VICTOR LEVINSON **NICK LEVINSON**

FEBRUARY 2004 COMMENTS

IMPORTANT NOTES

This will be the first month when many clients will be receiving their new statements from LaSalle Street Securities (LSS)/National Financial Services (NFS). Either of us can answer any questions you may have regarding these statements. (For the month of March, Vic can be reached at 561-750-9944, Room 415; or you can leave a message at Vic's regular NY number, 212-588-0015, or with Lynette at 212-391-2323. Nick remains at his post in Piedmont).

For client accounts that have not yet transferred to LSS/NFS, you will continue to receive Balis/Bear Stearns statements until such time as the transfers are completed. We are hopeful that most if not all the transfers will be completed by the end of March, and we thank you for your patience during this transitional period.

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Any recommendation contained in these Comments may not be suitable for all investors. Moreover, although the information contained herein has been obtained from sources believed to be reliable, its accuracy and completeness cannot be guaranteed.

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COMMENTS: INDEX RESULTS, period ending February 27, 2004

STOCKS	YEAR 1999	YEAR 2000	YEAR 2001	YEAR 2002	YEAR 2003	YTD 2004	CURRENT MONTH
Vanguard Total Stock Market Index Fund (1)	23.8%	(10.6)%	(11.0)%	(21.0)%	28.4%	3.7%	1.5%
S&P 500 Index (2)	19.6%	(10.1)%	(13.0)%	(23.4)%	26.4%	3.0%	1.3%
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(22.2)%	(13.0)%	(23.7)%	25.9%	3.1%	0.9%
Vanguard S&P 500 Value Index Fund (1)	12.6%	6.1%	(12.0)%	(20.9)%	32.2%	3.5%	1.9%
Dow Jones Industrial Average Index (2)	25.2%	(6.2)%	(7.1)%	(16.8)%	25.3%	1.2%	0.9%
NASDAQ Composite Index (2)	85.6%	(39.3)%	(21.0)%	(31.5)%	50.0%	.1.3%	(1.8)%
Vanguard Mid Cap US Index Fund (1)	25.0%	2.6%	(4.8)%	(16.3)%	34.1%	4.9%	2.8%
Vanguard Small Cap US Index Fund (1)	19.6%	(4.2)%	1.0%	(21.6)%	45.6%	5.4%	1.1%
Vanguard International (EAFE) Index Fund (1)	25.3%	(15.2)%	(22.6)%	(17.5)%	40.3%	4.1%	2.5%
BONDS:							
Vanguard Total Bond Market Index (1)	(0.8)%	11.3%	8.3%	8.2%	4.0%	1.9%	1.0%
Vanguard Interm. Tax-Exempt Bond Index (1)	(2.9)%	9.2%	5.0%	7.9%	4.4%	1.9%	1.6%
Vanguard High Yield Taxable Bond Fund (1)	NA	NA	NA	1.7%	17.2%	1.1%	0.2%

	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				2004			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
S&P 500	0.0	(13.8)	(14.1)	4.5	(1.8)%	12.8%	2.2%	13.2%				
NASDAQ COMP	(5.5)	(19.5)	(13.5)	7.0	2.5%	19.2%	12.1%	16.2%				
BONDS Interm. Taxable	0.0	2.8	3.6	1.8	0.9%	2.7%	0.2%	0.2%				

1) Results for Vanguard funds include dividends and fund expenses but do not reflect PPA's advisory fee.
2) Results for S&P 500, Dow Jones, and NASDAQ indexes do not reflect dividends or PPA's advisory fee.

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FEBRUARY 2004 COMMENTS

During the month of February 2004, most **STOCK PRICES** continued to advance, albeit at a reduced pace from the previous few months. For the February period, the S&P 500 was up 1.3%, the Dow Industrials gained 0.9%, BUT the NASDAQ Composite declined (1.8%). Year to date these indexes are all up, 3.0%, 1.2% and 1.3% respectively. Note that the mid cap and small cap indexes are outperforming the three major indexes during the two months, so the Total Stock Market Index has outperformed these indexes as well.

News affecting stock prices continued mixed. On the one hand, the news on corporate profits, interest rates, and inflation remained favorable. On the other hand, economic news turned mixed (see pages 5 and 6 for details), and a number of factors typically viewed as negatives for stock prices also continued, including weakness in the U.S. dollar, high oil and gold prices, soaring projected U.S. budget deficits, and the geopolitical issues of terrorism and Iraq. The continuing gains in the stock market highlight our view, expressed frequently in these Monthly Comments, that attributing causes to stock price movements is a complex matter, and that many seemingly relevant news events have already been factored into stock prices by the combined activity of all market participants.

BOND RETURNS (price change plus interest) were positive again for February, despite the views of many that interest rates are due to rise (see January 2004 Comments for detailed discussion of the impact of rising interest rates). For the month, high quality intermediate-term taxable and tax-exempt bonds had returns of +1.0% and +1.6% respectively, and the year to date gains are 1.9% for both. High Yield (also known as "Junk") bonds lagged the quality bond market returns for the month and year to date. Note the relative under-performance in February of junk bonds and the NASDAQ Index. Some of the same factors mentioned in the above paragraph as influencing stock prices are typically attributed to moving bond prices as well. Here again, causation is a complex matter; in February, the end result was favorable.

While the 2003 – early 2004 percentage increases for Stocks have been considerable, it should be remembered that after a decline of a certain percentage, the percentage increase required to return to the starting point is a much higher number, as indicated below:

	High (3/00)	Low (10/02)	% Decline	% Gain Needed
S&P 500 (1)	1,527	777	(49%)	97%
NASDAQ Comp. (1)	5,048	1,114	(78%)	353%

History suggests these indexes are likely at some point in time to reach and surpass their prior highs (the relevance of history as a guide is discussed in depth on pages 7-8). The more significant question is in what time frame such a recovery takes place. For instance, if the S&P 500 increases from its current 1,145 back to 1,527 over the next five years, the annualized investment return would be 5.9%, well within historic long-term returns for the stock market. But if it takes 10 years, the annualized return would be only 2.9%, which is even lower than returns associated with bonds. The NASDAQ recovery would be far more dramatic; to regain prior highs in five years from the current 2,030, the annualized return would have to be 20.0%; over ten years, 9.5%.

1) Results for S&P 500 and NASDAQ indexes do not reflect dividends or PPA's advisory fee.

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Stock and bond investment results for the February 2004 period, 2004 year-to-date, and for the five full years 1999–2003 are set out on page 2. The stock market rally of 2003, which began in March, has now raised the S&P 500 47% from the 2002 lows. While this is an impressive figure, and has certainly made investors believe that the stock market is not likely to go down in perpetuity (a view that was widely held during the depths of the bear market), the question of whether this recovery turns into a new, sustained bull market continues to be dependent on future events, as of now unknown.

In order to keep the current recovery in perspective, we continue to show the chart below, which sets out the extent of the declines measured from the highs of Q1 2000. The chart also puts these declines in the context of results since the end of 1994 (see also the figures on page 9). Note that the three indexes have positive average annual returns ranging from 10.4% to 11.7% for the more than nine year period from the end of 1994 through January 2004, very much in line with long term stock returns going back to 1926. Further, as these returns converge more and more, the idea of "regression to the mean" seems applicable.

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 (1)		DOW (1)		NASDAQ (1)	
1st Qtr 2000 High	1,527		11,723		5,048	
Year End 2000	1,320	(13)%	10,785	(8)%	2,470	(51)%
April 10, 2001 Low	1,103	(28)%	9,390	(20)%	1,684	(67)%
September 21, 2001 Low	965	(37)%	8,235	(30)%	1,425	(72)%
Year End 2001	1,148	(25)%	10,020	(17)%	1,950	(61)%
October 9, 2002 Low	777	(49)%	7,286	(38)%	1,114	(78)%
Year End 2002	880	(42)%	8,342	(29)%	1,336	(73)%
Year End 2003	1,112	(27)%	10,454	(11)%	2,003	(60)%
February 27, 2004	1,145	(25)%	10,584	(10)%	2,030	(60)%

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

	S&P 500 (1)	DOW (1)	NASDAQ (1)
End 1994	459	3,834	752
End 1999	1,470	11,500	4,070
Gain	1,011	7,666	3,318
Avg. Ann. % Gain, '95-'99; 5 years	26.2%	24.6%	40.2%
Feb 2004	1,145	10,584	2,030
Gain	686	6,750	1,278
Avg. Ann. % Gain, '95-1/04; 9.2 yrs	10.4%	11.7%	11.4%

1) Results for S&P 500, Dow Jones, and NASDAQ indexes do not reflect dividends or PPA's advisory fee.

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I. Update of Key Economic Indicators

The strength of the overall U.S. and world economies is one of a number of factors likely to influence the future direction of both stock and bond prices. (Note: We, along with many market observers and academics who write about the markets, believe stock and bond prices already reflect consensus expectations of economic growth). In any event, an understanding of the direction of current economic trends is useful as a context to help understand market conditions. This section of the Comments provides an update of key economic indicators.

(1) Gross Domestic Product (GDP) is the broadest measure of goods and services produced in the U.S. economy. The newly revised, inflation-adjusted, annualized rate of growth of GDP for the quarter ended December 2003 was 4.1%, up slightly from the initial estimate of 4.0%. In its coverage of this announcement, the New York Times, in an article from Saturday Feb. 28, 2004 (1st page of Financial Section), characterized the modest upward revision as "an encouraging sign for further solid growth." The article also stated that "the jump in business investment reinforced expectations that capital spending would lead the economy higher this year even as consumer spending eases from last year's tax-cut-fueled surge."

(2) Employment levels for January showed a gain of 112,000 new jobs, a monthly figure that was the highest since December 2000, but still below analysts' expectations. "Many analysts noted that the pace of job growth was well below the rate usually witnessed at this stage of a business expansion" (Vanguard Economic Week in Review ("VEWR"), 2/2-6/04, pg. 1). In the same edition of the VEWR it was also reported that productivity grew at an annual rate of 2.7% in the fourth quarter, and that "the combination of slowly rising compensation and growing productivity resulted in a decrease in unit labor costs." Further, the combination of productivity increases and declining unit labor costs is "a combination that analysts consider extremely favorable for corporate profitability." (Note: A discussion of the "outsourcing" of US jobs begins on page 8.)

(3) Interest Rates declined again during February. The benchmark 10-Year US Treasury bond yield closed February at 3.98%, very near the low end of a range of recent yields as low as 3.93% at the end of September, and as high as 4.45% at the end of August. While there is so much chatter about the likelihood of interest rate increases due to the strength of the US economy, or the size of the budget deficit, or the declining value of the US dollar, the actual results of the bond market have shown no indication of such an increase during the first two month of 2004.

(4) Inflation remains low as measured by Consumer Price Index ("CPI") "core" rate, which excludes the volatile food and energy sectors. The "core" inflation rate increased 0.2% in January, and for the most recent twelve-months the CPI increase was 1.1% (VEWR, 2/16-20/04), the slowest pace since 1965 (VEWR, 1/12-16/04). The reporting of the Producer Price Index ("PPI") figures was postponed by the Commerce Dept. (VEWR, 2/16-20/04).

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(5) Sector Economic Activity was Mixed

(a) Durable goods orders declined in January, "surprising analysts who had expected a gain…the report may signal that the economic recovery is not broadly based (VEWR, 2/23-27/04, pg.2).
(b) Industrial production was higher in January, as was capacity utilization, but the capacity utilization figure remains well below the average capacity rate over the last 30 years. Fed Chairman Greenspan has cited "excess slack" as a primary factor for "muted" inflationary pressures (VEWR, 2/16-20/04).
(c) Retail Sales fell in January, mostly due to weak auto sales; excluding auto sales, other retail sales rose 0.9%, the largest increase since August 2003 (VEWR, 2/9-13/04)
(d) Housing sales for new homes and for existing homes declined in January (VEWR, 2/23-27/04).
(e) Personal Income rose 0.2% in December, while personal spending, which accounts for two-thirds of U.S. economic activity, grew 0.4%. However, wage and salary income declined for the first time since October 2002 (VEWR, 2/2-6/04, p. 2).

(6) Consumer Confidence, as measured by the Conference Board's Index of Consumer Confidence, registered a significant decline during February. Both the "present situation index," a measure of consumers' assessment of current economic conditions, and the "index of consumer expectations" for the state of economic activity over the next six months, declined. "Heightened job worries sent US consumer confidence tumbling at its fastest pace in a year, suggesting that consumers are increasingly worried about the economic outlook and their own finances" (WSJ, 2/24/04, pg. 2).

(7) Corporate Profits for the fourth quarter were strong. An article in the March 1, 2004 Barrons (p. MW2) cited full year 2004 earnings per share estimates for the S&P 500 stocks at $62-$63; at the current S&P 500 price of 1,145, the P/E is 18. The Barrons article notes that the 18 P/E is historically high, and that "some unexpected jolt" in inflation could result in a contraction of the multiple. In our January Comments, we referenced a January 20, 2004 WSJ article that cited analyst expectations of 39% profit growth for small company stocks, and 47% profit growth for the 1,000 largest companies in the U.S. stock market, compared with earnings for the fourth quarter of 2002 (pg. C3). High productivity, as reflected in the modest gains in employment levels, and low interest rates were two important contributing factors to these exceptionally high reported profit figures.

As the economic news turns mixed, the ever-present question of whether stock prices are likely to respond, or have already responded, comes into play. Further, there is the fundamental uncertainty as to the substance of future news developments. As usual, only the unfolding of the actual events will determine the course of future price movements.

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II. History and Market Returns; Does History Matter?

There are a number of "guiding principles" that professional market observers refer to in their efforts to provide advice, opinion and insight regarding the markets. One such principle is to use the long-term history of stock price movements as a guide for future stock price movements. A counter to this principle says that stock prices have no memory or pattern, that the past represents only one set of possible outcomes among many, and that since the future is inherently unknowable and unpredictable, the same must be said of stock price changes.

These positions have different implications regarding how investors view risk. If history truly can be trusted as a guide, all investors need do is wait long enough, and they should be rewarded with the investment returns that make up the historical record. Going back to 1926, average annual returns from the stock market approximate 10% (source: Ibbotson), and the returns since 1950 are even higher. Putting aside the issue of the use of those starting dates to measure returns, and understanding that there is great volatility in these long-term averages over shorter time periods (even for as long as ten years), those who believe in the history might well conclude that these historical returns will eventually be realized.

However, if the history we know tells us nothing about the unknowable future, then the reasonable conclusion from this viewpoint is that there is no reasonable expectation of any particular level of future return.

A recent Wall Street Journal article (2/23/04) addresses this issue in the context of the current stock market. The article begins: "After a huge stock bubble burst, the stock market historically has pursued a painful and predictable path. This time it hasn't quite followed the script, and that is making some stock analysts nervous."… "The problem is that after the 1990s bull market peaked four years ago, the stock market fell for 2 _ years, and yet by classic measures of stock value, stocks never reached the depths hit in other collapses, such as in the 1930s and 1970s. By these measures, which compare stock prices with corporate earnings, the gains of the late 1990s had been greater than those of any previous bull markets (P/Es of S&P 500 stocks rose to more than 40 times, twice as high as in 1929)…and when stocks fell, the price-to-earnings ratio also fell, but it never returned even to the average of the preceding 80 years, which is about 16."

The article then quotes a number of well-respected stock market observers, some of whom cite the history and predict significant declines, and others who disagree and see the market continuing to advance. "Who is right will have an enormous impact on the savings and the future happiness of millions of Americans who have returned to the stock market in recent months." The author of the article writes that "the heart of the debate is whether stocks are doomed to repeat the past or whether history is in fact a moveable feast, whose patterns aren't always close copies. In the latter case, any declines could be more moderate."

The article then discusses how some of the "experts" see current conditions as different from the conditions of the past, furthering the argument that future results may not resemble the past patterns. Other, more pessimistic analysts say "something will happen --a sudden burst of inflation, a terrorist attack, a run on the dollar-- and the rally will end. What is going to happen we probably can't even visualize sitting here, but it will happen because it always does."

Our view: "History as a guide" may be comforting in providing a context for reasonable expectations of future investment returns. In reality, since no one knows what the future holds, there may be no rational methodology available to set such reasonable expectations. With this view, the key to managing investment portfolios becomes RISK REDUCTION rather than PROFIT MAXIMAZATION. In turn, broadly diversified investment portfolios, emphasizing low-risk, income-producing asset classes to cushion volatility, become preferable so long as the overall asset allocation meets the investor's overall objectives.

We would also caution against putting any credence in market projections based on long-term cycles, such as 16 years of a bull market (with some significant declines mixed in), followed by 16 years of a bear market (with some significant gains mixed in). Our view: This is nothing more than an effort to look at a particular historical coincidence and turn it into a predictive pattern. We favor establishing an asset allocation based on the client's goals and risk tolerance, with revisions, if any, when the client's situation changes.

III. Controversy Over "Outsourced Jobs:" Pros and Cons of Free Trade

The issue of job growth, or the lack thereof, during the current economic expansion has become a topic of such importance that it may have a major impact on the outcome of the 2004 presidential election. Many US companies contract jobs out to workers in other countries in order to achieve cost savings. While there is nothing new about this strategy, it has made headlines and stoked serious debate because white collar jobs are now being outsourced, as compared to the blue collar factory jobs that have long been sent overseas. Indeed, the issue has now spread to questions about the whole subject of free trade.

In a New York Times Op Ed piece from February 21, 2004 (page A27), Bob Herbert presented the "Dark Side of Free Trade." "Globalization and outsourcing are hot topics because so many middle-class Americans, instead of having the luxury of looking ahead to a brighter future for the next generation, are worried about slipping into a lower economic segment themselves."… "The multinationals and the stock market are doing just fine. But American workers are caught in a cruel squeeze between corporations bent on extracting every last ounce of productivity from their US employees and a vast new globalized work force that is eager and well able to do the jobs of American workers at a fraction of the pay." … "The simple truth is that enormous numbers of well-educated, highly skilled white-collar workers are having tremendous troubles finding the kind of high level employment they've been trained for and the kind of pay they feel they deserve." As for solutions, the author states: "No one really knows what to do – not the president, not John Kerry or John Edwards, and most of all not the economists and other advocates who have been so certain about the benefits to American working men and women of unrestrained trade and globalization."

One week earlier, in a New York Times article from February 15th (page 3 of News of the Week in Review) Eduardo Porter discussed "The Bright Side of Sending Jobs Overseas." "Most economists agree that higher productivity – whether it comes from trade, outsourcing or technology – is good, even when it creates pain for many workers." Robert Reich, President Clinton's Secretary of Labor, is quoted as saying: "if other countries can do something cheaper we ought to let them do it, and concentrate on what we can do best." The article links the lower costs that come from outsourcing and free trade to higher productivity, more demand for the lower priced products, lower inflation and interest rates, all of which tend to create new jobs and more economic growth.

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A February 18th Wall Street Journal article in Alan Murray's "Political Capital" column presented the issue as one of lost jobs here versus improved productivity for the economy. "Productivity is an abstract concept that can't be directly observed or measured. But it is the secret of progress: the reason we don't spend our days gathering nuts and hunting squirrels. Fewer people producing more goods and services has been the key to the US economy's surprising success throughout history."… "Any effort to stop outsourcing or block trade will slow productivity growth and threaten that rosy future." … "It would be far better to have slower job growth and keep productivity booming." And Thomas Sowell, in his February 24th Wall Street Journal Op Ed piece, wrote that "Free international trade produces both the benefits of increased productivity and the adjustment problems that all other forms of increased productivity produce – namely, job losses in the less competitive firms and industries. The typewriter industry was devastated by the rise of the computer, as the horse and buggy industry was devastated by the rise of the automobile. Historians of the industrial revolution lament the plight of the handloom weavers when power looms were introduced."

We hope this debate, which will likely play out during this presidential election, sheds real insights on the issue. We recognize the economic merits of the free trade advocates and the insecurities that arise for those who are directly and adversely affected. On balance, we think the history of economic development since the Industrial Revolution has illustrated the benefits of higher productivity, lower costs, and eventual economic growth.

IV. Another Bubble? Investing in China

The recent rush to invest in China has raised the question of whether this sector of the international stock market is developing into a "bubble" that is likely to come to a bad end for late coming investors. (Remember the internet craze of the late 1990s). A few recent Wall Street Journal articles discuss this question. In a February 20th "Fund Track" article (page C1), Ian McDonald writes that "with its more than one billion consumers joining the global marketplace while it turns out a stream of low cost exports, China's appeal to investors is clear. But a closer look shows that small exposure to China is all most investors should risk, and that those plunging into this vast emerging market should be ready for a rocky ride. The reason is that while China's growth opportunities are vast, so are the risks of a fledgling stock market, dicey corporate governance, and government officials still learning on the fly how to deal with a market economy." To which we would add the question of what valuation measure is reasonable in relating stock prices to the earnings of Chinese companies, if indeed the reporting of earnings bears any similarity to what is done in the US or other developed markets. The article continues to point out that very little of the money in so-called "China funds" is actually invested in shares purchased on mainland stock exchanges. Hong-Kong listed companies, along with the markets in Taiwan and South Korea, make up most of the holdings in these funds.

The next article appeared on February 24th (page C1), titled "China '04 Feels Like Nasdaq '99." The writer, Craig Karmin, states that "Like Internet mania of the late '90s, and other stock market crazes before that, China's appeal lies in its seemingly boundless potential, a sense that something new has just been discovered – and a fear that those who wait will get left behind." The article discusses the activities of certain self-styled China experts, and the questionable investment information they provide the general public about investing in China. Indeed, one of the information sources was even quoted as saying: "Don't look for me to give you a grand insight into China. My opinion is as good as anyone else's." Our view: Buyer Beware!!

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1) Results for S&P 500, Dow Jones, and NASDAQ indexes do not reflect dividends or PPA's advisory fee.

I. Figures From Period Starting 2000 (% Figures Are Cumulative Declines From 1/01/00)

	S&P 500 (1)		DOW JONES (1)		NASDAQ (1)	
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)%
End of 2003	1,112	(24.3)%	10,454	(9.1)%	2,003	(50.8)%
February 2004	1,145	(22.1)%	10,584	(8.0)%	2,030	(50.1)%

II. Figures From Period Starting 1995 (% Figures Are Gains From 1/01/95)

	S&P 500 (1)		DOW JONES (1)		NASDAQ (1)	
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%
End of 2003	1,112		10,454		2,003	
9 Year Gain; Annualized %	653	10.3%	6,620	11.8%	1,251	11.5.%
February 2004	1,145		10,584		2,030	
9.16 Year Gain; Annualized %	686	10.4%	6,750	11.7%	1,278	11.4%

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