

MONEYLETTER HOTLINE 10/15/02

Fear Strikes Out

It was quite a day and quite a four trading days. As we said in Friday's Hotline, the market is fixated on profits. Today the profit reports from firms that matter were in the right direction, and the market soared in response. We expected the earnings reports to provide some pleasant surprises. It is not so much that earnings are that good as that Wall Street's analysts protected themselves by low-balling estimates in the face of the bear market. Earnings estimates were cut left and right even though economic growth was robust last quarter.

What we've had in the last four days is a market restoring some of the value that was lost simply out of misguided fear. The obvious question now is whether it is time to increase our allocation to domestic stocks. Our answer is that it is too early for such a move. We've been saying that we are in the bottoming process, and these last few days have been a large step in that process. But the economy is slowing down this quarter, or so we expect, and there is still Iraq. We would expect some pullback after this rally ends, and that'll be a time to reassess our allocation advice. Meanwhile enjoy the rally.

There is no change in our recommended allocations.

Fund Recommendations – For domestic stock funds, there are three new buys: Hussman Strategic Growth, Mutual Shares, Cl. Z and Mutual Beacon, Cl.Z. There are two new holds: Royce Premier and Berwyn Fund. There are two new sells: Berger Mid Cap Value and Boston Partners Small Cap Value. For international stock funds, there is one new buy: Fidelity Diversified International. There are four new holds: Dreyfus Emerging Market, Scudder Pacific Opportunity, Matthews Pacific Tiger and Fidelity Emerging Markets. There is one new sell: Oakmark International.

The Economy – The weekly retail surveys show sales were soft last week, after getting off to a fast start the week before. The economic numbers start rolling out again over the rest of this week. We do not expect them to be too exciting. The market's reaction will be an important indicator of the short-term market outlook. We look for moderate growth to resume with the New Year.

The Stock Market – Expect near-term profit-taking. We look for stock prices to move ahead slowly as the rest of the earnings season unfolds. After that we expect some retracement. We look for higher prices over the intermediate-term.

The Bond Market – Bonds fell sharply again today with the 10-year yield moving back over 4%. We do not expect any action by the Fed later this month.

The Select Portfolio – There are no fund changes for the Select Portfolio.

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Rally (of Any Kind) Welcome

We may have something going. In any case, we put a good deal of emphasis on the earnings reports, and today, at least, we received a plum in the form of GE's statement. GE affirmed its expectation for earnings and also said that it expects solid growth for 2003. This was excellent news for the shattered market. The economic background today was negative, though this was not a surprise, and the market totally ignored it. It shows what we already knew, that Wall Street is fixated on profits and the statements from firms. The Street has stopped looking ahead. Its horizon is one day.

It is much too early to know whether this rally is more than just another rally in a bear market. Most of Wall Street thinks it is a bear market rally. They could easily be right, in the sense that the market could come back down again. But, as we have been saying, the bottoming process has begun, and that is the way to see the rally of the last two days. One encouraging sign for us is that a well-regarded analyst at Lehman had the courage to recommend IBM, while saying that the sky wasn't falling in technology. This was the first positive word from Wall Street in months.

There is no change in our recommended allocations.

Fund Recommendations – For domestic stock funds, there are two new holds: CGM Focus (extremely volatile) and Ariel Appreciation. For international stock funds, there are two new buys: Investec China & Hong Kong and Vanguard Pacific Stock Index. There is one new hold: Fidelity Southeast Asia.

We are recommending a switch for the Vanguard family portfolios. Vanguard Windsor II, a recent recommended buy for the portfolios, has performed relatively poorly since our recommendation. We will sell the fund in all three Vanguard family portfolios and switch it into Vanguard Strategic Equity.

The Economy – The market did respond to one economic report on Thursday when new unemployment claims were reported sharply down. Unfortunately, it may be a statistical fluke. Today, retail sales without autos showed a small 0.1% increase, which was a little surprise. The weekly surveys set us up for something worse. Consumer sentiment dropped sharply but that too was not a big surprise. We are dubious about its importance. We look for moderate growth over the near-term.

The Stock Market – Next week will be test for both the market and our view that the earnings season will be modestly positive for the stock market. If earnings do hold up this rally will be extended. We are encouraged by the ability of the market to rally for a second day. We look for higher prices over the intermediate-term.

The Bond Market – Bonds fell sharply today as stocks rallied. The bond market is treacherous at these levels. We do not expect any action by the Fed later this month.

Domestic Stock Funds — data as of 10/11/02

Fund	Advice	1 month	6 month	1 year		Advice	1 month	6 month	1 year
1 Hussman Strategic Growth (1.5%)	B	-3.3%	0.9%	18.0%	51 Federated Kaufmann Fund	H	-6.9	-21.9	-14.7
2 Yacktman Fund	B	-10.6	-7.2	13.5	52 T.Rowe Price Mid Cap Value	H	-10.0	-23.4	-6.4
3 Aegis Value Fund	B	-6.1	-11.2	2.4	53 Strong Growth	H	-4.3	-20.7	-21.8
4 Vanguard Convertible Securities	B	-1.7	-9.9	-9.1	54 Vanguard Strategic Equity	H	-9.4	-22.1	-10.9
5 T. Rowe Price Cap Appreciation	B	-6.5	-12.2	-3.5	55 Nicholas Fund	H	-8.1	-20.9	-17.1
6 Fidelity Contrafund (3%)	B	-4.2	-12.4	-6.9	56 Fidelity OTC Portfolio	S	-4.2	-22.9	-17.9
7 Vontobel U.S. Value (2%r<90d)	B	-6.9	-12.9	-2.7	57 Meridian Fund	H	-9.1	-23.0	-10.5
8 American Century Equity Income	B	-5.4	-13.1	-5.8	58 Dodge & Cox Stock	H	-10.8	-21.1	-12.9
9 Neuberger Berman Genesis	B	-6.6	-16.1	1.1	59 Longleaf Partners Smallcap	H	-11.3	-23.0	-7.6
10 RS Partners	B	-5.4	-16.7	0.0	60 Homestead Value	H	-9.9	-21.7	-13.1
11 Marsico Focus	B	-3.6	-15.8	-7.1	61 Selected American Shares	S	-8.4	-20.9	-18.1
12 Marsico Growth & Income	H	-3.2	-16.9	-8.5	62 Preferred Value	S	-7.8	-20.7	-19.8
13 Eclipse Small Cap Value	B	-10.1	-17.3	2.2	63 Babson Value	H	-10.1	-22.4	-12.3
14 Royce Total Return (1%r<180d)	B	-8.9	-17.6	0.2	64 Fidelity New Millennium (3%)	S	-8.9	-22.8	-13.4
15 Ariel Fund	B	-9.4	-17.9	-0.7	65 Vanguard Growth Index	S	-6.4	-21.5	-20.9
16 Liberty-SteinRoe Balanced	H	-4.9	-15.2	-15.7	66 Fidelity Equity-Income II	S	-8.6	-21.5	-17.7
17 Mutual Shares(1%)CIZ	B	-6.5	-16.3	-11.2	67 Strong Mid Cap Disciplined	S	-9.3	-25.3	-7.4
18 Strong Discovery	H	-5.8	-17.9	-10.1	68 Loomis Sayles Small Cap Value	H	-10.4	-23.9	-9.6
19 Mutual Beacon(1%)CIZ	B	-6.4	-16.9	-11.7	69 Berwyn Fund (1%r<180d)	H	-11.1	-25.3	-5.6
20 Dreyfus New Leaders	H	-6.2	-18.5	-8.3	70 Fidelity Stock Selector	S	-6.7	-21.9	-20.7
21 Baron Growth	B	-8.6	-18.6	-4.7	71 American Century Select	S	-5.5	-21.8	-22.6
22 Baron Small Cap	B	-7.4	-21.6	0.5	72 UMB Scout Stock	S	-7.9	-21.9	-19.7
23 Fidelity Convertible Securities	H	-5.5	-18.3	-10.9	73 Royce Penn Mutual(1%r<180d)	H	-10.8	-24.8	-8.2
24 Legg Mason Special Investment	H	-9.1	-19.8	-2.0	74 CRM Mid Cap Value Ins	H	-9.8	-25.6	-7.5
25 Janus Twenty(closed)	H	-4.1	-15.9	-21.7	75 T. Rowe Price Equity-Income	S	-9.4	-22.2	-16.8
26 American Century Vista	H	-5.7	-17.8	-16.6	76 CRM Mid Cap Value Inv	S	-9.8	-25.7	-7.7
27 Bonnel Growth Fund (.25%r<30d)	H	-0.3	-21.8	-14.9	77 Dreyfus Premier Aggressive	S	-6.1	-23.9	-18.0
28 Fidelity L P Stock (closed,3%	B	-10.8	-19.9	-4.2	78 American Century Ultra	S	-7.9	-22.3	-19.4
29 Mutual Qualified(1%)CIZ	H	-7.4	-18.9	-12.5	79 Fidelity Fund	S	-6.6	-22.3	-21.5
30 Neuberger Berman Fasciano Inv	B	-8.3	-21.8	-3.8	80 Domini Social Equity Fund	S	-7.4	-22.0	-20.9
31 T. Rowe Price New Era	B	-8.4	-19.7	-9.6	81 Fidelity Trend	S	-7.4	-22.2	-20.8
32 Dreyfus Appreciation	H	-5.5	-18.5	-17.2	82 T. Rowe Price Dividend Growth	S	-7.9	-23.0	-19.0
33 Fidelity Growth & Income(3%)	H	-6.0	-18.1	-17.6	83 WmBlair S-C Growth N (1%	S	-9.9	-25.1	-11.3
34 T. Rowe Price S-C Value	B	-9.9	-21.9	-2.8	84 Vanguard Mid-Cap Index	H	-9.9	-24.9	-11.9
35 Longleaf Partners	H	-10.1	-20.6	-6.4	85 Dreyfus Growth Opportunity (2%	S	-7.2	-22.8	-21.1
36 American Century Value	H	-9.0	-19.3	-11.3	86 Vanguard Equity-Income	S	-8.6	-22.7	-19.6
37 Liberty-SteinRoe Capital Opportu-	H	-5.0	-21.4	-12.4	87 CGM Focus	H	-12.5	-30.1	4.4
38 Fidelity Disciplined Equity	H	-6.6	-19.5	-16.2	88 Janus Growth & Income	S	-7.1	-22.9	-21.9
39 Salomon Brothers Opportunity	H	-8.7	-19.2	-14.4	89 Dreyfus Mid Cap Index	S	-9.9	-25.0	-12.2
40 Ariel Appreciation	H	-9.9	-22.1	-5.8	90 Heartland Value (1%r<90d)	H	-10.7	-26.3	-7.9
41 Fidelity Small Cap Ind.(1.5%	H	-7.8	-22.1	-10.1	91 T. Rowe Price Growth Stock	S	-7.2	-23.1	-21.5
42 Columbia Special	H	-5.9	-20.6	-17.9	92 Berger Mid Cap Value	S	-11.3	-24.8	-11.3
43 Nicholas II	H	-7.4	-20.4	-17.0	93 Scudder Growth & Income	S	-7.3	-23.0	-21.9
44 American Century Heritage	H	-6.9	-21.1	-16.0	94 T. Rowe Price Small Cap Stock	S	-10.0	-25.5	-11.8
45 Fidelity Fifty (.75%r<30d)	H	-12.1	-20.1	-11.0	95 Vanguard/Morgan Growth	S	-7.1	-23.3	-21.6
46 Strong Growth 20	H	-4.3	-20.2	-22.6	96 Vanguard Growth & Income	S	-8.5	-22.8	-20.8
47 USAA Aggressive Growth	H	-3.1	-21.4	-21.3	97 Gabelli Asset	S	-9.8	-23.9	-16.3
48 Clipper Fund	H	-15.0	-19.4	-8.5	98 PBHG Growth	S	-5.4	-22.5	-26.5
49 Royce Premier (1%r<180d)	H	-11.6	-21.6	-8.2	99 Tweedy, Browne American	S	-11.4	-23.0	-16.6
50 Westport Small Cap R	H	-8.2	-22.4	-11.3	100 American Century Growth	S	-6.0	-23.9	-22.7

DOMESTIC STOCK FUNDS
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Domestic Stock Funds continued — data as of 10/11/02

Fund	Advice	1 month	6 month	1 year	Fund	Advice	1 month	6 month	1 year
101 American Century Equity Growth	S	-9.6	-22.4	-21.3	151 Boston Partners Mid Cap Value	S	-11.3	-28.8	-14.2
102 Fidelity Blue Chip Growth	S	-6.6	-23.5	-23.5	152 Preferred Growth	S	-7.2	-26.8	-25.4
103 Northeast Investors Growth	S	-8.2	-23.6	-21.0	153 Montgomery Small Cap	S	-7.5	-26.6	-25.6
104 Schwab 1000 Fund (.75%r<180d)	S	-8.1	-23.4	-21.5	154 CS Warburg Pincus Value	S	-10.7	-26.1	-22.3
105 Fidelity Magellan (3%)	S	-7.8	-22.9	-23.2	155 Boston Ptnrs Smlcap Val	S	-13.0	-29.3	-11.1
106 Dreyfus Fund	S	-7.8	-23.9	-21.0	156 T. Rowe Price Growth & Income	S	-9.2	-26.2	-24.8
107 INVESCO Core Equity	S	-8.1	-24.3	-20.2	157 Selected Special Shares	S	-9.9	-27.4	-20.8
108 Scudder Large Co Value	S	-9.1	-23.6	-20.5	158 INVESCO Small Company	S	-7.1	-26.9	-26.3
109 Janus Enterprise	S	-6.1	-22.2	-28.7	159 WPG Large Cap Growth	S	-7.3	-27.2	-25.3
110 Fidelity Value	S	-12.2	-25.4	-12.0	160 Babson Growth	S	-7.3	-27.0	-26.3
111 Vanguard 500 Index	S	-8.0	-23.7	-22.7	161 Scudder Capital Growth AARP	S	-8.1	-26.4	-26.7
112 Fidelity Spartan 500 Index	S	-8.0	-23.7	-22.8	162 Galaxy Equity Growth (3.75%)	S	-8.7	-26.4	-25.8
113 USAA Growth	S	-4.8	-24.8	-24.9	163 Harbor Value	S	-11.0	-27.5	-19.6
114 Fidelity Dividend Growth	S	-9.1	-23.3	-22.2	164 Gintel Fund (2%r<45d)	S	-2.6	-29.1	-28.5
115 Loomis Sayles Value	S	-10.2	-23.6	-20.3	165 Vanguard Value Index	S	-9.8	-26.2	-25.4
116 Vanguard Extended Market Index	S	-10.4	-25.2	-16.0	166 Liberty-SteinRoe Growth Stock	S	-7.6	-25.9	-29.5
117 MSI Small Cap Value(closed)	S	-10.8	-25.4	-14.8	167 Neuberger Berman Manhattan	S	-7.1	-27.6	-26.1
118 Fidelity Capital Appreciation	S	-7.6	-24.9	-21.1	168 Vanguard PRIMECAP	S	-8.7	-27.8	-23.7
119 INVESCO Value Equity	S	-8.6	-24.3	-21.0	169 Dreyfus Premier Third Century	S	-8.2	-26.7	-27.4
120 RS Value+Growth	S	-6.9	-24.1	-24.6	170 Vanguard Small-Cap Value	S	-13.0	-30.8	-10.6
121 Strong Large Cap Growth	S	-5.0	-24.6	-26.2	171 Safeco Equity	S	-8.8	-26.4	-28.2
122 American Century Income &	S	-10.1	-23.7	-21.1	172 Berger Large Cap Growth	S	-6.7	-26.8	-31.2
123 Legg Mason Value	S	-10.8	-22.3	-23.8	173 Columbia Growth	S	-8.1	-27.0	-29.4
124 Third Avenue Value	S	-9.3	-25.7	-17.5	174 T. Rowe Price New America	S	-8.3	-27.7	-28.1
125 Montgomery Growth	S	-7.0	-23.8	-26.2	175 Vanguard U.S. Growth	S	-7.9	-26.6	-31.5
126 Fidelity Equity-Income	S	-10.4	-24.4	-19.8	176 Fidelity Independence(ret.only)	S	-13.5	-27.5	-21.3
127 Vanguard Windsor II	S	-10.9	-24.0	-20.3	177 Strong Advisor Common Stock	S	-11.7	-28.8	-21.1
128 USAA Growth & Income	S	-9.0	-24.3	-22.9	178 Weitz Value Fund	S	-12.5	-26.7	-25.3
129 Artisan Midcap(closed)	S	-8.1	-26.1	-19.8	179 MSI Midcap Growth	S	-7.5	-28.4	-28.5
130 Vanguard U.S. Value	S	-11.6	-25.1	-17.3	180 Fidelity Mid-Cap Stock (.75%	S	-8.0	-29.4	-25.3
131 Bogle Small Cap Growth(closed)	S	-11.5	-26.0	-15.4	181 Janus Venture (closed)	S	-9.1	-31.2	-20.5
132 SIT Small Cap Growth	S	-7.7	-24.3	-25.4	182 Oakmark Small Cap (2%r<90d)	S	-14.5	-31.9	-11.1
133 SIT Large Cap Growth	S	-6.7	-23.9	-28.1	183 Vanguard Windsor	S	-11.6	-28.8	-23.5
134 Janus Mercury	S	-6.0	-23.9	-30.1	184 Turner Midcap Growth	S	-7.3	-29.6	-28.0
135 Oakmark Fund	S	-14.5	-24.2	-17.1	185 Vanguard SmallCap Index	S	-12.2	-30.6	-18.5
136 Oakmark Select(closed) (2%	S	-15.3	-23.4	-18.4	186 Neuberger Berman Guardian	S	-11.3	-28.5	-26.2
137 Third Avenue Small-Cap Value	S	-12.4	-26.2	-16.0	187 SIT Mid Cap Growth	S	-8.3	-28.8	-30.0
138 Baron Asset	S	-13.6	-26.7	-13.2	188 Royce Low Priced Stock (1%	S	-14.0	-31.8	-14.2
139 CRM Small Cap Value Inv	H	-10.9	-28.7	-12.3	189 Vanguard Explorer	S	-11.1	-30.7	-21.2
140 Columbia Common Stock	S	-8.7	-25.0	-25.0	190 State Street Mid-Cap Value	S	-13.4	-31.9	-16.1
141 Janus Fund	S	-8.2	-25.5	-24.5	191 Oberweis Emerging Growth	S	-11.7	-28.2	-27.9
142 Wasatch Small Cap Grth	S	-10.5	-26.8	-18.2	192 WPG Tudor	S	-12.4	-29.3	-24.5
143 Dreyfus Growth & Income	S	-8.5	-25.8	-24.0	193 CS Warburg Pincus Emerging	S	-9.7	-29.5	-28.7
144 Sound Shore	S	-11.9	-25.0	-20.9	194 RS Aggressive Growth	S	-6.3	-30.6	-31.7
145 Vanguard Growth Equity	S	-5.9	-26.0	-27.7	195 Dreyfus-Founders Discovery	S	-8.8	-30.9	-27.5
146 CS Warburg Pincus Capital Ap-	S	-6.5	-25.5	-28.5	196 T. Rowe Price New Horizons	S	-10.7	-31.6	-22.7
147 Harbor Capital Appreciation	S	-7.3	-26.4	-25.2	197 Neuberger Berman Partners	S	-13.3	-29.6	-24.3
148 T.Rowe Price Mid Cap Growth	S	-10.1	-26.9	-19.9	198 Salomon Brothers Investors	S	-13.3	-28.5	-27.3
149 Scudder Large Company Growth	S	-6.9	-25.7	-27.9	199 Thompson Plumb Growth	S	-13.9	-29.9	-23.1
150 William Blair Growth (1%r<60d)	S	-6.8	-27.7	-23.0	200 Legg Mason Opportunity Trust	S	-14.0	-32.0	-18.6

DOMESTIC STOCK FUNDS

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