

MONEYLETTER HOTLINE 01/15/01

Tug-of-War

The market continues in its correction mode, even though the averages managed to rise today. Actually, both the economic and earnings news should have sent stocks much higher. We are in a tug-of-war now between those who believe the market has come too far and those who do not. The battle is exemplified by Merrill Lynch's Richard Bernstein who helped send the market down yesterday by cutting his recommended allocation to domestic stocks by 10% to 50% and upping his allocation to bonds by that amount. We do not agree.

We look for a steadily improving economy from now on and expect that this will be the year of upside surprises with regard to profits. We look for a very strong kick to the economy coming from a reversal of the inventory correction we suffered from all last year. J.P. Morgan has just put a number on that drag, saying that the draw down last quarter may have hit \$125 billion at an annualized rate. This is enormous. Just the removal of such a heavy deadweight on the economy will provide tremendous kick to activity over the next half-year. We believe the market will respond to the economy's recovery and we look for higher prices ahead. At the moment, Wall Street is skeptical, but it will turn around.

There is no change in our recommended allocations.

Fund Recommendations – For domestic stock funds, there is one new buy: Royce Opportunity. For international stock funds, there is one new buy: Fidelity Europe. There is one new sell: Artisan International.

The Economy – Overall retail sales were down only 0.1% last month, less than expected. But if autos and gas sales are excluded, retail sales were up. In fact, with this number, consumer spending last quarter was up sharply. The economy is on the mend.

The Bond Market – The bond market has held steady after the rally on Friday caused by Greenspan's speech. We look for yields to hold below 5.0% for a short period, but the direction of yields will be up as the economy strengthens. We look for the last Fed cut later this month.

The Stock Market – After today's close Intel and others came in with generally good earnings reports, but prices dipped in after-hours trading. This is the mark of a correction. We believe that a buying opportunity is being created. We look for higher prices over the next 6-9 months.

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Inventories Will Kick-Start Economy

Alan Greenspan spoke and the stock market sank while the bond market soared. You would think his speech was gloomy. It was not. It was cautious. But Wall Street is not in the mood right now to make fine distinctions. We think Wall Street's reaction to the speech was closer to knee-jerk than anything else. It is becoming apparent that the rally from the lows of September has run out of steam. This is to be expected.

We believe that we are now in a profit-taking correction. In our view this is simply a mild retreat before the next move up for the market. For one, we are going to get another interest rate cut. For another, as we have stressed, and as Greenspan pointed out, the economy will be getting a strong shot in the arm from the imminent end of the inventory correction which was under way all last year. This will boost activity for at least the next six months. Greenspan's caution was all about what happens after that. We believe the inventory turnaround will kick-start the economy. We also think Wall Street will be surprised by the profit numbers we will see later this year.

There is no change in our recommended allocations.

Fund Recommendations – For domestic stock funds, there is one new sell: Lingle Partners Smallcap. For international stock funds, there is one new hold: Tweedy, Browne Global Value.

The Economy – With the December producer price numbers released today, we learned that core inflation grew by only 0.7% over last year. This extremely low level of inflation should continue to keep interest rates low. We expect steady improvement for the economy.

The Bond Market – It may be that one purpose of Greenspan's caution was to drive interest rates lower. If so, he succeeded. The 10-year Treasury ended the day at 4.87%, well below 5.0%. We expect rates to hold at these levels for some time.

The Stock Market – We would see a correction as setting up a buying opportunity. On a technical level, the market has moved into a resistance area, and selling should be expected. But the next major move of the market will be up. We look for higher prices ahead.

Domestic Stock Funds — data as of 01/11/02

Fund	Advice	1 month	6 month	1 year	Fund	Advice	1 month	6 month	1 year
1 Aegis Value Fund	H	4.9%	11.4%	45.6%	51 Legg Mason Special Investment	H	2.9	0.1	6.2
2 Buffalo Small Cap	B	4.8	13.8	36.7	52 Strong Discovery+	H	3.3	0.4	3.8
3 Boston Ptnrs Smlcap Val	B	4.5	6.7	44.6	53 Longleaf Partners Smallcap	H	1.8	-0.9	8.4
4 TCW Galileo Value Opportunity	B	1.1	13.1	32.2	54 Galaxy Small Co. Equity(3.75%)	H	2.9	0.1	3.4
5 Wasatch Small Cap Growth+	B	1.1	13.2	25.4	55 Galaxy Equity Value(3.75%)	H	2.3	0.5	3.1
6 Royce Low Priced Stock	B	6.4	8.5	28.0	56 Salomon Brothers Capital	H	3.3	-1.0	2.9
7 Heartland Value	B	5.7	6.4	32.6	57 T.Rowe Price Mid Cap Growth	H	0.4	0.8	2.6
8 Yacktman Fund	B	0.3	13.0	20.8	58 Muhlenkamp Fund	H	2.5	-2.1	6.7
9 Fidelity Low Priced Stock(3%)	B	3.8	8.6	26.1	59 Homestead Value	H	0.1	0.6	3.4
10 Wasatch Small Cap Value(closed)	B	5.6	3.4	34.1	60 Fidelity New Millennium(3%)	S	2.1	4.5	-9.2
11 Berwyn Fund	B	2.0	5.5	29.9	61 Harbor Value	H	0.4	-0.4	3.3
12 T. Rowe Price Small-Cap Value	B	5.0	5.0	26.2	62 Fidelity Convertible Securities	S	0.9	-0.5	2.5
13 Safeco Growth Opportunities+	B	8.6	2.6	26.3	63 Vanguard Windsor	H	1.3	-1.2	3.8
14 T.Rowe Price Mid Cap Value	B	3.7	8.7	18.4	64 Mutual Qualified(1%)CIZ	S	2.5	-3.9	7.4
15 Fidelity Small Cap Ind.(1.5%)	B	1.7	11.9	12.6	65 Nicholas II	S	1.3	0.5	-2.4
16 Berger Mid Cap Value	B	3.0	6.7	21.0	66 T. Rowe Price Equity-Income	S	0.9	-1.0	1.4
17 Pennsylvania Mutual+(1%)	B	5.1	5.1	21.1	67 T. Rowe Price Growth & Income	S	0.8	0.3	-2.0
18 Loomis Sayles Small Cap Value	B	4.0	6.5	18.8	68 MSI Value Portfolio	H	0.7	-1.5	2.6
19 Royce Opportunity+	B	6.6	4.5	19.1	69 Weitz Value Fund	S	5.0	-4.0	2.0
20 Oakmark Select(closed)	B	2.9	4.7	21.2	70 Vanguard Convertible Securities	S	-0.3	-0.3	0.7
21 Meridian Fund	B	3.0	7.2	14.2	71 Sound Shore	S	1.7	-2.9	3.9
22 RS Diversified Growth	H	9.9	4.6	7.5	72 Tweedy, Browne American	S	2.3	-3.2	3.5
23 Royce Total Return	B	3.7	4.1	17.5	73 T. Rowe Price Dividend Growth	S	0.9	-0.1	-2.2
24 Clipper Fund	B	1.6	7.2	12.8	74 ICM/Isabelle Small Cap Value	H	5.4	-7.0	8.0
25 Vanguard Small-Cap Value Index	H	4.9	4.7	12.2	75 Strong Multi-Cap Value	S	1.0	-2.2	1.6
26 T. Rowe Price Small Cap Stock	H	4.0	5.0	12.8	76 Strong Advisor Common Stock	S	0.6	-0.7	-1.9
27 Neuberger Berman Genesis	B	2.3	4.4	16.2	77 Vanguard Equity-Income	S	1.4	-1.9	-0.4
28 American Century Equity Income	B	2.3	5.3	12.4	78 Mutual Beacon(1%)CIZ	S	2.0	-4.3	4.6
29 Eclipse Small Cap Value	H	4.3	2.0	16.7	79 MSI Small Cap Value(closed)	S	2.4	-2.6	-0.4
30 Westport Samll Cap R	H	3.6	4.2	11.9	80 MSI Mid Cap Value	S	1.3	-3.1	2.0
31 American Century Value	B	1.3	4.6	13.0	81 Mutual Shares(1%)CIZ	S	2.1	-4.7	4.6
32 Wasatch Core Growth+(closed)	B	1.3	-1.7	27.0	82 Artisan Midcap+	S	-0.4	-1.1	-0.8
33 Royce Premier	B	1.6	4.8	10.2	83 Neuberger Berman Partners	S	1.0	-1.7	-1.6
34 Oakmark Fund	B	3.3	1.1	15.9	84 Vanguard Extended Market	S	2.7	-1.6	-4.5
35 RS Partners	H	3.1	-0.9	18.3	85 UMB Scout Stock	S	0.7	0.4	-6.8
36 Bogle Small Cap Growth	H	1.7	2.5	11.5	86 Liberty-SteinRoe Balanced	S	1.3	-1.1	-4.7
37 PBHG Small Cap Value	H	2.0	3.0	8.4	87 Salomon Brothers Investors	S	2.1	-1.4	-5.2
38 T. Rowe Price Cap Appreciation	H	1.6	2.0	11.3	88 Vanguard Growth Index +	S	1.1	0.8	-9.6
39 Vanguard Explorer+	H	3.1	2.9	5.5	89 Neuberger Berman Guardian	S	0.6	-1.9	-2.0
40 Vanguard SmallCap Index+	H	3.3	1.5	8.0	90 Salomon Brothers Opportunity	S	2.7	-2.9	-3.3
41 Fidelity Value	H	1.7	0.0	12.9	91 Fidelity Equity-Income II	S	2.0	-2.0	-4.6
42 Needham Growth Fund	H	1.2	2.2	7.9	92 Fidelity Dividend Growth	H	1.2	-1.6	-4.7
43 Vontobel U.S. Value	H	3.1	0.6	8.1	93 Neuberger Berman Focus+	S	1.9	-1.9	-5.1
44 Longleaf Partners	H	3.6	0.0	8.5	94 Janus Venture (closed)	S	4.0	-3.9	-4.5
45 Dodge & Cox Stock	H	1.1	1.1	9.7	95 T. Rowe Price Growth Stock	S	0.6	-1.0	-8.0
46 Federated Kaufmann Fund+	H	2.6	-0.4	10.4	96 Gabelli Asset	S	1.6	-4.3	-1.2
47 Vanguard Mid-Cap Index+	H	2.4	1.7	5.1	97 INVESCO Value Equity	S	1.5	-3.0	-4.6
48 T. Rowe Price New Horizons	H	2.5	2.3	2.9	98 Loomis Sayles Value	S	2.0	-3.7	-4.4
49 Oberweis Emerging Growth+	H	5.4	-1.0	6.6	99 Dreyfus Appreciation	S	1.7	-2.1	-7.9
50 Dreyfus Mid Cap Index	H	2.3	1.3	4.5	100 Baron Asset	S	2.2	-1.9	-9.6

DOMESTIC STOCK FUNDS
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Domestic Stock Funds continued — data as of 01/11/02

Fund	Advice	1 month	6 month	1 year	Fund	Advice	1 month	6 month	1 year
101 William Blair Growth	S	0.3	-0.7	-9.6	151 Bonnel Growth Fund	S	1.3	-1.4	-22.6
102 American Century Income &	S	1.6	-2.8	-6.6	152 Columbia Special+	S	0.5	-3.8	-15.8
103 Strong Opportunity+	S	1.1	-2.5	-6.7	153 Liberty-SteinRoe Growth Stock	S	0.3	-7.4	-7.6
104 Fidelity Growth & Income(3%)	S	0.6	-2.7	-6.6	154 RS Emerging Growth(closed)	S	2.8	-4.5	-18.9
105 Babson Value	S	1.9	-5.6	-1.6	155 Harbor Capital Appreciation+	S	0.2	-2.9	-18.9
106 USAA Growth & Income	S	0.6	-3.4	-5.4	156 Turner Midcap Growth+	S	1.9	-4.6	-17.3
107 Dreyfus Fund	S	1.0	-2.2	-9.0	157 American Century Ultra+	S	0.8	-5.7	-13.6
108 Safeco Equity	S	1.3	-2.6	-8.5	158 Babson Growth+	S	2.0	-5.1	-17.1
109 Dreyfus Growth & Income	S	1.1	-4.0	-5.2	159 Legg Mason Opportunity Trust	S	-1.4	-10.2	0.9
110 Fidelity OTC Portfolio+	S	1.9	-0.6	-15.3	160 INVESCO Small Company	S	1.2	-4.9	-16.7
111 Fidelity Equity-Income	S	0.9	-4.2	-5.0	161 Scudder Capital Growth AARP	S	0.7	-4.6	-18.2
112 Vanguard Windsor II	S	1.3	-5.8	-1.4	162 Preferred Growth	S	0.3	-3.9	-19.5
113 Nicholas Fund	S	1.6	-2.7	-10.1	163 RS Aggressive Growth+	S	4.8	-6.9	-18.8
114 WPG Tudor	S	0.7	-2.1	-10.7	164 Fidelity Growth Company+	S	-0.1	-4.1	-19.3
115 T. Rowe Price New Era	S	1.3	-4.6	-5.5	165 American Century Select+	S	0.4	-5.9	-15.8
116 Fidelity Stock Selector	S	0.6	-2.8	-9.4	166 Janus Growth & Income	S	0.1	-6.2	-14.6
117 CS Warburg Pincus Value	S	0.5	-5.6	-2.1	167 Scudder Large Co Value	S	0.5	-7.6	-12.0
118 Dreyfus Growth Opportunity	S	0.7	-2.7	-10.2	168 Marsico Focus	S	1.2	-5.3	-18.7
119 American Century Growth+	S	0.9	-1.5	-13.5	169 Columbia Common Stock	S	0.6	-6.2	-15.7
120 Fidelity Contrafund(3%)	S	0.9	-3.3	-9.2	170 Marsico Growth & Income	S	1.4	-6.2	-17.3
121 Domini Social Equity Fund +	S	0.9	-2.7	-10.8	171 Gabelli Growth	S	0.7	-4.0	-22.0
122 Fidelity Capital Appreciation	S	0.6	-5.0	-5.1	172 Montgomery Growth	S	1.2	-6.1	-17.6
123 Vanguard Growth & Income	S	1.1	-3.5	-9.9	173 USAA Growth	S	1.0	-4.9	-20.6
124 T. Rowe Price New America	S	0.0	-2.6	-10.3	174 Galaxy Equity Growth(3.75%)	S	0.4	-6.0	-17.8
125 Fidelity Fifty+	S	2.1	-3.5	-11.1	175 Scudder Large Company Growth	S	0.4	-5.5	-19.2
126 Fidelity Trend	S	1.3	-4.0	-9.4	176 Dreyfus Premier Aggressive	S	2.5	-9.4	-13.7
127 Schwab 1000 Fund	S	1.2	-3.5	-10.5	177 Vanguard Value Index	S	0.5	-8.7	-12.5
128 INVESCO Equity Income	S	2.3	-4.2	-10.8	178 Liberty-SteinRoe Capital Oppor-	S	2.4	-6.0	-22.4
129 Fidelity Disciplined Equity	S	1.5	-3.7	-11.1	179 Columbia Growth+	S	-0.6	-5.4	-19.7
130 Fidelity Independence(ret.only)	S	2.2	-0.4	-20.4	180 PBHG Emerging Growth(closed)	S	-0.6	-5.3	-20.6
131 Selected American Shares	S	1.0	-3.6	-10.8	181 Scudder Development+	S	-0.3	-4.2	-24.0
132 Selected Special Shares	S	2.3	-4.4	-11.0	182 Vanguard Growth Equity	S	0.6	-5.6	-22.1
133 Dreyfus New Leaders	S	0.3	-4.4	-8.0	183 Janus Special Situation	S	0.8	-7.6	-17.5
134 CS Warburg Pincus Emerging	S	1.4	0.0	-20.6	184 RS Value+Growth+	S	-0.7	-6.0	-21.8
135 Fidelity Mid-Cap Stock+	S	0.5	-5.6	-5.6	185 INVESCO Dynamics+	S	1.1	-5.8	-24.9
136 Vanguard 500 Index	S	0.9	-3.8	-10.7	186 Montgomery Small Cap	S	0.0	-12.3	-8.4
137 Fidelity Spartan 500 Index	S	0.9	-3.9	-10.7	187 Legg Mason Value	S	0.0	-11.6	-10.7
138 American Century Equity Growth	S	0.7	-4.5	-9.2	188 American Century Vista	S	2.0	-10.1	-18.5
139 Dreyfus-Founders Discovery	S	2.6	-4.4	-12.4	189 CS Warburg Pincus Capital	S	1.0	-8.7	-20.6
140 Vanguard PRIMECAP(\$25,000)	S	1.0	-3.4	-12.9	190 Dreyfus Premier Third Century	S	-0.6	-7.6	-22.1
141 Scudder Growth & Income	S	-0.1	-4.5	-8.5	191 Strong Large Cap Growth	S	-0.6	-6.0	-26.9
142 Harbor Growth	S	5.7	-1.4	-25.2	192 SIT Small Cap Growth+	S	-0.7	-8.9	-20.4
143 Fidelity Fund	S	1.1	-5.5	-8.6	193 TCW Galileo Aggressive	S	1.4	-7.5	-28.6
144 WPG Large Cap Growth	S	2.2	-3.1	-16.4	194 Vanguard U.S. Growth	S	-0.8	-6.2	-29.5
145 Vanguard Capital Opportunity	S	1.9	-5.2	-10.9	195 Berger Large Cap Growth	S	-0.1	-8.5	-24.7
146 Vanguard/Morgan Growth+	S	1.2	-4.4	-12.4	196 SIT Mid Cap Growth+	S	0.2	-7.8	-27.2
147 Northeast Investors Growth	S	0.9	-2.8	-16.0	197 SIT Large Cap Growth	S	-0.8	-8.2	-25.8
148 Fidelity Blue Chip Growth	S	0.8	-3.9	-13.5	198 Strong Advisor Midcap Growth+	S	2.5	-11.8	-25.0
149 Fidelity Magellan(3%)	S	0.4	-4.5	-11.5	199 American Century Heritage	S	1.0	-13.4	-18.9
150 Preferred Value	S	-0.7	-6.2	-7.4	200 Strong Growth	S	-0.1	-9.6	-28.3

