



Emerging Markets Emerge

by Walter S. Frank, Chief Investment Officer

We have spoken favorably about emerging markets over the past six months or so. And in the past weeks we recommended that Venturesome investors invest in emerging market funds. In making our recommendation we, of course, provided our rationale for emerging markets but because of space limitations our discussion was necessarily brief. We have not so far made more than a perfunctory case for investing in emerging markets at this time. We decided it was time to correct that situation.

We want to say immediately that in rounding out the case for emerging market funds, we are relying heavily on a presentation given recently by Julian Mayo of Charlemagne Capital. Yes, this is the same Julian Mayo quoted on p.8 in the article introducing U.S. Global Eastern European Fund to you. He and his Charlemagne colleagues specialize in emerging market investing.

Who is emerging?

Wall Street tosses around the term emerging markets but rarely does anyone on the Street stop long enough to say precisely what they are talking about. In practice, the emerging markets turn out to be the countries of Eastern Europe and Turkey, Russia, Asia ex-Japan (including China and India), Latin America and South Africa. The list has even expanded lately with T. Rowe Price's Eastern Europe and Mediterranean Fund (think Egypt and Israel).

As you can see emerging markets as a class are a hodge-podge, and the outlook for one group, say Asia, is not necessarily the same as for another, say Latin America. They usually march to different drummers. Sometimes, though, there is a broad upswing in economic activity that is felt by many of the emerging markets at the same time. This happens to be one of those times.

Adding muscle

As we said when first recommending emerging markets, there is a growth pulse now coming from China and India felt by most emerging markets throughout the world. China and India need raw materials, and will need them for many years to come. The raw materials run from agriculture (soy, for example) to metals to oil. Raw materials are not the only way the Asian growth pulse is propagated—but by no means is that the case—but they are important.

The result of this demand for the products of the emerging markets is such that we now see rapid growth extending from China and India to the other emerging market countries themselves. According to Mayo's figures, emerging markets, as a whole, grew by 6.4% last year (real GDP) and are forecast to grow 5.3% this year. The U.S., which is the fastest growing of the developed countries, grew about 4% last year and will probably grow a shade less than that this year.

Traditionally, the Achilles heel of the emerging market countries has not been growth but shaky financial condition. They borrowed heavily on world markets to finance major improvements, and then ran into trouble when their exports were not adequate to provide repayment. The result was a collapse of their bond and stock markets as emerging market investors fled.

The usual conditions have changed drastically over the past seven years. Considering the groups as a whole, their international reserves now exceed their total external debt. This is not true for every single emerging market country, of course, but the financial basket cases of yesteryear have become rare

The upshot is that the usual scenario for the emerging markets—boom today, depression tomorrow—no longer is relevant. We are in a different era.

Not undiscovered

As you would expect, this has not gone unnoticed by some on Wall Street and elsewhere. Savvy risk-taking investors piled into emerging market stocks two years ago. Even earlier, smart money played the emerging market recovery after the Asian currency crisis by buying bonds, and it has continued to buy bonds to this day. Consequently the spread between emerging market bond yields and that of the 10-year U.S. Treasury bond has narrowed enormously, from about 5-5 1/2% in the late '90s to about 2.0% now. Emerging market bonds are no longer the pariahs they once were.

The lower spread has come about because of the persistent rally in the emerging market bond market. After a

Market Trends

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

(continued on page 2)

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while, as the bond rally continued, emerging market stocks also rallied and we had the outstanding performance of '03 followed by a solid performance last year.

In some of the emerging markets, but by no means all, even with superior profit growth, stock prices have run faster than profits, and stocks are now simply more expensive than they were. Portfolio managers for both Eastern European funds and Asia ex-Japan funds have commented that bargains have become harder to find. Such is the consequence of success.

Still appealing

Maybe the stocks are not as cheap as before, but they're still appealing. We'll explain. While emerging market price/earnings ratios have risen there is still a very wide gap between developed markets p/es and that of emerging markets. The gap had narrowed coming into this century, but then broadened into a chasm during the bear market. The bear market hit emerging market stocks worse than developed markets. The chasm has hardly been narrowed, rallies and all.

According to estimates provided by UBS, the p/e ratios for emerging markets this year is forecast to be 9.7. The p/e ratio for developed markets is forecast to be 14.4. This amounts to emerging markets selling at a discount of 32.4%. For value-oriented investors the same case can be made for the price/book value ratio. There the discount is about 21%.

There is no question that emerging market securities should sell at a discount to developed market securities. The question for investors is how large should the discount be.

Before we explore the question there is one other issue. As mentioned, the emerging market bond rally brought yields down to a point where they were not all that far removed from U.S. Treasury yields. At the same time, the emerging market stock rally lifted p/e ratios. But interest rates have come down relatively more than p/e ratios have risen. Consequently, emerging market stocks are now cheaper relative to bond yields than they were at the turn of the century. Emerging market stocks have some catching up to do.

Risk

As we said, the issue with emerging market stocks and bonds is how much less should they be valued than their developed market counterparts. Despite all the recent advances, emerging markets still present more risk than do developed markets. One obvious risk is political. Just ask the shareholders of Yukos. In Russia at least, firms can be nationalized almost overnight.

A further political risk is an arbitrary change of policy. When the Asian currency crisis struck, Malaysia slapped on currency controls overnight. In the case of China, we saw the decision to slow the economy being applied overnight, causing speculative investors to flee the market, creating a nasty correction. It was a difficult correction to navigate. Policy risks will always be with us in emerging markets.

Another risk is liquidity risk. Because of the relatively small size of their markets, markets are thin in emerging markets, at least as compared to developed markets. Just consider the Brazilian market where it is commonplace to see the Bovespa index move 2% on a daily basis. Liquidity risk runs right through most of the emerging markets.

That gets us back to the discount question. Just how much less than developed markets p/es should emerging market p/es be? We don't claim to have a quantitative answer to that one. There is no such answer. But what we can say is that, in the case of stocks, today's discount is too large, and by more than a trivial amount.

This is why we find emerging markets attractive. They offer a double reward. First, profits are growing rapidly, relatively speaking. If today's discount just holds, good gains will occur. If the discount comes down, as it should, there is a further gain to be had. On a risk/reward basis, this is an asset class for risk-tolerant investors. \$

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Next Issue: Volume 26, No. 7

Mails: April 8, 2005

Internet: April 6, 2005, 12:00pm (ET)

Note: There will be 3 weeks between issues

Oil And Trouble

The market has been fighting the oil headwind much of the past two weeks, as the late February rally simply was not strong enough to hold up. For all purposes the market has done nothing so far this year. The economic news has been mixed. The economy looks OK, but then some report comes along that suggests we are not doing as well as assumed. February's employment report had it all wrapped up in one. On the positive side, we had a very good increase in employment, but the other employment numbers, wages and hours, were not the stuff of a charging economy.

In spite of this, the Fed is talking a very positive game. Governor Bernanke, an influential if there ever was one, spoke on the economic outlook and he had few worries. He sees growth this year nudging toward 4%, just a touch higher than the 3.5% we threw out. But this is quibbling. 3.5% or 4.0% we are all saying the same thing: good but not breathless growth. Bernanke did say, indirectly, that the Fed wanted the long-term Treasury rate higher than it has been. And thanks to the falling dollar, he is getting his wish.

Is the Fed going to raise rates some more? Of course. How much more? We don't know, and neither does the Fed. It all depends on how the economy plays out. What we do know is that after two more rate hikes, rates will be in the sweet spot of 3%-5%. The target is somewhere in there. We think rates will wind up closer to the low end of the range.

The markets

As we see it, the stock markets waffling right now is because the market is adjusting to the end of the great profit increases. The market needs guidance on profits, and that will not come until next month when the first quarter profit reports are released. We expect, given Wall Street's sour mood, that the reports will turn out somewhat better than expected.

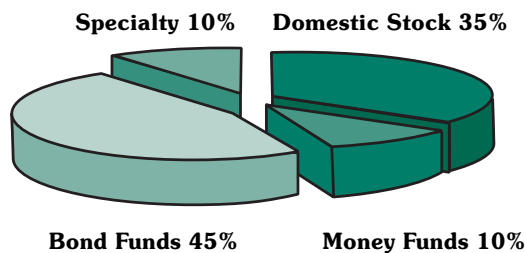
We are getting some lift from the overseas markets. Take a look at our fund lists, and you may be surprised at how well some overseas funds have done. We have mentioned before that Japan may well be the surprise market of this year. The Japanese economy is beginning to stir, and this time we expect it is the real thing. We believe so.

Fund changes

The Hotline of Tuesday, March 1 recommended the sale of Vanguard Windsor II in both the Vanguard Venturesome and Moderate Model Portfolios. For the Venturesome the fund to replace Windsor II was Vanguard Explorer. For the Moderate portfolio the recommended replacement fund was Vanguard Mid-Cap. Here are the details as of March 2. **Vanguard Venturesome:** Sold 820 shares of Windsor II @ \$31.26 per share. Purchased 345 shares of Explorer @ \$74.33 per share. **Vanguard Moderate:** Sold 700 shares of Windsor II. Purchased 1,380 shares of Mid-Cap @ \$15.85 per share. \$

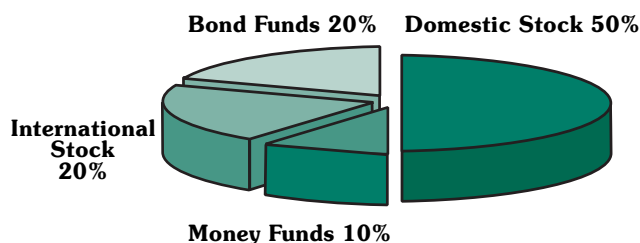
CONSERVATIVE

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



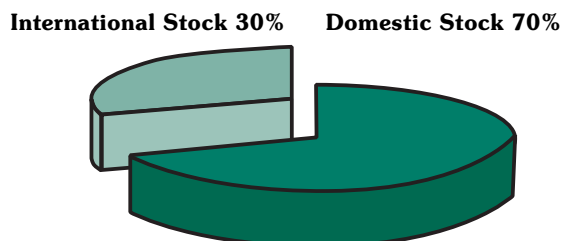
MODERATE

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



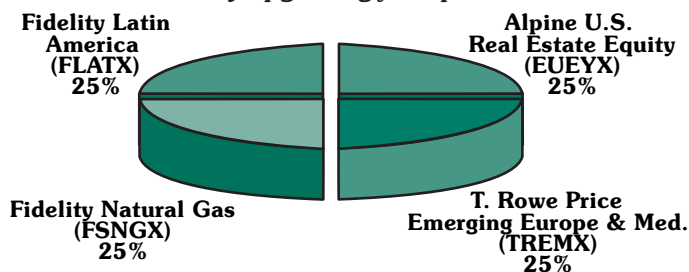
VENTURESOME

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



SELECT

Seeks maximum long-term growth by assertively upgrading fund positions



Domestic Stock Funds

RANK 03/11 2005	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	4	7	CGMFX	CGM Focus	SCVal	*	B	B	6.4%	24.2%	27.8%	\$33.58	37.9	1.03	fsw
2	2	6	FLVCX	Fidelity Leveraged Co (\$10k, 1.5%r<90d)	MC	*	B	B	1.3	26.9	28.1	24.01	36.3	1.39	Fw
3	1	2	BPTRX	Baron Partners	MCGro	*	B	B	-1.4	25.2	31.7	17.07	28.6	1.26	FSW
4	3	206	BRAIX	Bridgeway Aggressive Investors 2	MCGro	*	B	B	0.9	27.0	21.4	14.59	-	0	fsw
5	-	-	RSVAX	RS Value	MC	B	B	B	2.1	23.4	27.6	22.46	18.6	-0.60	FSW
6	29	69	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	B	B	B	3.1	22.9	26.0	30.33	19.2	0.80	fw
7	20	26	TAVFX	Third Avenue Value (1%r<60d)	SC	B	B	B	3.9	19.7	29.1	55.01	17.2	0.79	FSW
8	15	4	ARTGX	Artisan Mid Cap Value	MCVal	B	B	B	2.5	19.5	26.4	17.82	19.8	0.87	FSW
9	11	92	SMDCX	Strong Advisor Midcap Growth (closed)	MCGro	B	B	B	1.0	21.5	21.3	14.24	26.2	1.35	FSW
10	6	1	RSPFX	RS Partners (closed)	SC	B	B	B	0.8	19.4	25.7	35.28	20.9	0.69	FSW
11	13	-	MOPIX	MainStay Small Cap Opportunity (closed)	SCVal	B	B	B	1.3	19.6	24.2	18.74	17.5	0.63	FSW
12	7	53	BARAX	Baron Asset	MCGro	B	B	B	-0.8	21.0	23.4	52.83	21.2	0.94	FSW
13	5	36	BGRFX	Baron Growth (closed)	SCGro	B	B	B	-1.5	21.6	22.9	45.79	18.4	0.72	FSW
14	17	180	BSCFX	Baron Small Cap	SCGro	B	B	B	0.5	20.4	20.8	22.52	21.5	0.79	FSW
15	23	67	JSVAX	Janus Contrarian	MC	B	B	B	1.1	20.2	20.3	13.19	22.3	1.10	SW
16	26	50	FTQGX	Fidelity Focused Stock (.75%r<30d)	LC	*	B	B	1.7	19.1	21.7	10.58	17.2	1.00	Fw
17	14	74	SMTVX	Strong Multi-Cap Value	MCVal	B	B	B	1.6	19.2	17.3	65.77	22.4	1.01	FSW
18	16	52	NPRTX	Neuberger Berman Partners	LCVal	B	B	B	0.4	18.5	19.5	25.97	20.7	1.10	fsw
19	12	16	MUHLX	Muhlenkamp Fund	MCVal	B	B	B	-1.2	18.3	21.5	79.44	27.9	1.24	FSW
20	37	19	CRMMX	CRM Mid Cap Value Inv	MCVal	H	H	H	1.3	16.6	22.1	25.93	18.9	0.78	Fsw
21	31	63	VIMSX	Vanguard Mid-Cap Index	MC	B	B	B	0.9	17.4	19.5	15.77	20.1	0.97	fsw
22	44	44	FLPSX	Fidelity L P Stock (closed, 1.5%r<90d)	SCVal	H	H	H	1.2	16.7	19.9	40.72	18.0	0.75	Fsw
23	40	68	VSEGX	Vanguard Strategic Equity	MCGro	H	H	H	1.2	16.8	18.5	21.48	17.8	0.83	fsw
24	34	15	FDVLX	Fidelity Value	MCVal	H	H	H	0.5	14.9	21.0	72.61	19.0	0.89	Fsw
25	58	22	NBGNX	Neuberger Berman Genesis (closed)	SC	H	H	H	2.1	14.7	19.1	30.86	15.5	0.63	fsw
26	21	-	SCOVX	Strong Small Company Value	SCVal	H	H	H	-0.4	15.7	20.3	16.84	-	-	FSW
27	18	61	HENLX	Henlopen Fund (1%r<30d)	SCGro	B	B	B	0.1	17.9	13.2	30.62	30.9	1.19	FSW
28	35	178	PBSVX	PBHG Small Cap Value	SC	H	H	H	0.6	17.5	12.8	22.34	23.8	1.11	FSW
29	100	217	TWHIX	American Century Heritage	MCGro	H	H	H	2.4	16.6	12.1	12.20	15.4	0.76	FSW
30	24	25	MPEGX	MSI Mid Cap Growth	MCGro	*	(H)	(H)	-1.0	16.0	18.5	20.79	22.2	1.17	fsw
31	25	106	USCGX	USAA Capital Growth	MCGro	*	H	H	0.3	16.4	15.5	7.47	23.9	1.13	fsw
32	53	173	TWCVX	American Century Vista	MCGro	H	H	H	1.2	16.3	14.2	14.81	15.8	0.68	fsw
33	63	187	WAAEX	Wasatch Small Cap Grth (closed, 2%r<60d)	SCGro	H	H	H	0.8	16.3	13.6	39.12	27.1	1.17	FSW
34	62	59	BPMCX	Boston Partners Mid Cap Value	MCVal	H	H	H	0.9	14.7	17.3	12.91	20.1	0.93	FSW
35	94	60	DODGX	Dodge & Cox Stock (closed)	LCVal	H	H	H	1.2	14.8	16.6	131.20	17.6	0.85	sw
36	19	20	FBRVX	FBR Small Cap (closed, 1%r<90d)	SCGro	B	B	B	-2.3	14.7	21.9	40.94	23.4	0.82	FSW
37	126	76	MQIFX	Mutual Qualified (1%) CIZ	MCVal	H	H	H	2.3	13.8	16.5	19.84	13.3	0.61	sw
38	33	-	FFSCX	Forward Hoover Small Cap	SCGro	H	H	H	0.0	14.2	18.8	18.08	20.1	0.85	FSW
39	90	-	BPAVX	Boston Prtrs All Cap Value	MCVal	H	H	H	1.1	13.9	17.8	14.68	-	-	F
40	32	158	VLIFX	Value Line Fund	LCGro	H	H	H	-0.1	15.2	16.3	13.93	13.1	0.73	FSW
41	45	29	PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	0.2	14.5	17.4	10.21	20.4	0.80	Fsw
42	47	157	WGROX	Wasatch Core Growth (closed, 2%r<60d)	SCGro	H	H	H	0.2	15.6	14.1	42.79	28.5	1.10	FSW
43	42	80	JAENX	Janus Enterprise	MCGro	H	H	H	-0.5	14.5	17.5	37.17	21.4	1.09	FSW
44	71	98	CAMOX	Cambiar Opportunity	LC	H	H	H	-0.1	14.9	15.7	16.92	18.4	0.94	FSW
45	36	13	PRSVX	T. Rowe Price S-C Value (closed, 1%r<1yr)	SCVal	H	H	H	-0.4	13.0	20.5	35.31	18.0	0.69	fsw
46	75	96	MPMVX	MSI Mid Cap Value	MCVal	H	H	H	0.3	14.8	14.7	23.70	23.1	1.18	fsw
47	74	11	TASCX	Third Avenue Small-Cap Value (1%r<1yr)	SCVal	H	H	H	1.3	12.4	19.2	23.01	19.9	0.85	FSW
48	9	130	JAVTX	Janus Venture (closed)	SCGro	*	(H)	(H)	-2.7	17.4	12.8	55.98	29.0	1.25	FSW
49	140	138	VCVLX	Vanguard Capital Value	LCVal	H	H	H	2.1	13.5	15.2	11.73	-	-	fsw
50	57	3	BERWX	Berwyn Fund (1%r<180d)	SCVal	H	H	H	0.7	12.4	19.9	29.24	22.3	0.77	fsw
51	83	95	GABAX	Gabelli Asset	MC	H	H	H	0.3	14.2	15.9	41.68	17.8	0.91	FSW
52	50	242	CLSPX	Columbia Special	MCGro	*	H	H	-0.2	16.9	9.8	20.64	17.7	0.86	FSW
53	60	251	UBRRX	Undiscovered Behavioral Growth (\$10,000)	MCGro	*	H	H	0.1	16.8	9.7	20.90	28.2	1.15	fW
54	10	9	WBSNX	WmBlair S-C Growth N (closed, 1%r<60d)	SCGro	(H)	(H)	(H)	-2.3	15.4	16.6	24.66	30.1	1.12	FSW
55	22	231	TMGFY	Turner Mid Cap Growth	MCGro	*	H	H	-0.8	16.9	10.6	24.20	29.3	1.45	FSW
56	125	90	SAOPX	Salomon Brothers Opportunity	MCVal	H	H	H	2.1	13.0	15.7	48.52	13.0	0.67	sw
57	99	200	SLSSX	Selected Special Shares	MCGro	H	H	H	1.3	15.3	10.9	12.71	21.3	1.09	sW
58	77	57	MPSCX	MSI Small Cap Value (closed)	SCVal	H	H	H	0.9	13.5	16.0	22.78	20.7	0.98	fsw
59	84	86	DNLDX	Dreyfus New Leaders	MCGro	H	H	H	1.1	13.8	14.6	44.92	18.6	0.90	FSW
60	41	88	ACBGX	USGlobal Holmes Growth (.25%r<30d)	MCGro	H	H	H	-1.0	14.3	16.5	15.71	15.3	0.57	FSW
61	46	145	IZZYX	ICM/Isabelle Small Cap Value	SCVal	H	H	H	-0.6	16.0	11.6	15.79	29.5	1.04	FSW
62	81	102	PESPX	Dreyfus Mid Cap Index	MCGro	H	H	H	1.0	13.9	14.4	26.43	20.2	0.97	FSW
63	67	73	VALSX	Value Line Special Situations	MCGro	H	H	H	0.4	13.8	15.5	24.34	15.4	0.71	FSW
64	92	179	FIDYX	AIM Dynamics Inv (closed)	MCGro	H	H	H	0.4	15.0	12.5	16.48	28.2	1.48	FSW
65	88	24	TGDVX	TCW Galileo Diversified Value N	LCVal	S	S	S	0.7	12.5	17.6	13.49	19.8	1.03	FW
66	61	243	CUEGX	CS Mid Cap Growth (closed)	MCGro	*	H	H	0.0	16.6	8.0	31.17	24.3	1.18	FSW
67	-	-	RSGRX	RS Growth	MCGro	S	S	S	1.0	13.7	13.8	16.74	18.2	0.97	FSW
68	28	120	PRNHX	T. Rowe Price New Horizons	SCGro	*	H	H	-0.7	15.1	12.5	28.98	28.3	1.30	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	03/11	1 Mo	6Mo	Ticker	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	51	117	FDSCX	Fidelity Small Cap Ind. (1.5%r<90d)	SC	H	H	H	-0.9	14.9	13.1	19.73	16.7	0.58	Fsw	
70	76	66	TUDRX	WPG Tudor	SC	*	H	H	0.3	13.7	13.8	17.55	27.0	1.22	FsW	
71	64	12	RYPRX	Royce Premier (1%r<180d)	SC	S	S	S	-0.4	12.1	18.7	15.09	19.4	0.84	FsW	
72	89	51	FCNTX	Fidelity Contrafund	LC	S	S	S	0.4	12.7	15.8	57.45	11.4	0.54	Fsw	
73	98	56	NGUAX	Neuberger Berman Guardian	LCVal	S	S	S	0.7	12.3	16.4	16.55	18.0	0.99	f	
74	69	-	LSCRX	Loomis Sayles Small Cap Value Ret	SC	(\$)	(\$)	(\$)	0.5	11.9	17.6	25.78	17.2	0.80	FSW	
75	135	100	BEGRX	Mutual Beacon (1%) CIZ	MCVal	S	S	S	1.5	12.6	14.1	16.25	12.5	0.57	sw	
76	111	-	FSLSX	Fidelity Value Strategies	SC	*	H	H	0.8	15.1	8.8	36.27	29.4	1.41	F	
77	30	93	MXIX	Marsico 21st Century (2%r<30d)	LC	H	H	H	-2.2	14.5	14.5	11.40	21.1	0.95	fsw	
78	106	190	STCSX	Strong Advisor Common Stock (closed)	MC	S	S	S	1.4	13.8	10.5	22.78	22.6	1.15	FSW	
79	49	75	NMANX	Neuberger Berman Manhattan	MCGro	*	H	H	-1.2	13.4	15.3	6.86	23.4	1.15	f	
80	123	30	VWNFX	Vanguard Windsor II	LCVal	S	S	S	0.7	11.7	16.7	31.15	16.2	0.82	fsw	
81	56	23	VISVX	Vanguard Small-Cap Value Index	SCVal	H	H	H	-0.2	11.8	17.5	13.75	22.4	0.90	fsw	
82	96	108	RYPNX	Royce Opportunity (1%r<180d)	SCVal	H	H	H	0.9	13.5	11.6	12.98	30.8	1.18	fsw	
83	80	34	RPMGX	T. Rowe Price Mid Cap Growth	MCGro	S	S	S	-0.1	12.1	15.9	49.04	22.1	1.11	fsw	
84	101	134	FDEQX	Fidelity Disciplined Equity	LC	S	S	S	0.4	12.6	14.0	25.77	14.3	0.81	Fsw	
85	159	114	MUTHX	Mutual Shares (1%) CIZ	MCVal	S	S	S	1.6	12.0	13.6	23.49	12.0	0.56	sw	
86	115	14	TRMCX	T. Rowe Price Mid Cap Value	MCVal	S	S	S	0.6	11.6	15.9	22.76	19.8	0.90	fsw	
87	93	65	RYTRX	Royce Total Return (1%r<180d)	SCVal	S	S	S	0.3	11.6	16.0	12.30	15.7	0.66	FsW	
88	73	97	VEXMX	Vanguard Extended Market Index	MC	S	S	S	-0.4	13.1	13.1	30.74	21.5	1.02	fsw	
89	113	84	HAVLX	Harbor Value	LCVal	S	S	S	0.4	11.5	15.9	16.67	18.1	0.94	Fsw	
90	54	72	NAESX	Vanguard SmallCap Index	SC	S	S	S	-0.5	12.5	14.3	26.30	23.2	1.01	fsw	
91	122	47	LSGIX	Loomis Sayles Value	LCVal	S	S	S	0.1	11.6	15.6	17.40	16.4	0.89	fsw	
92	59	176	VEXPX	Vanguard Explorer	SCGro	H	H	H	-0.4	13.8	10.7	73.44	24.2	1.12	fsw	
93	108	166	JAGIX	Janus Growth & Income	LCGro	S	S	S	0.1	12.7	12.8	32.16	15.1	0.87	FSW	
94	138	33	JMCVX	Janus Mid Cap Value	MCVal	S	S	S	1.5	10.9	15.2	22.31	20.4	0.93	fsw	
95	155	18	MPVLX	MSI Value Portfolio	LCVal	S	S	S	1.0	10.8	16.1	17.87	20.6	1.05	fsw	
96	103	17	ARGFX	Ariel Fund	SCVal	S	S	S	1.0	10.2	17.5	53.41	15.6	0.53	FSW	
97	128	247	SCDVX	Scudder Development (closed)	MCGro	S	S	S	0.8	13.9	8.0	19.88	29.2	1.50	FSW	
109	82	54	FEXPX	Fidelity Export & Multinat'l (.75%r<30d)	LC	H	S	S	-1.0	11.4	15.2	19.85	20.3	1.07	Fsw	
123	27	62	BUF5X	Buffalo Small Cap (closed)	SCGro	*	(\$)	(\$)	-2.6	12.1	12.7	26.42	31.2	1.25	SW	
140	160	58	VUVLX	Vanguard U.S. Value	LCVal	H	S	S	0.2	9.1	12.4	13.82	17.3	0.87	fsw	

Dow Jones
NASDAQ
S&P 500

-0.2% **4.5%** **6.4%**
-1.7 **7.8** **5.0**
-0.4 **6.8** **8.4**

indexes do not
include dividends

International Stock Funds

1	3	-	TREMX	T. Rowe Price Emg Europe & Med (2%r<90d)	Europe	*	B	B	8.1%	45.7%	40.0%	\$19.15	29.2	-	fw
2	-	-	EUROX	US Global Eastern Europe (2%r<180d)	Europe	*	(B)	(B)	8.2	39.8	45.1	34.22	26.6	-	FSW
3	1	1	FLATX	Fidelity Latin Amer. (1.5%r<90d)	LatinA	*	H	H	1.8	40.6	49.8	22.85	29.8	-	Fs
4	2	2	PRLAX	T. Rowe Price Latin America (2%r<1yr)	LatinA	*	H	H	2.4	40.7	47.8	17.30	29.7	-	fsw
5	4	3	SLAFX	Scudder Latin America (closed,2%r<30d)	LatinA	*	H	H	1.5	37.3	42.3	34.41	27.3	-	Sw
6	8	18	FISMX	Fidelity Intl Small Cap (2%r<90d)	Int'l	B	B	B	6.3	33.7	37.2	25.94	-	-	Fw
7	5	32	FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	*	B	B	6.5	35.6	29.2	14.30	-	-	Fsw
8	18	41	AIOIX	Amer. Cent. Intl Opp. (closed,2%r<180d)	Int'l	B	B	B	6.2	31.0	32.3	10.64	20.4	-	-
9	6	14	VEIEX	Vanguard Emerging Mkts Stk Index (.5%r)	Int'l	*	B	B	5.5	32.2	29.4	15.85	22.6	-	fsw
10	12	-	PISRX	Forward Intl. Small Cos. (2%r<60d)	Int'l	B	B	B	5.7	31.2	31.1	14.08	-	-	FSW
11	7	17	DREGX	Driehaus Emerging Mkts Gr (2%r<60d)	Int'l	B	B	B	5.3	31.7	28.5	24.70	24.9	-	FSW
12	10	4	FIEUX	Fidelity Europe (1%r<30d)	Europe	B	B	B	5.3	29.8	33.0	36.28	22.5	-	Fsw
13	9	33	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	B	B	B	3.5	30.8	29.8	18.85	-	-	SW
14	16	20	VINEX	Vanguard Intl Expl (closed,\$25k,2%r<60d)	Int'l	B	B	B	4.4	27.9	32.8	17.45	16.3	-	fsw
15	14	5	DODFX	Dodge & Cox Intl Stock	Int'l	B	B	B	4.6	26.2	35.9	32.56	23.4	-	fsw
16	21	6	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	H	H	H	4.8	25.8	34.2	21.87	20.4	-	FSW
17	19	7	NBISX	Neuberger Berman Intl (2%r<180d)	Int'l	(B)	(B)	(B)	4.4	26.0	33.1	19.59	16.3	-	fsw
18	25	35	BJBIX	Julius Baer Intl Equity A (2%r<90d)	Int'l	H	H	H	5.5	25.9	28.0	33.41	12.5	-	FS
19	11	10	DRFMX	Dreyfus Emerging Market (1%r)	Int'l	*	B	B	3.9	27.4	26.4	20.64	21.6	-	FSW
20	26	-	QFVOX	Quant Foreign Value (1%r<30d)	Int'l	H	H	H	5.3	22.8	31.6	16.63	19.9	-	FSW
21	15	70	JVEIX	Janus Intl Equity (1%r<90d)	Int'l	B	B	B	3.0	25.1	29.0	19.14	13.9	-	FSW
22	13	26	SGSCX	Scudder Gbl Discovery (closed,2%r<30d)	Int'l	B	B	B	3.1	25.8	26.8	36.36	20.1	-	FSW
23	24	11	PRIDX	T. Rowe Price Intl Disc. (2%r<90d)	Int'l	H	H	H	4.4	24.7	27.6	35.02	16.0	-	fsw
24	31	60	DRIDX	Driehaus Intl Discovery (2%r<60d)	Int'l	H	H	H	6.7	27.0	18.3	34.43	21.1	-	FSW
25	27	36	FECAX	Fidelity Europe Capital App. (1%r<30d)	Europe	H	H	H	5.4	26.5	20.7	23.10	18.8	-	Fw
26	20	37	PRASX	T. Rowe Price New Asia (2%r<90d)	Pacific	*	H	H	4.5	25.8	21.7	10.74	19.7	-	fsw
27	23	8	ARTIX	Artisan Intl Value (2%r<90d)	Int'l	H	H	H	3.2	22.6	30.5	22.07	-	-	FSW
28	29	15	SCGEX	Scudder Greater Europe (closed,2%r<30d)	Europe	H	H	H	4.2	23.9	23.4	28.63	16.8	-	FSW
29	22	49	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	H	H	5.2	25.5	17.2	17.91	21.1	-	Fsw
30	17	22	MAPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	*	H	H	3.1	22.8	24.9	16.58	23.6	-	FSW
31	30	9	VEURX	Vanguard European Stock Index (2%r<60d)	Europe	H	H	H	3.6	21.5	24.8	26.99	17.4	-	fsw
32	28	59	JAOSX	Janus Overseas (closed,2%r<90d)	Int'l	H	H	H	4.9	22.5	20.0	25.62	16.5	-	FSW
33	34	43	FIGRX	Fidelity Intl Discovery (2%r<30d)	Int'l	S	S	S	3.9	21.9	21.7	29.31	15.2	-	Fsw
34	39	39	WBIGX	Wm. Blair Intl Growth N (closed,1%r<60d)	Int'l	S	S	S	4.3	21.5	21.8	22.83	14.6	-	FSW
36	35	16	VTRIX	Vanguard International Value (2%r<60d)	Int'l	*	H	H	4.1	19.7	23.9	32.43	16.8	-	fsw

Bond Funds (next issue on page 6: Specialty Funds)
 03/11/2005

Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	Std. Dev.	Yield	NTF/wft
						1 mo.	6 mo.	12 mo.				
FFRHX	Fidelity Floating Rate High Inc (1%r<60d)	BnkLoan	B	*	*	0.4%	2.1%	2.9%	\$10.00	-	3.27%	Fw
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	*	*	*	-0.9	3.6	5.5	11.44	4.12	3.76	FSW
CMHYX	Columbia High Yield	HighYld	*	*	*	0.2	2.4	1.8	8.78	4.22	6.30	fSW
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	0.7	9.2	10.2	8.54	11.80	6.36	Fsw
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	0.3	5.2	5.3	9.05	7.15	7.45	Fsw
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	0.3	4.1	5.9	9.90	4.06	6.64	FSW
NTHFX	Northeast Investors Trust	HighYld	*	*	*	0.8	7.3	12.0	7.85	5.28	7.03	fw
PHYDX	PIMCO High Yield	HighYld	*	*	*	0.3	5.0	6.0	9.97	8.01	6.39	SW
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	0.5	4.8	6.6	7.95	7.75	6.70	FSW
STHBX	Strong S-T High Yield	HighYld	*	*	*	0.0	0.9	1.6	8.63	2.45	4.35	FSW
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	0.5	5.2	6.2	7.18	5.30	7.51	sw
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	0.5	5.8	8.7	7.37	6.86	7.74	FSW
VAGIX	Value Line Aggressive Inc (1%r<120d)	HighYld	*	*	*	0.0	3.8	5.8	5.16	6.75	6.14	FSW
VWEHX	Vanguard High Yield Corporate (1%r<1yr)	HighYld	*	B	*	0.1	4.7	7.1	6.40	5.51	7.12	sw
BEGBX	American Century Intl Bond	Int'l	*	*	*	2.4	11.5	12.3	14.68	9.37	4.05	fSW
FNMIX	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	-0.6	7.9	8.5	14.06	10.67	6.03	Fsw
PYGFY	Payden Global Fixed Income	Int'l	*	*	*	-1.2	1.7	1.3	9.90	3.64	4.38	fsW
SSTGX	Scudder Global Bond S-T (closed)	Int'l	*	*	*	0.3	5.7	5.6	10.38	5.37	4.98	FSW
RPBIX	T. Rowe Price Int'l Bond	Int'l	*	*	*	2.4	10.2	10.7	10.42	8.42	2.29	fsw
BGNMX	American Century Ginnie Mae	IntTerm	*	*	*	-1.0	-0.3	-0.2	10.34	2.67	4.67	fSW
ACITX	American Century Inflation Adj	IntTerm	B	*	*	-2.1	2.2	2.6	11.19	7.14	4.38	fSW
CPTNX	American Government Bond	IntTerm	H	*	*	-1.3	0.2	-1.1	10.52	4.23	2.69	f
BBHIX	BBH Inflation Indexed Sec	IntTerm	B	*	*	-2.0	2.1	2.7	11.08	7.30	4.01	FSW
SRINX	Columbia Income CIZ	IntTerm	H	*	*	-0.9	0.6	-0.2	10.01	4.64	5.48	FSW
SRBFX	Columbia Intermediate Bond CIZ	IntTerm	H	*	*	-1.0	0.1	-0.8	9.02	4.03	4.90	FSW
DODIX	Dodge & Cox Income	IntTerm	H	*	*	-0.8	1.5	1.6	12.84	3.42	4.19	fsw
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	-1.5	2.1	0.2	13.68	4.92	4.27	FSW
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	-0.9	0.7	0.6	14.54	3.11	4.37	FSW
DSINX	Dreyfus Strategic Income	IntTerm	*	*	*	-1.4	0.8	-1.2	14.52	4.66	4.13	FSW
FGMNX	Fidelity GNMA	IntTerm	*	*	*	-1.0	0.2	0.3	10.97	2.37	4.05	Fsw
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	-2.0	2.1	2.0	11.26	-	1.32	Fw
FBNDX	Fidelity Investment Grade	IntTerm	H	*	*	-1.3	1.1	1.4	7.46	4.31	3.35	Fsw
MBDFX	Managers Fremont Bond	IntTerm	H	*	*	-1.1	0.5	0.8	10.34	4.49	2.09	fsw
MWTRX	MetroWest Total Return	IntTerm	*	*	*	-0.8	1.9	0.0	9.76	5.65	6.00	SW
PRRDY	PIMCO Real Return	IntTerm	H	*	*	-1.7	2.0	0.7	11.36	7.36	3.41	SW
PTTDX	PIMCO Total Return	IntTerm	H	*	*	-1.1	0.5	0.6	10.57	4.37	2.07	SW
PTMDX	PIMCO Total Return Mortgage	IntTerm	H	*	*	-0.9	0.6	0.9	10.63	3.01	2.51	SW
SCSBX	Scudder Income (closed)	IntTerm	H	*	*	-1.3	1.4	1.8	12.88	4.25	4.49	FSW
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	-0.9	0.0	-0.1	9.55	2.82	4.60	fsw
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	-1.4	0.7	0.0	9.01	4.11	3.81	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	H	*	*	-1.3	1.0	1.6	9.81	3.15	4.05	FSW
USAIX	USAA Income	IntTerm	H	*	*	-1.3	1.4	1.5	12.30	4.66	4.54	w
VALBX	Value Line U.S. Govt Sec	IntTerm	H	*	*	-1.1	0.1	-0.5	11.65	4.36	3.63	FSW
VFIIX	Vanguard GNMA	IntTerm	B	*	*	-1.1	1.0	2.3	10.33	3.36	4.59	fsw
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	-2.1	2.2	2.5	12.44	7.17	4.49	sw
VBMFX	Vanguard Total Bond Market Index	IntTerm	H	*	*	-1.5	0.8	0.9	10.12	4.29	4.33	fsw
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	-0.9	2.1	3.0	10.74	3.91	5.37	FSW
WPGVX	WPG Core Bond	IntTerm	H	*	*	-1.5	0.0	-0.3	10.70	4.46	2.96	Fsw
DRGBX	Dreyfus 100 Treasury L-T	LngTerm	*	*	*	-3.6	1.8	-0.3	15.87	8.05	4.48	FW
KIFIX	FifthThird Bond	LngTerm	*	*	*	-1.4	0.7	0.3	10.04	4.74	3.28	w
MGFIX	Managers Bond	LngTerm	*	*	*	-0.7	2.6	2.4	24.47	6.21	4.17	FSW
STCBX	Strong Corporate Bond	LngTerm	*	*	*	-1.5	2.0	0.3	10.60	6.62	4.61	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	-1.5	2.0	0.8	9.80	5.72	4.82	fsw
VUSTX	Vanguard L-T Treasury	LngTerm	*	*	*	-3.7	2.0	-0.9	11.39	10.36	4.92	fsw
VWESX	Vanguard Long-Term Corporate	LngTerm	*	*	*	-3.2	4.1	1.7	9.51	9.87	5.38	fsw
FSICX	Fidelity Strategic Income	Multi	B	B	*	0.1	6.9	8.5	10.68	5.00	5.05	Fw
LSBDX	Loomis Sayles Bond Instl	Multi	B	B	*	0.9	8.2	10.2	13.93	7.42	6.83	FSW
LSBRX	Loomis Sayles Bond Retail	Multi	B	B	*	0.8	8.0	9.8	13.90	7.42	6.66	FW
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	-0.2	4.1	4.8	12.01	4.09	4.05	fsw
CUGGX	Columbia S-T Bond	ShfTerm	B	*	*	-0.3	-0.4	-1.1	8.55	1.93	2.54	fW
DSTIX	Dreyfus Short-Term Income	ShfTerm	B	*	*	-0.8	0.2	-1.2	11.09	1.92	3.64	FSW
FSHBX	Fidelity Short-Term Bond	ShfTerm	B	*	*	-0.4	-0.4	-1.0	8.91	1.96	2.58	Fsw
JASBX	Janus S-T Bond	ShfTerm	B	*	*	-0.2	-0.7	-0.7	2.89	1.51	2.70	FSW
MGIDX	Managers Int. Duration Govt	ShfTerm	*	*	*	-1.1	0.4	1.4	10.54	2.71	2.33	FSW
MGSDX	Managers Short Duration Govt	ShfTerm	B	*	*	0.3	1.4	2.5	9.67	0.65	2.85	FSW
MWLDX	MetroWest Low Duration	ShfTerm	B	*	*	0.1	1.1	0.5	9.40	3.03	3.83	SW
SCSTX	Scudder Short-Term Bond (closed)	ShfTerm	B	*	*	-0.3	-0.1	0.0	10.11	1.69	4.66	FSW
VFSTX	Vanguard Short-Term Investment Grade	ShfTerm	B	*	*	-0.5	-0.1	-0.8	10.55	2.01	3.40	fsw
BITTX	American Century Target 2020	ZeroCpn	*	*	*	-5.0	5.0	3.2	54.01	16.54	4.23	fSW
BITRX	American Century Target 2025	ZeroCpn	*	*	*	-5.9	9.5	7.5	46.83	19.31	4.72	fSW

Upgrade Coming for Website

Subscribers will get their first look at a brand new *MONEYLETTER.com* website starting April 2, 2005.

This upgrade will result in benefits for existing subscribers as well as people new to *MONEYLETTER*. "We're excited about this initiative," said Brian W. Kelly, *MONEYLETTER's* Publisher. "First and foremost, we want to make it convenient for our subscribers to use our service. You'll see a significant upgrade in this area with the addition of a comprehensive "FAQ" section (Frequently Asked Questions), which will help people get the most out of their subscription. We will also be adding an Introductory Offer for first-time subscribers who want to 'get acquainted' with *MONEYLETTER* before they sign up full-time."

The new website will continue to offer easy access to current and past issues of *MONEYLETTER* and *MONEYLETTER Plus* for paid subscribers. The only difference will be instead of clicking "Subscribers" users will click "Member Login." Below is the entire procedure that you should follow to access current and past issues of *MONEYLETTER* and *MONEYLETTER Plus* via our website.

Please follow these simple steps:

- Go to www.moneyletter.com.
- Click "Subscribers" (click "Member Login" starting April 2, 2005).
- Choose *MONEYLETTER* or *MONEYLETTER Plus*.
- In the "Username" field type your **Account Number**. Your Account Number is located on your mailing label, above your name, and begins with an upper case "A" followed by seven digits. If you can't find your Account Number, call us toll-free 800-890-9670 or email service@moneyletter.com.
- In the "Password" field, type your five-digit **Zip Code**.

As a reminder, the new issue of *MONEYLETTER* is posted at noon every Wednesday of print week (i.e. two days before the mail date); the new issue of *MONEYLETTER Plus* is posted by midnight each Wednesday. You'll need the Adobe Acrobat Reader to download the file. If you don't already have it, you can download it from our site. Depending on modem speed and Internet traffic, it can take a little while to load.

* * *

Several subscribers contacted us after the March 4th issue regarding RS Contrarian Value, saying they could not find the fund by that ticker symbol anymore. Effective March 1, 2005 RS Contrarian Value (RSCOX) changed its name and symbol, becoming RS Value Fund (RSVAX). A similar change occurred with RS Value + Growth (RSVPX), which became RS Growth (RSGRX). Since the data for the Fund Scorecard for that issue was through 2/25/05, several days prior to the change, we used the prevailing ticker RSCOX. We apologize for any confusion. \$

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	2.14%	2.09%	1.21%
Gabelli US Treasury MMF	2.10	2.00	1.14
Fidelity Spartan US Treas MMF	2.07	1.94	1.11
Amer Century Capital Presv Fund/Inv	1.93	1.86	1.01
HSBC Investor US Treas MM/CI D	1.89	1.77	0.89
T Rowe Price US Treasury MF	1.88	1.73	0.91
RMK Select Treas MMF/CI A	1.83	1.75	0.84
JPMorgan 100% US Treas MMF/Morgan	1.77	1.65	0.86
Schwab US Treasury Money Fund	1.73	1.65	0.81
US Treasury MF of America/CI A	1.69	1.63	0.81

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
Scudder MM Series Premium/CI S	2.60%	2.51%	1.43%
PayPal Money Market Fund	2.57	2.54	1.59
Scudder MM Series Premium/AARP	2.51	2.49	1.45
Scudder MM Series Prime Reserve/AARP	2.47	2.42	1.34
Harbor Money Market Fund	2.37	2.26	1.29
TIAA-CREF Money Market Fund	2.34	2.25	1.33
Vanguard Prime MMF/Retail	2.34	2.29	1.33
SSgA MMF/CI A	2.24	2.18	1.22
BB&T Prime MMF/Trust	2.20	2.12	1.14
Marshall MMF/Investor Class	2.20	2.15	1.24

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Alpine Municipal MMF/Investor	1.85%	1.93%	1.33%
Vanguard Tax-Exempt MMF	1.70	1.78	1.28
Strong Tax-Free Money Fund	1.50	1.60	1.18
Dreyfus BASIC Muni MMF	1.45	1.49	0.98
Scudder Tax-Exempt Money Fund	1.45	1.52	0.98
USAA Tax Exempt MMF	1.43	1.51	0.99
Fidelity Municipal MMF	1.42	1.42	0.98
Amer Century T-F MMF/Inv Class	1.41	1.47	0.99
Scudder T-E Cash Managed Shares/TEP	1.41	1.49	1.01
T Rowe Price Summit Muni MMF	1.40	1.47	0.95

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	1.69%	1.75%	1.26%
Vanguard CA Tax-Exempt MMF	1.67	1.75	1.25
Vanguard NJ Tax-Exempt MMF	1.65	1.71	1.22
Vanguard NY Tax-Exempt MMF	1.65	1.72	1.23
Vanguard PA Tax-Exempt MMF	1.65	1.74	1.24
Fidelity FL Municipal MMF	1.37	1.44	0.93
Fidelity PA Municipal MMF	1.36	1.40	0.93
Fidelity OH Municipal MMF	1.34	1.42	0.90
Fidelity CA Municipal MMF	1.33	1.39	0.87
Fidelity CT Municipal MMF	1.33	1.41	0.91

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 3/8/05. 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: *iMoneynet's Money Fund Report* (800) 343-5413

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U.S. Global Investors Eastern Europe

The sub-advisor for this fund, London-based Charlemagne Capital Ltd., is a specialist in emerging markets. Founded in 1991, it has deep experience in Asia and Eastern Europe. Charlemagne sees significant opportunities in Eastern Europe and the former Soviet Union, as economic reform and broad privatization take hold. The stock prices of many companies in the region understate the true value of their assets, the firm asserts. However, it also acknowledges that this significant investment potential will be accompanied by ongoing volatility. Since 2001, the fund's calendar year total returns have consistently placed well within the top 10% of its Morningstar category—Europe stock funds. The fund posted superb returns of 61.4% and 52.4% in 2003 and 2004, respectively, and is ahead by 11.6% through March 11.

Investing for value

U.S. Global Investors Eastern Europe is a team-managed fund led by Stefan Bottcher and Andrew Wiles. *MONEYLETTER* spoke with Julian Mayo, investment director at Charlemagne about the investment process. "Basically," states Mayo, "the investment process is very bottom up. We do a market cap screening to make sure we don't miss any of the larger companies. Then we look at what we call our best opportunities—ideas we generate internally as a result of our contacts and our on-going experience in these markets. We meet with the management of each of the companies, and question them in detail. We undertake detailed analysis on the outlooks for these businesses, including the sustainability of their business models, the outlook for profits, cash flows, balance sheets, and so on. The second step is to set a price target for each of these companies, and look for those most attractive on a risk adjusted basis."

Then, the firm assesses the countries based on macroeconomic factors, including currency rates, GDP growth, interest rates, and political stability. According to Mayo, this step "is really a part of the firm's risk management process, rather than its stock selection process. If we think we're interested in investing in a market, yet we see there are significant macro risks, then the macro risks will override any merits from a bottom-up perspective." He cites Hungary as an example. "If we don't like a market because there are serious economic or political risks, then we will exit the market completely. That's what we did in the case of Hungary at the beginning of last year. Now, however, quite a bit of the portfolio is exposed to Hungary."

The portfolio is very focused, with only about 30 stocks. And, the team is not hesitant to take large positions in its favorite holdings. Among the fund's top holdings are Russian mobile telephone operators Mobile TeleSystems (8.7% of assets) and Vimpelcom (5.2%). With P/E multiples of less than 10 times 2006 earnings, the team believes both stocks have significant upside potential. Meanwhile, Hungary's OTP Bank (8.4% of assets) was the best performer for the fund last year, as it benefited from recent regional acquisitions. The management team deliberately chooses to maintain a focused portfolio. As Mayo said, "Our approach is that we want to maintain a focused portfolio." "We may go up to about 40 stocks, but this focus means we can't hide behind some positions that go wrong. With a focused portfolio, you have to make sure you are investing in your best ideas." Mayo also says that the maximum size of a single holding won't exceed 9% of assets at cost. "We take pretty chunky positions," he quips.

Top Five Countries & Sectors (% of Assets)

Banks	16.8	Russia	26.3
Wireless Telecom Services	13.9	Poland	16.5
Oil & Gas Explor. & Prod.	13.1	Czech Republic	15.2
Diversified Financial Serv.	12.7	Hungary	11.5
Integrated Telecom	10.8	Turkey	5.3

As of December 31, 2004

Regional outlook

Many of the markets the fund invests in were up strongly last year. Hungary and Czech Republic advanced more than 80%, with Poland up 59%. The laggard was Russia, ahead by 13%. Despite these gains, Mayo states, "If you look at the outlook for the region as a whole from the stock level, we still see a lot of value in the region." Mayo sees Russia as particularly attractive. With its lesser gain, plus "the fact that the Russian economy has been very strong over the last year with higher oil prices and fiscal discipline, the Russian market has returned to being one of the cheapest emerging markets, trading at well under ten times 2005 earnings." Meanwhile, a number of countries recently joined the European Union, offering new opportunities. And the team finds Turkey particularly intriguing, as it evaluates what affect prospective EU membership will have on the nation. The team is evaluating Turkish firms, looking for those with compelling management and growth prospects.

U.S. Global Investors Eastern Europe (EUROX)

U.S. Global Investors

7900 Callaghan Road, San Antonio, TX 78229

(800) 873-8637 • Minimum investment: \$5,000 / \$0 IRA

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