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FEBRUARY 2003 COMMENTS

Note: **Tax Reports for 2002:**

(1) Form 1099 from Bear Stearns: you should have received these by the end of January.

(2) Realized Gain/(Loss) Report: many will have already received this Report by now; the remainder will be mailed in early March.

These two reports are all you/your accountant will need from Balis/Bear Stearns for your 2002 taxes regarding dividends, interest, and capital gains and losses.

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COMMENTS: INDEX RESULTS, period ending February 28, 2003

STOCKS	YEAR 1999	YEAR 2000	YEAR 2001	YEAR 2002	YTD 2003	CURRENT MONTH
Total Stock Market				(23.4)%	(4.2)%	
S&P 500	19.6%	(10.1)%	(13.0)%	(23.4)%	(4.4)%	(1.7)%
S&P 500 Growth	28.8%	(22.2)%	(13.0)%	(23.7)%	(2.9)%	(0.3)%
S&P 500 Value	12.6%	6.1%	(12.0)%	(20.9)%	(5.5)%	(2.7)%
Dow Jones	25.2%	(6.2)%	(7.1)%	(16.8)%	(5.4)%	(1.9)%
NASDAQ Comp.	85.6%	(39.3)%	(21.0)%	(31.5)%	0.0%	1.1%
MidCap US	25.0%	2.6%	(4.8)%	(16.3)%	(5.3)%	(2.4)%
Small Cap US	19.6%	(4.2)%	1.0%	(21.6)%	(5.7)%	(2.8)%
Intl, EAFE	25.3%	(15.2)%	(22.6)%	(17.5)%	(6.1)%	(1.9)%

BONDS, Intermediate Term (High Yield Taxable; Vanguard; Not an Index Fund):

Taxable	(0.8)%	11.3%	8.3%	8.2%	1.4%	1.4%
Tax-Exempt	(2.9)%	9.2%	5.0%	7.9%	0.4%	1.0%
High Yield Taxable				1.7%	2.8%	

	1999				2000				2001			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
S&P 500	4.1	7.6	(7.7)	15.6	2.0	(3.0)	(1.3)	(7.8)	(12.1)	4.8	(13.8)	8.1
NASDAQ COMP	14.6	10.0	0.0	61.0	12.4	(14.8)	(7.2)	(29.6)	(25.5)	12.9	(26.7)	18.3
BONDS Interm. Taxable	0.0	(0.5)	0.4	(0.7)	2.4	1.5	3.1	4.3	3.2	0.8	4.3	0.0

	2002				2003			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
S&P 500	0.0	(13.8)	(14.1)	4.5				
NASDAQ COMP	(5.5)	(19.5)	(13.5)	7.0				
BONDS Interm. Taxable	0.0	2.8	3.6	1.8				

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FEBRUARY 2003 COMMENTS

During the February period ending Friday, February 28, **STOCK PRICES** were mostly modestly lower. For the month, the S&P 500 was down 1.7%, the Dow Industrials down 1.9%, and the NASDAQ Composite up 1.1%. Even with the ongoing media barrage of negative news related to Iraq, the S&P 500 and Dow Industrials remain 8% above their early October lows, while the NASDAQ Composite is 20% above that low point.

As the bear market for stocks grinds on, it is worth remembering the history of prior declines. The following chart, which has been presented in previous Comments, sets out the declines and recoveries from the three worst bear markets since 1926, and figures related to the current bear market, from which there has been no significant recovery as yet. The figures show the declining and then recovering value (except for 2000–2002) of a $1 million stock portfolio, based on an index of Large Cap US stocks (most recently the S&P 500), as reported in Ibbotson Associate's 2002 Year Book: Stocks, Bonds, Bills and Inflation.

Year	% Losses or Gains	Portfolio Value
1929	-8.42%	915,800
1930	-24.90%	687,800
1931	-43.34%	389,700
1932	-8.19%	357,800
1933	53.99%	550,900
1934	-1.44%	540,300
1935	47.67%	801,800
1936	33.92%	**1,073,800**
1937	-35.03%	697,700
1938	31.12%	914,800
1939	-0.41%	911,000
1940	-9.78%	821,900
1941	-11.59%	726,700
1942	20.34%	874,500
1943	25.90%	**1,101,000**
1944	19.75%	1,318,400
1945	36.44%	1,800,000

Year	% Losses or Gains	Portfolio Value
1973	-14.66%	853,400
1974	-26.47%	627,500
1975	37.20%	860,900
1976	23.84%	**1,066,200**
1977	-7.18%	989,600
1978	6.56%	1,054,500
1979	18.44%	1,250,000
1980	32.42%	1,654,000

Year	% Losses or Gains	Portfolio Value
2000	-9.10%	909,000
2001	-11.90%	800,800
2002 (at 10/09 Lows)	-32.32%	542,000
YrEnd 2002	-23.37%	614,000
2003	???	???

BOND RETURNS (price change plus interest) were positive in February, with intermediate term taxable and tax-exempt bonds returning 1.4% and 1.0%, respectively. Interest rates for the 5-year U.S. Treasury (an intermediate maturity of a high-quality taxable bond) declined to 2.7%, as bond prices continued to rise. (The investment results for the February period, for both stocks and bonds and for 2003 year to date, and for the four full years 1999 – 2002, are set out on page 2).

As for the extent of the stock market declines, as measured from the highs of Q1 2000, the following figures chart these results and put them in the context of results since the end of 1994 (see also the figures on page 11). Note that all three indexes have positive average annual returns of 7.3% to 9.2% from the end of 1994 through January 2003. **The long-term investor therefore has a very different view of the stock market's returns than those measuring returns from the highest levels.**

	S&P 500		**DOW**		**NASDAQ**	
1st Qtr 2000 High	1,527		11,723		5,048	
Year End 2000	1,320	(13)%	10,785	(8)%	2,470	(51)%
April 2001 Low	1,103	(28)%	9,390	(20)%	1,684	(67)%
Sept 2001 Low	965	(37)%	8,235	(30)%	1,425	(72)%
Year End 2001	1,148	(25)%	10,020	(17)%	1,950	(61)%
Oct 2002 Low	777	(49)%	7,286	(38)%	1,114	(78)%
Year End 2002	880	(42)%	8,342	(29)%	1,336	(73)%
Feb 28, 2003 Close	841	(45)%	7,891	(33)%	1,337	(73)%

Context: Prior Five-Year Gains in Bull Market of 1995 - 1999:

End 1994	459	3,834	752
End 1999	1,470	11,500	4,070
Gain	1,011	7,666	3,318
Avg. Annual % Gain, '95-'99	26.2%	24.6%	40.2%
As of 2/28/03	841	7,891	1,337
Gain	382	4,057	585
Avg. Annual % Gain, '95-02/28/03	7.7%	9.2%	7.3%

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INVESTMENT CONCEPT (1): ROLE OF INVESTING IN REACHING YOUR FINANCIAL GOALS

As the Bear Market for Stocks reaches the end of its third full year (stock prices peaked in March 2000), it is worth reviewing the role your liquid investments play in achieving your financial goals.

Despite all the complexity surrounding the details of Financial Planning, there are a few fundamental points that are easy to grasp. Most important is the fact there are only three basic ways to achieve financial objectives:

(1) Earn money for your **WORK**.

(2) Earn money either from interest, dividends, or price gains from your **ACCUMULATED INVESTMENTS**, whether liquid (e.g., stocks and bonds), or non-liquid (e.g., real estate, art, jewelry).

(3) Maintain **SPENDING LEVELS** (which include income taxes) that make sense in line with the earnings from your work, your investments, and the capital value of the investments.

Once these basics are understood, you can relate them to your particular circumstances:

(1) If your earnings from work are reasonably stable and sufficient to cover your spending, and if your likely need to use money from your investment portfolio is in the distant future, your investment portfolio can be viewed as long term. The historical record of long-term outperformance for stocks would suggest a significant allocation to stocks, even with the severe volatility, both up and down, that comes with this asset category. No one minds the upside volatility, of course, while everyone bemoans the downside. The two sides are inherent in the investments however.

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(2) If you do not have earnings from work, then you only have two factors to consider: first, the amount of, and the investment returns on, your accumulated capital; and second, your spending.

(a) Since stock investment returns are unpredictable, but over the long term have delivered twice the rate of growth on an average annual basis as compared to bonds, the major decision for people relying on their investment portfolios is the allocation between stocks and bonds, which provide more stable returns. The greater the allocation to stocks, the more you are at the mercy of market results. But the greater the allocation to bonds, particularly in the current environment of historically low interest rates (and correspondingly high bond prices), the more you are likely to earn meager, albeit positive returns. Five-year (intermediate-term) high credit quality bonds, subject to taxation, have yields that range from below 3% to around 5%. To get any growth beyond these levels, you must take additional risk, whether from stocks or higher-yielding, lower-credit quality bonds (i.e. "junk bonds").

(b) Owning sufficient high credit quality bonds to cover three to five years of spending needs is prudent. Owning bonds beyond that amount is a function of how fearful you are of future stock price declines, and/or whether you have sufficient capital for any and all future spending needs and no longer want to deal with any significant downside risk. It may reduce anxiety to load up on quality bonds, but if your investment goals require that you earn greater than the 3 – 5% taxable returns currently available in the marketplace, you will need to maintain some reasonable allocation to higher risk stocks, and/or "junk bonds."

(3) The one factor most within our control is how much money we spend. At some point, if and when the mix of capital and the reasonable investment returns on that capital become insufficient to support a given level of spending, that level of spending must be reduced. This is often the hardest part of the equation, but it needs to be recognized and addressed.

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INVESTMENT CONCEPT (2): CURRENT ISSUES AFFECTING STOCK AND BOND PRICES

WAR-PEACE ISSUES:

Iraq - North Korea - Israel-Palestinians - Terrorists - The Unknown

The basic question regarding all these "Hot Spots" is whether the eventual outcome will be favorable or unfavorable to our way of life, and, by extension, our economic circumstances.

ECONOMIC ISSUES – COUNTERVAILING FORCES IN CURRENT SITUATION:

Basic Economic Situation:	Favorable	Unfavorable
Slow Growth/Recession	Low Interest Rates	No Employment Growth
	Low Inflation	Weak Corporate Profits
	Strong Housing	Weak Business Spending
	Satisfactory Consumer Spending	High Oil Prices
	Weak Dollar Helps Exports	Weak Dollar Raises Prices
Government Policies	Efforts to Reduce Taxes	Increasing Deficits

Historically, slow growth economic periods in the U.S., including mild recessions, have been followed by periods of improved economic growth. There are cycles to economic activity, and the downturns do not usually last beyond a year or two. Therefore, the basic question affecting all these interrelated economic issues is whether the familiar historical cycles will continue, or whether the current slow growth period will extend much longer in both magnitude and duration. A contemporary example of an extended period of no growth is the Japanese economy from the late 1980s to the present.

CREDIBILITY ISSUES:

Accounting Fraud
Top Executive Fraud
Controversial Accounting Practices

The basic question regarding these issues is whether the problems are limited in scope and capable of being resolved, or whether there are many more problems as yet unknown that will create additional future uncertainty and loss of confidence.

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POINTS TO CONSIDER:

(1) Taken together, are these current problems worse than the problems that have existed, and been overcome, during other significant down periods for stock prices (e.g., the Depression, World War II, other major international conflicts, high inflation, high interest rates, high oil prices, high unemployment, Presidential impeachments and assassinations)?

(2) Have stock prices declined sufficiently to take account of all the known problems, and the potential for a wide range of unfavorable outcomes?

(3) If your current allocation to stocks is reasonable, do you want to change it by either:

(a) Reducing stock exposure further, hoping to avoid the current problems, but reinstating the allocation when the problems appear to be improving (that is, to try and time the market ups and downs)?

(b) Increasing stock exposure in anticipation of a turnaround?

The next section, discussing the recent Wall Street Journal (WSJ) article written by Jonathan Clements, directly addresses these points.

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INVESTMENT CONCEPT (3): REASONS TO MAINTAIN AN ALLOCATION TO STOCKS

Despite all the current gloom and doom regarding stocks, and the past three years of a major decline in stock prices, there continue to be sound reasons to maintain an allocation to stocks appropriate to your circumstances.

Jonathan Clements' article from the 2/26/2003 WSJ states the case in terms that should by now be familiar to readers of these Comments. The main points in the article are summarized below:

(1) The stock market has "survived and thrived despite far more terrible events" than our current problems. The Depression of the 1930s and World War II are referred to as examples of more terrible times from which the stock market has recovered.

(2) Stock prices are down to May 1997 levels, so much of the bull market "excesses" are already gone.

(3) The U.S. economy is growing at a reasonable rate; the economy is better than the extent of the stock market declines would indicate.

(4) Many people have lost faith in stocks and will only return when it is "safe" to invest in stocks, "but at that point the Dow Jones Industrials will probably be 30% higher."

(5) With stocks out of favor, people are loading up on bonds, which have done well during the past three years. But diversification, which includes stocks, is the better way to invest.

(6) History: S&P 500 worst ten years ended December 1938. During that period the average annual return was negative 1%. If the 2000s are to prove as bad, given the negative results of the first three years, the S&P 500 would have to rise by an average of 5.7% annually over the next seven years. While this may not seem like much of a return in absolute terms, it compares favorably to the returns from high credit quality bonds, where the benchmark 10-year U.S. Treasury yields 3.8% and prices are at 40-year highs.

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	S&P 500		**Dow**		**NASDAQ**	
I. Figures From Period Starting 2000 (% Figures Are Cumulative Declines From 1/01/00)						
Start of 2000	1,470		11,500		4,070	
End of 2000	1,320	(10.1)%	10,785	(6.2)%	2,470	(39.3)%
Sept. 21, 2001 Low	965	(34.3)%	8,235	(28.4)%	1,425	(65.0)%
End of 2001	1,148	(21.9)%	10,020	(12.9)%	1,950	(52.0)%
Oct. 9, 2002 Low	777	(47.1)%	7,286	(36.6)%	1,114	(72.6)%
End of 2002	880	(40.1)%	8,342	(27.5)%	1,336	(67.2)%
Feb. 28, 2003	841	(42.8)%	7,891	(31.4)%	1,337	(67.1)%
II. Figures From Period Starting 1995 (% Figures Are Gains From 1/01/95)						
Start of 1995	459		3,834		752	
End of 1999	1,470		11,500		4,070	
5 Year Gain; Annualized %	1,011	26.1%	7,666	24.6%	3,318	40.2%
End of 2001	1,148		10,020		1,950	
7 Year Gain; Annualized %	689	14.0%	6,186	14.7%	1,198	14.6%
End of 2002	880		8,342		1,336	
8 Year Gain; Annualized %	421	8.5%	4,508	10.2%	584	7.5%
Feb. 28, 2003	841		7,891		1,337	
8.16 Year Gain; Annualized %	382	7.7%	4,057	9.2%	585	7.3%

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