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Climbing The Wall Of Worry
The 2005 Outlook

by Walter S. Frank, Chief Investment Officer

Traditions are not to be flouted. One long-time Wall Street tradition is the production of year-end outlooks. We're not sure what useful purpose these outlooks perform. Anyone who knows anything about the market knows that predicting the market twelve months out, and then acting on that prediction, is hazardous to your wealth. Still it is useful to stand back every now and then and ask what is the most likely path ahead—not a prediction but a broad brush view of the outlook encompassing what we now know.

All in all this has not been a bad year, better than expected. The expected part applies more to the broad averages such as the S&P 500 (total return about 11%) than elsewhere. The S&P and the other broad averages did come in about as expected (see last year's Outlook).

But if you take a look at the fund lists on the financial pages, you will see many funds with year-to-date total returns in the neighborhood of 20%. A sprinkle of funds is even approaching 30%. True, many of these performing funds, but by no means all, are international funds. Still there is good representation of domestic funds among the 20% or more performers.

Such a performance, coming off the whiz-bang 2003 performance, is remarkable. It also raises the obvious question: what can the market do for an encore next year? We don't know about an encore. We do feel, though, that the market can continue its advance, not necessarily in the same sectors, undoubtedly not in the same names. Yet when we look back a year from now, we believe the broad market will have turned out to have done as well as it did this year. As for individual star performers, well, who knows?

Worry, worry, worry

Our view rests on two considerations. First, we think the economy will do O.K. next year. Not great, but O.K. The Administration is now projecting 3.5% growth for next year, as compared to 4% this year. We think that is about right. Second, the overall market still has room to run before valuations hit overvalued territory. Moreover, even if the overall market disappoints, there are sectors of the domestic market that have been neglected these past two years, which by all market logic should come to life. Next year may be their year. Then, of course, there are the international markets. They are by no means cheap, but neither are they fully exploited.

In order for our view to bear any resemblance to reality the economy is going to have to navigate around more than one potential hazard. There are three that pop up at once. First, there is the consumer. As far as we know, Christmas spending is turning out to be less than a barn-burner. Is this a harbinger of the 2005 consumer? If so, forget the 3.5% and think of growth in the 2-3% range.

Second, there is interest rates. The Fed is raising short-term rates. We don't know how much further they have to go. We expect we will see short-term rates at 3%, at least. Beyond that, it depends on the economy. So far, the long-term market—the market that really counts as far as stocks are concerned—has taken higher rates in stride. Will this continue?

Finally, there is oil. Have we seen the high in oil prices? If so, the oil squeeze will lessen as time goes on. If not, then once again, we need to lower our growth expectations.

We have not mentioned the dollar, but that is because we do not think the dollar is a major problem for the U.S. economy. In fact, we see it as a plus as far as U.S. growth is concerned. For the euro countries and Japan the dollar is another story. So long as the dollar's decline is gradual, and the Fed does not feel obliged to raise rates, we count the dollar's devaluation as a plus.

Worry No. 1: Essentially consumers are suffering from an "oil shock." The shock will wear off. Household finances are stretched but not as much as some numbers suggest, especially if prices ease off a bit. The consumer is not expected to provide the thrust for the economy next year anyhow. But as long as the economy grows, consumers will show up. That is all they need do. Business will become the locomotive for the next stage of the recovery.

Worry No. 2: By raising rates now, even with inflation low and the economy nowhere near full employment, the Fed is signaling to the bond market that it has inflation in its sights. We think the message has been heard. Bond yields will undoubtedly rise, but they will remain relatively low. The 10-year at 5% or so sounds good to us.

Worry No. 3: The oil experts are looking for low $40 oil. The economy can live with that. Can the experts be

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Market Trends

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

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wrong? Absolutely. In the end, though, we have to stick with them.

Where does that leave us? As we see it now, the economy has achieved lift-off and will be moving next year at its normal cruising speed of about 3.5%. Throw in inflation, and growth in dollar terms should be about 6-8%.

What about profits? Restricting ourselves to S&P 500 profits, the best we can expect is for a gain of 8-10% over the year. Toss away all thoughts about those 20% gains of 2004.

It is easy to see where this leaves the market. The stock market is somewhat undervalued right now, in our view, considering the interest rate outlook. Combine that with the profit outlook, and our S&P 500 outlook is for a gain of 10-12%. Added to the gains of the last two years, that would be superb performance.

Under the surface

These overall considerations miss what we believe will be the story of next year's market, and that is: growth will make a comeback. As anyone who follows our portfolios or the market knows, the market has hugely favored small caps over the last years, and small cap value in particular. Moreover, for large caps, value has beaten growth handily ever since the bubble burst in 2000.

This is due for a change. Brian Rogers, Chief Investment Officer of T. Rowe Price Group, sees the "growth/value relationship at an inflection point." Why now? Because slower profit growth favors growth over value. Investors take comfort in steady profit growth companies when overall profit growth decelerates. Moreover the neglect of the steady, high quality profit growers (3M, Honeywell) has changed the relative valuations of the old stand-bys vs. the small cap shooting stars. In 1999, pointed out Bob Smith, portfolio manager of the T. Rowe Price Growth Stock fund, large cap growth traded at a forward price-earnings ratio of 30 times. It is now at 16-17 times. At the same time small cap valuations have risen. As Smith says, "Growth no longer trades at a premium to value."

We find the argument convincing. We also think a similar argument can be made for small cap growth. Some small cap growth funds have had a very good year, William Blair Small Cap Growth or FBR Small Cap, for example. Many have had so-so performances. Looking at the broad numbers, investors neither favored rapid growth, nor small companies in the growth category. John Wallace and John Seabern of RS Diversified Growth make a similar argument for small cap growth as the one for large cap growth. Valuations are now compelling. As John Wallace said, "Growth has now become value" (in the small cap sector).

The move from value to growth for large- and small-cap will take time, but as we listen to the value managers tell us that there is little for them to buy, we are convinced that a change is coming. Of course, we do not anticipate such moves in our portfolio fund selection. We rely on the market to tell us, via the fund selection system, that a shift is underway. When it occurs, we are prepared to respond.

Overseas (again)

International funds became trendy this year, and why not? Just look at the returns of the best international performers and you will see that they equal those of the best domestic funds. Moreover, the growth prospects for some of the international regions, such as non-Japan Asia or Latin America, are clearly superior to anything here.

But there is a price for trendiness, and that is that stock prices have risen in those international markets, where growth is occurring. The potential is no longer what it was. Even so, the international markets still represent opportunity.

All things considered, Asia remains the most attractive region in the investment universe. The reason is China. China is the dynamo of growth in Asia and its effects are felt everywhere. But a huge question mark hangs over China's immediate future. Can China's growth be tempered without causing a recession?

Much depends on the outcome. If China is successful in slowing without the necessity of heavy braking, the outlook for the Asian economies, including Japan, will regain its former brightness. It is early yet, but the tea leaves say that things are tilting to the positive side. "We're starting to feel better, at least about the short-term outlook," said Andrew Foster, Head of Research for the Matthews Asian Funds.

There is evidence that the shock of the first, drastic moves to slow the economy is beginning to wear off. Foster points out that the monetary numbers are beginning to look

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better. There is also strong retail spending. It looks as if the economy is settling down to a growth rate of about 8%.

The Chinese economy is not without its well-known problems. The banking system is burdened with a huge bad loan problem. And the currency is palpably undervalued, thereby providing the oil for the huge Chinese export machine. These are problems, though, that can be addressed without affecting China's growth, and that is the key for investors. That does not mean we are rushing to recommend a China fund. There are many ways to invest in the growth of Asia ex-Japan and a direct investment in China may not be the best of all.

There is another consideration, and that is the fact that the China region markets are simply not as cheap now as they were. Consider some of the numbers pertaining to the Matthews Pacific Tiger Fund. This year (2004) the earnings of the holdings in the fund's portfolio are estimated to grow 32%. At the same time, the portfolio is selling at 13.7 times those estimated earnings. Next year's projections for this portfolio see earnings growing at 13%, with those earnings selling at 12 times their estimates. As you can see, you will be getting less growth for your invested dollar. Still growth is growth, and next year growth will be a scarcer commodity.

There is another Asian market that deserves more space than we are giving, and that is Japan. Right now the Japanese economy has hit a soft patch. But there is much going on there. Andrew Foster ventured, "if there is an unexpected surprise, it would be Japan." We haven't mentioned Europe, not because there are no individual investment opportunities there, but because growth is still eluding the major European economies.

What does this add up to? As we see it, next year will be a moderately good year with the leadership in the domestic market changing to growth from value. This should present opportunities for above market returns. Some overseas markets may offer the best returns. Even with the positives, though, risks exist in the U.S. market. For one the Fed will still be raising rates. For another, profit growth is slowing, not the ideal combination. Risks and all, we expect another double-digit year for the growth portfolios. With that, we want to wish each and every one of you a most prosperous, healthy, peaceful and Happy New Year.

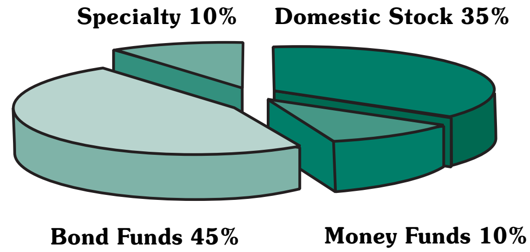
Fund changes

The Hotline of Tuesday, December 14 recommended the sale of Fidelity Export & Multinational in the Fidelity Venturesome and Moderate portfolios. The same Hotline also recommended the sale of Fidelity Contrafund in the Fidelity Venturesome portfolio. All the funds are to be switched into Fidelity Value Strategies.

The Hotline of Tuesday, December 21 recommended the sale of Vanguard Value Index in all three Vanguard portfolios. The funds are to be switched into Vanguard Strategic Equity in all three portfolios. Details of these trades will appear in the next issue. $

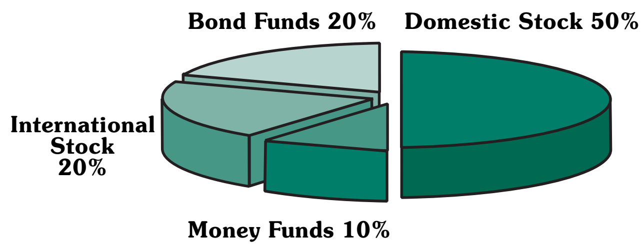
CONSERVATIVE

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



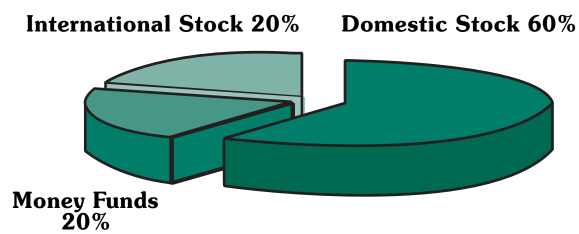
MODERATE

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



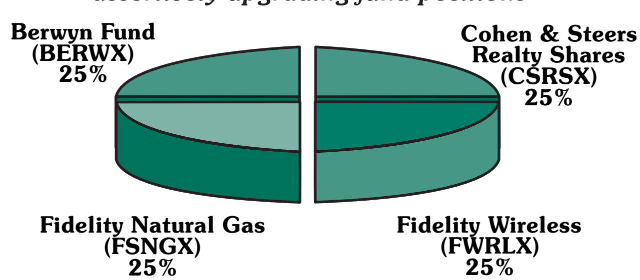
VENTURESOME

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 12/17 2004	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN 1 mo.	6 mo.	12 mo.	PRICE PER SHARE	RISK Std. Dev.	Beta	NTF/wtf
1	**5**	**1**	**BPTRX**	**Baron Partners**	**MCGro**	*****	**B**	**B**	**6.1%**	**20.3%**	**45.4%**	**$16.63**	**28.6**	**1.26**	**FSW**
2	**2**	**41**	**RSCOX**	**RS Contrarian Value**	**MC**	**B**	**B**	**B**	**3.7**	**22.9**	**30.9**	**21.53**	**18.6**	**0.60**	**FSW**
3	1	16	RSPFX	RS Partners (closed)	SC	B	B	B	2.9	21.3	35.7	34.19	20.9	0.69	FSW
4	8	5	MOPIX	MainStay Small Cap Opportunity (closed)	SCVal	B	B	B	5.9	18.3	28.5	18.00	17.5	0.63	FSW
5	9	29	FBRVX	FBR Small Cap (closed,1%r<90d)	SCGro	B	B	B	3.0	18.1	29.9	40.66	23.4	0.82	FSW
6	**4**	**12**	**FLVCX**	**Fidelity Leveraged Co ($10,000,1.5%r<90d)**	**MC**	*****	**B**	**B**	**3.5**	**17.3**	**30.6**	**22.55**	**36.3**	**1.39**	**Fw**
7	21	90	MXXIX	Marsico 21st Century (2%r<30d)	LC	B	B	B	5.3	18.3	23.7	11.83	21.1	0.95	fSW
8	7	43	MUHLX	Muhlenkamp Fund	MCVal	B	B	B	4.6	17.4	25.0	77.34	27.9	1.24	FSW
9	37	66	BGRFX	Baron Growth	SCGro	B	B	B	4.5	15.4	29.2	44.34	18.4	0.72	FSW
10	3	79	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	B	B	B	1.6	17.7	27.8	29.90	19.2	0.80	fw
11	43	39	BARAX	Baron Asset	MCGro	B	B	B	5.3	15.0	28.6	51.69	21.2	0.94	FSW
12	**12**	**22**	**VISVX**	**Vanguard Small-Cap Value Index**	**SCVal**	**B**	**B**	**B**	**3.3**	**16.4**	**25.3**	**13.97**	**22.4**	**0.90**	**fsw**
13	19	6	WBSNX	WmBlair S-C Growth N (closed,1%r<60d)	SCGro	B	B	B	4.2	14.1	29.5	25.14	30.1	1.12	FSW
14	13	18	PRSVX	T. Rowe Price S-C Value (closed,1%r<1yr)	SCVal	B	B	B	2.5	15.2	26.6	35.13	18.0	0.69	fsw
15	15	110	JSVAX	Janus Contrarian	MC	B	B	B	2.8	15.5	25.3	12.89	22.3	1.10	SW
16	**14**	**7**	**BERWX**	**Berwyn Fund (1%r<180d)**	**SCVal**	**B**	**B**	**B**	**3.8**	**14.9**	**25.1**	**30.05**	**22.3**	**0.77**	**fsw**
17	**45**	**-**	**WEHIX**	**Weitz Hickory**	**SC**	*****	**H**	**H**	**2.9**	**14.2**	**25.2**	**32.32**	**29.1**	**1.38**	**fSW**
18	18	114	SMTVX	Strong Multi-Cap Value	MCVal	B	B	B	4.5	15.1	20.4	63.21	22.4	1.01	FSW
19	24	81	VIMSX	Vanguard Mid-Cap Index	MC	B	B	B	3.7	14.5	22.5	15.54	20.1	0.97	fsw
20	30	-	LSCRX	Loomis Sayles Small Cap Value Ret	SC	H	H	H	3.8	14.5	22.4	25.51	17.2	0.80	FSW
21	16	20	CRMMX	CRM Mid Cap Value Inv	MCVal	B	B	B	2.3	13.5	27.1	25.27	18.9	0.78	FSw
22	26	42	FLPSX	Fidelity L P Stock (closed,1.5%r<90d)	SCVal	B	B	B	3.2	14.1	23.8	39.36	18.0	0.75	Fsw
23	**22**	**62**	**VSEQX**	**Vanguard Strategic Equity**	**MCGro**	**H**	**H**	**H**	**3.4**	**14.3**	**22.7**	**21.15**	**17.8**	**0.83**	**fsw**
24	**10**	**11**	**ARTQX**	**Artisan Mid Cap Value**	**MCVal**	**B**	**B**	**B**	**2.1**	**13.3**	**26.9**	**16.60**	**19.8**	**0.87**	**FSW**
25	57	94	BRAIX	Bridgeway Aggressive Investors 2	MCGro	*	H	H	5.6	13.8	20.0	13.94	-	-	fsw
26	66	26	WMCVX	Wasatch Small Cap Value (closed,2%r<60d)	SCVal	H	H	H	4.9	13.4	22.0	5.39	26.6	0.96	FSW
27	**6**	**3**	**TAVFX**	**Third Avenue Value (1%r<60d)**	**SC**	**B**	**B**	**B**	**0.5**	**14.1**	**26.8**	**51.38**	**17.2**	**0.79**	**FSW**
28	55	139	SMDCX	Strong Advisor Midcap Growth	MCGro	H	H	H	4.0	14.1	21.4	13.67	26.2	1.35	FSW
29	52	65	JAVLX	Janus Twenty(closed)	LCGro	H	H	H	3.4	12.4	26.5	43.83	17.3	0.93	FSW
30	56	17	VHCOX	Vanguard Cap Opp (closed,$25,000,1%r<5yr)	MCGro	*	H	H	2.9	12.6	26.4	30.48	25.3	1.28	fsw
31	41	52	MPEGX	MSI Mid Cap Growth	MCGro	*	H	H	3.2	13.1	23.5	20.68	22.2	1.17	fsw
32	25	111	NPRTX	Neuberger Berman Partners	LCVal	H	H	H	3.5	13.4	21.9	24.85	20.7	1.10	f
33	32	2	BUFSX	Buffalo Small Cap (closed)	SCGro	*	H	H	0.5	12.1	29.6	27.86	31.2	1.25	SW
34	51	55	WGROX	Wasatch Core Growth (closed,2%r<60d)	SCGro	H	H	H	4.2	12.8	22.0	42.37	28.5	1.10	FSW
35	33	44	NAESX	Vanguard SmallCap Index	SC	H	H	H	3.1	13.4	22.1	26.64	23.2	1.01	fsw
36	46	-	FFSCX	Forward Hoover Small Cap	SCGro	H	H	H	2.8	12.1	24.8	19.42	20.1	0.85	FSW
37	**17**	**33**	**FDVLX**	**Fidelity Value**	**MCVal**	**B**	**B**	**B**	**2.3**	**12.7**	**23.6**	**70.26**	**19.0**	**0.89**	**Fsw**
38	42	58	BPMCX	Boston Partners Mid Cap Value	MCVal	H	H	H	4.1	12.1	22.3	15.11	20.1	0.93	FSW
39	20	27	SAFGX	Safeco Growth Opportunities (2%r<90d)	SC	B	B	B	1.4	13.2	23.5	29.41	29.8	1.18	fsw
40	36	13	ARTSX	Artisan Small Cap	SCGro	H	H	H	2.9	11.6	24.8	16.58	26.7	1.19	FSW
41	44	36	MPSCX	MSI Small Cap Value (closed)	SCVal	H	H	H	3.3	12.8	20.8	24.30	20.7	0.98	fsw
42	29	19	ARGFX	Ariel Fund	SCVal	H	H	H	1.9	12.2	24.0	52.75	15.6	0.53	FSW
43	62	68	VEXMX	Vanguard Extended Market Index	MC	H	H	H	3.4	12.6	20.4	31.02	21.5	1.02	fsw
44	64	47	JAENX	Janus Enterprise	MCGro	H	H	H	4.0	11.1	23.2	37.07	21.4	1.09	FSW
45	-	-	BPAVX	Boston Prtrs All Cap Value	MCVal	H	H	H	3.7	11.0	23.0	14.83	-	-	F
46	78	8	HENLX	Henlopen Fund (1%r<30d)	SCGro	*	H	H	4.6	11.6	19.8	29.92	30.9	1.19	FSW
47	38	85	DODGX	Dodge & Cox Stock (closed)	LCVal	H	H	H	2.6	11.8	22.1	131.60	17.6	0.85	sw
48	40	14	RYPNX	Royce Opportunity (1%r<180d)	SCVal	H	H	H	3.5	12.1	20.0	13.07	30.8	1.18	fsw
49	83	88	USCGX	USAA Capital Growth	MCGro	*	H	H	3.7	12.8	17.7	7.38	23.9	1.13	fsw
50	23	35	TRMCX	T. Rowe Price Mid Cap Value	MCVal	H	H	H	2.3	11.3	22.7	22.50	19.8	0.90	fsw
51	27	9	TASCX	Third Avenue Small-Cap Value (1%r<1yr)	SCVal	H	H	H	1.6	11.8	22.6	22.32	19.9	0.85	FSW
52	**101**	**-**	**FSLSX**	**Fidelity Value Strategies**	**SC**	*****	**H**	**H**	**4.5**	**12.3**	**16.7**	**36.72**	**29.4**	**1.41**	**F**
53	136	30	IZZYX	ICM/Isabelle Small Cap Value	SCVal	H	H	H	6.1	9.7	20.7	15.76	29.5	1.04	FSW
54	139	212	MGRIX	Marsico Growth & Income (2%r<30d)	G&I	H	H	H	3.8	12.4	16.3	17.45	15.2	0.75	FSW
55	85	71	JAVTX	Janus Venture (closed)	SCGro	*	H	H	4.7	10.2	20.4	57.18	29.0	1.25	FSW
56	35	31	PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	1.4	11.7	21.7	9.96	20.4	0.80	Fsw
57	28	24	TGDVX	TCW Galileo Diversified Value N	LCVal	H	H	H	2.1	10.6	23.3	13.17	19.8	1.03	FW
58	98	242	VLIFX	Value Line Fund	LCGro	H	H	H	3.9	12.9	14.4	15.83	13.1	0.73	FSW
59	118	150	RSEGX	RS Emerging Growth (closed)	SCGro	*	H	H	3.0	11.9	18.1	31.59	30.0	1.48	FSW
60	198	247	MFOCX	Marsico Focus (2%r<30d)	LCGro	H	H	H	4.9	12.7	13.5	16.38	15.3	0.74	FSW
61	48	108	MPVLX	MSI Value Portfolio	LCVal	H	H	H	1.8	11.7	20.4	17.66	20.6	1.05	fsw
62	34	67	OTCFX	T. Rowe Price Small Cap Stock Fund	SC	H	H	H	1.5	11.6	20.2	31.21	19.2	0.84	fsw
63	81	161	PBSVX	PBHG Small Cap Value	SC	H	H	H	3.9	11.9	15.6	21.91	23.8	1.11	FSW
64	49	124	MQIFX	Mutual Qualified (1%) CIZ	MCVal	H	H	H	2.4	12.1	17.0	19.09	13.3	0.61	sw
65	60	77	RYTRX	Royce Total Return (1%r<180d)	SCVal	H	H	H	2.3	11.4	18.7	12.08	15.7	0.66	FsW
66	11	102	CGMFX	CGM Focus	SCVal	*	H	H	0.8	13.8	15.0	32.96	37.9	1.03	fsw
67	50	23	TUDRX	WPG Tudor	SC	*	H	H	3.5	9.9	20.3	17.08	27.0	1.22	FsW
68	**54**	**118**	**FTQGX**	**Fidelity Focused Stock (.75%r<30d)**	**LC**	*****	**H**	**H**	**2.7**	**11.3**	**18.1**	**9.96**	**17.2**	**1.00**	**Fw**

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 12/17 2004	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN 1 mo.	6 mo.	12 mo.	PRICE PER SHARE	RISK Std. Dev.	Beta	NTF/ wtf
69	140	63	RSSGX	RS Smaller Company Growth	SCGro	*	S	S	3.7	11.0	17.1	22.02	28.5	1.23	FSW
70	93	21	NBGNX	Neuberger Berman Genesis (closed)	SC	S	S	S	3.2	9.9	20.3	29.53	15.5	0.63	fSw
71	103	73	NMANX	Neuberger Berman Manhattan	MCGro	*	S	S	3.3	10.5	18.6	6.83	23.4	1.15	f
72	39	147	NGUAX	Neuberger Berman Guardian	LCVal	H	H	H	1.4	11.7	18.3	16.33	18.0	0.99	f
73	63	70	RPMGX	T. Rowe Price Mid Cap Growth	MCGro	H	H	H	2.1	10.6	20.0	49.05	22.1	1.11	fsw
74	80	34	CRMSX	CRM Small Cap Value Inv (closed)	SCVal	S	S	S	2.2	10.3	20.0	25.86	23.8	0.93	FSw
75	58	28	JMCVX	Janus Mid Cap Value	MCVal	S	S	S	2.5	9.7	20.7	23.82	20.4	0.93	fSw
76	177	226	USAUX	USAA Aggressive Growth	MCGro	*	S	S	3.9	11.3	14.7	28.80	21.5	1.00	w
77	149	93	BSCFX	Baron Small Cap	SCGro	S	S	S	4.1	7.6	23.7	21.58	21.5	0.79	FSW
78	99	76	NBNGX	SIT Mid Cap Growth (2%r<30d)	MCGro	*	S	S	2.7	10.1	19.3	10.90	23.5	1.23	FSW
79	76	10	SMCDX	Strong Mid Cap Disciplined	MCVal	S	S	S	2.5	9.0	22.3	22.00	23.1	0.99	FSW
80	104	75	VISGX	Vanguard Small Cap Growth Index	SCGro	S	S	S	2.8	10.1	18.8	14.91	21.6	0.91	fsw
81	97	83	PRNHX	T. Rowe Price New Horizons	SCGro	*	S	S	2.5	9.9	19.8	28.65	28.3	1.30	fsw
82	96	107	FDSCX	Fidelity Small Cap Ind. (1.5%r<90d)	SC	S	S	S	3.6	10.2	17.2	19.37	16.7	0.58	Fsw
83	120	158	SGRTX	Strong Growth 20	LCGro	*	S	S	3.9	10.3	16.5	14.58	17.6	0.92	FSW
84	90	113	ACBGX	USGlobal Holmes Growth (.25%r<30d)	MCGro	S	S	S	2.4	10.4	18.0	15.53	15.3	0.57	FSW
85	111	48	VPMCX	Vanguard PRIMECAP (closed,$25,000&1%r<5yr)	LC	S	S	S	2.1	9.7	20.1	61.19	21.7	1.13	fsw
86	**53**	**87**	**VWNFX**	**Vanguard Windsor II**	**LCVal**	**H**	**H**	**H**	**1.6**	**9.9**	**20.3**	**30.48**	**16.2**	**0.82**	**fsw**
87	67	104	PRWCX	T. Rowe Price Cap Appreciation	LCVal	S	S	S	2.0	10.7	17.6	19.34	11.0	0.49	fsw
88	73	119	VCVLX	Vanguard Capital Value	LCVal	S	S	S	3.2	10.6	15.8	11.42	-	-	fsw
89	47	50	TGIGX	TCW Galileo Dividend Focused N	MCVal	H	H	H	1.4	10.0	20.1	11.32	13.8	0.57	FW
90	146	206	FIEGX	INVESCO Small Company Growth	SCGro	*	S	S	3.9	10.9	14.2	12.25	24.2	1.15	FSW
91	82	69	STDIX	Strong Discovery	MCGro	H	H	H	3.2	9.7	18.2	21.12	19.1	0.86	FSW
92	31	4	RYPRX	Royce Premier (1%r<180d)	SC	S	S	S	0.1	9.3	23.6	14.84	19.4	0.84	FsW
93	86	57	VALSX	Value Line Special Situations	MCGro	S	S	S	2.2	9.6	19.4	23.77	15.4	0.71	FSW
94	59	136	VIVAX	Vanguard Value Index	LCVal	S	S	S	1.8	10.6	17.4	21.16	18.6	1.03	fsw
95	71	101	MPMVX	MSI Mid Cap Value	MCVal	S	S	S	3.5	9.9	16.5	23.14	23.1	1.18	fsw
96	84	96	PESPX	Dreyfus Mid Cap Index	MCGro	S	S	S	2.7	10.0	17.1	26.60	20.2	0.97	FSW
97	119	80	DNLDX	Dreyfus New Leaders	MCGro	S	S	S	3.0	9.6	17.6	43.63	18.6	0.90	FSW
117	106	89	FCNTX	Fidelity Contrafund	LC	S	S	S	1.6	8.8	17.1	55.81	11.4	0.54	Fsw
118	**74**	**143**	**VUVLX**	**Vanguard U.S. Value**	**LCVal**	**H**	**S**	**S**	**1.6**	**9.1**	**16.3**	**13.73**	**17.3**	**0.87**	**fsw**
127	**77**	**127**	**FEXPX**	**Fidelity Export & Multinat'l(.75%r<30d)**	**LC**	**H**	**S**	**S**	**1.7**	**8.8**	**16.2**	**19.30**	**20.3**	**1.07**	**Fsw**

	1 mo.	6 mo.	12 mo.	
Dow Jones	**1.0%**	**2.6%**	**5.0%**	*indexes do not include dividends*
NASDAQ	**1.7**	**7.6**	**11.1**	
S&P 500	**1.0**	**5.5**	**10.9**	

International Stock Funds

RANK 12/17 2004	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	1 mo.	6 mo.	12 mo.	PRICE PER SHARE	Std. Dev.	Beta	NTF/ wtf
1	1	20	FLATX	Fidelity Latin Amer.(1.5%<90d)	LatinA	*	H	H	6.9%	39.1%	44.0%	$20.22	29.8	-	Fs
2	2	36	PRLAX	T. Rowe Price Latin America (2%r<1yr)	LatinA	*	H	H	7.2	36.4	40.5	15.28	29.7	-	fsw
3	3	56	SLAFX	Scudder Latin America	LatinA	*	H	H	6.8	35.3	36.8	31.22	27.3	-	FSW
4	5	59	VEIEX	Vanguard Emerging Mkts Stk Index (.5%r)	Int'l	*	B	B	3.6	28.0	27.4	14.36	22.6	-	fsw
5	11	57	DREGX	Driehaus Emerging Mkts Gr (2%r<60d)	Int'l	*	B	B	3.4	26.2	23.6	21.89	24.9	-	FSW
6	14	65	FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	*	B	B	3.1	25.2	23.7	12.33	-	-	Fsw
7	8	41	DRFMX	Dreyfus Emerging Market (1%r)	Int'l	*	B	B	2.9	23.7	27.6	20.47	21.6	-	FSW
8	12	46	MAPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	*	B	B	3.0	23.7	23.9	15.31	23.6	-	FSW
9	**4**	**8**	**DODFX**	**Dodge & Cox Intl Stock**	**Int'l**	*	**B**	**B**	**2.7**	**19.2**	**33.7**	**30.01**	**23.4**	**-**	**fsw**
10	22	69	JVEIX	Janus Intl Equity (1%r<90d)	Int'l	*	B	B	5.2	18.6	27.7	17.96	13.9	-	FSW
11	19	9	VINEX	Vanguard Intl Explorer ($25,000,2%r<60d)	int'l	*	B	B	5.2	16.7	30.8	15.65	16.3	-	fsw
12	**9**	**16**	**FIEUX**	**Fidelity Europe (1%r<30d)**	**Europe**	*	**B**	**B**	**2.6**	**20.0**	**24.8**	**32.60**	**22.5**	**-**	**Fsw**
13	13	-	NBISX	Neuberger Berman Intl (2%r<180d)	Int'l	*	B	B	4.5	15.8	31.4	17.63	16.3	-	fSw
14	23	64	PRASX	T. Rowe Price New Asia	Pacific	*	H	H	2.6	22.1	18.5	9.63	19.7	-	fsw
15	**15**	**5**	**ARTKX**	**Artisan Intl Value (2%r<90d)**	**Int'l**	*	**B**	**B**	**3.7**	**14.8**	**33.2**	**20.42**	**-**	**-**	**FSW**
16	16	7	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	*	H	H	2.7	16.1	29.5	19.42	20.4	-	FSW
17	30	67	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	H	H	0.6	22.5	15.7	15.94	21.1	-	Fsw
18	6	-	TREMX	T. Rowe Price Emg Europe&Med.	Europe	*	H	H	1.1	14.8	31.4	15.11	29.2	-	fw
19	**7**	**4**	**FISMX**	**Fidelity Intl Small Cap (2%r<90d)**	**Int'l**	*	**H**	**H**	**2.3**	**14.9**	**28.9**	**22.26**	**-**	**-**	**Fw**
20	21	15	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	*	H	H	3.6	15.8	24.2	16.71	-	-	SW
21	17	32	SGSCX	Scudder Global Discovery (closed)	Int'l	*	H	H	3.1	16.0	24.1	33.77	20.1	-	FSW
22	26	31	MACSX	Matthews Asia G & I (closed,2%r<90d)	Pacific	*	H	H	1.9	16.7	23.9	15.50	11.4	-	FSW
23	20	27	BJBIX	Julius Baer Intl Equity A (2%r<90d)	Int'l	*	H	H	2.3	15.6	23.8	31.23	12.5	-	FS
24	10	58	ICHKX	Guinness China & Hong Kong (2%r<30d)	Pacific	*	H	H	-1.1	20.0	17.6	18.31	19.6	-	FSW
25	32	63	SCOPX	Scudder Pacific Opportunity (2%r<1yr)	Pacific	*	H	H	0.6	17.7	18.7	12.90	19.0	-	FSW
26	25	61	JAOSX	Janus Overseas (closed,2%r<90d)	Int'l	*	H	H	0.4	15.7	19.6	23.45	16.5	-	FSW
27	**24**	**33**	**VEURX**	**Vanguard European Stock Index (2%r<60d)**	**Europe**	*	**H**	**H**	**1.7**	**13.8**	**21.9**	**25.14**	**17.4**	**-**	**fsw**
28	-	-	MPACX	Matthews Asia-Pacific (2%r<90d)	Pacific	*	H	H	1.3	13.2	22.8	12.00	-	-	FSW
29	45	55	SCGEX	Scudder Greater Europe (2%r<180d)	Europe	*	H	H	3.0	13.3	18.1	26.82	16.8	-	FSW
30	18	6	PRIDX	T. Rowe Price Intl Disc. (2%r<1yr)	Int'l	*	H	H	1.4	12.0	23.5	31.33	16.0	-	fsw
31	**29**	**23**	**VTRIX**	**Vanguard International Value (2%r<60d)**	**Int'l**	*	**H**	**H**	**1.5**	**12.9**	**21.0**	**29.91**	**16.8**	**-**	**fsw**
32	34	3	AIOIX	Amer.Cent.Intl Opportunity (2%r<180d)	Int'l	*	S	S	2.7	9.4	27.5	9.18	20.4	-	S
33	28	34	WBIGX	Wm. Blair Intl Growth N (closed,1%r<60d)	Int'l	*	S	S	2.0	12.6	19.6	21.25	14.6	-	FSW
34	33	19	PFIFX	Preferred International	Int'l	*	S	S	1.8	11.7	21.0	16.58	17.4	-	w
35	27	29	HAINX	Harbor International (2%r<60d)	Int'l	*	S	S	0.6	12.7	19.8	42.11	17.9	-	Fsw

Bond Funds ***(next issue on page 6: Specialty Funds)***
12/17/2004

Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN 1 mo.	6 mo.	12 mo.	PRICE PER SHARE	Std. Dev.	Yield	NTF/wtf
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	*	*	*	1.0%	6.2%	8.8%	$11.67	4.42	3.56%	FSW
CMHYX	Columbia High Yield	HighYld	*	*	*	0.2	5.7	2.8	8.83	4.57	6.30	fSW
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	1.9	11.5	9.0	8.50	13.61	7.62	Fsw
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	1.4	7.3	6.7	9.19	8.03	7.69	Fsw
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	0.8	7.6	5.5	9.92	4.33	6.76	FSW
NTHEX	Northeast Investors Trust	HighYld	*	*	*	2.0	8.7	14.7	7.81	5.70	7.50	fw
PHYDX	PIMCO High Yield	HighYld	*	*	*	0.8	8.5	6.4	9.95	8.68	6.51	SW
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	0.8	7.5	6.4	7.94	8.45	6.82	FSW
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.4	2.5	1.8	8.68	2.61	4.55	FSW
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	1.0	8.0	5.9	7.19	5.85	7.65	sw
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	1.0	8.8	9.6	7.40	7.42	7.74	SW
VAGIX	Value Line Aggressive Inc (1%r<120d)	HighYld	*	*	*	1.1	5.7	6.2	5.17	7.42	6.24	FSW
VWEHX	**Vanguard High Yield Corporate (1%r<1yr)**	**HighYld**	*****	**B**	*****	**0.6**	**8.2**	**8.9**	**6.44**	**5.96**	**7.19**	**sw**
BEGBX	American Century Intl Bond	Int'l	*	*	*	2.9	14.5	12.7	14.93	11.09	6.88	fSW
FNMIX	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	1.4	14.3	7.9	14.51	12.56	5.68	Fsw
PYGFX	Payden Global Fixed Income	Int'l	*	*	*	0.7	4.7	3.7	10.04	3.80	4.41	fsW
SSTGX	Scudder Global Bond S-T (closed)	Int'l	*	*	*	1.2	8.3	5.6	10.39	5.81	4.26	FSW
RPIBX	T. Rowe Price Int'l Bond	Int'l	*	*	*	2.4	13.0	9.5	10.56	10.08	2.18	fsw
ACITX	**American Century Inflation Adj**	**IntTerm**	**B**	*****	*****	**0.7**	**6.4**	**7.3**	**11.31**	**7.67**	**3.74**	**fSW**
BBHIX	BBH Inflation Indexed Sec	IntTerm	B	*	*	0.8	6.7	8.1	11.41	7.87	3.31	FSW
CFISX	Columbia Fixed Income Sec	IntTerm	H	*	*	0.3	3.1	0.7	13.36	4.24	4.19	fSW
SRINX	Columbia Income CIZ	IntTerm	H	*	*	-0.1	5.3	2.0	10.11	4.95	5.70	FSW
SRBFX	Columbia Intermediate Bond CIZ	IntTerm	H	*	*	-0.1	4.3	1.4	9.11	4.23	4.92	FSW
DODIX	**Dodge & Cox Income**	**IntTerm**	**H**	*****	*****	**0.3**	**4.2**	**3.6**	**12.93**	**3.61**	**4.44**	**fsw**
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	0.5	5.2	1.5	13.83	5.02	3.98	FSW
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	0.1	3.3	2.8	14.69	3.25	4.45	FSW
DSINX	Dreyfus Strategic Income	IntTerm	*	*	*	0.7	4.7	0.3	14.74	4.77	4.01	FSW
FGMNX	Fidelity GNMA	IntTerm	*	*	*	0.2	3.0	1.2	11.08	2.51	4.05	Fsw
FINPX	**Fidelity Inflation-Protected Bond**	**IntTerm**	**B**	*****	*****	**0.7**	**6.7**	**7.1**	**11.38**	**-**	**1.33**	**Fw**
FSTGX	Fidelity Intermediate Govt	IntTerm	H	*	*	0.1	2.7	2.1	10.25	4.26	2.85	Fsw
FBNDX	**Fidelity Investment Grade**	**IntTerm**	**H**	*****	*****	**-0.4**	**4.1**	**3.6**	**7.54**	**4.48**	**3.25**	**Fsw**
FBDFX	Fremont Bond	IntTerm	H	*	*	0.3	5.0	4.0	10.46	4.73	2.07	fsw
MWTRX	MetroWest Total Return	IntTerm	*	*	*	0.8	4.7	2.6	9.82	5.85	6.04	SW
PRRDX	PIMCO Real Return	IntTerm	H	*	*	0.9	6.2	6.0	11.48	7.99	2.85	SW
PTTDX	PIMCO Total Return	IntTerm	H	*	*	0.3	4.7	3.4	10.67	4.62	1.98	SW
PTMDX	PIMCO Total Return Mortgage	IntTerm	H	*	*	0.3	3.8	2.6	10.70	3.14	2.57	SW
SFUSX	Safeco U.S. Government (2%r<90d)	IntTerm	H	*	*	0.3	3.3	0.8	9.49	3.90	4.15	FSW
SCSBX	Scudder Income (closed)	IntTerm	H	*	*	0.4	4.9	4.6	12.97	4.44	4.33	FSW
STVSX	Strong Govt Securities	IntTerm	H	*	*	0.0	3.2	1.1	10.75	4.80	3.32	FSW
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	0.2	4.2	2.2	9.10	4.28	3.66	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	H	*	*	0.4	4.7	4.7	9.94	3.28	4.31	SW
USAIX	USAA Income	IntTerm	H	*	*	0.3	4.9	4.3	12.45	4.89	4.39	w
VALBX	Value Line U.S. Govt Sec	IntTerm	H	*	*	0.3	3.2	2.3	11.83	4.51	3.49	FSW
VFIIX	**Vanguard GNMA**	**IntTerm**	**B**	*****	*****	**0.2**	**4.2**	**2.5**	**10.43**	**3.51**	**4.67**	**fsw**
VIPSX	**Vanguard Inflation Protected Sec**	**IntTerm**	**B**	*****	*****	**0.8**	**6.6**	**7.9**	**12.74**	**7.75**	**4.34**	**sw**
VFITX	Vanguard Intermediate Treas.	IntTerm	H	*	*	-0.1	3.8	0.5	11.29	6.18	4.46	fsw
VBMFX	**Vanguard Total Bond Market Index**	**IntTerm**	**H**	*****	*****	**0.2**	**5.0**	**4.4**	**10.28**	**4.43**	**4.38**	**fsw**
MNTRX	WellsFargo Montgomery Total Ret (closed)	IntTerm	H	*	*	0.1	3.8	2.8	12.37	4.61	3.46	fSw
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	0.8	5.9	6.6	10.84	4.16	5.37	FSW
WPGVX	WPG Core Bond	IntTerm	H	*	*	-0.1	4.2	2.9	10.80	4.67	2.85	FsW
DRGBX	Dreyfus 100 Treasury L-T	LngTerm	*	*	*	1.0	7.2	-0.5	16.01	8.23	4.32	FW
FGOVX	Fidelity Government Income	LngTerm	*	*	*	0.3	3.6	1.7	10.25	5.54	2.96	Fsw
KIFIX	FifthThird Bond	LngTerm	*	*	*	0.2	4.3	3.2	10.14	4.92	3.23	w
MGFIX	Managers Bond	LngTerm	*	*	*	0.4	6.2	4.8	24.70	6.65	4.25	FSW
STCBX	Strong Corporate Bond	LngTerm	*	*	*	0.5	5.9	2.8	10.67	6.90	4.73	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	0.4	6.1	3.8	9.88	6.02	5.04	fsw
PRULX	T. Rowe Price U.S. Treas. L-T	LngTerm	*	*	*	0.2	6.3	2.8	11.86	9.37	4.27	fsw
VWESX	Vanguard Long-Term Corporate	LngTerm	*	*	*	0.8	9.2	5.3	9.53	10.41	5.60	fsw
VUSTX	Vanguard L-T Treasury	LngTerm	*	*	*	0.3	7.7	3.6	11.59	10.92	5.00	fsw
FSICX	**Fidelity Strategic Income**	**Multi**	**B**	**B**	*****	**1.3**	**10.5**	**9.0**	**10.88**	**5.51**	**5.31**	**Fw**
JAFIX	Janus Flexible Income	Multi	*	*	*	0.2	3.7	1.0	9.70	4.76	4.75	FSW
LSBDX	Loomis Sayles Bond Instl	Multi	B	B	*	1.0	13.6	11.6	13.71	8.51	5.30	FSW
LSBRX	**Loomis Sayles Bond Retail**	**Multi**	**B**	**B**	*****	**1.0**	**13.4**	**11.3**	**13.69**	**8.49**	**5.13**	**FW**
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	0.9	6.7	6.0	12.03	4.40	4.03	fsw
MGIDX	Managers Int. Duration Govt	ShtTerm	*	*	*	0.1	4.0	3.7	10.63	2.89	2.27	FSW
MWLDX	MetroWest Low Duration	ShtTerm	B	*	*	0.5	2.7	1.7	9.43	3.05	4.07	SW
BTTNX	American Century Target 2010	ZeroCpn	*	*	*	-0.2	5.2	3.7	86.95	9.63	4.35	fSW
BTFTX	American Century Target 2015	ZeroCpn	*	*	*	0.1	9.8	8.5	72.86	14.63	4.96	fSW
BTTTX	American Century Target 2020	ZeroCpn	*	*	*	0.4	13.2	11.5	53.45	18.05	4.54	fSW
BTTRX	American Century Target 2025	ZeroCpn	*	*	*	0.9	16.3	14.1	45.12	20.88	4.58	fSW

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2) *MONEYLETTER* Hotline: Updated every Tuesday and Friday evening at 7 pm (ET), this service contains Walter Frank's market analysis, as well as new Buy, Hold, and Sell recommendations. To access the Hotline, call 410-528-1804.

3) *MONEYLETTER Plus*: Posted on the website every Wednesday by midnight (ET). This weekly 8-page newsletter supplement contains total return information for every fund in the *MONEYLETTER* database (space prevents us from printing them all in *MONEYLETTER*). You'll also find the Hotline text packaged for your convenience and a focus on the funds held in the *MONEYLETTER* model portfolios. Paid subscribers to *MONEYLETTER Plus* can receive it by email, and/or access it at our website using the same procedure as the one outlined above. Call for details, 800-890-9670. $

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100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	1.70%	1.65%	0.91%
Gabelli US Treasury MMF	1.60	1.58	0.87
Fidelity Spartan US Treas MMF	1.59	1.54	0.83
Amer Century Capital Presv Fund/Inv	1.49	1.45	0.74
T Rowe Price US Treasury MF	1.44	1.33	0.66
HSBC Investor US Treas MM/Cl D	1.41	1.34	0.62
US Treasury MF of America/Cl A	1.39	1.23	0.51
CMA Treasury Fund RIC	1.38	1.25	0.55
JPMorgan 100% US Treas MMF/Morgan	1.35	1.27	0.60
RMK Select Treas MMF/Cl A	1.35	1.26	0.54

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	2.10%	2.04%	1.27%
Scudder MM Series Premium/Cl S	2.02	1.93	1.08
Scudder MM Series Premium/AARP	2.01	1.92	1.10
Scudder MM Series Prime Reserve/AARP	1.90	1.82	0.98
Vanguard Prime MMF/Retail	1.86	1.77	1.01
TIAA-CREF Money Market Fund	1.83	1.71	1.03
MFS Money Market Fund	1.82	1.74	0.88
AIG Money Market Fund/Cl B	1.78	1.67	1.00
Harbor Money Market Fund	1.78	1.67	1.01
GE Money Market Fund	1.75	1.64	0.98
Marshall MMF/Investor Class	1.75	1.65	0.93
Thrivent Money Market Portfolio	1.75	1.61	0.00

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Vanguard Tax-Exempt MMF	1.41%	1.53%	1.08%
Tax-Exempt MF of America/Cl A	1.29	1.23	0.59
Strong Tax-Free Money Fund	1.18	1.35	1.02
Dreyfus BASIC Muni MMF	1.16	1.22	0.79
Scudder T-E Cash Managed Shares/TEP	1.14	1.22	0.81
Amer Century T-F MMF/Inv Class	1.13	1.25	0.82
Fidelity Municipal MMF	1.13	1.25	0.80
Scudder Tax-Exempt Money Fund	1.13	1.21	0.80
USAA Tax Exempt MMF	1.11	1.22	0.81
Fidelity Tax Free Money Market	1.09	1.20	0.77
T Rowe Price Summit Muni MMF	1.09	1.19	0.77

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard NY Tax-Exempt MMF	1.39%	1.49%	1.03%
Vanguard CA Tax-Exempt MMF	1.38	1.49	1.05
Vanguard OH Tax-Exempt MMF	1.37	1.49	1.06
Vanguard PA Tax-Exempt MMF	1.35	1.48	1.04
Vanguard NJ Tax-Exempt MMF	1.33	1.47	1.03
Fidelity FL Municipal MMF	1.09	1.19	0.75
Fidelity PA Municipal MMF	1.08	1.17	0.77
Fidelity OH Municipal MMF	1.05	1.15	0.71
Fidelity CT Municipal MMF	1.04	1.15	0.71
Fidelity NY Municipal MMF	1.04	1.14	0.68

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 12/14/04. 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

Janus Contrarian Fund: More Than Meets the Eye

A look at Janus Contrarian shows you a fund that had a February 2000 inception, and that has compiled a 5.9% average annual return from then through November 30, 2004, compared to a –1.65% return for the S&P 500 for the same time period, according to Janus' web site. That puts it in the top quartile of Lipper's multi-cap core funds category for that time frame.

Sounds great! But, that single figure does not indicate the bumpiness of the ride for buy and hold investors. Moreover, it also does not show that another, older fund was folded into this one, run by the same manager, David Decker. And that fund had an equally volatile history.

A look back

On February 28, 2003, the predecessor to Janus Contrarian, Janus Special Equity Fund, made its debut. It was formed via a merger of Janus Special Situations into Janus Strategic Value, two funds managed by David Decker that had quite a bit of overlap. Decker is known for an aggressive managing style, and for piling a significant portion of assets into his top holdings.

This can be a recipe for a boom and bust cycle, and that was certainly true of Janus Special Situations, which operated from 1997 to 2003. (Janus Strategic Value, whose record survived as Janus Special Equity, debuted in February 2000.) Special Situations finished in the top 5% of Morningstar's mid-cap blend category in each of the three years 1997-1999. It then dropped to the bottom 5% in each of the following three years, with losses of 18%, 16%, and 29%.

You might expect that the fund was loaded with technology stocks, but it wasn't. Instead, firms like El Paso (a pipeline operator), Bally Total Fitness, and SPX (an industrial conglomerate) dragged the fund down. El Paso, notably, declined more than 80% in 2002. The fund was back on track in 2003, with a return of 53.3%, putting it again near the top of its Morningstar category. And this year, the fund, renamed Janus Contrarian Fund on September 30, 2004, is placing strongly again, with a gain of 19.4% through December 17.

The portfolio

David Decker looks for stocks with what he calls asymmetrical risk profiles. That means stocks that have a higher probability of an upside price move and a lower probability of a downside move. Fundamentally, he likes firms with strong free cash flow and an astute management team. He is not bound by any benchmark indexes with regard to sector weightings or market capitalization when investing. He often invests in controversial situations where he sees promise, such as fifth largest holding Tyco and Freddie Mac.

Meanwhile, he is free to look abroad for attractive opportunities. In fact, nearly a third of the portfolio is now invested overseas. By region, the fund has a 21% exposure to the Pacific Rim, 9% in Europe, and about 7% in Latin America and emerging markets. His favored nation is India, which constitutes about 14% of the portfolio. Reliance Industries (number three in the portfolio) is his largest holding there. That India exposure backfired temporarily when the Indian stock market sank after the nation's spring election resulted in a surprise victory by the Congress Party. Since then, however, Decker's Indian stocks have rebounded, led by Tata Motors, ICICI Bank, and Gujarat Cement.

Top Five Industries & Holdings (% of Assets)

Cable Television	7.5	SK Corp.	5.9
Finance-Investment Bankers/Brokers	5.9	Computer Associates	5.8
Oil Refining & Marketing	5.9	Reliance Industries	5.0
Enterprise Software/ Services	5.8	EchoStar Communications	4.9
Petrochemicals	5.1	Tyco International	4.2

As of October 31, 2004

As you can see from the table, Decker does pile a significant portion of assets into his top holdings. There are only 44 stocks in the entire portfolio, and the top ten account for more than 45% of assets. Top-performing larger holdings this year include Station Casinos (up 86%) and Apple Computer, which has gained more than 200% thanks to the success of its iPod product line and its redesigned iMac personal computer.

While Janus Contrarian may not be a fund for all seasons, it certainly has its seasons in the sun. $

Janus Contrarian Fund (JSVAX)
100 Filmore Street, 2nd Floor, Denver, CO 80206
(800) 525-3713
Minimum Investment $2,500/$500 IRA

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