

MONEYLETTER HOTLINE 8/27/02

Mixed Signals

Today was a day when the economic news was both good and bad, from the market's perspective, and the emphasis was on the bad news as far as stock traders were concerned. But the bond market saw it differently and also sold off on the same news, and we believe the bond market got it right. There were two pieces of news, the consumer confidence index for August and durable good new orders for July. Confidence slid quite a bit, while durables orders vaulted higher. Market mavens have been concentrating on the consumer, nothing wrong with that, and this concern brought the stock market down.

From our perspective, the market pays much too much attention to these confidence numbers. From everything we hear car sales are doing just fine this month, despite the fall in confidence. Meanwhile the durables number was sloughed off, although we think the recovery in orders last month is the first significant good omen we have had about the outlook since the economy's July swoon. At least the outlook for investment spending looks brighter than it has for a month.

There is no change in our recommended allocations.

Fund Recommendations – For domestic stock funds there are three new buys: Oakmark Select, Oakmark Fund and Ariel Appreciation. There are three new holds: Neuberger Berman Fasciano, Oakmark Small Cap and Mutual Shares CI Z. There are two new sells: ICM/Isabelle Small Cap Value and Royce Penn Mutual. For international stock funds, there is one new buy: Fidelity International Growth & Income. There is one new hold: Dreyfus Emerging Market. There is one new sell: Tweedy, Browne Global Value.

Tweedy, Browne Global Value is in the Moneyletter Conservative Model Portfolio. We will switch the fund into Oakmark Global. We are also recommending some switches in the Vanguard family portfolios. Vanguard Small-Cap Index is ranked a sell and is in the Vanguard Venturesome Model Portfolios. We will switch the fund into Vanguard Windsor II. Vanguard Windsor is also ranked a sell and is in all three Vanguard family portfolios. In the Moderate and Conservative portfolios we will switch Windsor into Vanguard Windsor II. In the Venturesome portfolio we will switch Windsor into Vanguard Equity-Income.

The Economy – We are encouraged by the durable goods report. We need to see whether there is any follow-through in the reports coming out after Labor Day. The report is the first sign that maybe July was an aberration.

The Stock Market – Internal dynamics within the stock market, such as rebalancing, and low interest rates have been driving stocks higher. But the rally needs the stiffening of better economic news. The durables report may signal that such news is not too far away.

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Focus on the “E” Word

Stocks fell today amidst concerns of the strength of the economic recovery – or lack of it, to be precise. With accounting worries less likely to shock the market now, the focus recently has shifted back to earnings, and questions remain. Although earnings for the S&P 500 companies are expected to rise 11 percent this quarter, and 19 percent next year, according to Thomson First Call, there are still legitimate concerns about whether these numbers are sustainable.

Technology issues led the market down today as analysts expect orders for computers and semiconductors to remain slow. Intel dropped more than 5% by early afternoon. Fears concerning corporate accounting procedures, while diminishing, are still a factor with new information on Citigroup and AOL Time Warner coming to light. Despite today's developments we expect higher prices over the next 6-9 months as the Fed cuts interest rates at least once before year-end and the economy picks up.

There is no change in our recommended allocations.

Fund Recommendations – For domestic stock funds there are two new holds: Third Avenue Small-Cap Value and ICM Isabelle Small Cap Value. For international stock funds, there is one new buy: Vontobel International Equity. There are two new holds: Scudder Pacific Opportunity and Matthews Pacific Tiger.

The Economy – Spending remains soft this month, with the extremely hot weather over much of the country holding spending down. The hangover from the markets' slide in July has been real, and we will be keeping a close eye on the August numbers. We look for activity to improve over the rest of this year.

The Stock Market – Prior to today the market has been up 18% this past month. But at this moment, because the news on the economy is not encouraging, the short-run rally may run out of steam. None of this changes the fact that stocks are cheap looking out over the next 6-9 months.

One positive in the outlook is that portfolio managers in the small-cap sector have become more bullish when it comes to the outlook for stocks in their universe. The deep selloff of small caps has left the managers positive on the intermediate-term outlook.

The Bond Market – The 10-year Treasury yield remains under 4¼%. As for high-yield bonds, they have been looking better as the accounting fears have subsided. We expect rates to remain in their recent trading range. The 7-day Money Fund Report Average remained unchanged this week at 1.26%.

Domestic Stock Funds — data as of 8/23/02

Fund	Advice	1 month	6 month	1 year	Fund	Advice	1 month	6 month	1 year
1 Yacktman Fund	B	20.3%	7.8%	16.9%	51 Vanguard Equity-Income	H	17.9	-9.7	-12.0
2 Clipper Fund	B	17.9	1.9	7.2	52 Berger Mid Cap Value	H	11.4	-8.6	-5.5
3 Vontobel U.S. Value (2%r<90d)	B	18.8	1.7	5.2	53 Fidelity Small Cap Ind.(1.5%	H	10.7	-9.4	-2.4
4 Eclipse Small Cap Value	B	11.4	3.6	5.1	54 Oakmark Small Cap (2%r<90d)	H	9.5	-8.4	-3.3
5 RS Partners	B	10.5	2.3	0.7	55 Bogle Small Cap Growth(closed)	H	12.2	-8.1	-8.2
6 Fidelity L P Stock (closed,3%	B	8.8	-0.3	7.4	56 Harbor Value	H	17.9	-9.5	-13.4
7 Legg Mason Special Investment	H	15.8	-0.4	-3.8	57 Wasatch Core Growth+	H	13.7	-8.2	-10.3
8 Oakmark Select(closed) (2%	B	18.6	-3.1	-5.1	58 Legg Mason Value	H	17.9	-5.5	-23.5
9 T. Rowe Price Cap Appreciation	B	11.1	-1.3	1.6	59 Selected American Shares	H	14.1	-7.4	-13.1
10 Neuberger Berman Genesis	B	14.0	-3.2	1.4	60 Nicholas Fund	S	15.0	-8.1	-13.0
11 Royce Total Return (1%r<180d)	B	11.1	-1.9	1.8	61 Dreyfus Appreciation	H	17.4	-9.9	-12.0
12 Ariel Fund	B	11.6	-3.0	1.2	62 Boston Partners Mid Cap Value	S	15.4	-10.4	-8.1
13 Berwyn Fund (1%r<180d)	B	9.2	-2.5	2.4	63 Westport Small Cap R	S	12.5	-8.5	-8.6
14 Aegis Value Fund	B	2.5	-0.4	7.3	64 Meridian Fund	H	10.1	-8.1	-6.0
15 American Century Equity Income	B	13.9	-4.2	-2.1	65 Sound Shore	S	16.7	-8.7	-14.7
16 Oakmark Fund	B	17.8	-4.3	-7.8	66 Legg Mason Opportunity Trust	S	13.6	-6.1	-17.5
17 Longleaf Partners Smallcap	B	6.4	0.0	-1.8	67 Marsico Focus	S	10.9	-8.2	-8.3
18 Baron Growth	B	13.3	-3.9	-3.4	68 American Century Income &	S	18.6	-10.2	-14.8
19 T. Rowe Price S-C Value	B	9.0	-4.0	2.7	69 CGM Focus	S	13.6	-15.0	4.5
20 T.Rowe Price Mid Cap Value	B	13.6	-6.0	0.6	70 Fidelity Growth & Income(3%)	S	17.0	-10.2	-13.3
21 Fidelity Fifty+ (.75%r<30d)	B	11.4	-3.5	-3.0	71 Fidelity Disciplined Equity	S	16.0	-9.7	-13.2
22 Ariel Appreciation	B	16.3	-6.7	-2.7	72 State Street Mid-Cap Value	S	15.4	-11.2	-8.6
23 Royce Premier (1%r<180d)	B	10.3	-3.6	-2.7	73 Baron Asset	H	10.7	-7.9	-9.9
24 Longleaf Partners	B	10.4	-3.3	-4.9	74 Mutual Shares(1%)CIZ	H	8.2	-6.0	-10.9
25 T. Rowe Price New Era	B	14.6	-5.3	-6.2	75 Fidelity Equity-Income	S	16.5	-9.8	-14.2
26 Dodge & Cox Stock	H	15.1	-6.0	-6.9	76 American Century Equity Growth	S	17.7	-9.9	-15.9
27 Homestead Value	H	15.8	-6.4	-7.1	77 Scudder Large Co Value	S	16.7	-9.0	-16.6
28 Strong Mid Cap Disciplined	H	15.7	-8.0	-3.8	78 T. Rowe Price Dividend Growth	S	17.0	-10.9	-12.8
29 Fidelity Contrafund (3%)	B	12.4	-4.8	-7.1	79 Third Avenue Small-Cap Value	H	4.8	-5.7	-7.3
30 Babson Value	B	14.4	-5.4	-9.1	80 Vanguard Small-Cap Value	H	10.5	-9.4	-6.9
31 Fidelity Value	H	13.1	-6.0	-5.9	81 Vanguard Growth & Income	S	18.1	-10.6	-15.5
32 CRM Mid Cap Value Ins	H	13.9	-8.7	-1.2	82 Fidelity Equity-Income II	S	16.3	-10.5	-13.6
33 Dreyfus New Leaders	H	14.1	-5.1	-10.6	83 T. Rowe Price Small Cap Stock	S	11.8	-10.1	-7.7
34 CRM Mid Cap Value Inv	H	14.0	-8.7	-1.3	84 ICM/Isabelle Small Cap Value	S	2.1	-3.9	-9.4
35 Preferred Value	H	18.3	-6.2	-14.4	85 Mutual Beacon(1%)CIZ	H	7.7	-6.5	-11.4
36 Vanguard Windsor II	H	18.9	-7.0	-13.8	86 Mutual Qualified(1%)CIZ	H	8.1	-6.7	-11.6
37 American Century Value	H	15.3	-7.9	-6.2	87 Liberty-SteinRoe Capital Oppor-	S	14.5	-10.3	-12.6
38 Strong Discovery+	H	12.7	-6.0	-7.6	88 Wasatch Small Cap Grth+	S	13.6	-11.6	-8.2
39 Baron Small Cap	H	9.4	-6.4	-2.0	89 Vanguard Extended Market	S	13.0	-9.8	-12.6
40 Boston Ptnrs Smlcap Val	H	10.7	-6.1	-5.6	90 American Century Ultra+	S	17.8	-11.7	-15.3
41 Vanguard Mid-Cap Index+	H	14.9	-8.1	-8.0	91 Thompson Plumb Growth	S	21.6	-14.9	-13.2
42 Neuberger Berman Fasciano Inv	H	11.0	-7.1	-4.6	92 MSI Small Cap Value(closed)	S	14.0	-9.8	-14.6
43 Loomis Sayles Small Cap Value	H	12.2	-8.0	-4.6	93 Federated Kaufmann Fund+	S	12.6	-9.4	-13.5
44 Dreyfus Mid Cap Index	H	15.0	-8.3	-8.5	94 T. Rowe Price Growth Stock	S	18.6	-12.2	-15.4
45 Salomon Brothers Opportunity	H	10.5	-5.8	-8.7	95 MSI Value Portfolio	S	18.7	-12.0	-16.6
46 Muhlenkamp Fund	H	18.7	-9.3	-13.0	96 Royce Penn Mutual+(1%r<180d)	S	6.1	-9.0	-5.2
47 Tweedy, Browne American Value	H	12.5	-6.2	-11.4	97 Liberty-SteinRoe Balanced	S	8.5	-8.0	-11.5
48 Nicholas II	H	15.6	-8.4	-10.5	98 American Century Heritage	S	15.5	-9.3	-18.9
49 Loomis Sayles Value	H	18.0	-8.7	-14.0	99 Fidelity Independence(ret.only)	H	12.3	-10.6	-10.8
50 T. Rowe Price Equity-Income	H	16.6	-9.2	-10.9	100 Fidelity Dividend Growth	S	20.8	-13.2	-17.3

DOMESTIC STOCK FUNDS
Continued on next page

Domestic Stock Funds continued — data as of 8/23/02

Fund	Advice	1 month	6 month	1 year	Fund	Advice	1 month	6 month	1 year
101 Heartland Value (1%r<90d)	S	6.9	-9.7	-5.6	151 Janus Twenty(closed)	S	12.2	-12.4	-20.0
102 Gabelli Asset	S	13.5	-10.1	-14.5	152 Fidelity Capital Appreciation	S	11.6	-12.7	-18.6
103 Wasatch Small Cap Value	S	8.5	-9.3	-9.1	153 Dreyfus Premier Aggressive	S	11.9	-12.3	-20.1
104 Fidelity Trend	S	18.4	-12.1	-17.2	154 Safeco Equity	S	19.0	-16.2	-21.3
105 Northeast Investors Growth	S	19.6	-12.9	-17.2	155 Fidelity OTC Portfolio+	S	12.9	-13.5	-19.2
106 Fidelity Stock Selector	S	18.0	-12.2	-16.8	156 Royce Opportunity+ (1%r<180d)	S	5.4	-11.9	-12.4
107 T.Rowe Price Mid Cap Growth	S	14.5	-11.4	-13.6	157 Royce Low Priced Stock (1%	S	6.1	-14.0	-9.0
108 Schwab 1000 Fund (.75%r<180d)	S	17.7	-12.3	-16.5	158 Montgomery Growth	S	16.8	-15.3	-22.2
109 CRM Small Cap Value Inv	S	10.1	-10.8	-8.9	159 Buffalo Small Cap	S	15.2	-18.5	-11.9
110 Strong Advisor Common Stock	S	14.1	-11.4	-13.4	160 American Century Growth+	S	15.8	-16.2	-19.4
111 Marsico Growth & Income	S	9.5	-10.0	-10.4	161 SIT Large Cap Growth	S	19.3	-16.5	-24.9
112 Dreyfus Growth Opportunity (2%	S	16.7	-11.9	-16.5	162 Vanguard Explorer+	S	11.6	-15.3	-16.9
113 Vanguard Convertible Securities	S	5.2	-7.0	-11.8	163 Montgomery Small Cap	S	15.5	-13.3	-27.8
114 Fidelity Magellan (3%)	S	19.0	-12.7	-18.4	164 Selected Special Shares	S	10.1	-14.1	-18.1
115 UMB Scout Stock	S	15.5	-12.5	-14.0	165 Scudder Capital Growth AARP	S	17.9	-17.6	-22.0
116 Janus Growth & Income	S	15.2	-11.1	-17.1	166 T. Rowe Price New Horizons	S	14.2	-16.3	-19.9
117 Domini Social Equity Fund +	S	16.9	-12.0	-17.9	167 T. Rowe Price New America	S	16.2	-16.7	-22.2
118 Vanguard Value Index	S	17.8	-11.6	-20.7	168 WPG Large Cap Growth	S	14.2	-16.8	-19.1
119 Vanguard 500 Index	S	18.1	-13.0	-17.9	169 William Blair Growth (1%r<60d)	S	13.3	-16.4	-19.1
120 Neuberger Berman Partners	S	16.1	-12.6	-15.9	170 Strong Growth	S	12.1	-13.9	-24.2
121 Fidelity Spartan 500 Index	S	18.1	-13.0	-17.9	171 Dreyfus Premier Third Century	S	16.1	-15.9	-25.4
122 T. Rowe Price Growth & Income	S	18.3	-13.6	-17.0	172 Janus Fund	S	14.8	-15.6	-24.4
123 Fidelity New Millennium (3%)	S	11.6	-12.1	-10.8	173 Liberty-SteinRoe Growth Stock	S	15.6	-16.1	-24.3
124 USAA Growth & Income	S	16.3	-12.3	-17.5	174 Scudder Large Company Growth	S	17.9	-17.5	-24.7
125 Galaxy Equity Value (3.75%)	S	17.5	-12.5	-19.3	175 RS Value+Growth+	S	14.7	-16.6	-22.5
126 Dreyfus Fund	S	16.2	-13.4	-15.2	176 Vanguard U.S. Growth	S	20.2	-18.1	-27.1
127 INVESCO Value Equity	S	15.3	-12.5	-16.4	177 Harbor Capital Appreciation+	S	15.9	-18.2	-21.5
128 Scudder Growth & Income	S	16.4	-12.8	-17.6	178 Strong Opportunity+	S	14.5	-17.6	-21.2
129 Vanguard Growth Index +	S	18.4	-14.8	-15.9	179 MSI Mid Cap Value	S	15.3	-17.4	-23.3
130 WmBlair S-C Growth N (1%r<60d)	S	8.2	-10.2	-12.1	180 Preferred Growth	S	15.7	-18.4	-22.0
131 CS Warburg Pincus Value	S	14.8	-12.4	-16.6	181 Janus Enterprise+	S	12.8	-13.5	-30.0
132 Columbia Special+	S	11.9	-10.6	-16.9	182 PBHG Growth+	S	11.4	-13.9	-26.7
133 Salomon Brothers Investors	S	15.2	-12.0	-18.7	183 Janus Special Situation	S	14.6	-16.9	-24.7
134 American Century Vista	S	13.2	-11.0	-18.5	184 Strong Multi-Cap Value	S	9.7	-15.8	-19.9
135 WPG Tudor	S	14.0	-11.2	-19.2	185 SIT Small Cap Growth+	S	12.4	-15.8	-24.5
136 Vanguard/Morgan Growth+	S	16.8	-13.3	-18.7	186 Babson Growth+	S	14.9	-18.1	-22.5
137 Fidelity Convertible Securities	S	7.1	-9.9	-13.0	187 USAA Growth	S	16.9	-18.8	-24.7
138 Vanguard Windsor	S	16.1	-13.9	-16.5	188 Vanguard PRIMECAP	S	11.8	-17.1	-21.7
139 Artisan Midcap+(closed)	S	14.5	-13.1	-16.3	189 Columbia Growth+	S	18.3	-19.3	-26.3
140 INVESCO Core Equity	S	13.6	-12.9	-16.5	190 Oberweis Emerging Growth+	S	8.4	-15.5	-22.0
141 Fidelity Fund	S	16.5	-13.7	-19.1	191 CS Warburg Pincus Emerging	S	12.8	-17.7	-23.6
142 Galaxy Equity Growth (3.75%)	S	17.8	-13.9	-21.0	192 Vanguard Growth Equity	S	16.5	-18.8	-26.5
143 Dreyfus Growth & Income	S	16.9	-14.0	-19.9	193 Bonnel Growth Fund (.25%	S	3.1	-15.5	-14.7
144 American Century Select+	S	16.2	-13.9	-20.0	194 Berger Large Cap Growth	S	17.2	-18.9	-27.5
145 Third Avenue Value	S	3.9	-9.3	-13.2	195 USAA Aggressive Growth	S	13.0	-16.8	-27.1
146 Neuberger Berman Guardian	S	15.7	-14.2	-18.7	196 MSI Midcap Growth	S	13.3	-17.7	-25.4
147 Weitz Value Fund	S	14.4	-13.0	-20.1	197 Strong Growth 20+	S	9.6	-15.1	-27.8
148 Vanguard SmallCap Index+	S	10.0	-12.9	-14.0	198 CS Warburg Pincus Capital	S	17.2	-19.5	-28.5
149 Columbia Common Stock	S	17.5	-14.4	-21.4	199 TCW Galileo Value Opportunity	S	10.7	-20.5	-16.2
150 Fidelity Blue Chip Growth	S	17.0	-15.0	-20.0	200 Janus Mercury+	S	13.5	-17.6	-28.6

