

MONEYLETTER HOTLINE 6/4/02

Bears Remain Opportunistic

As we expected in the last Hotline, the Supply Managers report out yesterday was a good one. But contrary to our expectations the market sold off sharply. On the surface, it appears that negative corporate developments, such as the resignation of Tyco's Chairman caused the large decline. But that is too simple.

The selling we are seeing, in the face of strong evidence of the economy's recovery, is caused by Wall Street's deep skepticism about the outlook for corporate profits. While earnings downgrades have lessened, the kind of bullish guidance on profits that the market needs is still missing. However, there is evidence from government reports that overall profits are improving sharply.

Sooner, rather than later, the improvement will become evident in the S&P 500 profit numbers. We believe that the profit reports to be released next month will offer the first evidence that the profit recovery has begun. Until the reports arrive, the bears will continue to hammer away at every opportunity. We expect a very choppy market this month. We look for higher prices over the rest of this year.

There is no change in our recommended allocations.

Fund Recommendations – For domestic stock funds, there is one new hold: Buffalo Small Cap. There are three new sells: Legg Mason Special Investment Trust, Wasatch Small Cap Growth and Vanguard Explorer. For international stock funds, there is one new buy: Fidelity Pacific Basin. There is one new hold: Investec China & Hong Kong. There are two new sells: Fidelity Worldwide and Fidelity Europe.

Wasatch Small Cap Growth is in the Signal Model Portfolio. We will switch the fund into Royce Opportunity. Fidelity Europe is in the Fidelity Conservative Model Portfolio we will switch that fund into Fidelity International Growth & Income. Vanguard Explorer is in all three Vanguard model portfolios. In the Vanguard Moderate and Conservative portfolios we will switch Explorer into Vanguard Mid-Cap Index. In the Vanguard Venturesome Portfolio we will switch into the Vanguard Small Cap Index Fund.

The Economy – The ISM manufacturing survey was robust. Manufacturing is recovering. Auto sales dropped last month as Ford & GM ended 0% financing. Even so, production schedules for next quarter are up 10% from last year. The weekly store sales survey show sales dropped slightly last month. The economic recovery will broaden.

The Stock Market – Stocks are deeply oversold. A relief rally should be expected soon. But the market will not right itself until we get encouraging profit numbers. Friday's employment report could help.

MONEYLETTER HOTLINE 5/31/02

Markets Brush Off Good Economic News

There was a slew of very good economic news today, much better than the Street expected. But when the trading day was over we did not get the response that we would expect. It seemed as if the sellers were simply waiting for the last hour to sell and take profits. We have seen this before this year. It may be simply that we are going into the weekend with war clouds in Asia, and traders simply decided to lighten up before going home.

In any case, the economic numbers were impressive in their unanimity. They made the case that the recovery is proceeding and picking up some steam. None of today's numbers, except for productivity, are front-line numbers. The big numbers will be coming out next week starting Monday with the Supply Managers survey on manufacturing and ending with the employment report on Friday. If those numbers turn out to be anything like today's we should get a very favorable response from the market. It will at the very least cause a reassessment of the slow growth, no profit recovery thesis that has become Wall Street's mantra the past two weeks.

There is no change in our recommended allocations.

Fund Recommendations – There are no changes this week in our fund recommendations.

The Economy – The surprise today came from two places. First, the report on April factory orders showed that business investment orders rose by 4% in April. This is very strong. It could well be the sign that business is beginning to invest again. Second, the Chicago Supply Managers index rose to its highest level in three years. New orders were very strong. It suggests we should see more evidence on Monday that the recovery has legs.

The Stock Market – The action today was disappointing. We believe it will take positive profit news to bring buyers back to the market. We believe that today's news reinforces our view that the profit news will get better and better as the year goes on. We see the market reversing course and improving over the next two months as the first installment of the profit improvement occurs.

The Bond Market – The bond market has done little with yields hovering a touch above 5%. If the economic news continues as today's batch we will see yields move up some.

Domestic Stock Funds — data as of 5/31/02

Fund	Advice	1 month	6 month	1 year	Fund	Advice	1 month	6 month	1 year
1 CGM Focus	B	-5.2%	25.8%	49.8%	51 T. Rowe Price Small Cap Stock	H	-3.5	8.8	7.1
2 Wasatch Small Cap Value(closed)	B	-1.7	23.2	20.1	52 Third Avenue Value	H	-0.8	8.5	3.5
3 Baron Small Cap	B	-0.5	22.5	15.3	53 Dreyfus Mid Cap Index	H	-1.8	9.6	1.9
4 Oakmark Small Cap	B	-2.4	20.1	19.2	54 Oakmark Select(closed)	H	0.7	5.6	8.0
5 Ariel Fund	B	0.8	16.8	19.6	55 Bogle Small Cap Growth(closed)	H	-4.0	9.3	5.5
6 T. Rowe Price Small-Cap Value	B	-2.1	19.3	17.4	56 Oakmark Fund	H	1.2	6.2	4.2
7 Eclipse Small Cap Value	B	-1.2	20.0	13.9	57 American Century Value	H	1.4	4.8	6.5
8 T.Rowe Price Mid Cap Value	B	0.9	16.5	17.4	58 TCW Galileo Value Opportunity	H	-1.2	5.3	8.4
9 Wasatch Core Growth+(closed)	B	-3.2	20.2	14.4	59 Mutual Qualified(1%)CIZ	H	0.0	7.4	1.1
10 Fidelity Low Priced Stock(closed)	B	-0.6	15.6	21.5	60 Westport Small Cap R	H	-2.4	7.7	3.7
11 Berwyn Fund	B	-2.4	17.5	17.6	61 Homestead Value	H	-0.5	7.4	1.4
12 Vanguard Small-Cap Value Index	B	-3.8	18.6	16.4	62 Bonnel Growth Fund	H	-1.7	9.0	-1.1
13 Yacktman Fund	B	2.0	12.6	22.6	63 Dodge & Cox Stock	H	1.4	5.9	1.9
14 Neuberger Berman Fasciano Inv	B	-1.8	18.0	13.7	64 Baron Asset	H	-2.6	10.0	-3.7
15 Neuberger Berman Genesis	B	-0.9	16.0	14.6	65 Mutual Beacon(1%)CIZ	S	0.4	6.7	0.0
16 ICM/Isabelle Small Cap Value	B	-3.5	21.7	3.3	66 Dreyfus New Leaders	H	-0.9	8.6	-3.2
17 CRM Small Cap Value Inv	B	-2.2	16.3	14.6	67 Thompson Plumb Growth	S	3.4	1.9	5.8
18 Fidelity Fifty+	H	1.8	19.8	-1.3	68 Legg Mason Special Investment	S	-1.7	8.8	-4.4
19 Royce Total Return	B	-2.1	15.8	12.8	69 Strong Multi-Cap Value	H	-2.1	8.2	-2.7
20 Boston Ptrns Smlcap Val	B	-3.1	14.8	16.4	70 Mutual Shares(1%)CIZ	S	0.1	6.1	-1.4
21 Royce Opportunity+	B	-3.4	17.6	8.2	71 T. Rowe Price Equity-Income	S	1.1	4.7	-0.3
22 RS Partners	B	-0.8	16.7	6.1	72 Fidelity Contrafund(3%)	S	0.4	5.8	-2.0
23 Aegis Value Fund	H	0.9	11.0	17.6	73 Sound Shore	S	1.0	4.6	-0.9
24 Ariel Appreciation	B	1.6	12.2	13.4	74 Harbor Value	S	-0.2	4.7	0.7
25 State Street Mid-Cap Value	H	0.5	13.5	10.8	75 Tweedy, Browne American	S	-0.1	5.1	-1.0
26 Royce Penn Mutual+(1%)	B	-3.2	14.6	12.7	76 Gabelli Asset	S	-0.5	5.5	-2.9
27 Heartland Value	B	-0.9	13.3	12.5	77 Vanguard SmallCap Index+	S	-4.3	6.5	0.3
28 Baron Growth	B	-0.4	13.2	11.7	78 Marsico Focus	S	-0.4	5.7	-5.5
29 Longleaf Partners Smallcap	B	-1.5	14.7	9.3	79 Salomon Brothers Opportunity	S	-0.2	5.3	-5.2
30 CRM Mid Cap Value Ins	B	-1.8	13.5	11.4	80 MSI Value Portfolio	S	-1.0	4.1	-2.8
31 Loomis Sayles Small Cap Value	B	-1.8	12.3	13.9	81 Federated Kaufmann Fund+	S	-1.6	3.1	0.4
32 Fidelity Value	H	0.2	13.3	8.3	82 Strong Discovery+	S	-0.5	3.6	-2.7
33 Royce Low Priced Stock	B	-2.1	12.7	12.4	83 Fidelity Independence(ret.only)	S	0.2	5.6	-9.6
34 Fidelity Small Cap Ind.(1.5%)	H	-2.2	9.9	18.0	84 Wasatch Small Cap Growth+	S	-1.4	-0.1	7.1
35 Clipper Fund	H	2.2	9.1	13.3	85 T.Rowe Price Mid Cap Growth	S	-0.2	2.6	-2.6
36 T. Rowe Price New Era	H	1.2	15.8	-2.1	86 Vanguard Windsor II	S	0.2	4.2	-7.4
37 Strong Mid Cap Disciplined	H	-1.4	10.7	11.6	87 Vanguard Equity-Income	S	-0.1	2.3	-3.5
38 Third Avenue Small-Cap Value	H	-0.7	11.5	7.0	88 Marsico Growth & Income	S	-0.8	4.5	-8.1
39 Vontobel U.S. Value	H	-1.4	10.9	9.2	89 Loomis Sayles Value	S	0.7	2.4	-6.5
40 Meridian Fund	H	-1.3	9.3	12.2	90 Fidelity Equity-Income	S	0.9	2.2	-7.1
41 Babson Value	H	0.8	12.0	1.6	91 Vanguard Extended Market	S	-2.3	3.8	-6.2
42 T. Rowe Price Cap Appreciation	H	0.8	9.7	6.7	92 MSI Small Cap Value(closed)	S	-3.6	4.1	-5.4
43 Boston Partners Mid Cap Value	H	-1.8	10.4	8.4	93 American Century Heritage	S	-1.5	5.3	-11.8
44 Longleaf Partners	H	-2.3	11.4	6.2	94 Liberty-SteinRoe Capital Oppor-	S	-2.0	5.3	-11.6
45 Buffalo Small Cap (closed)	H	-4.5	7.9	16.0	95 Janus Venture (closed)	S	-3.9	3.8	-7.9
46 Royce Premier	H	-2.4	9.8	8.3	96 Salomon Brothers Capital	S	0.2	0.7	-6.4
47 Berger Mid Cap Value	H	-2.0	9.3	7.8	97 Legg Mason Opportunity Trust	S	-1.0	4.2	-13.8
48 American Century Equity Income	H	1.1	5.9	8.4	98 Nicholas II	S	-0.2	0.6	-5.9
49 Muhlenkamp Fund	H	-3.7	11.3	2.0	99 Weitz Value Fund	S	-0.9	1.3	-7.4
50 Vanguard Mid-Cap Index+	H	-1.7	9.8	2.5	100 Selected Special Shares	S	-2.4	3.3	-10.8

DOMESTIC STOCK FUNDS
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Domestic Stock Funds continued — data as of 5/31/02

Fund	Advice	1 month	6 month	1 year	Fund	Advice	1 month	6 month	1 year
101 Fidelity Equity-Income II	S	0.3	0.7	-8.6	151 Vanguard 500 Index	S	-0.8	-5.8	-14.0
102 Scudder Large Co Value	S	0.8	1.4	-11.5	152 Fidelity Spartan 500 Index	S	-0.8	-5.8	-14.0
103 T. Rowe Price Dividend Growth	S	-0.3	-0.4	-5.7	153 Fidelity Stock Selector	S	-0.4	-6.3	-13.4
104 Neuberger Berman Partners	S	-1.2	0.6	-6.9	154 Vanguard PRIMECAP(\$25,000)	S	-1.5	-5.0	-15.0
105 Vanguard Windsor	S	-0.2	-0.6	-5.7	155 Fidelity Fund	S	-0.4	-5.3	-15.9
106 Fidelity Convertible Securities	S	-1.6	0.1	-6.0	156 Fidelity Trend	S	-1.0	-5.5	-14.7
107 Safeco Growth Opportunities+	S	-3.2	0.1	-3.7	157 MSI Mid Cap Value	S	-5.1	-4.0	-12.4
108 Vanguard Explorer+	S	-4.8	1.0	-4.3	158 Dreyfus Growth & Income	S	-1.3	-5.9	-14.2
109 Fidelity New Millennium(3%)	S	-1.4	0.0	-7.5	159 Needham Growth Fund	S	-4.9	-5.6	-9.7
110 Strong Advisor Common Stock	S	-2.5	0.8	-7.9	160 Gintel Fund	S	-3.3	0.8	-28.2
111 Fidelity Capital Appreciation	S	0.3	0.0	-11.5	161 T. Rowe Price Growth Stock	S	-1.4	-6.5	-12.9
112 INVESCO Value Equity	S	0.6	-1.2	-9.2	162 Scudder Growth & Income	S	-1.5	-6.3	-14.2
113 Galaxy Equity Value(3.75%)	S	0.0	-1.1	-8.8	163 Fidelity Mid-Cap Stock+	S	-3.1	-5.0	-15.3
114 Nicholas Fund	S	0.0	-0.9	-10.5	164 Vanguard/Morgan Growth+	S	-0.7	-6.2	-16.9
115 Selected American Shares	S	0.2	-1.1	-10.5	165 Fidelity Magellan(3%)	S	-0.2	-7.1	-15.6
116 Salomon Brothers Investors	S	-0.3	-1.1	-9.7	166 American Century Select+	S	-1.0	-6.6	-16.4
117 Preferred Value	S	0.4	-1.9	-9.0	167 Columbia Common Stock	S	0.1	-6.7	-17.7
118 Dreyfus Appreciation	S	0.6	-2.3	-8.5	168 Northeast Investors Growth	S	-2.1	-6.8	-16.1
119 Liberty-SteinRoe Balanced	S	-0.3	-2.7	-7.4	169 Oberweis Emerging Growth+	S	-3.0	-6.0	-17.4
120 American Century Income &	S	0.1	-1.8	-10.5	170 CS Warburg Pincus Emerging	S	-4.5	-6.6	-15.7
121 Neuberger Berman Guardian	S	-0.7	-2.0	-8.8	171 Dreyfus-Founders Discovery	S	-4.7	-6.0	-17.2
122 CS Warburg Pincus Value	S	-1.2	-1.6	-9.2	172 Babson Growth+	S	-1.6	-7.4	-18.6
123 Janus Special Situation	S	-0.3	0.2	-15.0	173 Vanguard Growth Index +	S	-2.0	-9.6	-12.8
124 Fidelity Disciplined Equity	S	-0.8	-1.2	-10.9	174 WPG Large Cap Growth	S	-3.3	-7.6	-16.3
125 American Century Vista	S	-1.7	1.4	-16.4	175 RS Value+Growth+	S	-2.6	-7.2	-19.2
126 PBHG Small Cap Value	S	-4.7	-1.0	-5.9	176 Galaxy Equity Growth(3.75%)	S	-2.3	-7.6	-18.8
127 T. Rowe Price New Horizons	S	-3.7	-1.4	-7.3	177 Fidelity OTC Portfolio+	S	-3.5	-7.7	-16.8
128 INVESCO Core Equity	S	-0.7	-1.1	-12.4	178 Safeco Equity	S	-1.7	-9.8	-15.9
129 Strong Opportunity+	S	-0.8	-1.5	-11.6	179 Fidelity Blue Chip Growth	S	-1.7	-9.3	-17.5
130 UMB Scout Stock	S	-0.6	-3.0	-8.9	180 Janus Fund	S	-0.9	-6.8	-25.9
131 Artisan Midcap+(closed)	S	-0.6	-3.0	-10.2	181 INVESCO Small Company	S	-3.8	-7.5	-21.4
132 Fidelity Growth & Income(3%)	S	0.0	-3.8	-9.4	182 Montgomery Growth	S	-1.6	-9.8	-20.0
133 Vanguard Value Index	S	0.4	-2.0	-15.5	183 SIT Small Cap Growth+	S	-3.8	-7.5	-22.5
134 Vanguard Convertible Securities	S	-0.8	-4.5	-7.7	184 Galaxy Small Co. Equity(3.75%)	S	-7.2	-8.3	-15.6
135 Fidelity Dividend Growth	S	0.6	-4.5	-10.1	185 Vanguard Capital Opportunity	S	-2.7	-9.3	-20.0
136 American Century Ultra+	S	-0.7	-3.4	-11.6	186 WPG Tudor	S	-5.6	-8.1	-18.7
137 Dreyfus Premier Aggressive	S	-2.5	-0.1	-17.8	187 Strong Growth	S	-2.3	-8.4	-22.8
138 Janus Growth & Income	S	-0.3	-3.2	-14.3	188 RS Diversified Growth	S	-5.8	-9.1	-16.5
139 T. Rowe Price Growth & Income	S	-0.7	-4.8	-10.0	189 American Century Growth+	S	-2.8	-10.7	-16.9
140 Columbia Special+	S	-1.6	-2.8	-13.8	190 Dreyfus Premier Third Century	S	-1.5	-9.6	-21.9
141 Domini Social Equity Fund +	S	-0.2	-4.7	-11.7	191 T. Rowe Price New America	S	-2.2	-10.5	-19.8
142 Dreyfus Fund	S	-1.4	-4.4	-11.0	192 MSI Midcap Growth	S	-3.6	-8.2	-25.1
143 USAA Growth & Income	S	-0.8	-4.5	-12.1	193 Harbor Capital Appreciation+	S	-2.4	-10.9	-20.4
144 Vanguard Growth & Income	S	-0.3	-4.6	-12.6	194 Preferred Growth	S	-2.7	-10.8	-21.0
145 American Century Equity Growth	S	-0.4	-4.4	-13.2	195 USAA Aggressive Growth	S	-3.9	-8.9	-25.1
146 Neuberger Berman Focus+	S	-2.9	-2.2	-15.3	196 Montgomery Small Cap	S	-7.2	-8.2	-22.2
147 Schwab 1000 Fund	S	-1.0	-4.4	-12.9	197 Neuberger Berman Manhattan	S	-4.1	-9.7	-24.3
148 William Blair Growth	S	-2.8	-4.2	-11.3	198 Liberty-SteinRoe Growth Stock	S	-1.9	-11.3	-24.2
149 Dreyfus Growth Opportunity	S	-0.8	-5.3	-11.8	199 PBHG Growth+	S	-4.1	-8.5	-28.4
150 Legg Mason Value	S	0.3	-4.2	-18.4	200 Strong Growth 20+	S	-1.2	-10.5	-28.1

