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Change Is In The Air
The 2005 Mid-Year Outlook

by Walter S. Frank, Chief Investment Officer

We have held a moderately optimistic outlook for the U.S. market all during the first half. A phrase we leaned on heavily was "there is overhead room" for the U.S. market to advance. We kept pointing out that, considering the 10-year Treasury interest rate and the outlook for profits, the U.S. market was a "buy."

Looking ahead, we still hold to that view, but with lower confidence than before. What has shaken our confidence? The rise in oil prices, for one. It is not the rise in itself that bothers us. Price movements on the commodity markets can have many causes—most fleeting and set to disappear shortly—after which prices retreat. But this current rise in oil prices to nearly $60 appears to be based on something more substantial, a combination of steadily rising demand and a shortage of refining capacity. We do not see prices coming down, meaningfully, any time soon.

Aside from oil, the continued weakness in some of the manufacturing numbers has us scratching our heads. In the last two months we have had fairly weak reports from the national ISM manufacturing survey, the New York Fed survey, and the Philadelphia Fed survey. When these surveys started going south in March and April, we chalked up their weakness to an inventory correction and the delayed effect of the end of investment tax breaks in place last year.

Here it is June and two of the three surveys are still going down. The New York survey did improve some, but even with that the June report was quite weak compared to those earlier this year. Is this still just a temporary "adjustment" or are we being told something more? We don't know, but we are becoming uneasy.

This uneasiness cannot help but color our view of the investment outlook over the next 9–12 months. Of course, there is more to the investment universe than the U.S. market. We have 30% of the Venturesome and 20% of the Moderate portfolios allocated to international stock funds. Looking at these allocations, our uneasiness diminishes greatly. When we look overseas, especially at the growth dynamos of China and India, we see some slowing, but not enough to really effect our view of their outlook over the next twelve months.

In fact, we would say in stock market terms the year ahead will feature the dominance, thinking of performance, of non-U.S., non-Western European funds. We've already seen that to be case so far this year, and it will continue.

Asset allocation

Right now, the two growth portfolios—Venturesome and Moderate—are heavily tilted toward equities, both domestic and foreign. (The Conservative portfolio, which eschews risk, by definition, is equity-shy.) The reason for the heavy equity allocation in the growth portfolios is simple. Primarily it is because interest rates have been, and continue to be, low. Even with the Fed rate increases, past and probable, we expected and still expect long-term interest rates to remain relatively low. Our year-end 2004 outlook (*MONEYLETTER*, December 23, 2004) said on the subject, "The 10-year at 5% or so sounds good to us." The markets can live with a 10-year Treasury note yielding 5%.

Right behind interest rates in determining our allocation has been profits. Up to now profits have been growing rapidly in the U.S. But now they are slowing and returning to normal. Still, first quarter profits grew more than expected (oil played a role) and Wall Street, with a few exceptions, continues optimistic that profit growth will approach 10% over the next year.

Add to the mix of interest rates and profits growth that the price was right. The market's price-earnings ratio remained "reasonable" all during the first half of this year, and became even more so as prices fell during the prolonged April slide. Put it all together and you have our equity allocation.

Even now, what we have just sketched is the generally accepted Wall Street view of the outlook at midyear. Sound familiar? It's *déjà vu* all over again. We refer you to the latest mid-year outlooks in *Barron's* (June 20) or *Business Week* (June 27).

We just find that view too complacent. That brings us back to oil. Without becoming alarmists, a strong case is being made that today's oil prices will be with us for some

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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
NASDAQ	Higher	Higher
Europe	Higher	Flat/Higher
Japan (Nikkei)	Flat	Higher
Hong Kong (Hang Seng)	Higher	Higher

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time to come. We lean toward that view. As we see it, higher oil prices will negatively affect the overall profit outlook and dampen business spirits.

We believe that there is at least a 50/50 chance that the S&P 500 profit estimates we—and many on Wall Street—have been leaning on are too high. That is why we keep looking abroad, at international small company funds, at Asian funds, and at emerging market funds. We are becoming more confident about growth in those sectors than about growth here, particularly as we look farther ahead.

While we are uneasy, we do believe it is premature to change the overall equity allocation in our growth portfolios at this time. Change will depend on how far the Fed goes and how the profits outlook holds up under higher oil prices. We also want to see how the earnings season shapes up next month.

But the yellow caution flags are now flying. Within the overall equity allocation, we can see a further tilt toward international funds as we move forward.

The Fed

So far we have only mentioned in passing the other traditional asset classes: bonds and money market funds. We have viewed these two asset classes as useful in cutting risk, and providing inflation protection (inflation-indexed bonds) but offering little more. That may be changing.

We do not want to press the case for change too hard right now. But here it is. The fed funds rate today is at 3.0% and we believe that two more rate hikes at the end of this month and in August are baked in the cake. That will put the short-term rate at 3.5% by Labor Day. If the weakness we have seen lately (employment, manufacturing) proves transitory we could see the funds rate go to 4.0% by year-end.

Reading the Fed tea leaves, we think, as of the moment, the Fed is heading for 4%. In that case, we could see yields at money market funds, or near-money market funds approach 4%. Considering the consensus estimate for profits next year, even only moderately risk-averse investors could well opt for a risk-free or near-risk-free return of 4%–5% instead of the risky stock market.

Aside from money market funds, fixed income in general will begin providing competition for equities if the outlook for profits growth in the 6%–7% range holds. So long as there is no escalation of inflation (and we do not foresee one), we expect the Fed to end increasing rates somewhere between 3.5% and 4.0%. At that point, the balance will shift when comparing the overall profit outlook with the return on bonds. Without the threat of imminent Fed rate increases, and the expected fall in bond prices, bond funds will start providing competition for stock funds. We will be moving into an unfamiliar world.

Searching for nuggets

We have basically pointed to the future of a lower return universe. That would be a distortion if we left it at that. It is not the future of the universe but of the U.S. financial markets. Relatively rapid growth and, we believe, higher returns will continue in Asia and in Latin America. The growth will radiate out of China and India. Their pressure on natural resources will continue.

Moreover, there is one sleeping giant—Japan—that is beginning to stir. The picture of Japan as an economy that cannot get out of its own way is behind the times. We have been seeing sustained increases in consumer spending, a feature missing for some time. Also, business investment spending is showing strength. There is now talk from officials that the end of the deflation that has plagued the economy is in sight. Japan is not to be ignored.

Our point is that as the outlook here loses part of its flash, it does not mean that the overall investment outlook has dimmed. True enough, we expect returns here going forward to be less than those achieved in the recovery years of 2003–2004. But to expect those returns to continue is to indulge in fantasy. It took a recession and a brutal bear market to set up the conditions for the recovery markets of the past two years. Now that those conditions are behind us, we need both to temper our expectations and broaden our investment horizons. $

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Ignoring Oil?

The market is putting on a brave performance, and we cannot tell whether this is true underlying strength or just mid-year hi-jinks (i.e. window dressing). The market moved ahead slowly, but steadily, the week ending June 17. But that was a triple-witching week, and it is hard to conclude anything by that performance. The upshot is that the last three weeks of this month are shot through with internal market factors moving stocks. We really cannot conclude much about the market until we move into July.

Having said that, we do want to point out that, from a technician's point of view, the market is acting well (so we are being told). The S&P, the NASDAQ, and the Russell 2000 all breached overhead resistance. Keep in mind these are essentially very short-term observations, subject to quick change.

$60 and heading...?

While the market has been moving up, so too has oil. Oil has moved from slightly below $50 (remember?) to slightly below $60. We are no experts, but the case for even higher prices over the rest of this year looks pretty strong to us. It boils down to the lack of refining capacity. OPEC voices are apparently backing this view, as they shrug their shoulders and say more crude is not the answer to high prices.

So far the market appears to be moving through this oil increase with ease. But so far the economic numbers have not caught up with the oil price effects. We believe that we will start to see the effects over the next few months. We also believe that the market will respond to those effects as we go through the summer. The open question is how much the economy will be affected by the latest rise.

Keep in mind that the "soft patch" of earlier this year was attributed to the direct and indirect effects of the oil price rise. There was only one problem with that attribution. The "soft patch," it turned out, was a mirage, or so later revised numbers told us. It may be this new model economy can ride through the current oil price episode with little effect. We'll see.

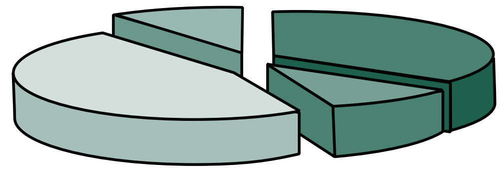
Meanwhile, we are going to learn much more in a few weeks when the second quarter earnings are released. It is not the earnings themselves but the guidance from the firms that will shape the market. We expect moderately positive news.

Fund changes

The Hotline of Tuesday, June 14 recommended the sale of Vanguard Explorer in the Vanguard Venturesome Portfolio. The proceeds were to be reinvested as follows: $10,000 to Vanguard Mid-Cap Index and the balance going to Vanguard Extended Market Index. Here are the details as of Wednesday, June 15. Sold 345 shares of Explorer @ $74.62 per share. Purchased 617 shares of Mid-Cap Index @ $16.20 per share. Purchased 495 shares of Extended Market Index @ $31.84 per share. $

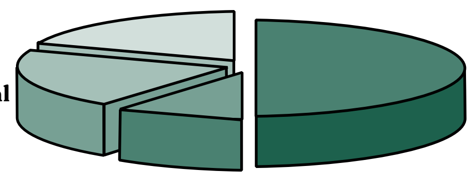
CONSERVATIVE

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



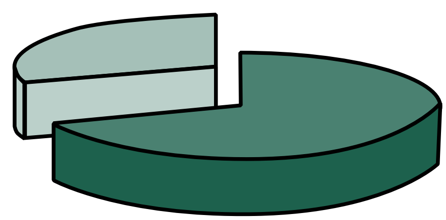
MODERATE

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



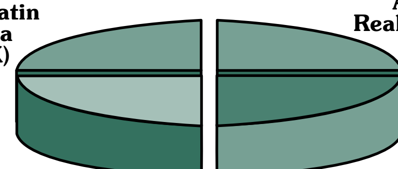
VENTURESOME

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 06/17 2005	1Mo Ago	6Mo 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	20	120	CGMFX	CGM Focus	SCVal	*	B	B	12.9%	19.2%	35.6%	$34.45	37.9	1.03	fsw
2	**1**	**13**	**ARTQX**	**Artisan Mid Cap Value**	**MCVal**	**B**	**B**	**B**	**7.6**	**13.5**	**28.7**	**18.84**	**19.8**	**0.87**	**FSW**
3	—	—	BRSVX	Bridgeway Small Cap Value	ScVal	H	H	H	11.8	8.7	26.8	12.89	—	—	fsw
4	8	—	MOPIX	MainStay Small Cap Opportunity (closed)	SCVal	B	B	B	10.6	8.3	28.2	19.50	17.5	0.63	FSW
5	22	31	NPRTX	Neuberger Berman Partners	LCVal	B	B	B	9.6	9.6	24.3	27.24	20.7	1.10	fSw
6	**37**	**21**	**FLVCX**	**Fidelity Leveraged Co ($10k,1.5%r<90d)**	**MC**	*****	**Ⓑ**	**Ⓑ**	**9.4**	**8.5**	**27.3**	**24.45**	**36.3**	**1.39**	**Fw**
7	**6**	**—**	**RSVAX**	**RS Value (formerly RS Contrarian)**	**MC**	**B**	**B**	**B**	**7.6**	**7.2**	**31.6**	**23.07**	**18.6**	**0.60**	**FSW**
8	**3**	**87**	**FTQGX**	**Fidelity Focused Stock (.75%r<30d)**	**LC**	*****	**B**	**B**	**8.0**	**9.7**	**22.1**	**10.93**	**17.2**	**1.00**	**Fw**
9	**11**	**6**	**MUHLX**	**Muhlenkamp Fund**	**MCVal**	**B**	**B**	**B**	**9.5**	**7.3**	**26.0**	**82.86**	**27.9**	**1.24**	**FSW**
10	**2**	**15**	**TAVFX**	**Third Avenue Value (1%r<60d)**	**SC**	**B**	**B**	**B**	**4.5**	**9.9**	**25.4**	**55.63**	**17.2**	**0.79**	**FSW**
11	**27**	**76**	**BRAIX**	**Bridgeway Aggressive Investors 2**	**MCGro**	*****	**Ⓑ**	**Ⓑ**	**11.2**	**7.0**	**21.8**	**14.92**	**—**	**—**	**fsw**
12	74	3	RSPFX	RS Partners (closed)	SC	H	H	H	8.7	4.8	27.0	35.82	20.9	0.69	FSW
13	**5**	**1**	**BPTRX**	**Baron Partners**	**MCGro**	*****	**B**	**B**	**8.8**	**5.0**	**26.2**	**17.03**	**28.6**	**1.26**	**FSW**
14	**13**	**26**	**VIMSX**	**Vanguard Mid-Cap Index**	**MC**	**B**	**B**	**B**	**6.8**	**6.5**	**22.0**	**16.38**	**20.1**	**0.97**	**fsw**
15	**15**	**40**	**FDVLX**	**Fidelity Value**	**MCVal**	**B**	**B**	**B**	**6.3**	**7.1**	**20.7**	**75.27**	**19.0**	**0.89**	**Fsw**
16	**24**	**29**	**VSEQX**	**Vanguard Strategic Equity**	**MCGro**	**B**	**B**	**B**	**8.3**	**5.8**	**21.0**	**22.38**	**17.8**	**0.83**	**fsw**
17	4	—	FAIRX	Fairholme Fund	MC	B	B	B	3.9	6.7	24.9	24.05	10.5	0.48	fsw
18	7	109	NBGNX	Neuberger Berman Genesis (closed)	SC	B	B	B	5.2	8.3	19.0	31.97	15.5	0.63	fSw
19	—	—	BRSGX	Bridgeway Small Cap Growth	ScGro	H	H	H	8.3	7.8	15.6	12.09	—	—	fsw
20	57	224	TWHIX	American Century Heritage	MCGro	Ⓑ	Ⓑ	Ⓑ	9.0	8.1	13.5	12.59	15.4	0.76	FSW
21	9	11	LLSCX	Longleaf Partners Smallcap (closed)	SCVal	B	B	B	4.8	5.9	24.6	31.21	19.2	0.80	fw
22	29	43	BPAVX	Robeco Boston Partners All Cap Value	MCVal	B	B	B	6.3	7.2	19.0	15.21	—	—	FW
23	121	37	MPSCX	MSI Small Cap Value (closed)	SCVal	H	H	H	8.7	5.6	19.1	23.49	20.7	0.98	fsw
24	194	86	HENLX	Henlopen Fund (1%r<30d)	SCGro	H	H	H	11.0	5.0	17.1	31.39	30.9	1.19	FSW
25	14	5	BARAX	Baron Asset	MCGro	B	B	B	7.1	5.4	21.2	53.79	21.2	0.94	FSW
26	52	55	TASCX	Third Avenue Small-Cap Value (1%r<1yr)	SCVal	H	H	H	6.3	6.7	19.2	23.63	19.9	0.85	FSW
27	240	—	SSMVX	Wells Fargo Adv SC Value Z (closed)	SC	H	H	H	11.5	3.3	19.7	29.44	18.3	0.88	FSW
28	38	226	SCDVX	Scudder Development (closed)	MCGro	H	H	H	6.5	8.0	15.0	20.70	29.2	1.50	FSW
29	60	—	ICSLX	ICAP Select Equity	LCVal	H	H	H	5.7	7.4	17.1	35.93	14.6	0.88	fSw
30	19	81	PESPX	Dreyfus Mid Cap Index	MCGro	B	B	B	6.7	6.7	17.3	27.45	20.2	0.97	FSW
31	10	93	WAAEX	Wasatch Small Cap Grth (closed,2%r<60d)	SCGro	B	B	B	7.0	6.7	16.6	41.09	27.1	1.17	FSW
32	40	33	BPMCX	Robeco Boston Partners Mid Cap Value	MCVal	H	H	H	7.5	5.7	18.5	13.49	20.1	0.93	FSW
33	92	183	BERWX	Berwyn Fund (1%r<180d)	SCVal	H	H	H	8.4	4.4	19.9	29.84	22.3	0.77	fsw
34	**31**	**17**	**VISVX**	**Vanguard Small-Cap Value Index**	**SCVal**	**H**	**H**	**H**	**7.7**	**4.2**	**21.3**	**14.32**	**22.4**	**0.90**	**fsw**
35	30	30	FFSCX	Forward Hoover Small Cap	SCGro	H	H	H	8.2	5.1	17.8	18.96	20.1	0.85	FSW
36	34	119	HOVLX	Homestead Value	LCVal	H	H	H	5.8	7.0	16.5	32.06	16.5	0.81	W
37	17	9	BGRFX	Baron Growth (closed)	SCGro	B	B	B	6.4	4.7	20.9	46.42	18.4	0.72	FSW
38	**93**	**122**	**FCNTX**	**Fidelity Contrafund**	**LC**	**H**	**H**	**H**	**6.3**	**6.5**	**16.0**	**59.41**	**11.4**	**0.54**	**Fsw**
39	55	115	VLIFX	Value Line Fund	LCGro	H	H	H	8.4	4.5	18.0	14.39	13.1	0.73	FSW
40	43	60	PRNHX	T. Rowe Price New Horizons	SCGro	*	H	H	7.8	5.6	16.0	30.25	28.3	1.30	fsw
41	51	22	FLPSX	Fidelity L P Stock (closed,1.5%r<90d)	SCVal	H	H	H	6.7	4.6	19.3	41.17	18.0	0.75	Fsw
42	182	53	PENNX	Royce Penn Mutual (1%r<180d)	SCVal	H	H	H	7.7	4.8	17.1	10.44	20.4	0.80	Fsw
43	33	28	MPEGX	MSI Mid Cap Growth	MCGro	*	H	H	7.2	4.6	18.2	21.62	22.2	1.17	fsw
44	18	174	WPSRX	Westport Small Cap R	SCVal	H	H	H	4.8	7.2	15.1	25.47	18.6	0.85	FSW
45	41	41	MQIFX	Mutual Qualified (1%) CIZ	MCVal	H	H	H	4.0	6.1	18.9	19.99	13.3	0.61	sw
46	**47**	**36**	**VEXMX**	**Vanguard Extended Market Index**	**MC**	**H**	**H**	**H**	**7.4**	**4.5**	**17.7**	**32.13**	**21.5**	**1.02**	**fsw**
47	12	19	WGROX	Wasatch Core Growth (closed,2%r<60d)	SCGro	H	H	H	6.7	4.7	18.1	44.24	28.5	1.10	FSW
48	76	101	DNLDX	Dreyfus New Leaders	MCGro	H	H	H	6.3	5.5	15.6	44.27	18.6	0.90	FSW
49	90	94	SAOPX	Salomon Brothers Opportunity	MCVal	H	H	H	5.8	5.4	16.5	49.13	13.0	0.67	sw
50	21	79	HAVLX	Harbor Value	LCVal	H	H	H	4.5	6.6	15.3	17.13	18.1	0.94	Fsw
51	48	4	FBRVX	FBR Small Cap (closed,1%r<90d)	SCGro	H	H	H	5.9	3.1	21.8	41.92	23.4	0.82	FSW
52	**77**	**111**	**VUVLX**	**Vanguard U.S. Value**	**LCVal**	**H**	**H**	**H**	**6.0**	**5.6**	**15.2**	**14.29**	**17.3**	**0.87**	**fsw**
53	103	116	JAGIX	Janus Growth & Income	LCGro	H	H	H	5.9	5.8	14.6	33.27	15.1	0.87	FSW
54	53	103	LSGIX	Loomis Sayles Value	LCVal	H	H	H	5.0	6.0	15.5	17.89	16.4	0.89	fsW
55	162	14	JAVLX	Janus Twenty (closed)	LCGro	H	H	H	8.3	3.6	16.4	45.39	17.3	0.93	FSW
56	32	58	VWNFX	Vanguard Windsor II	LCVal	H	H	H	4.1	6.0	16.5	31.99	16.2	0.82	fsw
57	200	20	WMCVX	Wasatch Small Cap Value (closed,2%r<60d)	SCVal	H	H	H	10.4	2.4	16.1	5.52	26.6	0.96	FSW
58	94	45	NAESX	Vanguard SmallCap Index	SC	H	H	H	7.9	3.4	17.2	27.26	23.2	1.01	fsw
59	42	16	WEHIX	Weitz Hickory	SC	*	H	H	6.2	3.8	18.5	33.33	29.1	1.38	fSW
60	16	190	CBMDX	C&B Mid Cap Value	MCVal	H	H	H	5.8	5.9	13.5	21.24	19.5	0.83	FSW
61	84	106	NBNGX	SIT Mid Cap Growth (2%r<30d)	MCGro	*	H	H	7.1	4.5	15.1	11.39	23.5	1.23	FSW
62	83	211	SSMGX	SIT Small Cap Growth (2%r<30d)	MCGro	H	H	H	7.3	4.8	13.8	27.63	21.6	1.10	FSW
63	129	23	PRSVX	T. Rowe Price S-C Value (closed,1%r<1yr)	SCVal	S	S	S	7.7	2.7	18.4	36.09	18.0	0.69	fsw
64	95	8	JSVAX	Janus Contrarian	MC	S	S	S	6.2	3.3	19.3	13.31	22.3	1.10	SW
65	69	138	FDEQX	Fidelity Disciplined Equity	LC	H	H	H	5.6	5.6	14.2	26.33	14.3	0.81	Fsw
66	66	25	BSCFX	Baron Small Cap (closed)	SCGro	H	H	H	7.1	5.1	13.1	22.68	21.5	0.79	FSW
67	**86**	**125**	**FEXPX**	**Fidelity Export & Multinat'l (.75%r<30d)**	**LC**	**H**	**H**	**H**	**5.7**	**5.3**	**14.5**	**20.32**	**20.3**	**1.07**	**Fsw**
68	98	44	PBSVX	PBHG Small Cap Value	SC	S	S	S	6.7	3.9	16.3	22.77	23.8	1.11	FSW

Bold funds **are currently held in *MONEYLETTER* model portfolios.**
Advice: **B=Buy, H=Hold, S=Sell, Ⓑ, Ⓗ, Ⓢ = 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 06/17 2005	1Mo Ago	6Mo 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	73	74	VALSX	Value Line Special Situations	MCGro	S	S	S	6.1	4.8	14.8	24.90	15.4	0.71	FSW
70	81	80	BEGRX	Mutual Beacon (1%) CIZ	MCVal	H	H	H	3.4	5.8	16.3	16.36	12.5	0.57	sw
71	108	194	BOGLX	Bogle Small Cap Growth (closed)	SCGro	S	S	S	8.0	4.3	13.2	26.96	22.3	0.88	w
72	56	118	GEVTX	Columbia Disciplined Value CIZ	LC	S	S	S	4.9	5.4	14.8	14.54	19.8	1.06	fw
73	64	168	CLSPX	Columbia Mid Cap Growth CIZ	MCGro	*	S	S	7.2	4.4	13.7	21.20	17.7	0.86	FSW
74	50	68	VIVAX	Vanguard Value Index	LCVal	S	S	S	4.6	5.0	16.1	21.94	18.6	1.03	fsw
75	54	97	NMANX	Neuberger Berman Manhattan	MCGro	*	S	S	7.1	4.0	14.9	7.10	23.4	1.15	f
76	23	145	NICSX	Nicholas Fund	LC	H	H	H	4.0	6.5	13.1	61.58	16.1	0.84	w
77	199	197	VALLX	Value Line Leveraged Growth	LCGro	*	S	S	9.1	3.6	12.4	26.21	14.9	0.83	FSW
78	35	32	DODGX	Dodge & Cox Stock (closed)	LCVal	S	S	S	4.3	4.6	16.9	132.50	17.6	0.85	sw
79	146	169	STCSX	Wells Fargo Adv Common Stock Z (closed)	MC	S	S	S	6.3	4.8	13.2	22.96	22.6	1.15	FSW
80	28	90	MPMVX	MSI Mid Cap Value	MCVal	H	H	H	4.9	4.9	15.3	24.17	23.1	1.18	fsw
81	202	65	ARTSX	Artisan Small Cap (closed)	SCGro	S	S	S	9.8	2.3	14.1	16.96	26.7	1.19	FSW
82	26	61	TGDVX	TCW Galileo Diversified Value N	LCVal	S	S	S	4.2	4.9	15.9	13.81	19.8	1.03	FW
83	132	78	FSLSX	Fidelity Value Strategies	SC	*	S	S	9.8	2.0	14.6	37.35	29.4	1.41	F
84	36	24	CRMMX	CRM Mid Cap Value Inv	MCVal	S	S	S	4.5	3.8	17.9	26.24	18.9	0.78	FSw
85	39	142	CUEGX	CS Mid Cap Growth (closed)	MCGro	*	S	S	6.1	4.8	12.9	32.13	24.3	1.18	FSW
86	91	99	MUTHX	Mutual Shares (1%) CIZ	MCVal	H	H	H	3.3	5.5	15.1	23.76	12.0	0.56	sw
87	**163**	**85**	**FDSCX**	**Fidelity Small Cap Ind. (1.5%r<90d)**	**SC**	**H**	**H**	**H**	**7.2**	**3.6**	**14.1**	**20.06**	**16.7**	**0.58**	**Fsw**
88	25	77	CAMOX	Cambiar Opportunity	LC	S	S	S	3.6	5.5	14.8	17.23	18.4	0.94	FSW
89	79	216	PBEGX	PBHG Emerging Growth	SCGro	H	H	H	7.7	3.7	12.4	13.31	35.8	1.80	FSW
90	148	181	FMCSX	Fidelity Mid-Cap Stock (.75%r<30d)	MCGro	S	S	S	7.5	3.8	12.4	23.93	20.9	1.05	Fsw
91	114	146	CSMVX	Century Select Small Cap (1%r<180d)	SCGro	S	S	S	4.7	4.9	13.8	24.19	15.3	0.61	FSW
92	116	27	LSCRX	Loomis Sayles Small Cap Value Ret	SC	S	S	S	7.2	2.1	16.9	26.05	17.2	0.80	FSW
93	97	57	GABAX	Gabelli Asset	MC	S	S	S	5.0	4.4	14.5	42.34	17.8	0.91	FSW
94	72	121	BEQGX	American Century Equity Growth	LCVal	S	S	S	5.0	4.6	13.6	22.68	17.2	0.97	FSW
95	89	18	BUFSX	Buffalo Small Cap (closed)	SCGro	*	S	S	5.9	3.2	15.6	27.83	31.2	1.25	SW
96	46	67	RPMGX	T. Rowe Price Mid Cap Growth	MCGro	S	S	S	5.3	3.8	14.8	50.93	22.1	1.11	fsw
97	59	54	USAUX	USAA Aggressive Growth	MCGro	*	S	S	5.9	3.3	15.0	29.76	21.5	1.00	w
98	127	73	RYTRX	Royce Total Return (1%r<180d)	SCVal	S	S	S	5.9	3.3	15.1	12.43	15.7	0.66	FsW
99	49	114	BUFMX	Buffalo Mid Cap	MCGro	S	S	S	5.6	4.5	12.5	13.21	—	—	FSW
111	117	117	VEXPX	Vanguard Explorer	SCGro	S	S	S	7.2	2.9	13.0	75.37	24.2	1.12	fsw

	1 mo.	6 mo.	12 mo.	
Dow Jones	**2.8%**	**-0.3%**	**2.4%**	*indexes do not include dividends*
NASDAQ	**4.3**	**-2.1**	**5.4**	
S&P 500	**3.7**	**1.9**	**7.5**	

International Stock Funds

RANK 06/17 2005	1Mo Ago	6Mo 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	2	PRLAX	T. Rowe Price Latin America (2%r<90d)	LatinA	*	H	H	12.0%	21.9%	66.2%	$18.62	29.7	—	fsw
2	**2**	**1**	**FLATX**	**Fidelity Latin Amer. (1.5%r<90d)**	**LatinA**	*****	**H**	**H**	**11.6**	**18.1**	**64.3**	**23.86**	**29.8**	**—**	**Fs**
3	3	3	SLAFX	Scudder Latin America (closed,2%r<30d)	LatinA	*	H	H	12.1	17.7	59.2	36.25	27.3	—	Sw
4	**4**	**10**	**TREMX**	**T. Rowe Price Emg Europe & Med (2%r<90d)**	**Europe**	*****	**B**	**B**	**6.3**	**24.4**	**42.8**	**18.79**	**29.2**	**—**	**fw**
5	**6**	**6**	**FEMKX**	**Fidelity Emerging Mkts (1.5%r<90d)**	**Int'l**	*****	**B**	**B**	**7.0**	**13.4**	**41.9**	**13.97**	**—**	**—**	**Fsw**
6	5	—	PRMSX	T. Rowe Price Emerging Mkts Stk	Int'l	*	B	B	6.2	13.4	40.9	21.03	18.8	—	fsw
7	**7**	**4**	**VEIEX**	**Vanguard Emerging Mkts Stk Index (.5%r)**	**Int'l**	*****	**B**	**B**	**6.5**	**10.9**	**41.9**	**15.64**	**22.6**	**—**	**fsw**
8	9	33	AIOIX	Amer.Cent.Intl Opp. (closed,2%r<180d)	Int'l	*	B	B	7.9	15.9	26.9	10.57	20.4	—	—
9	11	25	FSEAX	Fidelity SE Asia (1.5%r<90d)	Pacific	*	B	B	5.5	12.2	37.5	17.89	21.1	—	Fsw
10	8	14	PRASX	T. Rowe Price New Asia (2%r<90d)	Pacific	*	B	B	3.6	11.3	35.9	10.72	19.7	—	fsw
11	28	58	DRIDX	Driehaus Intl Discovery (2%r<60d)	Int'l	*	B	B	8.5	12.3	23.9	33.95	21.1	—	FSW
12	23	21	FISMX	Fidelity Intl Small Cap (closed,2%r<90d)	Int'l	*	H	H	6.2	11.7	28.4	24.87	—	—	Fw
13	25	—	EUROX	US Global Eastern Europe (2%r<180d)	Europe	*	B	B	8.5	7.1	36.4	30.89	26.6	—	FSW
14	13	7	DRFMX	Dreyfus Premier Emerging Market (1%r)	Int'l	*	B	B	7.2	8.6	34.3	20.44	21.6	—	fSw
15	16	5	DREGX	Driehaus Emerging Mkts Gr (2%r<60d)	Int'l	*	B	B	6.0	7.3	35.4	23.48	24.9	—	FSW
16	10	13	MAPTX	Matthews Pacific Tiger (2%r<90d)	Pacific	*	B	B	4.4	8.4	34.1	16.60	23.6	—	FSW
17	**19**	**—**	**PISRX**	**Forward Intl Small Companies (2%r<60d)**	**Int'l**	*****	**B**	**B**	**5.2**	**10.4**	**27.3**	**13.54**	**—**	**—**	**FSW**
18	17	15	ARTJX	Artisan Intl Small Cap (closed,2%r<90d)	Int'l	*	B	B	5.8	9.9	27.2	18.36	—	—	SW
19	29	16	NBISX	Neuberger Berman Intl (2%r<60d)	Int'l	*	H	H	6.4	8.8	26.0	19.18	16.3	—	fSw
20	22	30	SCOPX	Scudder Pacific Opp (closed,2%r<30d)	Pacific	*	B	B	4.8	8.8	28.0	13.90	19.0	—	FSW
21	**12**	**8**	**FIEUX**	**Fidelity Europe (1%r<30d)**	**Europe**	*****	**B**	**B**	**3.1**	**8.7**	**30.5**	**35.45**	**22.5**	**—**	**Fsw**
22	14	11	VINEX	Vanguard Intl Expl (closed,$25k,2%r<60d)	Int'l	*	B	B	4.6	8.8	27.0	17.02	16.3	—	fsw
23	**15**	**12**	**DODFX**	**Dodge & Cox Intl Stock**	**Int'l**	*****	**H**	**H**	**5.6**	**7.5**	**28.1**	**31.77**	**23.4**	**—**	**fsw**
24	45	43	SCOBX	Scudder Global (closed,2%r<30d)	Global	*	H	H	7.0	8.4	22.2	27.84	12.7	—	FSW
25	21	22	SGSCX	Scudder Gbl Discovery (closed,2%r<30d)	Int'l	*	H	H	5.9	7.7	24.9	36.34	20.1	—	FSW
26	43	24	JAOSX	Janus Overseas (closed,2%r<90d)	Int'l	*	H	H	5.9	6.7	23.5	25.03	16.5	—	FSW
27	18	9	JVEIX	Janus Intl Equity (1%r<90d)	Int'l	*	H	H	4.2	6.5	26.3	18.77	13.9	—	FSW
28	26	27	MPACX	Matthews Asia Pacific (2%r<90d)	Pacific	*	H	H	4.8	7.6	21.8	12.91	—	—	FSW
29	20	26	MACSX	Matthews Asia G & I (closed,2%r<90d)	Pacific	*	H	H	3.4	6.9	24.8	16.57	11.4	—	FSW
30	33	29	PRIDX	T. Rowe Price Intl Disc. (2%r<90d)	Int'l	*	H	H	4.1	7.5	20.4	33.68	16.0	—	fsw
31	54	62	FPBFX	Fidelity Pacific Basin (1.5%r<90d)	Pacific	*	H	H	6.0	8.0	15.9	20.25	14.7	—	Fsw
32	40	55	TWGGX	American Century Global Growth (2%r<60d)	Global	*	H	H	6.8	6.8	17.1	8.07	14.1	—	FSW
33	30	19	OAKEX	Oakmark Intl Small Cap (closed,2%r<90d)	Int'l	*	H	H	3.3	6.3	23.4	20.64	20.4	—	FSW
46	**37**	**31**	**VTRIX**	**Vanguard International Value (2%r<60d)**	**Int'l**	*****	**H**	**H**	**3.6**	**5.2**	**18.8**	**31.46**	**16.8**	**—**	**fsw**
49	**41**	**23**	**VEURX**	**Vanguard European Stock Index (2%r<60d)**	**Europe**	*****	**H**	**H**	**2.8**	**4.0**	**18.4**	**26.15**	**17.4**	**—**	**fsw**

Bond Funds ***(next issue on page 6: Specialty Funds)***
06/17/2005

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
FFRHX	Fidelity Floating Rate High Inc (1%r<60d)	BnkLoan	B	*	*	0.9%	0.6%	2.4%	$9.94	-	3.59%	Fw
BUFHX	Buffalo High-Yield (2%r<180d)	HighYld	*	*	*	3.2	-1.1	5.1	11.34	4.53	3.95	FSW
CMHYX	Columbia High Yield	HighYld	*	*	*	2.5	-1.5	4.1	8.61	4.70	6.36	fSW
FAGIX	Fidelity Capital & Income (1%r<90d)	HighYld	*	*	*	4.5	0.3	11.9	8.36	11.91	6.49	Fsw
SPHIX	Fidelity High Income (1%r<90d)	HighYld	*	*	*	4.1	-1.4	5.8	8.82	7.43	7.71	Fsw
JAHYX	Janus High Yield (2%r<90d)	HighYld	*	*	*	4.1	-0.5	7.1	9.66	4.66	6.82	FSW
NTHEX	Northeast Investors Trust	HighYld	*	*	*	2.8	0.3	9.0	7.56	4.96	7.17	fw
PHYDX	PIMCO High Yield	HighYld	*	*	*	4.0	0.6	9.1	9.80	8.29	6.48	SW
STHYX	Strong High Yield Bond (1%r<180d)	HighYld	*	*	*	3.1	-1.6	5.8	7.69	7.86	6.92	FSW
PRHYX	T. Rowe Price High Yld (closed,1%r<1yr)	HighYld	*	*	*	3.3	-0.9	7.1	6.96	5.66	7.71	sw
TGHNX	TCW Galileo High Yield Bond	HighYld	*	*	*	4.0	-1.5	7.2	7.03	7.37	7.93	FSW
VAGIX	Value Line Aggressive Inc (1%r<120d)	HighYld	*	*	*	2.9	-1.1	4.6	5.06	6.96	6.31	FSW
VWEHX	**Vanguard High Yield Corp (1%r<1yr)**	**HighYld**	*****	**B**	*****	**3.4**	**0.6**	**8.8**	**6.25**	**5.88**	**7.26**	**sw**
FNMIX	Fidelity New Markets Income (1%r<90d)	Int'l	*	*	*	3.3	3.2	17.9	14.20	10.94	6.04	Fsw
PYGFX	Payden Global Fixed Income	Int'l	*	*	*	0.9	2.9	7.8	10.11	3.54	4.41	fsW
SSTGX	Scudder Global Bond S-T (closed)	Int'l	*	*	*	0.0	0.0	8.3	10.26	5.36	4.92	FSW
BGNMX	American Century Ginnie Mae	IntTerm	*	*	*	0.3	0.9	3.3	10.38	2.46	4.64	fSW
ACITX	**American Century Inflation Adj**	**IntTerm**	**B**	*****	*****	**0.1**	**2.1**	**8.7**	**11.29**	**7.04**	**4.07**	**fSW**
CPTNX	American Government Bond	IntTerm	H	*	*	0.5	1.5	4.5	10.66	3.78	2.93	f
BBHIX	BBH Inflation Indexed Sec	IntTerm	B	*	*	0.3	2.4	9.3	11.25	7.22	3.64	FSW
CFISX	Columbia Fixed Income Sec	IntTerm	H	*	*	0.5	0.1	3.2	13.28	3.96	4.14	fSW
SRBFX	Columbia Intermediate Bond CIZ	IntTerm	H	*	*	0.6	-0.3	4.0	9.05	4.05	4.84	FSW
DODIX	**Dodge & Cox Income**	**IntTerm**	**H**	*****	*****	**1.0**	**1.4**	**5.6**	**12.87**	**3.37**	**4.12**	**fsw**
DRBDX	Dreyfus A Bonds Plus	IntTerm	*	*	*	0.7	2.1	7.4	13.84	4.77	4.25	FSW
DRGMX	Dreyfus GNMA	IntTerm	*	*	*	0.3	1.6	5.0	14.64	2.92	4.06	FSW
DSINX	Dreyfus Strategic Income	IntTerm	*	*	*	0.3	-0.2	4.5	14.62	4.60	4.11	FSW
FTRGX	Federated Total Return Govt	IntTerm	H	*	*	0.2	1.0	3.8	10.95	5.19	4.11	sw
FGMNX	Fidelity GNMA	IntTerm	*	*	*	0.3	0.9	4.0	11.07	2.23	4.00	Fsw
FINPX	**Fidelity Inflation-Protected Bond**	**IntTerm**	**B**	*****	*****	**-0.9**	**1.0**	**7.8**	**11.42**	**-**	**1.24**	**Fw**
FBNDX	**Fidelity Investment Grade**	**IntTerm**	**H**	*****	*****	**0.0**	**1.2**	**6.0**	**7.49**	**4.12**	**3.37**	**Fsw**
MBDFX	Managers Fremont Bond	IntTerm	H	*	*	0.7	1.8	6.9	10.53	4.26	2.43	fsw
MWTRX	MetroWest Total Return	IntTerm	*	*	*	0.8	0.9	5.6	9.78	5.59	5.86	SW
PRRDX	PIMCO Real Return	IntTerm	H	*	*	0.1	1.2	7.5	11.50	7.21	3.32	SW
PTTDX	PIMCO Total Return	IntTerm	H	*	*	0.6	1.7	6.4	10.76	4.08	2.28	SW
PTMDX	PIMCO Total Return Mortgage	IntTerm	H	*	*	0.3	1.1	4.9	10.74	2.81	2.65	SW
SCSBX	Scudder Income (closed)	IntTerm	H	*	*	0.8	2.2	7.2	13.00	4.09	4.52	FSW
PRGMX	T. Rowe Price GNMA	IntTerm	*	*	*	0.1	0.8	3.7	9.59	2.54	4.58	fsw
PRCIX	T. Rowe Price New Income	IntTerm	*	*	*	0.7	1.5	5.8	9.12	3.99	3.88	fsw
TGMNX	TCW Galileo Total Return Bond	IntTerm	H	*	*	0.6	2.1	7.0	9.95	2.98	3.87	FSW
USAIX	USAA Income	IntTerm	H	*	*	0.6	2.3	7.2	12.44	4.47	4.49	w
VALBX	Value Line U.S. Govt Sec	IntTerm	H	*	*	0.4	1.5	4.8	11.76	4.12	3.84	FSW
VFIIX	**Vanguard GNMA**	**IntTerm**	**B**	*****	*****	**0.3**	**2.0**	**6.3**	**10.40**	**3.14**	**4.57**	**fsw**
VIPSX	**Vanguard Inflation Protected Sec**	**IntTerm**	**B**	*****	*****	**0.1**	**2.2**	**8.9**	**12.75**	**7.05**	**4.20**	**sw**
VFITX	Vanguard Intermediate Treas.	IntTerm	H	*	*	0.4	1.0	4.9	11.20	5.63	4.48	fsw
VBMFX	**Vanguard Total Bond Market Index**	**IntTerm**	**H**	*****	*****	**0.7**	**1.9**	**7.0**	**10.25**	**4.17**	**4.31**	**fsw**
STVSX	Wells Fargo Adv Govt Sec Inv	IntTerm	H	*	*	0.3	0.9	4.2	10.74	4.34	3.74	FSW
MNTRX	Wells Fargo Adv Total Return Bond	IntTerm	H	*	*	0.7	1.3	5.1	12.37	4.21	3.64	fSw
WTIBX	Westcore Plus Bond (2%r<90d)	IntTerm	*	*	*	1.6	1.2	7.2	10.74	3.85	5.38	FSW
DRGBX	Dreyfus 100 Treasury L-T	LngTerm	*	*	*	1.0	4.8	12.4	16.68	7.99	4.31	FW
FGOVX	Fidelity Government Income	LngTerm	*	*	*	0.6	1.3	4.9	10.29	5.07	3.02	Fsw
KIFIX	FifthThird Bond	LngTerm	*	*	*	0.5	1.7	6.1	10.14	4.43	3.34	w
MGFIX	Managers Bond	LngTerm	*	*	*	0.9	1.3	7.6	24.46	5.88	3.83	FSW
PRPIX	T. Rowe Price Corporate Inc	LngTerm	*	*	*	2.3	0.9	7.1	9.82	5.83	4.72	fsw
PRULX	T. Rowe Price U.S. Treas. L-T	LngTerm	*	*	*	1.1	4.7	11.3	12.25	8.54	4.13	fsw
VWESX	Vanguard Long-Term Corporate	LngTerm	*	*	*	1.7	5.2	14.9	9.85	9.69	5.23	fsw
VUSTX	Vanguard L-T Treasury	LngTerm	*	*	*	1.3	5.0	13.1	11.90	10.05	4.74	fsw
STCBX	Wells Fargo Adv Corporate Bond Inv	LngTerm	*	*	*	1.8	0.1	6.0	10.56	6.59	4.66	FSW
FSICX	**Fidelity Strategic Income**	**Multi**	**B**	**B**	*****	**2.3**	**1.3**	**11.9**	**10.55**	**5.19**	**5.08**	**Fw**
JAFIX	Janus Flexible Income	Multi	*	*	*	0.8	0.6	4.3	9.63	4.40	4.59	FSW
LSBDX	Loomis Sayles Bond Instl	Multi	B	B	*	2.6	1.7	15.5	13.78	7.57	6.91	FSW
LSBRX	**Loomis Sayles Bond Retail**	**Multi**	**B**	**B**	*****	**2.6**	**1.6**	**15.2**	**13.75**	**7.56**	**6.73**	**FW**
RPSIX	T. Rowe Price Spectrum Income	Multi	*	*	*	1.2	0.6	7.4	11.94	4.18	4.09	fsw
MGIDX	Managers Int. Duration Govt	ShtTerm	*	*	*	0.2	1.4	5.4	10.66	2.42	2.40	FSW
MGSDX	Managers Short Duration Govt	ShtTerm	B	*	*	0.1	1.3	3.1	9.65	0.54	2.90	FSW
MWLDX	MetroWest Low Duration	ShtTerm	B	*	*	0.1	0.6	3.3	9.40	2.95	3.61	SW
SCSTX	Scudder Short-Term Bond (closed)	ShtTerm	B	*	*	0.3	0.8	2.4	10.10	1.64	4.67	FSW
BTTNX	American Century Target 2010	ZeroCpn	*	*	*	0.2	1.8	7.1	88.52	8.36	4.27	fSW
BTFTX	American Century Target 2015	ZeroCpn	*	*	*	0.9	5.1	15.5	76.59	12.77	4.09	fSW
BTTTX	American Century Target 2020	ZeroCpn	*	*	*	1.6	10.0	24.6	58.81	15.97	3.93	fSW
BTTRX	American Century Target 2025	ZeroCpn	*	*	*	2.4	15.3	34.1	52.02	18.71	4.35	fSW

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d. In the "Username" field type your ***MONEYLETTER*** **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 (ex. A0123456). If you don't have your Account Number, call us toll-free 800-890-9670 or email service@moneyletter.com.

e. In the "Password" field, type your five-digit **Zip Code.**

The same procedure works for *MONEYLETTER Plus*. Also, you'll need the Adobe Acrobat Reader to open the file. If you don't already have it, you can download Adobe from our site. Depending on modem speed and Internet traffic, it may take a little while to load.

AOL Throws a "Block" Party

The above procedure has come in handy for dozens of email subscribers who get their issues delivered to an AOL address. As you know, you can choose to have your *MONEYLETTER* issues delivered to your email box in lieu of delivery by U.S. Mail (*MONEYLETTER Plus* is only available electronically, there is no printed copy). Unfortunately, AOL users discovered last week that their provider was "blocking" delivery of their emails containing *MONEYLETTER* and *MONEYLETTER Plus.*

With hundreds of email subscribers to our newsletters, PRI Financial Publishing uses an outside vendor to help us send these emails in a timely and accurate manner. Premiere Global Technologies, one of the nation's largest such providers, has been working with us for several years on behalf of our subscribers. Last week, AOL began blocking emails from their servers, presumably in response to the tremendous explosion of "junk" emails.

We have been working closely with our vendor and AOL, stressing that this is material for which you've paid a subscription fee. The good news is that, as we go to press, we have been told that the problem has been solved. We'll know for sure later this week when our emails with this issue and Thursday's *MONEYLETTER Plus* are sent. In the mean time, we appreciate your patience and invite you to access any issues that are delayed by using the procedure listed above. $

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Vanguard Treasury MMF	2.66	2.62	1.64
Gabelli US Treasury MMF	2.62	2.60	1.54
Fidelity Spartan US Treas MMF	2.48	2.46	1.53
Amer Century Capital Presv Fund/Inv	2.45	2.43	1.42
HSBC Investor US Treas MM/Cl D	2.36	2.29	1.31
RMK Select Treas MMF/Cl A	2.33	2.29	1.28
T Rowe Price US Treasury MF	2.32	2.26	1.30
US Treasury MF of America/Cl A	2.32	2.26	1.24
JPMorgan 100% US Treas MMF/Morgan	2.30	2.26	1.27
CMA Treasury Fund RIC	2.25	2.21	1.23

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
PayPal Money Market Fund	3.09%	3.07%	2.05%
Scudder MM Series Premium/AARP	2.94	2.94	1.93
TIAA-CREF Money Market Fund	2.89	2.84	1.78
Vanguard Prime MMF/Retail	2.87	2.80	1.79
Scudder MM Series Prime Reserve/AARP	2.84	2.86	1.84
Wells Fargo Adv Heritage MF/Admin	2.83	2.76	1.66
Marshall MMF/Investor Class	2.82	2.75	1.69
BB&T Prime MMF/Instit	2.79	2.75	1.62
Flex-fund Money Market Fund	2.78	2.72	1.65
SSgA MMF/Cl A	2.78	2.75	1.67

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Alpine Municipal MMF/Investor	2.22%	2.66%	1.70%
Tax-Exempt MF of America/Cl A	2.14	2.12	1.12
Vanguard Tax-Exempt MMF	2.10	2.53	1.62
T. Rowe Price Summit Muni MMF	1.90	2.22	1.28
T. Rowe Price Tax-Exempt MF	1.90	2.20	1.20
Dreyfus BASIC Muni MMF	1.89	2.30	1.32
Excelsior T-E Money Fund	1.89	2.24	1.23
Scudder Tax-Exempt Money Fund	1.89	2.29	1.32
USAA Tax Exempt MMF	1.89	2.31	1.33
Fidelity Tax Free Money Market	1.88	2.31	1.32

TAX-FREE STATE-SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard OH Tax-Exempt MMF	2.11%	2.54%	1.60%
Vanguard NY Tax-Exempt MMF	2.09	2.49	1.57
Vanguard NJ Tax-Exempt MMF	2.08	2.49	1.57
Vanguard PA Tax-Exempt MMF	2.07	2.53	1.59
Vanguard CA Tax-Exempt MMF	2.04	2.48	1.59
Fidelity FL Municipal MMF	1.89	2.28	1.29
Fidelity AZ Municipal MMF	1.83	2.26	1.27
Fidelity OH Municipal MMF	1.82	2.19	1.25
Fidelity MI Municipal MMF	1.81	2.24	1.23
Fidelity PA Municipal MMF	1.81	2.26	1.28

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 6/14/05. 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

Bridgeway: The Large-Cap Corners

In the June 10 *MONEYLETTER*, we featured the two small-cap funds of Bridgeway's "Four Corners" portfolios. Here, we'll take a look at the two large-cap offerings. But first, a bit more about the Bridgeway philosophy.

As explained in the last issue, Bridgeway is a "quant shop." In other words, president and director John Montgomery and his team pick stocks solely based on proprietary mathematical models. The strength in this process, according to Montgomery, is that it takes the emotion out of the investment process. He draws a parallel between many folks' investment decision-making and the reasoning they use to say, hire a repairman. Their decisions are often based on recent experiences. Applying that to stocks, they end up buying investments that have done well recently, and thus may be less likely to do well in the future. What they should do in buying a stock or fund is to buy one where the situation looks poor, he contends.

Shareholder friendly

We pointed out in the last issue that integrity is a major consideration at Bridgeway. How does this actually play out at the firm? To start with, Bridgeway ties management fees to performance. If a fund's returns fall, its management fees, and hence its overall expenses do as well. Meanwhile, pay levels never get out of hand: Compensation of the highest-paid employee is capped at seven times that of the lowest-paid. In addition, the firm donates half of its profits to charity. And finally, John Montgomery invests in his own funds, exclusively.

Without further ado, following are Bridgeway's two large-cap offerings. Notably, Montgomery aims to trade these funds less frequently than his other funds in an effort to reduce expenses and improve tax efficiency.

Bridgeway Large-Cap Growth (BRLGX)

Annual turnover in this 83-stock portfolio was a measly 7% last year. The portfolio, deemed large cap, actually sports about one-quarter of assets in mid-cap funds. You'll find mostly traditional growth fare in the portfolio, but also some names that have more of a traditional value connotation, such as electric utility TXU, and energy companies. Overall, however, consumer firms dominate the portfolio, at 44% of assets. Recently, the portfolio's best performers were in the energy sector, including EOG Resources and XTO Energy. High-end retailers were also strong, including Coach, Nordstrom, and Chico's FAS. In contrast, biotech firms detracted from performance. Beleaguered Biogen Idec, whose promising multiple sclerosis drug *Tysabri* was removed from the market, was the worst of the bunch, and was sold. Meanwhile, 2004 high-flyer Ebay has declined by about one-third this year.

Top Five Holdings & Sectors (% of Assets)

Nordstrom	4.1	Communications	24.2
Nextel Communications	3.9	Consumer, Non-cyclical	23.6
Home Depot	3.5	Consumer, Cyclical	20.3
Patterson Dental Cos.	3.1	Technology	9.0
Schlumberger	2.9	Energy	6.6

As of March 31, 2005

Bridgeway Large-Cap Value (BRLVX)

Yes, this is a value fund, with lots of traditional value fare – energy, industrials, financials. A look at the top holdings list will attest to that. But Montgomery must have some growth criteria in his process as well, as a few traditional growth stocks have found their way into the portfolio as well: Lucent Technologies, Juniper Networks, Zimmer Holdings, and Advanced Micro Devices among them.

Similar to the Growth fund above, the best-performing stocks recently have been in the energy sector, including Valero Energy, Chesapeake Energy, ConocoPhillips, Occidental Petroleum, and Amerada Hess. However, the fund's auto holdings, General Motors and Ford Motor, were major negatives through the first quarter, declining 27% and 23%, respectively, although GM has since rebounded.

This fund had a turnover rate of 11% last year, and holds 81 stocks in the portfolio.

Top Five Holdings & Sectors (% of Assets)

Chevron Texaco	3.2	Financial	25.1
Aetna	3.1	Energy	13.4
Duke Energy	2.7	Communications	13.1
Textron	2.7	Consumer, Cyclical	12.9
Occidental Petroleum	2.5	Industrial	12.8

As of March 31, 2005

A tale of two share classes

As we mentioned above, Bridgeway is vigilant about keeping its expenses down. Hence, they've established a two-tiered share class system. Existing shareholders, and those that buy directly from Bridgeway, buy the lowest-cost "N" shares, with the expense ratio capped at 0.94 basis points. The firm created an "R" class of shares with a higher expense ratio for fund supermarket firms, which typically charge funds between 35 and 40 basis points to be included in the no transaction fee networks. The effect is to make the latter investors pay a bit more for the convenience.

Bridgeway Funds, 5615 Kirby Drive, Suite 518
Houston, TX 77005-2448 • (800) 661-3500
Minimum Investment: $2,000, $2,000 IRA

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