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APRIL 2003 COMMENTS

Page 1: **What's in This Edition**

Pages 2-4: **Index Results for April, and Year-to-Date 2003;**
Also Years 1999 – 2002, and Various Other Longer Time Periods

Pages 5-11: **Investment Concepts**

- **Pages 5-9:** **Difficulties of MARKET TIMING**
- **Pages 10–11:** **Advantages of REBALANCING Compared to MARKET TIMING**

Page 12: **Investment Returns From 2000 to Present, and 1995 to Present**

Appendix A: **Monthly S&P 500 Stock % Returns, 1/1/80 – 4/25/03**

NOTES: **We have prepared and will be sending you soon a new Brochure describing our work. We hope you take the time to review it, and feel free to pass it on to (or request additional copies for) others you know who might benefit from our services.**

On a personal note, Nick and his wife Julie had their third son at the end of February. Nick's brother, Vic's son, Tom, is to be married in Chicago this Memorial Day weekend.

Vic and Nick thank you all for your continued confidence.

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COMMENTS: INDEX RESULTS, period ending April 25, 2003

STOCKS	YEAR 1999	YEAR 2000	YEAR 2001	YEAR 2002	YTD 2003	CURRENT MONTH
Total Stock Market				(23.4)%	2.7%	4.2%
S&P 500	19.6%	(10.1)%	(13.0)%	(23.4)%	2.2%	4.0%
S&P 500 Growth	28.8%	(22.2)%	(13.0)%	(23.7)%	3.9%	3.1%
S&P 500 Value	12.6%	6.1%	(12.0)%	(20.9)%	1.4%	5.2%
Dow Jones	25.2%	(6.2)%	(7.1)%	(16.8)%	(0.4)%	2.0%
NASDAQ Comp.	85.6%	(39.3)%	(21.0)%	(31.5)%	7.4%	4.9%
MidCap US	25.0%	2.6%	(4.8)%	(16.3)%	0.0%	3.3%
Small Cap US	19.6%	(4.2)%	1.0%	(21.6)%	1.4%	4.8%
Intl, EAFE	25.3%	(15.2)%	(22.6)%	(17.5)%	(1.9)%	4.2%

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

	YEAR 1999	YEAR 2000	YEAR 2001	YEAR 2002	YTD 2003	CURRENT MONTH
Taxable	(0.8)%	11.3%	8.3%	8.2%	1.9%	1.0%
Tax-Exempt	(2.9)%	9.2%	5.0%	7.9%	1.1%	0.9%
High Yield Taxable				1.7%	7.4%	3.3%

	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	(1.8)%			
NASDAQ COMP	(5.5)	(19.5)	(13.5)	7.0	2.5%			
BONDS Interm. Taxable	0.0	2.8	3.6	1.8	0.9%			

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APRIL 2003 COMMENTS

During the April period ending Friday, April 25, **STOCK PRICES** increased for a second consecutive month. For the month, the S&P 500 was up 4.0%, and is now up 2.2% year-to-date; the Dow Industrials were up 2.0%, but still down (0.4)% year-to-date; and the NASDAQ Composite was up 4.9% for the month and is now up 7.4% year-to-date.

The period's positive results presumably reflected a view that general economic conditions were likely to improve in the future, as the uncertainty related to the war in Iraq ended. Also, quarterly corporate earnings were generally better than expected. However, near term future gains for stocks, absent any unexpected surprises, are now likely to be tied to actual improvements in economic conditions, as contrasted with expectations for such improvements.

BOND RETURNS (price change plus interest) were also higher in April. The April period marked only the third month since the start of 2002 (August and November 2002 were the other periods) during which both stock and bond prices were higher. Intermediate-term taxable and tax-exempt bonds gained 1.0% and 0.9%, respectively. Year-to-date, these same bond returns are positive 1.9% and 1.1%, respectively.

Stock and bond investment results for the April period, for 2003 year-to-date, and for the four full years 1999 – 2002 are set out on page 2.

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While the March – April stock gains for the S&P 500 have now reached 7%, and the increase from the 2002 low is 15%, the three-year bear market for stocks cannot be declared over. As for the extent of the stock market declines 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 12). Note that all three indexes have positive average annual returns of 8.0% to 9.7% from the end of 1994 through April 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)%
April 25, 2003 Close	899	(41)%	8,306	(29)%	1,434	(71)%

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 4/25/03	899	8,306	1,434
Gain	440	4,472	682
Avg. Annual % Gain, '95-4/25/03	8.4%	9.7%	8.0%

THE DIFFICULTIES OF MARKET TIMING

Now that the stock market has had two consecutive months of gains, has a positive investment return year-to-date, and is actually outperforming bonds year-to-date for the first time since early 2000, the inevitable question arises: Is this the time to put more money into the stock market?

Actually, after periods of stock price increases, there are three possible courses of action:

(1) Add to your stock portfolio, believing that the gains will continue.

(2) Sell portions of your portfolio, believing the gains will soon turn into declines.

(3) Hold your positions, consistent with your established asset allocation, and make changes only after the percentage of stocks in your portfolio reaches either the upper or lower point of a pre-established range. This method of change is referred to as REBALANCING (discussed further on pages 10 and 11), and is the course of action we strongly advocate.

The problem with the approach referred to as MARKET TIMING --defined as either adding to, or reducing, your stock positions based on any short term price movement, up or down-- is that it is based on the premise that recent price activity is in some way indicative/predictive of future price activity. For this approach to be correct, or even simply to be more likely than not, would suggest that the future can somehow be known by looking at the recent past. We do not believe Market Timing works, and have assembled data on the stock price changes of the S&P 500 since January 1980 to support our conclusion. (The data sources are (i) 1980 – 2001, Ibbotsen Associates 2002 Year Book: Stocks, Bonds, Bills, and Inflation; and (ii) Our Monthly Comments, 2002 to April 2003).

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The figures below represent the quarterly change in dollars of a starting portfolio of $100,000 on January 1, 1980, based on the monthly percentage changes of the S&P 500 (the supporting monthly percentage figures are attached as Appendix A for those interested in further detail).

Quarterly Changes of $100,000 S&P 500 Stock Portfolio, 1980 - Q1 2003
Based on Monthly % Changes of S&P 500

	Q1	Q2	Q3	Q4	Annual % Change
	$	$	$	$	%
1980	96,000	108,500	120,400	132,500	32.4
1981	135,100	132,400	117,800	124,900	-4.9
1982	114,900	113,800	127,400	149,100	21.4
1983	164,000	180,400	180,400	180,400	22.5
1984	176,800	173,200	190,600	192,500	6.3
1985	209,800	226,600	217,500	252,300	32.1
1986	287,600	304,900	283,600	297,700	18.5
1987	357,300	375,100	401,400	309,100	5.2
1988	327,600	350,600	350,600	361,100	16.8
1989	386,400	417,300	463,200	472,400	31.5
1990	458,200	490,300	421,700	459,600	-3.2
1991	519,400	514,200	539,900	583,000	30.5
1992	565,500	576,900	594,200	618,000	7.7
1993	642,600	649,100	668,500	682,000	10.1
1994	654,700	661,200	694,300	687,300	1.3
1995	756,000	824,000	881,800	934,700	37.4
1996	981,400	1,020,700	1,061,500	1,157,000	23.1
1997	1,191,800	1,382,400	1,479,200	1,538,400	33.4
1998	1,738,400	1,790,500	1,629,400	1,955,300	28.6
1999	2,053,000	2,217,300	2,062,000	2,350,000	21.1
2000	2,421,300	2,348,700	2,325,200	2,162,400	-9.1
2001	1,924,500	2,059,300	1,750,400	1,943,000	-11.9
2002	1,943,000	1,670,900	1,437,000	1,494,500	-23.4
2003	1,464,500				

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OBSERVATIONS

(1) Starting with 1980 is of course arbitrary. The stock market from 1966 to 1982, for example, had modest investment returns (which were in fact derived more from dividends than price increases), so that investment returns taking this longer period into account would not be as impressive. Indeed the Dow Jones Industrial Average (DJIA) reached 1,000 for the first time in 1966, and did not exceed the 1,000 level decisively until 1982. The DJIA reflects price changes only, without considering dividends; the S&P 500 figures used by Ibbotson include dividends. Historically, dividends have accounted for almost 40% of overall stock market returns, but during the bull market of the 1980s and 1990s, the dividend yield for stocks has declined to between 1% and 2%. When stock prices are rising, few investors care about dividends; when they are falling, dividends at least provide some positive return.

(2) Even after factoring in the current bear market, the 1980 through Q1 2003 increase of $100,000 to $1.46 million resulted in a highly favorable annualized return of 12.2% (at this growth rate, the value of an investment would double every six years). At its Q1 2000 high, the $100,000 had grown to $2.42 million, for an annualized return of 17.0% (at which rate an investment would double approximately every four years). But the issue we are addressing here is not the long-term favorable returns of stocks, but rather whether investors could successfully time when to add money to, or withdraw money from, their stock portfolios. After what amount of increase or decrease would it have been clear to add money to, or prudent to withdraw money from, an existing stock portfolio? Our view is that you could have studied this data continually and still not have had a good idea as to what the <u>future</u> movement of stock prices would have been.

(3) To support this view, let's look at some of the figures in greater detail.

   (a) From Q1 1980 through Q1 1985 (21 quarters), the stock portfolio more than doubled, but along the way there were six down quarters and two unchanged quarters. Further, four of the five quarters preceding Q3 1982, which marked the start of the long-term bull market that did not end until Q2 2000, were down. At what point was it clear that stock prices would advance, rather than reverse course and resume their prior declines? Surely the news events that moved stock prices then were as unclear and mixed as they are in any time frame. And even if hindsight shows that the news supported higher prices, how can we know at what point that news became priced into the stock levels of that time?

   (b) From Q2 1985 through Q2 1987 (9 quarters), stock prices almost doubled again, only to fall about 25% during Q4, which of course included the Crash of 1987. Note that even with the disastrous Q4, the portfolio value was higher at the end of 1987 than at the end of 1986. Who was prescient enough to exit the booming stock market before Q4 1987? And if investors did exit, did they know when to return as stock prices recovered by mid 1989 to their prior highs, and continued to rise throughout the entire 1990s with only a few interruptions?

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(c) Given the results from the end of the Crash of 1987 through Q1 2000 --a time frame during which $309,000 grew to over $2.4 million-- we need to examine whether that huge increase could have been anticipated by the prior price moves or the ongoing price changes during the period, and whether the three-year bear market from Q2 2000 through Q1 2003, which has reduced the $2.4 million to approximately $1.4 million, could also have been anticipated.

(i) From Q1 1988 through Q1 2000 (49 quarters), there were 8 down quarters. From Q2 2000 through Q1 2003 (12 quarters), there were 8 down quarters. If the dominance of up periods during the 1990s predicted the excellent results of the 1990s, why didn't those positive returns continue into the 2000s? It is easy in hindsight to talk of how high stock prices had become, but who could possibly have predicted when these excellent returns would stop, or predicted the magnitude of the declines that followed. Why didn't stock prices peak in 1997, 1998, or 1999? Again, it is easy now to point to contributing factors, but during the actual occurrence of events, on a day-to-day basis it is all but, impossible to call in advance what is going to happen.

(ii) Even during the fabulous 1990s, there were a few notable down periods, any one of which could have triggered the kinds of declines that have in fact occurred during the 2000 – 2003 bear market. Examples include: Q3 1990 (news highlight was Iraq's invasion of Kuwait); Q1 1994 (beginning of a series of interest rate increases by the Federal Reserve throughout 1994, which caused 1994 to be the worst year for bond returns since Ibbotson started its record keeping as of the year 1926); Q3 1998 (failure of the hedge fund Long Term Capital Management, Russia's default on its bonds); and Q3 1999. So why was it not reasonable for investors, based on the huge recoveries after short down periods that had been the pattern of the 1990s, to believe that the declines that began in Q2 2000 would have a similar favorable outcome? Of course we know now that the 2000 declines did indeed herald a real, severe, extended bear market.

(iii) Examining the 1990s further, who could have predicted, after the mediocre three-year results of 1992 – 1994, the incredible gains of the ensuing five years 1995 – 1999. Those five years saw $687,000 grow to $2,350,000, an average annual return of 28% (at this growth rate, the value of an investment would double every 2 _ years). And even during this fabulous five-years period, there were two significant down quarters, Q3 1988 and Q3 1999. After both of these down quarters, the following quarter in each of those years provided a major recovery. But this pattern clearly did not repeat following any of the quarterly declines starting with Q2 2000.

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(iv) So with all this history, what can we say about the future? We believe the answer is nothing, and that only time will deliver the future pattern of prices. We also believe that all the current problems that fill the news have already been factored into current stock price levels, which means future increases or decreases in these prices are no more obvious now than they have been in prior times.

(4) There are many in the investment community who make a handsome living evaluating either the news of the day, current economic data, corporate earnings trends, or past price movements, and using their analysis to predict future price movements. Respectable market observers have current price change predictions for 2003 that range from -20% to + 40%, and anywhere between. Clearly some will be closer to the actual result than others, and they will become the "expert du jour." But being correct about the future can always be attributed as much to a "lucky guess" as to any brilliant analysis, because no one can predict the future.

Media and Wall Street want you to react to all these news events; the media because you will tune in, and Wall Street because you will react by making changes that create the transactions on which Wall Street thrives. We believe that by the time you decide to react to the crises of the day it is too late, and that the active traders have already bought and sold to bring prices to levels that account for the news. We also believe that the active traders are often wrong in their reactions to the news, either buying or selling too much, or at extreme price points. We are convinced that casual market participants, reacting to news hours or days after events occur, are unlikely to benefit from actions taken based on their market timing efforts or systems.

During the current bear market, explanations for stock declines have included a weak economy, weak corporate earnings, stock prices too high to be supported by corporate earnings, rising unemployment, rising oil prices, weakening dollar, corporate and accounting fraud, major corporate bankruptcies and near-bankruptcies, war, terrorists, Palestinians, North Korea, and on and on. There is no doubt these factors have had an impact on stock pricing, but there is no way anyone could predict, in advance, the MAGNITUDE of the impact, either in amount or time. And it is the MAGNITUDE and DURATION of price changes that create results that prove to be either significant or insignificant.

Even within the current three-year bear market, there was the Q4 2001 recovery in stock prices following the most traumatic event of our time, the attacks of 9/11/01. This recovery could easily have lulled investors into a false confidence, particularly those looking back to the recoveries following the 1998 and 1999 Q3 declines. Why would it not have been reasonable for investors to believe the Q4 2001 recovery was the beginning of better times, rather than the prelude to 2002, which essentially doubled the declines of 2000 and 2001 and created the most severe bear market for stocks since 1929 – 1932 and 1973 – 1974?

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ADVANTAGES OF REBALANCING AS COMPARED TO MARKET TIMING

If MARKET TIMING does not work, what does? We recommend the idea of REBALANCING as a more productive, albeit imperfect, approach to changes in your portfolio. REBALANCING refers to the strategy of returning to your initial asset allocation between stocks and bonds whenever changes in market prices cause a change in your portfolio's allocation of a predetermined percentage. (This idea was discussed in detail in our May 2002 Comments, the most pertinent portions of which are repeated here).

To best understand Rebalancing, assume that you had a $1 million portfolio in 1994 with an initial allocation of 50% stocks and 50% fixed income (the latter including both bonds and cash equivalents). From 1995 to 1999, stock prices soared, such that at the end of 1999 the stock portion of your portfolio would have grown from $500,000 to $1,700,000 (240%), while the bond portion would have grown much more modestly, from $500,000 to $650,000 (approximately 35%). The stock allocation would then have grown to 72% of your portfolio's value, or $1.7 million out of a total of $2,350,000. The principle of Rebalancing would suggest selling enough of your stock portfolio and buying enough bonds to return to the initial 50-50 allocation. While most people resist selling when stock prices are rising, the idea of Rebalancing moves you in the direction of selling when prices are high.

Tracking this illustrative portfolio from the start of 2000 through April 2003, a period during which Stocks are down approximately 39% and Bonds are up approximately 30%, the following results emerge:

Rebalanced

	Total	Stocks	Bonds
Start 1/1/00:	$2,350,000	$1,175,000	$1,175,000
Starting Allocation Percentage:		50%	50%
Current 4/25/03:	$2,240,000 (-$110,000)	$715,000 (-$460,000)	$1,525,000 (+$350,000)
New Allocation Percentage:		32%	68%

Not Rebalanced

	Total	Stocks	Bonds
Start 1/1/00:	$2,350,000	$1,700,000	$650,000
Starting Allocation Percentage:		72%	28%
Current 4/25/03:	$1,880,000 (-$470,000)	$1,035,000 (-$665,000)	$845,000 (+$195,000)
New Allocation Percentage:		55%	45%

OBSERVATIONS ON REBALANCING

(1) The Rebalanced portfolio is $360,000 (i.e., the difference between $2,240,000 and $1,880,000), or almost 20%, higher than the Non-Rebalanced one. This is an obvious result, since Rebalancing would have taken money out of stocks, near their highpoint and prior to the current Bear Market, and put that money into bonds, which have had above average returns since 2000. Note also that in accounts subject to taxation, capital gains taxes from the stock sales required to rebalance the portfolio would reduce to a certain extent the dollar differential presented.

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(2) For the purpose of clarity, and with the benefit of hindsight, the illustration presents a more than 20% increase in the stock allocation (from 50% at the end of 1994 to 72% at the end of 1999, as described on page 10) before Rebalancing. A more typical range would be 10%. Using 10% as the trigger for Rebalancing would have meant selling before the top of the 1995-1999 Bull Market, resulting in a less favorable result than presented in the illustration, but still showing a better result than the Non-Rebalanced portfolio.

(3) Much less obvious, but equally valid, is that the Rebalanced portfolio would now suggest adding 18% to stocks, thereby increasing the Stock allocation back to 50% and decreasing the Bond allocation back to 50%. In other words, Rebalancing also calls for buying the stock market when it is down, even as most people want to abandon it or rue the day they invested in it and didn't sell.

(4) While this strategy might look like Market Timing, it absolutely is not. Market Timers try to predict, in advance of market price moves, whether to be in or out of the market. By contrast, the Rebalancer says, in advance, that if there is a market price move of 10%, 15%, or 20%, that is the time to reposition the portfolio back to the initial asset allocation. There is no guesswork as to what future price moves will be, but rather only a response to prior price moves that forces the investor to sell the asset class doing well and buy the asset class doing poorly. This is a Sell High, Buy Low strategy, and while it may seem counterintuitive, it is a reasonable way to keep your own objectives paramount and avoid some of the nastier consequences of markets that swing to extremes, both overbought and oversold. As a current example, the recent "flight to safety", away from stocks and into U.S. Treasuries, has created a situation in which interest rates have declined to lows not seen in decades, with bond prices increasing to correspondingly high levels.

(5) Investors willing to use this Rebalancing discipline should not pick and choose when to follow the strategy; it should be automatic once significant price movements occur to the extent of their predetermined percentage allocation change. This means ignoring all the "gloom-and-doomers", whether the bad news is about the economy, corporate profits, accounting issues, terrorists, or regional wars. There are always reasons to ignore a discipline; during the Bull Market, many people came to believe stocks were in a new era and could only go up; now these same people believe the stock market is a perpetual loser. **Time, and the history of stock price movements, have proven both those points of view wrong, and instead favor those investors who can allocate properly, and then Rebalance their allocation periodically to take advantage of a Sell High, Buy Low discipline. As your Advisors, we carefully monitor the broad stock and bond markets to ensure that you have the opportunity, if you so decide, to Rebalance to the allocation appropriate for your situation.**

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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)%
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II. Figures From Period Starting 1995 (% Figures Are Gains From 1/01/95)						
Start of 1995	459		3,834		752	
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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%
Apr. 25, 2003	899		8,306		1,434	
8.33 Year Gain; Annualized %	440	8.4%	4,472	9.7%	682	8.0%

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