



A Quick Tour Abroad

by Walter S. Frank, Chief Investment Officer

We have been advocating an international allocation for all growth investors, as we look at today's investment climate. The basis for our position is simple: U.S. economic growth, and, more important, corporate profits (after a robust 2004) are bound to be slow, particularly profits. Meanwhile, economic and profit growth in some regions of the world, i.e. Asia, Eastern Europe, and parts of Latin America, will now be growing materially faster than here. Our inclination is to go where the growth is, though the phrase vastly oversimplifies the considerations involved in deciding on an allocation, overseas or otherwise.

So far this year, and despite better growth prospects, the international funds in general have not performed any better than the domestic funds. One reason for that is that many overseas markets were just as vulnerable to higher energy prices as was the U.S. Another reason was that as concern over higher U.S. interest rates grew, investors who borrowed here to invest abroad became concerned about a squeeze on their profits.

Another important reason was the perception that worldwide economic growth was slowing. The slowing was expected to occur everywhere, but an important source of the slowdown was expected to be China. If, indeed, China were to slow dramatically the consequences would be felt not only in Asia, but other economies as well, especially those heavy in producing natural resources.

So far as we can see, the slowdown is more apparent in the talk about a slowdown than in the reality. Of course, high oil prices have had an effect on consumer spending most everywhere, particularly in the developed economies, such as Europe. But looking at Asia, the slowdown is measured in tenths rather than whole numbers. So far in 2005, growth is performing well in the traditional growing economies.

There was one other general development that has affected the performance of overseas funds this year, and

that is the dollar. The dollar has held up this year, and a bit more. This was contrary to everyone's expectations, including our own. The dollar has made a small push this month. In a period of lackluster performance, the dollar's slight gains have only added to the sense of risk with no reward.

We hesitate to say much about the dollar. We gave up currency predictions many years ago. Yet, looking at the U.S. ongoing monthly international deficit, it is hard—very hard—to see the dollar appreciating enough to make a difference in performance over a 12-month period. We do not see the dollar as an issue.

So much for general considerations. More important for an international perspective is to size up how the individual regions look. How does the investment outlook appear from that perspective? In looking at the regions we were aided by an available recent interview with Mark Bickford-Smith, portfolio manager, T. Rowe Price International Stock Fund.

Europe

If you take a look at this issue's international stock list, you will only find one European fund (Fidelity Europe) among the top performers. The European funds have been sliding for some weeks. What has been happening is that growth in the older European economies has taken a turn for the worse this year, led by Germany. The economic news has not been good, and the markets have responded.

It would be misleading to let it go at that. If you look at a table of individual European market indices' performance for the year-to-date, you will see that in local currency terms some of the bigger markets are sporting gains—Britain, France, Spain and others. In dollar terms, the gains vanish, for the most part. So it is the dollar, acting contrary to expectations so far this year, that has hidden the actual performance of the European markets.

Looking at the European markets, Bickford-Smith observed that, "Valuations in Europe have been quite attractive for some time, and remain so." The other side of the equation, as he noted, is that there isn't any growth. He went on to say that investing in Europe now is "very much a stock-picker's exercise."

There is something of an exception to the semi-stagnation now affecting core Europe, and that is the U.K. Growth there has been respectable, as has been stock market performance. Just as here, though, the central bank has been raising rates to avoid overheating.

Asia, ex-Japan

The tempo picks up perceptibly when looking at Asia, ex-Japan. The 800-lb. Gorilla here is China. And the

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Market Trends

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

(continued from page 1)

overhanging issue with China is the one we have lived with for about a year: will China manage a soft landing as it slows? The issue has lost some of its intensity as the months have gone by, and China's growth proceeds without apparently causing rampant worldwide inflation or severe internal production bottlenecks. But the Chinese attempt to pull on the reins is not over. The Chinese want to cut growth from 9.5% to 8%. If they can do it, without overdoing, then non-Japan Asia will continue to be the growth dynamo for much of the world.

While there is growth in Asia, the question must always be raised about whether the growth is now already in stock prices. Last year was a good one for the Asian markets. For example, Matthews Pacific Tiger was up 30% for the year ending May 16th. Has the growth ahead been discounted?

Bickford-Smith's answer is, "Valuations have gone up somewhat. But on the other hand, I think the stability of the region has never been stronger. So on balance, I think it's [the investment attractiveness] pretty much unchanged."

Another issue overhanging the Asian market is the value of the Chinese currency, the yuan. The markets expect a yuan revaluation some time this year. The Chinese have been ambiguous in their statements about whether and when.

The effect of a devaluation, we believe, will be to raise the value of most other Asian currencies as they move in sympathy with the yuan. This is fine, but remember it is a one-time gain, and we believe it will be limited. A currency play is not a good reason to invest in Asia. Growth is.

Emerging markets

We added emerging market funds to our Venturesome portfolios in mid-February. At that time, the funds were coming off a spectacular six-month run starting about August of last year. We had no doubt the run would cool off, but we still expected better than average gains from the sector this year.

About three weeks after our recommendation, profit-taking set in and most of this year's good gains disappeared, until the selling subsided about one month ago. Since then the emerging markets have essentially moved sideways.

The selling was set off first by the rise in long-term interest rates here (they have since come down). This caused selling in emerging market bonds as their yield advantage over U.S. yields narrowed. The bond weakness soon transferred to stocks as well. Beyond interest rates, the flight from risk that recently seized the markets everywhere was clearly not about to spare the emerging markets.

With all that, we continue to maintain our positive view of the emerging markets. The issue is not the fundamentals. They are holding up. The issue is whether the retreat from risk-taking is temporary, a result of the alleged hedge fund difficulties, or lasting. We believe the emerging market fundamentals are so strong that institutional investors will return. Put another way, it is the best game in town. We will just have to wait and see if we are right.

Japan—the wild card

Japan is a tantalizing enigma. If only, if only. If only the economy would gain some traction. Despite slow growth, profits have done well. As Bickford-Smith sees it, "Many of these (Japanese) companies are pretty finely tuned and will need only a modest improvement in top-line growth to produce pretty spectacular bottom-line results."

In his eyes, "...if we see a little economic improvement, the prospect for Japanese stocks is considerably better and they could well be market leaders." That is the promise of Japan in May, 2005. The question remains: will Japan convert that promise into achievement. We believe it will, but we wait on the numbers.

We cannot help but pass on two observations that Bickford-Smith offered in some concluding remarks:

Observation 1: "A weak dollar tends to go hand-in-hand with outperformance by international stocks."

Observation 2: "I am most confident about the outlook for earnings. In Europe and Japan, all signs point to corporate earnings continuing to exceed forecasts."

After the dollar's long fall last year, we hesitate to call for a weaker dollar, but, as we said earlier, it is very hard to see the reverse. Meanwhile, we rely on earnings—in Asia and the emerging markets as well—to provide the grist for further international funds' gains. \$

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Note: There will be 3 weeks between issues

Hedge Fund Blues

If you did your reading over the weekend of May 13th, you are now an expert on such arcane topics as CDOs (collateralized debt obligations) and CDSs (credit default swaps). You have that expertise because the Street is convinced that there are hedge funds in trouble, and they are in trouble because they invested in these instruments, undoubtedly using leverage. Now, we are told, the instruments turned on the funds, and they are scrambling to raise cash to pay loans and return capital if necessary to disgruntled investors.

What is true and what is sheer rumor we do not know. What we do know is that the market action the past few weeks has shown a distinct turning away from risk. For those who have been advocating stocks, such as ourselves, this is not good news. Stocks and risk-taking go hand-in-hand. When the market turns away from risk, then the funds that do well are the “safe” funds, which have the virtue of low risk, but also low reward. One is not far from bond fund territory.

How important is all of this as we look out beyond the short-term? It is somewhat important. If there is a blow-up among the hedge funds invested in these instruments, we would see trouble in the corporate bond market. Aside from the actual effects there, there would be an effect on confidence that would certainly translate to stock prices.

While we would all notice the effects, we look on them as relatively short-term. We also believe that the effects would be confined to the markets and would not spill over into the real economy, and that is what matters. In time, the markets would recover.

Puzzling

Just as we put the “soft patch” to rest (after the April employment report along with its revisions), the N.Y. Fed monthly manufacturing report was released telling us that manufacturing slid hard in that region over the past few weeks. New orders dropped, and not trivially.

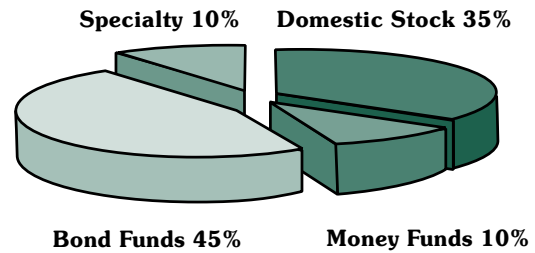
It is hard to reconcile the New York report with the national numbers. On the other hand, we are reluctant to dismiss the report outright. Manufacturing was the weak spot in the April employment report. Perhaps the N.Y. report is telling us that the weakness, which we attribute to the hangover from \$57 oil, will take some time to fade away.

The oil effect is also showed up in the first of the inflation reports for April. The Producer Price Index came in at 0.3% (less food and energy), about as expected but considerably higher than the last two months. We would be concerned (think Fed) were it not for the fact that oil prices are down. As oil prices go, so goes our inflation. If oil prices remain well-behaved, and that is the expectation, then inflation will be a lesser concern.

We continue to counsel patience. Underneath the froth, the economy is performing well so far.

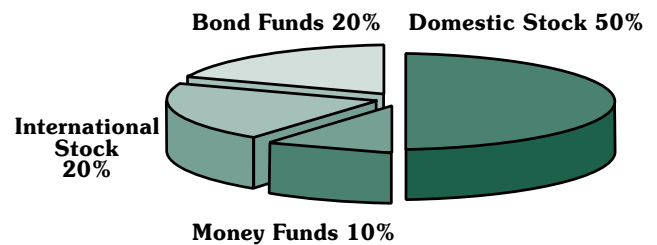
CONSERVATIVE

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



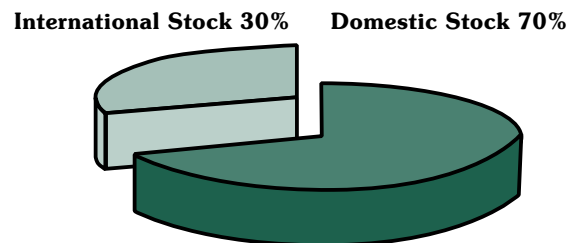
MODERATE

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



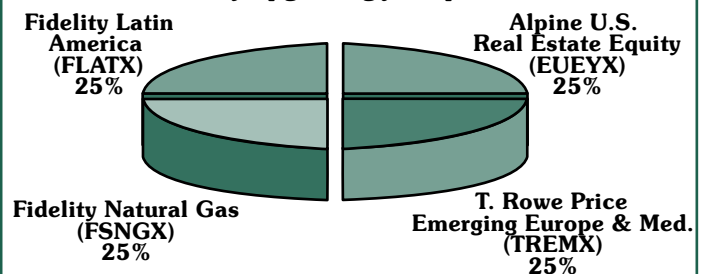
VENTURESOME

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	05/13 2005	1 Mo Ago	6 Mo Ago	Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE	RISK		NTF/wtf
										1 mo.	6 mo.	12 mo.	PER SHARE	Std. Dev.	Beta	
1	2	7		TAVFX	Third Avenue Value (1%r<60d)	SC	B	B	B	-2.9%	6.8%	29.2%	\$53.09	17.2	0.79	FSW
2	—	—		FAIRX	Fairholme Fund	MC	(B)	(B)	(B)	-2.3	8.1	23.5	22.97	10.5	0.48	fsw
3	6	16		CGMFX	CGM Focus	SCVal	B	B	B	-4.6	5.7	26.0	30.45	37.9	1.03	fsw
4	5	8		ARTGX	Artisan Mid Cap Value	MCVal	B	B	B	-3.0	5.5	23.7	17.09	19.8	0.87	FSW
5	3	—		RSVAX	RS Value (formerly RS Contrarian)	MC	B	B	B	-2.7	3.0	26.8	21.20	18.6	0.60	FSW
6	11	52		MQIFX	Mutual Qualified (1%) CIZ	MCVal	B	B	B	-1.1	4.5	17.6	19.33	13.3	0.61	sw
7	15	86		BEGRX	Mutual Beacon (1%) CIZ	MCVal	B	B	B	-1.1	4.2	15.8	15.89	12.5	0.57	sw
8	25	104		MUTHX	Mutual Shares (1%) CIZ	MCVal	(B)	(B)	(B)	-1.0	4.3	14.0	22.95	12.0	0.56	sw
9	1	4		LLSCX	Longleaf Partners Smallcap (closed)	SCVal	B	B	B	-3.4	1.6	23.6	29.40	19.2	0.80	fw
10	29	87		NBGNX	Neuberger Berman Genesis (closed)	SC	B	B	B	-1.6	3.6	15.0	29.83	15.5	0.63	fsw
11	17	—		BPAVX	Robeco Boston Prtrs All Cap Value	MCVal	B	B	B	-2.0	3.5	15.0	14.11	—	—	FW
12	14	207		YACKX	Yackman Fund	MCVal	H	H	H	-0.7	3.5	11.1	15.06	19.5	0.78	FW
13	22	107		HAVLX	Harbor Value	LCVal	B	B	B	-1.9	3.0	13.4	16.15	18.1	0.94	Fsw
14	36	19		TASCX	Third Avenue Small-Cap Value (1%r<1yr)	SCVal	H	H	H	-2.3	1.6	17.4	21.97	19.9	0.85	FSW
15	18	118		CAMOX	Cambiar Opportunity	LC	B	B	B	-1.7	3.5	11.5	16.38	18.4	0.94	FSW
16	40	205		NICSX	Nicholas Fund	LC	H	H	H	-0.2	3.5	9.3	59.99	16.1	0.84	w
17	32	25		VMSX	Vanguard Mid-Cap Index	MC	B	B	B	-2.3	1.6	17.1	15.04	20.1	0.97	fsw
18	35	18		FDVLX	Fidelity Value	MCVal	B	B	B	-2.2	1.1	17.8	69.54	19.0	0.89	Fsw
19	31	55		FTQGX	Fidelity Focused Stock (.75%r<30d)	LC	*	B	B	-3.7	2.5	16.7	9.88	17.2	1.00	Fw
20	21	17		MUHLX	Muhlenkamp Fund	MCVal	B	B	B	-3.4	0.9	19.8	73.92	27.9	1.24	FSW
21	12	—		MOPIX	MainStay Small Cap Opportunity (closed)	SCVal	B	B	B	-5.5	1.6	20.8	17.21	17.5	0.63	FSW
22	24	26		TGDIVX	TCW Galileo Diversified Value N	LCVal	H	H	H	-2.6	2.1	15.2	13.09	19.8	1.03	FW
23	53	84		WGROX	Wasatch Core Growth (closed,2%r<60d)	SCGro	H	H	H	-0.4	0.6	14.9	40.67	28.5	1.10	FSW
24	33	48		VWNFX	Vanguard Windsor II	LCVal	(B)	(B)	(B)	-1.9	1.5	14.7	30.26	16.2	0.82	fsw
25	16	38		DODGX	Dodge & Cox Stock (closed)	LCVal	B	B	B	-2.5	1.6	15.0	125.40	17.6	0.85	sw
26	41	65		HOVLX	Homestead Value	LCVal	(B)	(B)	(B)	-1.6	1.4	13.6	29.80	16.5	0.81	W
27	34	27		NPRTX	Neuberger Berman Partners	LCVal	B	B	B	-3.8	1.7	16.0	24.29	20.7	1.10	fsw
28	48	258		HSGFX	Hussman Strategic Growth (1.5%r<180d)	MCGro	H	H	H	0.0	3.6	4.7	15.63	8.4	0.09	fsw
29	45	30		ARGFX	Ariel Fund	SCVal	H	H	H	-1.5	0.0	15.6	51.78	15.6	0.53	FSW
30	4	3		FLVCX	Fidelity Leveraged Co (\$10k,1.5%r<90d)	MC	*	B	B	-7.1	0.5	22.6	21.92	36.3	1.39	Fw
31	26	54		MPMVX	MSI Mid Cap Value	MCVal	H	H	H	-2.7	1.5	13.1	22.72	23.1	1.18	fsw
32	42	142		WAAEX	Wasatch Small Cap Grth (closed,2%r<60d)	SCGro	H	H	H	-0.6	0.1	13.0	37.69	27.1	1.17	FSW
33	30	67		GABAX	Gabelli Asset	MC	H	H	H	-2.8	1.3	12.7	40.02	17.8	0.91	FSW
34	8	28		BARAX	Baron Asset	MCGro	(H)	(H)	(H)	-4.3	1.5	14.6	49.14	21.2	0.94	FSW
35	139	155		CBMDX	C&B Mid Cap Value	MCVal	H	H	H	-0.4	1.2	9.2	19.60	19.5	0.83	FSW
36	19	14		CRMMX	CRM Mid Cap Value Inv	MCVal	B	B	B	-2.6	-0.1	15.9	24.69	18.9	0.78	Fsw
37	43	61		PRWCX	T. Rowe Price Cap Appreciation	LCVal	H	H	H	-1.5	0.6	12.5	19.01	11.0	0.49	fsw
38	66	97		PESPX	Dreyfus Mid Cap Index	MCGro	H	H	H	-1.7	0.6	12.3	25.17	20.2	0.97	FSW
39	64	51		WEHIX	Weitz Hickory	SC	*	H	H	-2.1	-0.4	15.3	31.00	29.1	1.38	fsw
40	50	183		CSMVX	Century Select Small Cap (1%r<180d)	SCGro	H	H	H	-1.9	1.1	11.3	22.80	15.3	0.61	FSW
41	44	143		WPSRX	Westport Small Cap R	SCVal	H	H	H	-2.1	1.8	9.9	23.67	18.6	0.85	FSW
42	39	80		VCVLX	Vanguard Capital Value	LCVal	H	H	H	-3.0	1.1	12.5	11.11	—	—	fsw
43	37	41		BPMCX	Robeco Boston Partners Mid Cap Value	MCVal	H	H	H	-2.5	0.6	13.1	12.32	20.1	0.93	FSW
44	10	29		BGRFX	Baron Growth (closed)	SCGro	H	H	H	-4.9	0.7	16.2	42.77	18.4	0.72	FSW
45	38	36		MPVLX	MSI Value Portfolio	LCVal	H	H	H	-2.2	0.1	13.6	17.26	20.6	1.05	fsw
46	51	57		VIVAX	Vanguard Value Index	LCVal	H	H	H	-2.1	0.0	13.5	20.60	18.6	1.03	fsw
47	56	77		PRFDX	T. Rowe Price Equity-Income	LCVal	H	H	H	-2.0	0.6	11.7	25.50	16.3	0.83	fsw
48	61	66		LSGIX	Loomis Sayles Value	LCVal	H	H	H	-2.5	0.5	12.5	16.76	16.4	0.89	fsw
49	7	5		BPTRX	Baron Partners	MCGro	*	H	H	-5.1	-0.3	18.2	15.23	28.6	1.26	FSW
50	52	24		TRMCX	T. Rowe Price Mid Cap Value	MCVal	S	S	S	-1.7	-0.4	13.4	21.93	19.8	0.90	fsw
51	27	—		ICSLX	ICAP Select Equity	LCVal	H	H	H	-3.4	0.6	13.4	33.49	14.6	0.88	fsw
52	20	1		RSPFX	RS Partners (closed)	SC	H	H	H	-3.6	-1.8	19.6	32.48	20.9	0.69	FSW
53	71	63		JMCVX	Janus Mid Cap Value	MCVal	H	H	H	-1.9	0.1	12.2	21.41	20.4	0.93	fsw
54	59	37		TGIGX	TCW Galileo Dividend Focused N	MCVal	H	H	H	-1.9	-0.1	12.6	11.05	13.8	0.57	FSW
55	23	15		JSVAX	Janus Contrarian	MC	H	H	H	-4.0	-0.2	15.9	12.42	22.3	1.10	SW
56	63	93		GEVTX	Columbia Disciplined Value CIZ	LC	H	H	H	-2.4	0.3	11.9	13.61	19.8	1.06	fw
57	113	88		FEXPX	Fidelity Export & Multinat'l (.75%r<30d)	LC	H	(H)	(H)	-0.5	-0.2	9.8	18.90	20.3	1.07	Fsw
58	69	100		FCNTX	Fidelity Contrafund	LC	H	H	H	-2.2	0.2	11.1	54.97	11.4	0.54	Fsw
59	28	20		FLPSX	Fidelity L P Stock (closed,1.5%r<90d)	SCVal	H	H	H	-4.2	-0.1	14.9	37.91	18.0	0.75	Fsw
60	101	45		NGUAX	Neuberger Berman Guardian	LCVal	S	S	S	-0.8	-1.1	12.2	15.89	18.0	0.99	f
61	82	68		RPMGX	T. Rowe Price Mid Cap Growth	MCGro	S	S	S	-0.8	-0.8	11.6	47.59	22.1	1.11	fsw
62	94	233		FIIX	INVESCO Core Equity	LC	S	S	S	-1.0	1.1	7.1	10.11	15.3	0.89	FSW
63	55	123		TWVLX	American Century Value (closed)	MCVal	S	S	S	-1.7	0.6	9.1	7.14	16.6	0.82	fsw
64	74	115		TWEIX	American Century Equity Income	MCVal	S	S	S	-1.6	0.3	9.8	7.86	12.6	0.62	FSW
65	72	106		VWNDX	Vanguard Windsor	LCVal	S	S	S	-2.0	-0.1	11.1	17.32	19.6	1.02	fsw
66	79	64		VEXMX	Vanguard Extended Market Index	MC	S	S	S	-1.7	-0.8	12.3	29.42	21.5	1.02	fsw
67	77	209		CUEGX	CS Mid Cap Growth (closed)	MCGro	*	S	S	-1.7	1.2	7.2	29.83	24.3	1.18	FSW
68	13	13		FBRVX	FBR Small Cap (closed,1%r<90d)	SCGro	H	H	H	-4.9	-0.9	17.0	38.85	23.4	0.82	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	05/13	1 Mo	6 Mo	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	109	43	MPEGX	MSI Mid Cap Growth	MCGro	*	S	S	-1.7	-1.2	13.0	19.83	22.2	1.17	fsw	
70	46	85	PBSVX	PBHG Small Cap Value	SC	S	S	S	-2.8	0.4	10.6	21.01	23.8	1.11	FSW	
71	49	73	SAOPX	Salomon Brothers Opportunity	MCVal	S	S	S	-2.9	-0.2	12.1	45.69	13.0	0.67	sw	
72	9	166	BSCFX	Baron Small Cap (closed)	SCGro	H	H	H	-4.7	1.7	10.0	21.00	21.5	0.79	FSW	
73	67	168	CAAPX	Ariel Appreciation	MCVal	S	S	S	-1.5	0.2	8.8	45.69	19.2	0.83	FSW	
74	126	181	BUFVX	Buffalo Mid Cap	MCGro	S	S	S	-0.6	0.5	6.5	12.32	—	—	FSW	
75	210	173	HACAX	Harbor Capital Appreciation	LCGro	S	S	S	2.2	-1.5	6.8	27.44	19.0	1.10	Fsw	
76	68	90	BEQGX	American Century Equity Growth	LCVal	H	H	H	-2.4	-0.3	10.9	21.28	17.2	0.97	FSW	
77	173	62	VHCOX	Vanguard Cap Opp (closed,\$25k,1%r<1yr)	MCGro	*	S	S	-0.1	-1.4	9.8	28.84	25.3	1.28	fsw	
78	112	180	GAATX	Columbia Asset Allocation CIZ	G&I	S	S	S	-1.0	-0.2	8.4	15.62	10.8	0.61	fw	
79	87	111	FDEQX	Fidelity Disciplined Equity	LC	S	S	S	-2.7	0.1	10.0	24.49	14.3	0.81	Fsw	
80	93	116	BIGRX	American Century Income & Growth	LCVal	S	S	S	-1.9	-0.2	9.6	29.42	17.4	0.97	FSW	
81	57	108	JAGIX	Janus Growth & Income	LCGro	S	S	S	-2.2	-0.1	9.8	30.91	15.1	0.87	FSW	
82	76	89	VEIPX	Vanguard Equity-Income	LCVal	S	S	S	-1.9	-0.9	11.3	22.57	14.9	0.79	fsw	
83	86	12	VISVX	Vanguard Small-Cap Value Index	SCVal	H	H	H	-2.6	-2.7	16.7	12.98	22.4	0.90	fsw	
84	54	31	VSEQX	Vanguard Strategic Equity	MCGro	H	H	H	-3.1	-1.7	14.8	20.16	17.8	0.83	fsw	
85	218	188	PFGRX	Preferred Growth	LCGro	S	S	S	2.2	-1.4	6.2	11.57	19.0	1.10	w	
86	118	152	USAUX	USAA Aggressive Growth	MCGro	*	S	S	-0.4	-0.9	8.7	27.49	21.5	1.00	w	
87	98	70	SSHFX	Sound Shore	LCVal	S	S	S	-2.6	-0.3	10.1	34.78	17.3	0.79	sW	
88	80	133	DNLDX	Dreyfus New Leaders	MCGro	S	S	S	-2.7	-0.3	10.2	40.86	18.6	0.90	FSW	
89	143	47	FFSCX	Forward Hoover Small Cap	SCGro	S	S	S	-1.6	-2.2	12.9	17.12	20.1	0.85	FSW	
90	84	250	SCDVX	Scudder Development (closed)	MCGro	S	S	S	-3.2	1.3	6.5	19.02	29.2	1.50	FSW	
91	81	164	LMASX	Legg Mason Special Investment Trust	MC	*	S	S	-1.6	0.2	6.9	43.21	30.9	1.33	—	
92	108	171	WWALX	Weitz Value Fund	MCVal	S	S	S	-1.7	-0.5	8.6	35.70	16.7	0.82	SW	
93	83	202	TGVNX	TCW Galileo Value Opportunities	MC	*	S	S	-1.9	0.8	5.9	21.29	29.2	1.32	FSW	
94	105	83	SMCDX	Wells Fargo Advantage MC Disciplined	MCVal	S	S	S	-2.4	-0.1	8.6	21.05	23.1	0.99	FSW	
95	170	177	TWCGX	American Century Growth	LCGro	*	S	S	0.6	-1.5	7.5	18.95	17.9	1.02	FSW	
96	100	135	MFOCX	Marsico Focus (2%r<30d)	LCGro	H	H	H	-1.3	-0.8	8.6	15.49	15.3	0.74	FSW	
99	99	74	VUVLX	Vanguard U.S. Value	LCVal	H	S	S	-2.7	-1.0	10.4	13.18	17.3	0.87	fsw	
124	62	21	BRAIX	Bridgeway Aggressive Investors 2	MCGro	*	H	H	-5.9	-1.3	13.9	13.09	—	—	fsw	
164	78	94	FDESCX	Fidelity Small Cap Ind. (1.5%r<90d)	SC	H	H	H	-4.1	-1.4	7.8	18.34	16.7	0.58	Fsw	
182	151	139	VEXPX	Vanguard Explorer	SCGro	H	H	H	-3.1	-2.7	7.0	68.97	24.2	1.12	fsw	

Dow Jones
NASDAQ
S&P 500

-2.5% **-3.8%** **1.3%**
0.1 **-5.2** **2.6**
-1.7 **-2.5** **5.3**

indexes do not
include dividends

International Stock Funds

1	1	13	TREMX	T. Rowe Price Emg Eur & Med (2%r<90d)	Europe	*	B	B	-1.3%	20.9%	42.0%	\$17.83	29.2	—	fw
2	3	2	PRLAX	T. Rowe Price Latin America (2%r<90d)	LatinA	*	H	H	-1.4	14.7	54.8	16.34	29.7	—	fsw
3	8	1	FLATX	Fidelity Latin Amer. (1.5%r<90d)	LatinA	*	H	H	-3.2	11.6	54.0	21.00	29.8	—	Fs
4	19	3	SLAFX	Scudder Latin America (closed,2%r<30d)	LatinA	*	H	H	-2.9	9.9	46.9	31.67	27.3	—	Sw
5	21	23	PRASX	T. Rowe Price New Asia (2%r<90d)	Pacific	*	(B)	(B)	0.0	11.9	29.1	10.36	19.7	—	fsw
6	24	12	FEMKX	Fidelity Emerging Mkts (1.5%r<90d)	Int'l	*	(B)	(B)	-2.5	11.2	32.1	13.07	—	—	Fsw
7	25	5	VEIEX	Vanguard Emerging Mkts Stk Index (.5%r)	Int'l	*	(B)	(B)	-2.4	9.8	34.1	14.63	22.6	—	fsw
8	9	32	AIOIX	Amer.Cent.Intl Opp. (closed,2%r<180d)	Int'l	*	B	B	-3.6	13.1	24.4	9.92	20.4	—	—
9	5	10	FISMX	Fidelity Intl Small Cap (closed,2%r<90d)	Int'l	*	B	B	-5.2	11.0	30.5	23.75	—	—	Fw
10	4	18	VINEX	Vanguard Intl Expl (closed,\$25k,2%r<60d)	Int'l	*	B	B	-3.9	11.1	28.0	16.32	16.3	—	fsw
11	26	16	MAPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	*	(B)	(B)	-1.2	8.7	30.0	16.00	23.6	—	FSW
12	7	8	FIEXX	Fidelity Europe (1%r<30d)	Europe	*	B	B	-3.4	8.3	33.5	34.20	22.5	—	Fsw
13	33	26	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	(B)	(B)	-1.7	9.7	26.8	17.14	21.1	—	Fsw
14	2	—	PISRX	Forward Intl Small Companies (2%r<60d)	Int'l	*	B	B	-5.6	10.2	30.4	13.02	—	—	FSW
15	32	6	DREGX	Driehaus Emerging Mkts Gr (2%r<60d)	Int'l	*	H	H	-3.6	7.3	29.3	22.31	24.9	—	FSW
16	6	21	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	*	B	B	-5.4	9.3	27.1	17.48	—	—	SW
17	12	15	JVEIX	Janus Intl Equity (1%r<90d)	Int'l	*	B	B	-3.8	7.9	26.1	18.14	13.9	—	FSW
18	37	24	MACSX	Matthews Asia G & I (closed,2%r<90d)	Pacific	*	H	H	-0.1	6.7	23.5	16.07	11.4	—	FSW
19	17	4	DODFX	Dodge & Cox Intl Stock	Int'l	*	B	B	-3.3	5.4	30.4	30.08	23.4	—	fsw
20	35	7	DRFMX	Dreyfus Emerging Market (1%r)	Int'l	*	(B)	(B)	-2.8	6.0	27.6	19.02	21.6	—	FSW
21	11	14	NBISX	Neuberger Berman Intl (2%r<60d)	Int'l	*	B	B	-5.1	7.7	26.5	18.08	16.3	—	fsw
22	47	—	MPACX	Matthews Asia Pacific (2%r<90d)	Pacific	*	H	H	-1.7	6.5	23.2	12.46	—	—	FSW
23	72	61	FJSCX	Fidelity Japan Smaller Cos (1.5%r<90d)	Japan	*	H	H	1.4	7.9	14.1	12.75	28.4	—	Fsw
24	57	28	SCOPX	Scudder Pacific Opp (closed,2%r<30d)	Pacific	*	H	H	-0.8	6.3	20.8	13.30	19.0	—	FSW
25	27	25	PRIDX	T. Rowe Price Intl Disc. (2%r<90d)	Int'l	*	H	H	-3.4	6.6	23.5	32.56	16.0	—	fsw
26	10	17	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	*	(H)	(H)	-5.9	6.5	26.4	20.00	20.4	—	FSW
27	13	—	ICEUX	ICAP Euro Select Equity (2%r<30d)	Int'l	*	(H)	(H)	-3.1	4.7	26.4	29.72	18.0	—	fsw
28	38	52	DRIDX	Driehaus Intl Discovery (2%r<60d)	Int'l	*	H	H	-4.1	8.0	17.9	31.85	21.1	—	FSW
29	28	19	BJBIX	Julius Baer Intl Equity A (2%r<90d)	Int'l	*	H	H	-4.1	4.6	23.7	30.58	12.5	—	FS
30	30	66	TBQVX	Tweedy, Browne Gbl Val (closed,2%r<60d)	Global	*	H	H	-1.9	6.8	14.8	23.88	11.9	—	fsw
31	60	11	ICHKX	Guinness China & Hong Kong (2%r<90d)	Pacific	*	H	H	-1.1	1.4	26.0	18.73	19.6	—	FSW
35	14	—	EUROX	US Global Eastern Europe (2%r<180d)	Europe	*	H	H	-9.5	2.3	34.8	28.72	26.6	—	FSW
36	39	29	VTRIX	Vanguard International Value (2%r<60d)	Int'l	*	H	H	-3.2	3.8	20.6	30.30	16.8	—	fsw
40	22	22	VEURX	Vanguard European Stock Index (2%r<60d)	Europe	*	H	H	-3.7	3.2	20.6	25.30	17.4	—	fsw
41	15	9	ARTKX	Artisan Intl Value (2%r<90d)	Int'l	*	H	H	-5.4	3.6	21.9	20.34	—	—	FSW

Bond Funds (next issue on page 6: Specialty Funds)
 05/13/2005

Ticker Symbol	FUND NAME	Fund Type	Conservative	Moderate	Venturesome	TOTAL RETURN			PRICE PER SHARE	Std. Dev.	Yield	NTF/wff
						1 mo.	6 mo.	12 mo.				
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	-2.3%	-1.1%	10.5%	\$8.11	12.11	6.63%	Fsw
NTHSX	Northeast Investors Trust	HighYld	*	*	*	-2.5	0.5	9.4	7.54	4.96	7.23	fw
VWEHX	Vanguard High Yield Corp (1%r<1yr)	HighYld	*	B	*	-1.2	-1.6	7.6	6.12	5.86	7.39	sw
BEGBX	American Century Intl Bond	Int'l	*	*	*	-0.6	1.1	14.9	14.07	9.35	5.19	fSW
FNMIX	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	0.4	2.4	17.8	13.86	10.93	6.21	Fsw
PYGFY	Payden Global Fixed Income	Int'l	*	*	*	1.3	2.8	7.6	10.06	3.50	4.40	fsw
SSTGX	Scudder Global Bond S-T (closed)	Int'l	*	*	*	0.5	1.8	9.8	10.30	5.31	4.91	FSW
RPIBX	T. Rowe Price Int'l Bond	Int'l	*	*	*	-0.4	0.5	13.0	10.06	8.48	2.35	fsw
BGNMX	American Century Ginnie Mae	IntTerm	*	*	*	0.3	0.9	4.0	10.40	2.46	4.69	fSW
ACITX	American Century Inflation Adj	IntTerm	B	*	*	1.4	3.2	9.9	11.35	7.05	3.89	fSW
CPTNX	American Government Bond	IntTerm	H	*	*	0.7	1.3	4.4	10.64	3.78	2.84	f
BBHIX	BBH Inflation Indexed Sec	IntTerm	B	*	*	1.4	3.4	10.3	11.29	7.23	3.36	FSW
CFISX	Columbia Fixed Income Sec	IntTerm	H	*	*	0.4	0.2	3.4	13.23	3.95	4.16	fSW
SRFBX	Columbia Intermediate Bond CIZ	IntTerm	H	*	*	0.2	-0.6	4.1	9.01	4.05	4.89	FSW
DODIX	Dodge & Cox Income	IntTerm	H	*	*	0.5	1.0	5.6	12.75	3.38	4.16	fsw
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	1.0	2.4	7.5	13.79	4.75	4.27	FSW
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	0.7	1.8	5.8	14.66	2.93	4.16	FSW
DSINX	Dreyfus Strategic Income	IntTerm	*	*	*	0.3	0.6	5.0	14.58	4.60	4.17	FSW
FRGX	Federated Total Return Govt	IntTerm	H	*	*	0.8	1.1	4.4	10.93	5.19	4.14	sw
FGMNX	Fidelity GNMA	IntTerm	*	*	*	0.5	0.9	4.3	11.08	2.22	4.02	Fsw
FINPX	Fidelity Inflation-Protected Bond	IntTerm	B	*	*	1.3	3.0	9.6	11.50	-	1.26	Fw
FTHRX	Fidelity Intermediate Bond	IntTerm	H	*	*	0.5	-0.3	2.7	10.43	3.77	3.44	Fsw
FSTGX	Fidelity Intermediate Govt	IntTerm	H	*	*	0.7	0.1	3.3	10.19	3.93	2.99	Fsw
FBNDX	Fidelity Investment Grade	IntTerm	H	*	*	0.8	1.5	7.4	7.51	4.10	3.35	Fsw
MBDFX	Managers Fremont Bond	IntTerm	H	*	*	1.1	1.6	7.1	10.49	4.25	2.37	fsw
MWTRX	MetroWest Total Return	IntTerm	*	*	*	0.3	1.2	5.4	9.70	5.58	5.94	SW
PRRDY	PIMCO Real Return	IntTerm	H	*	*	0.8	2.5	7.9	11.55	7.22	3.16	SW
PTDIX	PIMCO Total Return	IntTerm	H	*	*	0.9	1.5	6.4	10.73	4.07	2.20	SW
PTMDX	PIMCO Total Return Mortgage	IntTerm	H	*	*	0.6	1.1	5.6	10.73	2.81	2.50	SW
SCSBX	Scudder Income (closed)	IntTerm	H	*	*	0.9	2.1	7.5	12.94	4.08	4.56	FSW
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	0.4	0.8	4.2	9.61	2.54	4.60	fsw
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	0.7	1.4	6.0	9.09	3.98	3.86	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	H	*	*	1.2	2.5	6.7	9.92	2.98	3.94	FSW
USAIX	USAA Income	IntTerm	H	*	*	1.1	2.3	8.0	12.42	4.47	4.48	w
VALBX	Value Line U.S. Govt Sec	IntTerm	H	*	*	1.0	1.5	5.0	11.70	4.12	3.88	FSW
VFIIX	Vanguard GNMA	IntTerm	B	*	*	0.9	2.0	7.4	10.41	3.13	4.58	fsw
VIPSX	Vanguard Inflation Protected Sec	IntTerm	B	*	*	1.4	3.4	9.8	12.70	7.06	4.23	sw
VFITX	Vanguard Intermediate Treas.	IntTerm	H	*	*	1.1	0.9	5.1	11.20	5.62	4.51	fsw
VBMFX	Vanguard Total Bond Market Index	IntTerm	H	*	*	1.2	1.7	7.6	10.23	4.15	4.33	fsw
STVIX	Wells Fargo Adv Govt Sec Inv	IntTerm	H	*	*	0.8	0.8	4.5	10.74	4.34	3.68	FSW
MNTRX	Wells Fargo Adv Total Return Bond	IntTerm	H	*	*	0.7	1.0	5.7	12.34	4.19	3.64	fsw
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	0.3	0.7	7.0	10.61	3.83	5.47	FSW
DRGBX	Dreyfus 100 Treasury L-T	LngTerm	*	*	*	2.6	5.8	12.6	16.49	7.92	4.37	FW
FGOVX	Fidelity Government Income	LngTerm	*	*	*	0.9	1.2	5.0	10.26	5.06	3.02	Fsw
KIFIX	FifthThird Bond	LngTerm	*	*	*	1.0	1.7	6.5	10.15	4.43	3.26	w
MGFIX	Managers Bond	LngTerm	*	*	*	0.4	1.2	8.0	24.31	5.89	4.03	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	-0.1	-0.5	6.2	9.65	5.81	4.79	fsw
PRULX	T. Rowe Price U.S. Treas. L-T	LngTerm	*	*	*	2.2	4.4	11.8	12.15	8.50	4.16	fsw
VWESX	Vanguard Long-Term Corporate	LngTerm	*	*	*	1.9	5.0	15.3	9.73	9.66	5.32	fsw
VUSTX	Vanguard L-T Treasury	LngTerm	*	*	*	2.5	4.6	13.5	11.78	10.00	4.84	fsw
STCBX	Wells Fargo Adv Corporate Bond Inv	LngTerm	*	*	*	0.1	-0.6	5.6	10.45	6.58	4.67	FSW
FSICX	Fidelity Strategic Income	Multi	B	B	*	-0.3	1.3	12.6	10.42	5.21	5.15	Fw
JAFIX	Janus Flexible Income	Multi	*	*	*	0.4	0.3	4.1	9.60	4.39	4.65	FSW
LSBDX	Loomis Sayles Bond Instl	Multi	B	B	*	-0.7	0.9	15.4	13.46	7.58	6.98	FSW
LSBRX	Loomis Sayles Bond Retail	Multi	B	B	*	-0.7	0.7	15.1	13.43	7.57	6.80	FW
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	-0.5	0.4	7.4	11.82	4.18	4.10	fsw
FSHBX	Fidelity Short-Term Bond	ShfTerm	B	*	*	0.2	0.0	1.3	8.93	1.89	2.76	Fsw
MGIDX	Managers Int. Duration Govt	ShfTerm	*	*	*	0.8	1.5	6.2	10.66	2.41	2.37	FSW
MGSDX	Managers Short Duration Govt	ShfTerm	B	*	*	0.2	1.5	2.8	9.66	0.54	2.90	FSW
MWLDX	MetroWest Low Duration	ShfTerm	B	*	*	0.3	1.2	2.9	9.39	2.99	3.68	SW
PTLCX	PIMCO Low Duration	ShfTerm	B	*	*	0.2	0.3	1.8	10.15	1.83	1.33	fw
SWBDX	Schwab S-T Bond Mkt Index	ShfTerm	B	*	*	0.2	0.0	1.8	10.05	2.45	2.80	S
SCSTX	Scudder Short-Term Bond (closed)	ShfTerm	B	*	*	0.5	0.5	2.2	10.11	1.65	4.67	FSW
VFSTX	Vanguard Short-Term Investment Grade	ShfTerm	B	*	*	0.3	0.3	1.8	10.58	1.96	3.41	fsw
VSGBX	Vanguard S-T Federal	ShfTerm	*	*	*	0.4	0.3	1.6	10.36	2.10	2.87	fsw
VFISX	Vanguard S-T Treasury	ShfTerm	B	*	*	0.3	0.2	1.3	10.42	2.19	2.75	fsw
BTINX	American Century Target 2010	ZeroCpn	*	*	*	1.7	1.8	8.4	88.36	8.36	4.32	fSW
BFTX	American Century Target 2015	ZeroCpn	*	*	*	3.1	5.0	17.9	75.86	12.75	4.19	fSW
BITTX	American Century Target 2020	ZeroCpn	*	*	*	4.4	10.0	27.9	57.79	15.91	4.09	fSW
BITRX	American Century Target 2025	ZeroCpn	*	*	*	5.4	15.1	38.4	50.65	18.67	4.53	fSW

Tapping on the Brakes

On May 3, 2005 the Federal Reserve hiked short-term rates for the eighth time since the end of June 2004, reaffirming its goal of providing monetary policy that supports both sustainable growth and price stability. Since last June 30, the fed funds rate has increased at a “measured” pace, from 1.00% to 3.00%. The Fed had cut rates 13 times from 6.50% to 1.00% between January 2001 and June 2003.

Money fund yields have increased accordingly, but higher yields have not translated into more assets for the funds just yet. Money fund assets—combined taxable and tax-free—have decreased by \$88 billion since our last review in September 2004, according to data from iMoneyNet’s Money Fund Report. By comparison, assets of all other types of mutual funds increased by \$645 billion over the same period*, according to the Investment Company Institute. The S&P 500 increased by 3.56% over the same September ’04–April ’05 period.

One interesting development is the relative improvement of tax-free money fund yields. On average, tax-free fund yields are just a shade below taxable funds, and if you take out the effect of institutions-only funds, they are even closer. That means investors in high tax brackets should seriously consider tax-free funds at this time.

When evaluating money funds, always remember: 1) if you shop, you can find above average funds—see the accompanying table of top-yielding funds; 2) double and triple tax-free funds (i.e. exempt from federal, plus state and/or local taxes) can provide an additional edge for investors in certain states or municipalities. To calculate the taxable equivalent yield of a tax-free fund for comparison purposes, take the tax-free yield and divide it by (1 minus your total effective tax bracket). For example, if your total effective tax rate is 37%, the taxable equivalent yield of a tax-free fund yielding 2.19% is: 2.19 divided by .63 (same as 1 minus .37) = 3.48%. \$

Money Fund Yields & Assets

	9/7/04	5/3/05	Change
7-Day All Taxable MFA	0.95%	2.31%	1.36%
7-Day All Tax-Free MFA	0.72%	2.19%	1.47%
Taxable Money Fund Assets	\$1.606T	\$1.516T	-\$90B
T-F Money Fund Assets	\$309B	\$312B	+\$3B
Total Money Fund Assets	\$1.915T	\$1.827B	-\$88B
All Other Mutual Funds*	\$5.525T	\$6.170T	+645B

* “All Other Mutual Funds” assets through month-end March ’05; April ’05 month-end data not available at press time. Sources: iMoneyNet’s Money Fund Report, (800) 343-5413; Investment Company Institute.

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100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	2.56%	2.45%	1.48%
Gabelli US Treasury MMF	2.50	2.42	1.37
Fidelity Spartan US Treas MMF	2.42	2.35	1.38
Amer Century Capital Presv Fund/Inv	2.34	2.26	1.27
RMK Select Treas MMF/CI A	2.25	2.16	1.12
T Rowe Price US Treasury MF	2.20	2.15	1.16
US Treasury MF of America/CI A	2.19	2.12	1.08
JPMorgan 100% US Treas MMF/Morgan	2.18	2.11	1.12
HSBC Investor US Treas MM/CI D	2.16	2.11	1.16
Dreyfus 100% US Treas MMF	2.13	2.07	1.00
Schwab US Treasury Money Fund	2.13	2.07	1.06

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	3.02	2.91	1.88
Scudder MM Series Premium/AARP	2.92	2.82	1.76
Scudder MM Series Prime Reserve/AARP	2.87	2.77	1.67
TIAA-CREF Money Market Fund	2.73	2.67	1.61
Vanguard Prime MMF/Retail	2.71	2.62	1.62
SSgA MMF/CI A	2.69	2.55	1.50
AIG Money Market Fund/CI B	2.66	2.53	1.55
Marshall MMF/Investor Class	2.64	2.57	1.53
BB&T Prime MMF/Trust	2.63	2.55	1.44
Morgan Stanley Active Assets MT	2.61	2.54	1.48
Preferred Money Market Fund	2.61	2.53	1.43
Scudder Money Market Fund	2.61	2.54	1.43
T Rowe Price Summit Cash Reserves	2.61	2.52	1.47

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Alpine Municipal MMF/Investor	2.88	2.67	1.54
Vanguard Tax-Exempt MMF	2.67	2.50	1.47
Fidelity Tax Free Money Market	2.47	2.28	1.16
Fidelity Municipal MMF	2.45	2.22	1.18
USAA Tax Exempt MMF	2.43	2.24	1.19
Amer Century T-F MMF/Inv Class	2.40	2.18	1.18
Dreyfus BASIC Muni MMF	2.40	2.21	1.17
Scudder Tax-Exempt Money Fund	2.39	2.20	1.17
Northern Municipal MMF	2.34	2.15	1.07
Scudder T-E Cash Managed Shares/TEP	2.32	2.11	1.20
Wells Fargo Adv Municipal MMF/Inv	2.32	2.02	1.13

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard PA Tax-Exempt MMF	2.71	2.52	1.44
Vanguard OH Tax-Exempt MMF	2.68	2.51	1.45
Vanguard CA Tax-Exempt MMF	2.64	2.48	1.44
Vanguard NJ Tax-Exempt MMF	2.64	2.46	1.42
Vanguard NY Tax-Exempt MMF	2.59	2.43	1.42
Fidelity FL Municipal MMF	2.43	2.23	1.13
Fidelity PA Municipal MMF	2.43	2.20	1.12
Fidelity CT Municipal MMF	2.42	2.22	1.12
Fidelity CA Municipal MMF	2.41	2.18	1.07
Fidelity NY Municipal MMF	2.41	2.18	1.08

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 5/10/05. 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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T. Rowe Price Emerging Markets Stock—A Team Effort

The performance of the T. Rowe Price Emerging Markets Stock fund is pretty impressive this year. Although a return of 2.06% through May 13 may not seem like much, it outpaces 96% of its Morningstar peers in the diversified emerging markets category. Looking at the trailing one-year period, the absolute return is more impressive, as the fund gained 35.8%. A team of four managers handles this diversified fund, which typically holds between 100 and 175 individual stocks, with what is best described as a “growth at a reasonable price” (GARP) approach.

From the bottom up

Lead fund manager Chris Alderson, who is head of Price’s emerging markets strategy and also is responsible for investment choices in emerging Europe, the Middle East, and Africa, looks for stocks with attractive long-term prospects. As for what the managers emphasize when looking for stocks, Todd Henry, portfolio specialist—international equities at T. Rowe Price, comments, “I don’t think there are any surprises in terms of what you would expect from a manager who looks for growth at a reasonable price. To walk through them—quality of management, attractive business model, above-average durable revenue and earnings growth, and significant cash flow generation over time. We want to understand what a company’s competitive advantages are, the barriers to entry into the business they’re in, and the substitutability of the product that is driving their business.” The bottom line: they want “sustainable earnings growth that is driven by sustainable competitive advantage,” says Henry. He notes that these requirements are not materially different from what other managers utilizing GARP look for.

Henry also cites the fund’s all-cap strategy as a competitive advantage. “The emphasis is on larger companies, and we have about 50% of the portfolio in companies with market capitalizations of \$5 billion and above. But if you look at the fund vs. the benchmark [MSCI Emerging Markets Index], we are about 10% overweight in mid caps

and about 5% overweight in small caps. We’ve been helped by this medium and small cap exposure in emerging markets.” Yet, Henry notes, “We’re probably closer to reducing that overweight at this point, because just as we’ve seen in developed markets, small cap has really outperformed in emerging markets.”

While “the most important investment factors lie at the company level,” says Henry, the macroeconomic environment can be very important as well. “In emerging markets, you need to be aware of what’s happening in the macroeconomic environment—currency, politics, corporate governance, and capital controls. “At times, and in some countries, the macroeconomic environment is more like developed markets in that it’s not much of a priority for us.” At other times, the reverse is true. For example, “we thought the macroeconomic environment a couple of years ago was so negative in Argentina that we sold all of our exposure there. Fortunately, we were able to do this before the crisis occurred,” explains Henry.

Themes emerge

Meanwhile, the management team finds that investment themes often emerge from their bottom-up process. “You’ll see that the portfolio is overweight in financials, consumer discretionary, telecom, and consumer staples. All of these sectors are tied into strong domestic economies and strong consumer demand,” notes Henry. In contrast, the portfolio is underweight in sectors that are dependent on the global economy, including energy, health care, information technology, and industrials.

At a country level, the team is finding attractive opportunities in Turkey and Egypt. The Egypt investing picture has become more positive due to the passage of structural reforms in 2004, which have improved the business environment. The fund has been investing in Turkey for more than two years. The managers view the nation’s negotiations to enter the European Union positively.

The team views the macroeconomic environment for emerging markets positively, given political and economic stability, improved debt ratings, and more attractive currencies. Henry explains, “Two and a half or three years ago, we were pounding the tables about this asset class. It has done extremely well. Now, we think we’re mid-cycle in a longer secular bull market.” The managers assert that while absolute performance may not be as robust in the near term, emerging markets will outperform developed markets. \$

T. Rowe Price Emerging Markets Stock (PRMSX)
T. Rowe Price Funds, 100 East Pratt Street
Baltimore, MD 21202 • (800) 638-5660
Minimum Investment: \$2,500, \$1,000 IRA

Top Five Countries & Sectors (% of Assets)

South Korea	16.6	Financials	28.5
South Africa	11.2	Telecommunications Services	14.5
Brazil	10.4	Consumer Discretionary	14.4
India	8.9	Energy	9.7
Taiwan	7.7	Information Technology	8.6

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