

MONEYLETTER HOTLINE 10/22/02

Inventory Boost Ahead?

There have been no top-tier economic reports over the past two days, and consequently the market focus has been on the earnings reports, which are rolling out in great number. The reports continue to be mixed, but in general they are more upbeat than they have been, which is also true of the guidance accompanying the reports. In general, the market has been responding positively to the earnings season so far.

Meanwhile, the economic data suggests that the brutal market of the last quarter has taken its toll on business confidence. One sign is that inventories are not keeping up with sales so that inventories actually dropped slightly in August, with the level of inventories relative to sales at a new low. We are partially back to where we were at the beginning of the year, with business ultimately having to increase production because the inventory levels have run down to minimum levels. This is an important positive for the economy, but just when it will kick in is difficult to say. An important role will be played by the stock market in determining the timing of another inventory jolt.

As for the market rally, we expect it to continue, though at a more subdued pace, as the earnings reports roll on. We also believe that the next important move for the U.S. stock market is up. But it will take some time.

There is no change in our recommended allocations.

Fund Recommendations – For domestic stock funds, there is one new buy: Marsico Growth & Income. There are two new holds: Mutual Beacon Cl.Z (a very recent buy) and T. Rowe Price Small-Cap Value. There are four new sells: Loomis Sayles Small Cap Value, Babson Value, Berwyn Fund and CRM Mid Cap Value. For international stock funds, there are two new buys: USAA International and Dreyfus Emerging Market. There are two new holds: Fidelity Pacific Basin and Vanguard Pacific Stock Index.

The Economy – The weekly retail sales surveys showed some oomph this week. It could be the Columbus Day holiday. In any case, store sales are now running well ahead of September so far. Auto sales are also reported to be doing well. Later this week we get the important durable goods new orders report. We look for moderate growth to resume with the New Year.

The Stock Market – The technicians tell us that stocks are looking better for the shorter-run. We have been encouraged by the market's behavior over the past two days. Taking a more important longer view, portfolio managers we talk to stress extremely attractive valuations of the stocks in their portfolios. We look for higher prices over the next six months.

The Bond Market – The Fed meets in two weeks and we do not expect any change in interest rates then.

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

MONEYLETTER HOTLINE 10/18/02

Climbing the Wall of Skepticism

The earnings reports keep rolling in and, all-in-all, this first week has turned out to be positive. What is most important is that some of the leading large-cap firms such as Microsoft and IBM talked positively about the outlook. This wasn't true of every firm, of course, but enough to make it apparent that profits are not trapped in some downward spiral.

Wall Street pros meanwhile are generally skeptical of the rally. This is understandable. As the bear market unfolded most pros became bears of one sort or another, and skepticism toward any rally turned out to be correct. That is the basis, we believe, of the current posture. The skeptics are getting some support from the recent economic data, with the economy looking sluggish as this quarter opens.

The market is paying little attention to the numbers, once again, with all eyes fixed on the earnings reports. But once the earnings reports are over we do believe we will see stocks retreat some as Wall Street ponders the outlook. We believe that the current sluggishness is temporary, but it is there. We also believe that the next important move for the U.S. stock market is up. But it will take some time.

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 housing sector continues strong, as expected. Manufacturing has gone flat, nothing new there. The overall Philadelphia Fed index for this month went south. We look at the index closely, and the overall number was worse than the full report. Still activity is sliding this month. The market's rally may help to lift spirits. We look for moderate growth to resume with the New Year.

The Stock Market – The sentiment indicators, which we follow, have turned decidedly positive for the stock market. The number of bulls has shrunk to the lowest level in five years, while the number of bears has moved up smartly. Finally the market has created fear, a good sign. We look for higher prices over the intermediate-term.

The Bond Market – The public is learning that bond prices can go down. Yields have been above 4.0% most of this week. Yields may retreat somewhat during this quarter, but we have seen the lows for this cycle.

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

Domestic Stock Funds — data as of 10/18/02

Fund	Advice	1 month	6 month	1 year		Advice	1 month	6 month	1 year
1 AXA Rosenberg Value Lg/Sh	H	-1.6%	19.3%	23.1%	51 Fidelity OTC Portfolio	H	5.1	-21.4	-8.7
2 Hussman Strategic Growth (1.5%)	B	-2.1	1.7	19.4	52 Oakmark Select (closed) (2%)	H	-3.1	-17.0	-7.8
3 Yacktman Fund	B	-3.6	-4.4	18.2	53 Vanguard Growth Index	H	3.1	-18.2	-14.7
4 Vontobel U.S. Value (2%r<90d)	B	2.4	-7.4	4.1	54 Fidelity Convertible Securities	H	-1.7	-18.3	-7.5
5 Aegis Value Fund	B	-2.0	-9.4	7.1	55 Northeast Investors Growth	H	3.3	-19.2	-12.9
6 American Century Equity Income	B	1.8	-10.6	0.8	56 American Century Heritage	H	1.6	-19.3	-10.0
7 Fidelity Contrafund (3%)	B	1.8	-9.7	-1.8	57 Fidelity New Millennium (3%)	H	1.9	-20.9	-6.6
8 Marsico Focus	B	3.9	-12.1	0.2	58 Scudder Growth & Income	S	3.2	-18.6	-14.5
9 Neuberger Berman Genesis	B	1.4	-13.8	7.9	59 Fidelity Fund	S	3.3	-18.5	-14.9
10 Marsico Growth & Income	B	4.4	-12.9	-1.0	60 Meridian Fund	H	0.2	-21.4	-3.5
11 T. Rowe Price Cap Appreciation	B	-1.7	-10.9	-0.2	61 Nicholas II	H	0.3	-18.7	-10.2
12 Vanguard Convertible Securities	B	0.8	-9.9	-7.1	62 Strong Growth	H	3.7	-18.8	-15.3
13 Legg Mason Special Investment	H	2.0	-18.6	8.4	63 Mutual Qualified (1%)CIZ	H	-2.1	-18.3	-8.5
14 Dreyfus New Leaders	H	2.7	-16.4	1.0	64 Selected American Shares	S	0.6	-18.4	-12.4
15 Strong Discovery	H	2.5	-15.3	-3.6	65 Dreyfus Premier Aggressive	S	3.6	-21.3	-10.1
16 Royce Total Return (1%r<180d)	B	-2.4	-16.0	5.1	66 Federated Kaufmann Fund	H	-0.3	-19.8	-8.0
17 Longleaf Partners	H	0.0	-16.5	1.7	67 Clipper Fund	H	-7.1	-17.2	-4.6
18 Eclipse Small Cap Value	B	-4.0	-16.4	7.5	68 T. Rowe Price Growth Stock	S	3.1	-19.5	-14.2
19 Baron Small Cap	B	-1.3	-18.9	8.7	69 Fidelity Trend	S	2.3	-19.0	-14.2
20 Janus Twenty(closed)	H	3.1	-12.8	-14.8	70 Columbia Special	H	1.1	-19.6	-11.1
21 Fidelity Fifty (.75%r<30d)	H	-2.0	-15.2	-1.7	71 Royce Premier (1%r<180d)	H	-4.6	-20.0	-1.8
22 T. Rowe Price New Era	B	0.7	-16.7	-2.2	72 Dreyfus Growth Opportunity (2%)	S	2.2	-19.4	-14.0
23 Ariel Fund	B	-4.2	-15.9	2.0	73 American Century Ultra	S	0.7	-18.9	-13.2
24 Fidelity Growth & Income (3%)	H	2.4	-14.6	-11.6	74 T. Rowe Price Equity-Income	S	-0.1	-19.4	-10.6
25 Fidelity L P Stock (closed) (3%)	B	-2.5	-17.4	2.5	75 T. Rowe Price Dividend Growth	S	1.3	-19.6	-12.5
26 Liberty-SteinRoe Balanced	H	0.8	-13.7	-11.8	76 Domini Social Equity Fund	S	2.4	-19.6	-14.0
27 Dreyfus Appreciation	H	3.3	-15.1	-12.0	77 American Century Equity Growth	S	0.7	-18.7	-13.8
28 Fidelity Disciplined Equity	H	2.3	-15.8	-9.3	78 Strong Mid Cap Disciplined	S	-1.6	-22.7	-0.7
29 American Century Vista	H	1.2	-14.5	-11.2	79 WmBlair S-C Growth N (1%)	S	0.2	-22.8	-3.3
30 Liberty-SteinRoe Capital Opportu-	H	2.9	-19.1	-2.8	80 Westport Small Cap R	H	-1.6	-20.9	-5.6
31 RS Partners	B	-2.8	-18.0	2.8	81 Fidelity Magellan (3%)	S	2.7	-19.3	-16.2
32 American Century Value	H	-0.2	-16.7	-5.0	82 Fidelity Dividend Growth	S	2.1	-19.5	-14.9
33 Baron Growth	B	-3.5	-17.2	0.5	83 Vanguard Mid-Cap Index	H	-0.6	-22.5	-3.7
34 Mutual Shares (1%)CIZ	B	-1.6	-15.8	-7.1	84 Vanguard/Morgan Growth	S	2.1	-20.0	-13.9
35 Preferred Value	S	3.1	-17.0	-12.5	85 American Century Select	S	2.9	-19.2	-17.1
36 Neuberger Berman Fasciano Inv	B	-1.9	-19.7	1.6	86 Berger Mid Cap Value	S	-2.2	-21.5	-4.0
37 Fidelity Equity-Income II	H	2.6	-17.9	-9.9	87 Janus Growth & Income	S	2.3	-19.9	-15.2
38 Ariel Appreciation	H	-3.0	-18.6	-0.5	88 Vanguard Growth & Income	S	1.2	-19.6	-14.4
39 USAA Aggressive Growth	H	4.8	-18.6	-12.7	89 Dreyfus Mid Cap Index	S	-0.6	-22.6	-4.1
40 Mutual Beacon (1%)CIZ	H	-1.7	-16.7	-8.0	90 Nicholas Fund	H	-1.6	-18.8	-12.2
41 Homestead Value	H	-0.5	-18.3	-6.3	91 Vanguard Equity-Income	S	0.5	-19.8	-12.9
42 T. Rowe Price S-C Value	H	-2.4	-20.2	1.2	92 INVESCO Value Equity	S	2.4	-20.6	-13.9
43 Strong Growth 20	H	3.2	-16.8	-15.8	93 Scudder Large Co Value	S	1.4	-20.3	-13.0
44 Dodge & Cox Stock	H	-2.2	-17.7	-5.9	94 Loomis Sayles Small Cap Value	S	-2.1	-22.0	-3.6
45 CGM Focus	H	-2.5	-26.2	15.6	95 Babson Value	S	-2.7	-20.2	-7.6
46 Longleaf Partners Smallcap	H	-1.9	-19.7	-1.7	96 UMB Scout Stock	S	0.3	-19.5	-13.8
47 T.Rowe Price Mid Cap Value	H	-1.7	-20.6	0.2	97 INVESCO Core Equity	S	2.0	-20.9	-13.7
48 Fidelity Stock Selector	H	3.4	-18.1	-13.8	98 Berwyn Fund (1%r<180d)	S	-4.2	-22.7	-0.4
49 Vanguard Strategic Equity	H	-1.1	-19.7	-3.5	99 Fidelity Capital Appreciation	S	3.3	-22.1	-13.1
50 Salomon Brothers Opportunity	H	-1.7	-17.3	-8.8	100 Fidelity Value	S	-2.4	-22.2	-4.6

DOMESTIC STOCK FUNDS
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Domestic Stock Funds continued — data as of 10/18/02

Fund	Advice	1 month	6 month	1 year	Fund	Advice	1 month	6 month	1 year
101 Schwab 1000 Fund (.75%r<180d)	S	1.5	-20.5	-14.7	151 Fidelity Independence (ret.only)	S	-3.9	-22.9	-12.1
102 Legg Mason Value	S	1.0	-19.8	-15.7	152 CS Warburg Pincus Capital	S	3.0	-23.0	-22.3
103 Dreyfus Fund	S	1.5	-21.0	-14.2	153 Vanguard Windsor II	S	-3.4	-22.1	-15.1
104 American Century Growth	S	3.5	-21.2	-16.7	154 Dreyfus Premier Third Century	S	2.3	-23.3	-21.0
105 Fidelity Blue Chip Growth	S	2.9	-20.6	-17.1	155 Vanguard Windsor	S	0.6	-24.7	-15.1
106 CRM Mid Cap Value Ins	S	-1.5	-24.2	-1.9	156 Strong Advisor Common Stock	S	-0.6	-25.4	-11.5
107 Vanguard 500 Index	S	1.9	-20.7	-16.0	157 Vanguard Value Index	S	0.5	-23.5	-18.1
108 American Century Income &	S	-0.2	-20.3	-13.8	158 Safeco Equity	S	2.0	-22.9	-21.8
109 Fidelity Spartan 500 Index	S	1.9	-20.7	-16.0	159 Selected Special Shares	S	-0.6	-24.4	-14.1
110 CRM Mid Cap Value Inv	S	-1.6	-24.4	-2.2	160 Oberweis Emerging Growth	S	1.6	-24.2	-18.3
111 Fidelity Equity-Income	S	0.2	-21.1	-12.9	161 WPG Large Cap Growth	S	3.0	-25.0	-18.5
112 MSI Small Cap Value (closed)	S	-1.1	-22.6	-7.4	162 Sound Shore	S	-3.2	-23.0	-14.8
113 Loomis Sayles Value	S	-0.3	-20.5	-14.0	163 Vanguard Growth Equity	S	2.8	-23.9	-21.7
114 Fidelity Small Cap Ind. (1.5%	H	-3.5	-22.6	-4.8	164 Harbor Capital Appreciation	S	1.6	-24.0	-19.7
115 Gabelli Asset	S	-2.2	-21.5	-9.5	165 Montgomery Small Cap	S	2.2	-25.1	-18.1
116 USAA Growth & Income	S	0.7	-20.9	-15.4	166 Third Avenue Value	S	-2.6	-24.5	-12.4
117 T. Rowe Price Small Cap Stock	S	-1.1	-23.7	-6.2	167 Bogle Small Cap Growth	S	-3.8	-25.3	-9.0
118 Babson Growth	S	5.2	-22.7	-18.1	168 Preferred Growth	S	1.5	-24.3	-19.8
119 Montgomery Growth	S	2.4	-20.4	-19.6	169 T. Rowe Price New America	S	2.2	-24.9	-19.9
120 Artisan Midcap (closed)	S	1.5	-22.9	-12.3	170 Neuberger Berman Manhattan	S	1.7	-25.5	-18.1
121 Wasatch Small Cap Grth	S	0.8	-23.8	-9.3	171 Oakmark Small Cap (2%r<90d)	S	-3.4	-28.5	-3.3
122 Strong Large Cap Growth	S	3.5	-21.3	-19.7	172 Third Avenue Small-Cap Value	S	-5.3	-24.5	-10.5
123 USAA Growth	S	4.0	-22.5	-18.3	173 Liberty-SteinRoe Growth Stock	S	1.3	-23.3	-23.7
124 Dreyfus Growth & Income	S	2.3	-22.4	-16.8	174 Vanguard PRIMECAP	S	1.2	-26.0	-17.3
125 Bonnel Growth Fund (.25%r<30d)	H	-0.2	-22.5	-13.0	175 Vanguard U.S. Growth	S	3.1	-24.1	-25.2
126 Royce Penn Mutual (1%r<180d)	S	-4.7	-23.7	-3.3	176 Vanguard Small-Cap Value	S	-4.0	-28.9	-3.5
127 Columbia Common Stock	S	1.6	-21.5	-18.2	177 Baron Asset	S	-7.1	-24.9	-9.0
128 CS Warburg Pincus Value	S	0.2	-22.1	-15.2	178 State Street Mid-Cap Value	S	-2.7	-28.4	-8.0
129 Vanguard U.S. Value	S	-2.3	-22.8	-9.8	179 Columbia Growth	S	1.5	-24.6	-23.7
130 Scudder Large Company Growth	S	3.9	-22.3	-20.7	180 MSI Midcap Growth	S	2.1	-26.2	-21.2
131 Janus Fund	S	1.7	-22.9	-15.8	181 Weitz Value Fund	S	-4.0	-24.5	-17.1
132 Tweedy, Browne American Value	S	-3.5	-21.4	-12.3	182 Berger Large Cap Growth	S	2.2	-24.7	-26.1
133 T.Rowe Price Mid Cap Growth	S	0.1	-23.9	-11.5	183 Fidelity Mid-Cap Stock (.75%	S	2.0	-27.7	-18.7
134 Vanguard Extended Market Index	S	-2.1	-23.5	-9.4	184 Neuberger Berman Guardian	S	-0.2	-26.1	-19.5
135 RS Value+Growth	S	1.1	-21.7	-18.7	185 CS Warburg Pincus Emerging	S	0.8	-27.0	-19.2
136 Janus Enterprise	S	1.5	-20.6	-22.1	186 Gabelli Growth	S	2.3	-27.1	-21.6
137 PBHG Growth	S	2.6	-22.1	-20.3	187 Turner Midcap Growth	S	3.2	-28.4	-20.5
138 CRM Small Cap Value Inv	S	-2.1	-26.0	-4.1	188 Salomon Brothers Investors	S	-1.3	-26.3	-19.4
139 SIT Large Cap Growth	S	2.3	-21.5	-21.9	189 Muhlenkamp Fund	S	-3.3	-29.1	-9.7
140 Harbor Value	S	-0.5	-23.7	-12.4	190 T. Rowe Price New Horizons	S	0.0	-29.2	-14.4
141 T. Rowe Price Growth & Income	S	1.6	-23.0	-17.6	191 Neuberger Berman Partners	S	-2.4	-26.8	-17.0
142 Boston Partners Mid Cap Value	S	-1.6	-25.5	-6.6	192 Vanguard Explorer	S	-1.4	-28.9	-14.1
143 Galaxy Equity Growth (3.75%)	S	2.1	-22.9	-18.7	193 Boston Pttrs Smlcap Val	S	-6.7	-28.8	-6.9
144 SIT Small Cap Growth	S	0.8	-22.8	-18.1	194 Vanguard SmallCap Index	S	-3.4	-29.0	-12.1
145 Oakmark Fund	S	-6.4	-21.5	-10.9	195 WPG Tudor	S	-1.7	-27.9	-17.7
146 Scudder Capital Growth AARP	S	2.0	-23.2	-19.6	196 Thompson Plumb Growth	S	-2.3	-28.4	-15.7
147 Janus Mercury	S	1.7	-21.7	-23.0	197 Janus Venture (closed)	S	-0.7	-30.6	-13.8
148 INVESCO Small Company	S	4.3	-25.1	-18.6	198 INVESCO Dynamics	S	3.4	-30.2	-21.1
149 Heartland Value (1%r<90d)	S	-5.0	-25.3	-4.2	199 SIT Mid Cap Growth	S	0.6	-27.4	-24.0
150 William Blair Growth (1%r<60d)	S	2.8	-25.6	-15.2	200 Fidelity Growth Company	S	2.6	-28.4	-25.1

DOMESTIC STOCK FUNDS

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