

MONEYLETTER HOTLINE 9/03/02

Chicago Trumped

We have only had one trading day since the last Hotline, and what a day it was. The first important economic news concerning August was not encouraging, to put it mildly. We had entertained the possibility on Friday that the better than expected Chicago Purchasing Managers numbers might mean the economy was more robust than we thought. Not so, according to the national numbers out today. The point is that today's numbers are an extension of July. Based on today's numbers it would be easy to conclude that the economy has lost the momentum that it built up in the Spring. But new durable goods orders for July, released one week ago, were unexpectedly strong. The economy has lost momentum, but how much is still unclear.

For stocks, today's numbers, including a sizeable increase in layoff announcements last month, were enough to set off persistent selling. Surprisingly, as others observed, the volume today was light. After today's huge drop, talk of a test of the July 24 lows has arisen again. A test would not surprise us. We think the test, if it occurs, will be successful. The reason? Interest rates. The 10-year Treasury is below 4% again. This is about the yield level Treasuries hit on the 24th when the market hit bottom. We believe it will do the trick again. These are very difficult times for investors. But stocks are cheap, and even today's blah numbers show that manufacturing is expanding, if only slowly.

There is no change in our recommended allocations.

Fund Recommendations – For domestic stock funds, there is one new buy: Legg Mason Special Investment Trust. There is one new sell: Vanguard Small-Cap Value Index. For international stock funds, there is one new hold: Preferred International.

Vanguard Small-Cap Value Index is in all three Vanguard family portfolios. We will switch the fund into Vanguard Convertible Securities in all three portfolios.

The Economy – The August ISM report showed no pickup in new orders for August after July showed the same thing. Manufacturing is simply holding steady after good increases earlier this year. This is unsatisfactory and Washington knows it. The economy may well need a boost and the obvious boost is from the Fed.

The Stock Market – We remain cautious about the market over the short-run. The economy has to show some life for stocks to turn higher. Low interest rates should provide a floor for the market, but it will take a better profit outlook to move prices higher. We believe the economy will gain momentum again as we move into the New Year. We look for higher prices then.

MONEYLETTER HOTLINE 8/30/02

Economy Still Laboring?

The market has not done much the past three days, as traders went into a pre-Holiday shell. This is understandable as the important market-moving news comes out next week. What news we did get was mixed, but in the mix was an indication that just maybe July was an aberration and not the beginning of a turn for the worse by the economy. Today's report from the Chicago Purchasing Managers showed an excellent recovery in August by that region after its own July swoon. This comes on the heels of the durable goods new orders report. Both reports were as good as we could have asked for. The markets response was also encouraging. Stocks rallied on the news (and also on the news of July consumer spending, but that was less of a surprise).

There was very little volume today so we can't place too much emphasis on it. The market gets back to business next week, and only then can we tell whether we are breaking the bearish syndrome that caused us to cut back in mid-June. It may well be that the economy is more robust than the scattered data we received earlier this month led us to believe.

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 – The latest consumer survey showed little change from July, when sentiment dropped. It could well be that the market's August rally is having an effect. We should see it in next month's weekly surveys.

The Stock Market – Next week's news will be critical for the short-term action of the market. If the news continues to show recovery, we could see some of the pessimism lifting.

The Bond Market – The Fed may well not cut rates next month as we expected.

Domestic Stock Funds — data as of 8/30/02

Fund	Advice	1 month	6 month	1 year	Fund	Advice	1 month	6 month	1 year
1 Yacktman Fund	B	8.3%	5.2%	17.7%	51 Oakmark Small Cap (2%r<90d)	H	-1.2	-12.7	-3.8
2 Clipper Fund	B	3.8	-1.9	7.3	52 Berger Mid Cap Value	H	-0.1	-12.9	-5.5
3 Eclipse Small Cap Value	B	-0.5	0.2	5.7	53 Tweedy, Browne American	H	0.0	-10.9	-10.7
4 Vontobel U.S. Value (2%r<90d)	B	2.3	-2.3	6.7	54 Liberty-SteinRoe Balanced	H	0.8	-11.2	-11.6
5 Aegis Value Fund	B	-0.6	-1.1	8.0	55 Bogle Small Cap Growth(closed)	H	0.0	-12.1	-8.4
6 RS Partners	B	2.6	-0.6	0.4	56 Third Avenue Small-Cap Value	H	-2.4	-10.5	-9.4
7 T. Rowe Price Cap Appreciation	B	3.3	-4.2	1.3	57 Selected American Shares	H	1.3	-11.6	-12.4
8 Fidelity Fifty+ (.75%r<30d)	B	2.9	-4.6	0.5	58 Nicholas II	H	2.1	-12.7	-11.3
9 Royce Total Return (1%r<180d)	B	0.6	-5.0	1.4	59 Nicholas Fund	H	1.5	-12.3	-12.4
10 Neuberger Berman Genesis	B	2.6	-6.6	2.5	60 Fidelity Independence(ret.only)	H	2.4	-13.7	-10.2
11 Fidelity L P Stock (closed,3%	B	-1.5	-5.3	4.5	61 T. Rowe Price Equity-Income	H	2.8	-13.8	-10.6
12 Ariel Fund	B	0.6	-5.3	0.5	62 Preferred Value	H	2.8	-12.5	-14.5
13 Berwyn Fund (1%r<180d)	B	1.4	-7.7	2.0	63 Meridian Fund	H	-1.8	-12.3	-8.4
14 American Century Equity Income	B	2.3	-7.4	-1.7	64 Vanguard Mid-Cap Index+	H	0.4	-13.5	-8.7
15 T. Rowe Price S-C Value	B	-1.7	-7.6	2.6	65 Fidelity Convertible Securities	S	1.7	-12.8	-12.5
16 Longleaf Partners Smallcap	B	-4.3	-4.1	-3.4	66 Marsico Growth & Income	S	0.6	-13.4	-9.7
17 T. Rowe Price New Era	B	3.4	-8.6	-4.5	67 ICM/Isabelle Small Cap Value	S	-6.9	-8.8	-10.3
18 Baron Growth	B	0.9	-7.6	-3.4	68 Sound Shore	S	3.9	-13.4	-15.0
19 Legg Mason Special Investment	B	1.1	-7.4	-4.4	69 Dreyfus Mid Cap Index	H	0.3	-13.7	-9.1
20 Oakmark Select(closed) (2%	B	3.5	-8.9	-5.7	70 Federated Kaufmann Fund+	S	1.4	-12.8	-13.3
21 Fidelity Contrafund (3%)	B	1.4	-7.5	-6.1	71 Vanguard Equity-Income	H	2.2	-14.2	-11.7
22 Royce Premier (1%r<180d)	B	0.3	-7.9	-3.7	72 Westport Small Cap R	S	0.0	-13.7	-10.2
23 T.Rowe Price Mid Cap Value	B	1.4	-10.3	0.7	73 Legg Mason Value	H	4.6	-11.7	-22.2
24 Dodge & Cox Stock	H	3.2	-10.1	-6.0	74 Dreyfus Appreciation	H	1.9	-14.5	-11.2
25 Homestead Value	H	2.1	-10.1	-6.3	75 T. Rowe Price Small Cap Stock	S	-0.7	-14.1	-8.8
26 Vanguard Convertible Securities	H	1.9	-7.8	-11.6	76 Fidelity Growth & Income(3%)	S	2.2	-14.5	-12.8
27 Baron Small Cap	H	-3.1	-8.8	-2.1	77 Loomis Sayles Value	H	2.4	-14.3	-13.9
28 Salomon Brothers Opportunity	H	1.3	-9.6	-7.8	78 Vanguard Small-Cap Value	S	-2.2	-14.0	-8.0
29 Neuberger Berman Fasciano Inv	H	0.1	-10.3	-4.3	79 Fidelity Disciplined Equity	S	2.0	-14.6	-12.8
30 Mutual Shares(1%)CIZ	H	1.5	-8.7	-10.4	80 Boston Partners Mid Cap Value	S	0.5	-15.5	-8.6
31 Oakmark Fund	B	2.6	-10.3	-8.1	81 Baron Asset	S	-1.9	-13.7	-9.6
32 CRM Mid Cap Value Ins	H	1.2	-13.2	0.1	82 CRM Small Cap Value Inv	S	-0.5	-15.1	-8.5
33 CRM Mid Cap Value Inv	H	1.2	-13.2	-0.1	83 Gabelli Asset	S	1.9	-14.4	-13.9
34 Babson Value	B	0.6	-9.6	-8.5	84 Fidelity Equity-Income II	S	2.0	-15.1	-13.1
35 Longleaf Partners	B	-1.5	-9.7	-5.5	85 T. Rowe Price Dividend Growth	S	1.7	-15.5	-12.6
36 Mutual Beacon(1%)CIZ	H	1.4	-9.3	-11.2	86 Fidelity Equity-Income	S	1.3	-15.2	-13.5
37 Ariel Appreciation	B	1.4	-12.6	-3.6	87 Vanguard Extended Market	S	-0.4	-14.5	-13.2
38 Fidelity Value	H	-0.1	-10.8	-5.7	88 American Century Income &	S	2.3	-15.7	-14.5
39 Strong Discovery+	H	0.7	-10.8	-7.7	89 Scudder Large Co Value	S	1.4	-14.4	-16.4
40 Mutual Qualified(1%)CIZ	H	1.2	-9.7	-11.4	90 American Century Vista	S	0.1	-13.2	-17.9
41 American Century Value	H	1.5	-12.2	-5.9	91 WPG Tudor	S	2.9	-14.2	-20.3
42 Fidelity Small Cap Ind.(1.5%	H	1.1	-13.6	-2.1	92 Royce Low Priced Stock (1%	S	-1.0	-16.3	-9.1
43 Marsico Focus	H	0.8	-11.4	-7.3	93 Harbor Value	H	1.2	-15.9	-13.6
44 Boston Ptnrs Smlcap Val	H	-1.1	-10.6	-7.3	94 MSI Small Cap Value(closed)	S	-0.7	-14.2	-15.1
45 Loomis Sayles Small Cap Value	H	0.5	-12.4	-5.4	95 American Century Equity Growth	S	1.9	-15.7	-15.7
46 Royce Penn Mutual+(1%r<180d)	H	-1.0	-11.5	-5.5	96 Third Avenue Value	S	-1.9	-14.2	-13.9
47 Vanguard Windsor II	H	3.8	-11.5	-12.7	97 Legg Mason Opportunity Trust	S	0.5	-13.8	-18.6
48 Strong Mid Cap Disciplined	H	2.5	-14.0	-4.9	98 American Century Heritage	S	0.8	-14.0	-19.0
49 Dreyfus New Leaders	H	-0.1	-10.3	-10.4	99 WmBlair S-C Growth N (1%	S	-0.7	-14.7	-15.1
50 Heartland Value (1%r<90d)	H	-0.5	-11.8	-6.3	100 Wasatch Core Growth+	H	-1.2	-16.2	-11.1

DOMESTIC STOCK FUNDS
Continued on next page

Domestic Stock Funds continued — data as of 8/30/02

Fund	Advice	1 month	6 month	1 year	Fund	Advice	1 month	6 month	1 year
101 Vanguard Growth & Income	S	2.0	-16.7	-15.4	151 Artisan Midcap+(closed)	S	-0.3	-18.9	-18.3
102 American Century Ultra+	S	1.5	-16.8	-14.6	152 Dreyfus Premier Aggressive	S	-1.6	-17.1	-21.1
103 UMB Scout Stock	S	0.8	-16.5	-14.2	153 Galaxy Equity Growth (3.75%)	S	1.8	-19.0	-21.3
104 Muhlenkamp Fund	H	1.0	-16.9	-14.4	154 Vanguard/Morgan Growth+	S	0.6	-19.4	-19.2
105 Fidelity Dividend Growth	S	4.5	-18.2	-16.8	155 Columbia Common Stock	S	1.4	-19.9	-21.0
106 T. Rowe Price Growth Stock	S	2.2	-17.7	-15.5	156 Dreyfus Growth & Income	S	0.6	-20.1	-20.2
107 State Street Mid-Cap Value	S	-0.4	-18.3	-10.6	157 Fidelity Blue Chip Growth	S	0.9	-20.6	-20.1
108 Weitz Value Fund	S	2.8	-17.0	-18.6	158 Montgomery Growth	S	0.9	-20.2	-21.8
109 INVESCO Value Equity	S	1.3	-17.3	-15.6	159 Vanguard Explorer+	S	-1.5	-20.4	-18.6
110 Janus Growth & Income	S	0.3	-16.3	-17.0	160 Galaxy Equity Value (3.75%)	S	-0.9	-20.0	-21.2
111 Salomon Brothers Investors	S	1.7	-16.8	-18.0	161 Safeco Equity	S	1.3	-21.5	-20.7
112 Janus Twenty(closed)	S	2.2	-17.0	-18.6	162 American Century Growth+	S	0.5	-21.6	-19.5
113 Wasatch Small Cap Value	S	-5.8	-15.8	-10.1	163 Oberweis Emerging Growth+	S	-3.2	-18.1	-23.5
114 Schwab 1000 Fund (.75%r<180d)	S	1.5	-17.7	-16.4	164 Buffalo Small Cap	S	-0.1	-23.5	-14.7
115 Fidelity Trend	S	1.9	-17.6	-17.4	165 Strong Growth	S	-1.3	-19.2	-24.5
116 Thompson Plumb Growth	S	4.5	-20.6	-14.1	166 Montgomery Small Cap	S	-0.4	-18.5	-27.9
117 CGM Focus	S	-1.9	-22.3	-0.2	167 Janus Enterprise+	S	-0.6	-17.6	-30.1
118 Northeast Investors Growth	S	2.3	-18.3	-16.7	168 Janus Fund	S	1.3	-21.5	-23.4
119 Liberty-SteinRoe Capital Opportu-	S	-2.4	-16.5	-14.5	169 USAA Aggressive Growth	S	1.7	-20.1	-27.7
120 Strong Advisor Common Stock	S	0.7	-18.1	-15.1	170 Fidelity OTC Portfolio+	S	-0.7	-21.5	-21.0
121 CS Warburg Pincus Value	S	-0.3	-16.8	-17.1	171 Fidelity Capital Appreciation	S	-2.5	-20.6	-20.8
122 Wasatch Small Cap Grth+	S	-1.9	-17.8	-12.3	172 PBHG Growth+	S	-2.6	-17.6	-28.2
123 Fidelity New Millennium (3%)	S	-2.8	-17.7	-11.1	173 Strong Growth 20+	S	-2.9	-18.0	-27.7
124 T. Rowe Price Growth & Income	S	2.1	-18.4	-16.9	174 Liberty-SteinRoe Growth Stock	S	0.2	-21.3	-24.2
125 Domini Social Equity Fund +	S	1.2	-17.6	-17.7	175 Dreyfus Premier Third Century	S	0.6	-21.1	-25.3
126 T.Rowe Price Mid Cap Growth	S	-1.3	-17.1	-15.0	176 T. Rowe Price New Horizons	S	-1.2	-21.9	-22.0
127 Fidelity Stock Selector	S	1.4	-17.9	-17.3	177 SIT Large Cap Growth	S	1.0	-21.9	-25.4
128 Dreyfus Growth Opportunity (2%)	S	0.8	-17.7	-16.8	178 T. Rowe Price New America	S	0.0	-22.4	-22.9
129 Vanguard Value Index	S	1.9	-17.2	-20.1	179 SIT Small Cap Growth+	S	-2.0	-20.0	-26.2
130 INVESCO Core Equity	S	0.1	-17.6	-16.5	180 Janus Venture (closed)	S	-0.7	-22.0	-23.3
131 Fidelity Magellan (3%)	S	2.0	-18.1	-18.4	181 Scudder Capital Growth AARP	S	0.5	-23.4	-22.1
132 USAA Growth & Income	S	1.0	-18.1	-17.1	182 Harbor Capital Appreciation+	S	0.2	-23.6	-21.1
133 Vanguard 500 Index	S	1.7	-18.4	-17.7	183 PBHG Small Cap Value	S	1.4	-23.5	-24.0
134 Vanguard SmallCap Index+	S	-2.4	-17.2	-15.0	184 WPG Large Cap Growth	S	-1.9	-23.1	-20.1
135 Fidelity Spartan 500 Index	S	1.6	-18.5	-17.8	185 Preferred Growth	S	0.2	-23.8	-21.5
136 Dreyfus Fund	S	0.6	-19.0	-15.2	186 William Blair Growth (1%r<60d)	S	-2.0	-22.8	-20.7
137 Scudder Growth & Income	S	0.7	-18.3	-17.1	187 Babson Growth+	S	0.0	-23.4	-22.9
138 Strong Multi-Cap Value	S	1.6	-18.6	-18.3	188 Strong Opportunity+	S	-0.4	-23.6	-22.4
139 Vanguard Windsor	S	1.7	-19.5	-16.8	189 Scudder Large Company Growth	S	0.6	-23.2	-24.7
140 Royce Opportunity+ (1%r<180d)	S	-4.0	-17.1	-14.5	190 USAA Growth	S	1.7	-24.4	-24.2
141 Vanguard Growth Index +	S	1.5	-20.0	-16.0	191 Janus Mercury+	S	0.8	-22.3	-28.1
142 Fidelity Fund	S	1.1	-18.8	-19.1	192 MSI Mid Cap Value	S	-0.5	-23.1	-24.4
143 Columbia Special+	S	-2.4	-17.0	-18.6	193 Vanguard PRIMECAP	S	-1.0	-23.5	-23.0
144 Selected Special Shares	S	-0.2	-18.6	-18.0	194 Strong Large Cap Growth	S	-0.3	-23.1	-25.1
145 RS Value+Growth+	S	2.6	-18.7	-22.1	195 Salomon Brothers Capital	S	-2.0	-22.9	-23.5
146 Neuberger Berman Partners	S	0.0	-19.4	-16.7	196 CS Warburg Pincus Emerging	S	0.3	-23.5	-25.5
147 Bonnel Growth Fund (.25%r<30d)	S	-4.3	-17.5	-15.3	197 Vanguard U.S. Growth	S	1.8	-23.9	-27.4
148 Neuberger Berman Guardian	S	0.9	-19.3	-18.5	198 Columbia Growth+	S	1.7	-24.4	-26.1
149 American Century Select+	S	0.7	-18.9	-19.3	199 INVESCO Small Company	S	-1.5	-22.4	-28.4
150 MSI Value Portfolio	S	0.9	-19.4	-18.5	200 Dreyfus-Founders Discovery	S	-1.8	-23.1	-26.8

