.1	11.09	2.58	3.92	Fsw
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	0.6	6.4	7.0	11.45	-	1.33	Fw
FSTGX	Fidelity Intermediate Govt	IntTerm	H	*	*	-0.4	3.0	3.1	10.26	4.32	2.78	Fsw
FBNDX	Fidelity Investment Grade	IntTerm	H	*	*	0.2	5.5	5.5	7.58	4.53	3.18	Fsw
FBDFX	Fremont Bond	IntTerm	H	*	*	0.0	5.1	5.1	10.75	4.83	2.10	fsw
MWTRX	MetroWest Total Return	IntTerm	*	*	*	0.5	4.0	3.1	9.76	5.91	6.05	SW
PRRDX	PIMCO Real Return	IntTerm	H	*	*	0.6	5.3	5.8	11.66	8.15	2.92	SW
PITDX	PIMCO Total Return	IntTerm	H	*	*	0.1	4.6	4.3	10.97	4.72	1.99	SW
PTMDX	PIMCO Total Return Mortgage	IntTerm	H	*	*	-0.1	4.3	3.2	10.91	3.18	2.50	SW
SFUSX	Safeco U.S. Government (2%r<90d)	IntTerm	H	*	*	-0.1	3.1	1.5	9.48	3.90	4.06	FSW
SCSBX	Scudder Income (closed)	IntTerm	H	*	*	-0.3	5.1	5.7	12.97	4.49	4.23	FSW
STVSX	Strong Govt Securities	IntTerm	H	*	*	-0.5	3.4	2.3	10.87	4.87	3.24	FSW
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	-0.2	3.1	1.6	9.67	3.08	4.33	fsw
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	-0.2	4.3	3.1	9.09	4.38	3.58	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	H	*	*	-0.3	3.9	4.9	9.87	3.29	4.42	SW
USAIX	USAA Income	IntTerm	H	*	*	0.2	5.4	5.2	12.42	5.05	4.34	w
VALBX	Value Line U.S. Govt Sec	IntTerm	H	*	*	-0.3	3.3	2.9	11.77	4.62	3.47	FSW
VFIIX	Vanguard GNMA	IntTerm	B	*	*	0.2	4.9	2.8	10.44	3.58	4.66	fsw
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	0.5	6.3	7.6	12.54	7.92	4.33	sw
VFITX	Vanguard Intermediate Treas.	IntTerm	H	*	*	-0.3	3.9	1.4	11.30	6.28	4.37	fsw
VBMFX	Vanguard Total Bond Market Index	IntTerm	H	*	*	0.4	5.4	5.6	10.28	4.48	4.34	fsw
MNTRX	WellsFargo Montgomery Total Ret (closed)	IntTerm	H	*	*	-0.4	4.4	3.8	12.39	4.65	3.40	fSW
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	0.4	6.0	7.4	10.89	4.25	5.42	FSW
WPGVX	WPG Core Bond	IntTerm	H	*	*	0.1	4.6	4.2	10.78	4.71	2.78	Fsw
DRGBX	Dreyfus 100 Treasury L-T	LngTerm	*	*	*	-0.9	6.0	-2.8	15.74	8.57	4.22	F W
FGOVX	Fidelity Government Income	LngTerm	*	*	*	-0.3	3.5	2.8	10.26	5.67	2.93	Fsw
KIFIX	FifthThird Bond	LngTerm	*	*	*	0.1	4.5	4.5	10.17	5.10	3.20	w
MGFIX	Managers Bond	LngTerm	*	*	*	0.5	6.4	6.8	24.59	6.68	4.28	FSW
STCBX	Strong Corporate Bond	LngTerm	*	*	*	0.1	5.9	4.5	10.63	6.91	4.70	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	0.3	6.4	5.5	9.85	5.99	5.02	fsw
PRULX	T. Rowe Price U.S. Treas. L-T	LngTerm	*	*	*	-0.4	6.7	4.4	11.86	9.71	4.19	fsw
VWESX	Vanguard Long-Term Corporate	LngTerm	*	*	*	0.3	9.3	6.1	9.43	10.45	5.49	fsw
VUSTX	Vanguard L-T Treasury	LngTerm	*	*	*	-0.1	8.1	4.8	11.52	11.24	4.86	fsw
FSICX	Fidelity Strategic Income	Multi	B	B	*	2.1	10.8	10.2	10.75	5.49	5.37	Fw
JAFIX	Janus Flexible Income	Multi	*	*	*	-0.4	3.5	2.0	9.70	4.79	4.64	FSW
LSBRX	Loomis Sayles Bond Retail	Multi	B	B	*	2.4	13.5	13.7	13.86	8.45	5.24	FW
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	1.7	6.7	7.2	12.05	4.40	4.06	fsw
MGIDX	Managers Int. Duration Govt	ShTerm	*	*	*	0.1	4.4	4.4	10.76	2.94	2.21	FSW
BITNX	American Century Target 2010	ZeroCpn	*	*	*	-0.2	6.0	5.9	86.78	9.96	4.28	fSW
BTFIX	American Century Target 2015	ZeroCpn	*	*	*	-0.1	11.6	11.4	72.25	15.04	4.84	fSW
BTTIX	American Century Target 2020	ZeroCpn	*	*	*	0.1	15.4	14.6	52.53	18.47	4.41	fSW
BTRIX	American Century Target 2025	ZeroCpn	*	*	*	0.1	19.0	16.9	43.99	21.30	4.42	fSW

2004 Estimated Fund Distributions¹

Fund	Rec. Date	\$ PPS*	% NAV ²
Artisan International Value	17-Nov	\$0.43	2.2%
Artisan Mid Cap Value	17-Nov	0.38	2.3
Baron Partners	22-Nov	0.43	2.7
Berwyn Fund	29-Dec	n/a	n/a
Dodge & Cox International	28-Dec	n/a	n/a
Fidelity Balanced	10-Dec	0.00	0.0
Fidelity Contrafund	23-Dec	0.00	0.0
Fidelity Europe	3-Dec	0.12	0.4
Fidelity Export & Multinational	17-Dec	0.11	0.6
Fidelity Focused Stock	3-Dec	0.01	0.1
Fidelity International Small Cap	10-Dec	0.94	4.2
Fidelity Leveraged Company	3-Dec	0.16	0.7
Fidelity Natural Gas	3-Dec	0.01	0.0
Fidelity Value	3-Dec	3.86	5.3
Fidelity Wireless	17-Dec	0.00	0.0
Gateway Fund	29-Dec	0.25	1.0

*Payout Per Share includes dividend, short-term, and long-term capital gains. Check with your individual fund to determine the precise breakdown. Keep in mind, long-term capital gains are taxed at 15%; dividend and short-term gains are taxed as regular income.

Notes:

¹The above list is not meant to be all-inclusive. Rather, it is provided only as a guide as to the magnitude of fund distributions among some of the funds that *MONEYLETTER* recommends or purchases in its portfolios. Portfolio funds that have not estimated distributions at press time are excluded. In all cases, you should contact your funds to confirm as this information is subject to change.

²NAVs used for calculations as of 11/15/04.



100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF	1.52%	1.36%	0.80%
Vanguard Treasury MMF	1.51	1.45	0.84
Fidelity Spartan US Treas MMF	1.38	1.29	0.75
HSBC Investor US Treas MM/CI D	1.27	1.14	0.54
Amer Century Capital Presv Fund/Inv	1.26	1.20	0.67
T. Rowe Price US Treasury MF	1.16	1.09	0.60
US Treasury MF of America/CI A	1.12	1.04	0.44
JPMorgan 100% US Treas MMF/Morgan	1.11	1.05	0.54
Schwab US Treasury Money Fund	1.09	1.00	0.48
RMK Select Treas MMF/CI A	1.08	1.02	0.47

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	1.83%	1.79%	1.19%
Scudder MM Series Premium/AARP	1.64	1.60	1.02
Scudder MM Series Premium/CI S	1.62	1.58	1.00
Vanguard Prime MMF/Retail	1.60	1.55	0.94
MFS Money Market Fund	1.56	1.49	0.78
TIAA-CREF Money Market Fund	1.56	1.48	0.97
Scudder MM Series Prime Reserve/AARP	1.53	1.49	0.90
Marshall MMF/Investor Class	1.51	1.46	0.86
Morgan Stanley Active Assets MT	1.50	1.45	0.82
Fremont Money Market Fund	1.49	1.40	0.84

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Vanguard Tax-Exempt MMF	1.56%	1.60%	1.03%
Strong Tax-Free Money Fund	1.42	1.49	0.98
Amer Century T-F MMF/Inv Class	1.29	1.30	0.77
Scudder T-E Cash Managed Shares	1.28	1.31	0.76
Fidelity Municipal MMF	1.27	1.32	0.76
USAA Tax Exempt MMF	1.27	1.29	0.77
Fidelity Tax Free Money Market	1.25	1.29	0.72
Dreyfus BASIC Muni MMF	1.24	1.23	0.75
Scudder Tax-Exempt Money Fund	1.23	1.25	0.76
Strong Municipal MMF	1.23	1.34	0.82

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	1.55%	1.58%	1.01%
Vanguard PA Tax-Exempt MMF	1.54	1.58	0.99
Vanguard CA Tax-Exempt MMF	1.53	1.57	0.99
Vanguard NJ Tax-Exempt MMF	1.51	1.56	0.97
Vanguard NY Tax-Exempt MMF	1.51	1.53	0.97
Fidelity FL Municipal MMF	1.24	1.28	0.70
Fidelity PA Municipal MMF	1.21	1.26	0.72
Amer Century CA T-F MMF/Inv Class	1.19	1.18	0.67
USAA Tax Exempt CA MMF	1.19	1.23	0.69
Fidelity CT Municipal MMF	1.18	1.23	0.66
Fidelity OH Municipal MMF	1.18	1.21	0.66

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 11/9/04. 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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T. Rowe Price Emerging Europe & Mediterranean

Back in September of 2000, not many fund groups were introducing new emerging market funds. But T. Rowe Price saw an opportunity in emerging Europe and Mediterranean nations. Emerging European nations include Eastern Europe and the former Soviet Union. Emerging Mediterranean includes Egypt, Greece, Israel, Jordan, Lebanon, Morocco, Tunisia, and Turkey. At the time the fund opened, fund manager and emerging markets specialist Christopher Alderson commented that these regions offer numerous attractive individual companies, and that the breadth and liquidity of these markets had improved markedly. He also believed that the Middle East, in particular, had gotten a bum rap from investors. He saw very well run and profitable firms in the Middle East that were selling at large discounts, only because of where they were located.

While these two areas, emerging European nations and emerging Mediterranean nations, may at first seem to have little in common, there is an important thread tying the two areas together. Many traditional emerging markets, such as those in Asia and Latin America, have economies based on exports to the U.S. In contrast, the Eastern European and Mediterranean regions sport economic growth that is internally generated, where economies are growing, often thanks to reforms leading to consumers gaining in income and buying more goods. The only real exception is Israel, which has greater export ties to the U.S.

While Israel has the largest country allocation in the portfolio, the fund is most overweight (vs. the benchmark MSCI EM Europe and Middle East index) to Egypt. In fact, the fund's allocation to Egypt jumped from less than 7% at the end of the second quarter to nearly 18% three months later. Alderson has stated that he substantially increased the fund's exposure to Egypt during the third quarter. Orascom Telecommunications (the number three holding at 5.2% of assets) and Orascom Construction (number six at 4.5% of assets) were among the fund's top absolute contributors to the quarter's returns.

The fund's top holding, Lukoil Oil, at 10.1% of assets, is the leading vertically integrated oil producer in Russia. The firm is involved in oil and gas exploration and production, and the production and sale of petroleum products. It dominates the Russian energy sector. Alderson, however, had to jettison another Russian oil producer from the portfolio during the third quarter, Yukos, which had been the number two portfolio holding at the end of the June

quarter at 7.6% of assets. Yukos has been caught up in legal battles with the government, is facing asset sales to settle tax disputes and has warned of bankruptcy.

Teva Pharmaceuticals is the fund's number two holding, at 6.7% of assets. An Israeli pharmaceuticals firm with an extremely strong generic business, Teva is, in fact, the largest generic drug manufacturer globally. The number four stock is AO VimpelCom, a Russian wireless provider (5.1% of assets). Rounding out the top five is Israel's Makteshim-Agan Industries (4.6% of assets), a leading generic manufacturer of crop protection products.

Top Five Sectors & Countries (% of Assets)

Financials	25.4%	Israel	29.5%
Telecommunications Serv.	23.7	Russia	26.0
Energy	16.2	Egypt	17.8
Materials	8.9	Turkey	12.8
Information Technology	8.6	Hungary	3.2

As of September 30, 2004

As you can tell from the data here, this is not a broadly diversified portfolio. Alderson has sectors he favors heavily. For example, he sees good opportunities in banking, especially in home mortgages, as people increasingly buy homes in emerging markets. He favors wireless communications for a similar reason. He also piles assets into his top stock picks. Currently, the top five holdings account for more than 31% of assets, and the top ten for more than 50%.

The portfolio is weighted toward smaller stocks: Recently, large-cap stocks comprised 37% of the portfolio, mid-caps 45%, and small- and micro-caps, 17%. Indeed, Alderson stated in a Barron's article, "We tend not to own those stocks whose capitalization represents a proxy for the country. Instead, we look for smaller companies with good growth potential, such as finance and mortgage companies, or information technology and telecommunications." Alderson also manages the T. Rowe Price Emerging Markets Stock fund, where he has amassed a strong track record. T. Rowe Price Emerging Europe and Mediterranean has been on a tear since inception. Its 20.4% year-to-date total return (through November 11) puts it ahead of 94% of its Morningstar category competitors (diversified emerging markets funds). Moreover, a better than 32% annualized total return for the trailing three years ranks it in the top 3% of competing funds. \$

T. Rowe Price Emerging Europe & Mediterranean (TREM)X
T. Rowe Price, 100 E. Pratt Street, Baltimore, MD 21202
(800) 638-5660; Minimum Investment: \$2,500/\$1,000 IRA

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