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JULY 2003 COMMENTS

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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.

COMMENTS: INDEX RESULTS, period ending July 25, 2003

	<u>YEAR</u>	<u>YEAR</u>	<u>YEAR</u>	<u>YEAR</u>	<u>YTD</u>	<u>CURRENT</u>
<u>STOCKS</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>MONTH</u>
Total Stock Market				(23.4)%	15.9%	2.9%
S&P 500	19.6%	(10.1)%	(13.0)%	(23.4)%	13.5%	2.5%
S&P 500 Growth	28.8%	(22.2)%	(13.0)%	(23.7)%	14.3%	3.5%
S&P 500 Value	12.6%	6.1%	(12.0)%	(20.9)%	15.4%	1.7%
Dow Jones Industrials	25.2%	(6.2)%	(7.1)%	(16.8)%	11.3%	3.5%
NASDAQ Comp.	85.6%	(39.3)%	(21.0)%	(31.5)%	29.6%	7.9%
MidCap US	25.0%	2.6%	(4.8)%	(16.3)%	14.3%	3.0%
Small Cap US	19.6%	(4.2)%	1.0%	(21.6)%	21.6%	4.8%
Intl, EAFE	25.3%	(15.2)%	(22.6)%	(17.5)%	14.1%	3.2%

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

Taxable	(0.8)%	11.3%	8.3%	8.2%	1.9%	(1.7)%
Tax-Exempt	(2.9)%	9.2%	5.0%	7.9%	1.4%	(1.7)%
High Yield Taxable				1.7%	9.8%	(0.6)%

	<u>1999</u>				<u>2000</u>				<u>2001</u>			
	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
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

	<u>2002</u>				<u>2003</u>			
	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
S&P 500	0.0	(13.8)	(14.1)	4.5	(1.8)%	12.8%		
NASDAQ COMP	(5.5)	(19.5)	(13.5)	7.0	2.5%	19.2%		
BONDS Interm. Taxable	0.0	2.8	3.6	1.8	0.9%	2.7%		

JULY 2003 COMMENTS

During the July period ending Friday, July 25, **STOCK PRICES** increased for the fifth consecutive month. For the period, the S&P 500 was up 2.5%, and is now up 13.5% year-to-date; the Dow Industrials were up 3.5%, and are up 11.3% year-to-date; and the NASDAQ Composite gained 7.9% for the period, and is now up 29.6% year-to-date.

While the year-to-date percentage increases are considerable, it should be remembered that after a decline of a certain percentage, the percentage increase required to regain the amount of the decline is a much higher number. For example, the S&P 500's decline from the year 2000 high of 1,527 to the October 2002 low of 777 was 49%. Such a loss would require a gain of 750, or 97%, to return to 1,527. In the case of the NASDAQ Composite, the decline from the year 2000 high of 5,048 to the October 2002 low of 1,114 was 78%, and requires a gain of 3,934, or 353%, to return to 5,048. Figures on page 4 make this point clearly: the S&P 500 at 999 has gained 28.6% from its October 2002 low, but is still 528 points, or 53%, from its previous high; and the NASDAQ Composite at 1,730, up an impressive 55% from its October 2002 low, is still 3,318 points, or another 192%, from its previous high.

Second Quarter corporate earnings appear to have been received favorably by investors, as evidenced by the continuing increase in stock prices, in spite of on-going issues regarding the quality of these earnings (see WSJ article, 7/28/03, Section C, page 1; copies available on request). Optimistic forecasts regarding the potential for a solid economic recovery also appear to be helping the rise in stock prices. These same forecasts appear to have had a significant impact on interest rates, driving them higher, causing bond prices to decline. The subject of declining bond prices is discussed in more detail on page 5.

BOND RETURNS (price change plus interest) were significantly lower for the July period, during which high-quality intermediate-term taxable and tax-exempt bonds both declined (1.7)%. Year-to-date, these same bond returns have shrunk to positive 1.9% and 1.4%, respectively.

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

The stock market rally of 2003 has now extended to five consecutive months, during which the S&P 500 has gained 18.4%; the increase from the 2002 low is 28.6%. However, as the chart below indicates, the three-plus month rally from September 2001 to year-end 2001 also produced substantial gains, and was then followed by the major declines of 2002. While the current recovery is now longer and more substantial than the 2001 rally, it is still not clear whether current and future conditions will allow for a continuation of these favorable returns.

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 9). Note that all three indexes have positive average annual returns of 9.5% to 10.8% from the end of 1994 through Jul 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.

	<u>S&P 500</u>		<u>DOW</u>		<u>NASDAQ</u>	
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)%
July 25, 2003 Close	999	(35)%	9,285	(21)%	1,730	(66)%

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

End 1994	459	3,834	752
End 1999	<u>1,470</u>	<u>11,500</u>	<u>4,070</u>
Gain	1,011	7,666	3,318
Avg. Annual % Gain, '95-'99	26.2%	24.6%	40.2%
As of 7/25/03	<u>999</u>	<u>9,285</u>	<u>1,730</u>
Gain	540	5,451	978
Avg. Annual % Gain, '95-6/27/03	9.5%	10.8%	10.2%

BOND PRICES AND RISING INTEREST RATES

As mentioned on page 3, Bond prices suffered substantial declines during the period ending July 25, reversing a trend of higher prices that began in 2000 and reached its peak during May –June 2003. Rising interest rates cause bond prices to decline, while falling interest rates cause bond prices to rise. Therefore the reasons for changes in interest rates hold the key for explaining changes in bond prices.

When the economy began to weaken in 2000 – 2001, the Federal Reserve began to lower the short-term interest rates it most influences in an effort to stimulate the economy. This effort has continued right to the present, and only recently have economists begun to predict at least a reasonable economic upturn. Such an upturn would tend to move interest rates higher. On the other hand, as recently as May 2003, Fed Chairman Greenspan spoke of possible deflation, a condition of generally declining prices that would tend to drive interest rates lower. Viewed in a three-plus year time frame, the interest rate on 10-year U.S. Treasuries has declined from over 6% in early 2000 to just over 3% in mid-June 2003. The current rate for this benchmark bond is now just over 4%, approximately the same level as December of last year.

In terms of how this recent increase in interest rates affects our approach to bond investing, we would make the following points:

- (1) Bonds are a key component of our overall asset allocation advice. Since cash/money market yields are still quite low (under 1%), and the other liquid asset category, Stocks, is much more volatile, we continue to advocate allocations to Bonds, the extent of which depends on each client's particular circumstances.
- (2) We emphasize short-term, high-quality bonds, the prices of which are least affected by changes in interest rates. We also have allocations to intermediate term bonds (maturities averaging six years), and to high yield ("junk") bonds, but our largest bond holdings for most clients are short-term, high-quality bonds. An article in the NY Times Financial section (7/27/03, page 6; available on request), discusses the price sensitivity of different categories of bond investments.
- (3) Even as prices for existing bonds decline during periods of rising interest rates, when these bonds mature their proceeds will be reinvested in bonds with higher interest rates. This is the "good news" feature to higher interest rates. Over time, economic cycles move interest rates higher and lower. Bonds mature, and are replaced by new bonds at whatever the then-current rates are for a given range of maturities and quality. We believe indexed bond mutual funds --which hold many individual bonds and, in the context of the fund's overall approach, a variety of maturities-- provide a particularly sound way to handle the ups and downs of interest rate movements.
- (4) Based on the above factors, we do not advocate significant changes to existing diversified bond portfolios, any more than we advocate trying to time the movements of stock prices. Short-term price changes are part of the liquid market landscape, and are not a reason to alter established asset allocations that are appropriate to each client's specific circumstances.

INDEXED INVESTMENTS

As you know, we advocate indexed investments to implement our asset allocation advice. From time to time, a review and update of this methodology are in order.

WHAT ARE INDEXED INVESTMENTS?

Indexed Investments seek to achieve investment results that are **EQUAL TO** the segment of the marketplace that is the subject of the index. For example, an S&P (Standard & Poors) 500 indexed investment seeks to achieve an investment result equal to the performance of the S&P 500 Index over any given time period. The S&P 500 Index consists of 500 of the largest U.S. companies measured by market value, i.e. "Large Cap". (Market value is determined by multiplying price per share by the number of shares outstanding). The S&P 500 Index is only one of many indexes available for both stock and bond investments.

The single most important characteristic of an indexed investment is that it is managed **PASSIVELY**, which means there are no managers picking and choosing specific investments that those managers believe are going to provide superior investment results. (By contrast, Active Management involves the "picking and choosing" of individual stocks and bonds.) Instead, all stocks/bonds that meet the criteria of the index are included in the investment, with no effort made to add or remove stocks or bonds on an individual basis. (Note: some indexes would include so many stocks or bonds that statistical models are used instead to choose representative securities to make up the index).

Passive Management does not, however, mean that all indexes for particular market segments are the same. For example, there are a variety of indexes that seek to capture the investment results of the "Small Cap" segment of the stock market. Small Cap refers to stocks whose market values are among the smallest of publicly traded stocks. Because there are so many of these stocks, parameters for inclusion in an index need to be established. In the Small Cap category, the Russell 2000 Index includes 2000 of the Small Cap companies, whereas the S&P Index for Small Cap has 600 companies. Since each index has its own set of criteria for inclusion, there is often significant variation in the performance of different indexes purporting to cover a particular market segment such as Small Cap. For a discussion of this issue, see the article in the July 2003 edition of *Financial Planning* magazine, pages 89 -93 (copies available upon request).

Until the last few years, indexed stock investments were found primarily in mutual funds. More recently, an entirely new category of indexed stock investments referred to as Exchange Traded Funds (ETFs), which are bought and sold throughout the day like individual stocks (as opposed to mutual funds, which can only be bought or sold at the end of the day), has emerged. There are still relatively few ETFs for indexed bond investments. Most of our bond investing on your behalf occurs through indexed mutual funds.

ADVANTAGES OF INDEXED INVESTMENTS

- Lower Management Costs to Investors, primarily because no research or individual stock/bond selection process is involved. This point assumes investors are using the low-cost indexed investments available to them.
- Fewer Transactions Within the Portfolio, which tends to keep costs and tax consequences lower. However, certain indexes may have significant numbers of transactions if the securities in the investment no longer qualify for the index. For example, successful Small Cap Stocks that become too large for the index have to be sold to maintain the integrity of the index. In indexed mutual funds, such sales incur transaction costs and capital gains taxes that flow through to the investor.
- Indexed Investments Tend to Outperform Actively Managed Investments over time, primarily due to the cost advantages. To quote John Bogle, the long-time proponent of indexed investments with Vanguard, the predominant indexed mutual fund company, in attempting to explain the disparity, since 1984, between the average stock fund's 9.3% annual return as compared to the S&P 500's 12.2% annual return: "What accounts for these shortfalls? They are largely created by the costs incurred by mutual funds. How could it possibly be otherwise? With expert professional investors dominating the financial markets, as a group they must earn the market return before costs (a zero-sum game) and fall short of the market by the amount of the same costs they incur in the futile effort to gain an edge (a loser's game)." (Emphasis added; Wall Street Journal (WSJ), July 8, 2003, page A16. Copies available upon request).

Reaching a similar conclusion, an S&P equity analyst is quoted in the July 10, 2003, WSJ Mutual Funds section (copies available on request), as follows: "During the short term, the indexes might outperform active funds and active funds might outperform indexes. But if you extend the analysis to longer periods like three years and five years, the pattern that emerges is that in most style boxes, active funds underperform indexes." (Note: A style box combines a size component and an "investing style" component; examples include Large Cap Growth and Large Cap Value. Growth and Value are additional ways to categorize stock portfolios, based primarily on the relationship between the price of the stocks and their underlying profit and balance sheet characteristics.)

- Precision. Using indexed investments allows investors to achieve greater precision in their investment portfolios, since each investment represents a particular part of the market whose components are known in advance. By contrast, actively managed mutual funds and/or accounts managed with individually selected securities can have substantial variation in their component parts. For example, the S&P 500, S&P 500 Growth, and S&P 500 Value categories all have precisely-defined holdings, whereas a fund or manager purporting to focus on these categories can end up with a portfolio that has any number of securities that do not conform to the overall category.

DISADVANTAGES OF INDEXED INVESTMENTS

- No Opportunity to Outperform the Indexed Segment. The necessary corollary to seeking results that equal a market segment is that the investment will not outperform the results of that segment in any given time frame. The actively managed investment community emphasizes the opportunity to achieve market-beating results, and indeed many funds and managers do achieve such results, some over extended time frames.

Those who favor indexing counter this possibility of outperformance as follows: (1) Bogle's point that overall, active funds cannot outperform the market indexes because of costs, and the "zero sum" result of all the market participants taken together; and (2) the difficulty, if not impossibility, of identifying in advance the future outperformers. Here the point that past performance is not a predictor of future results becomes the controlling principle.

Advocates of active management point to their flexibility, compared to the more rigid methodology of indexing, as an important factor that increases the likelihood of outperformance. For example, in a down stock market active managers can sell stocks and not reinvest the proceeds. In addition, they can sell stocks that appear to have become obvious losers; recent examples include Worldcom and Lucent. The stock indexes, in contrast, cannot raise cash in a down market, and cannot sell stocks that are declining in value unless and until they decline far enough to no longer meet the criteria of the index. Advocates of indexing counter that raising cash could end up a mistake when stock prices reverse their downward trend; in other words, they do not advocate trying to time the market's ups and downs. They would also point out for every seller of a so-called "obvious loser", there is a buyer who thinks that stock will recover from its decline; some recent examples of sharp recoveries include Intel and Cisco Systems.

SUMMARY

We believe the advantages of using indexed investments outweigh the disadvantages, and continue to utilize these investments in our work on your behalf.

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 <u>Low</u>	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 <u>Low</u>	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)%
July 25, 2003	999	(32.0)%	9,285	(19.3)%	1,730	(57.5)%

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

Start of 1995	459		3,834		752	
End of 1999	<u>1,470</u>		<u>11,500</u>		<u>4,070</u>	
5 Year Gain; Annualized %	1,011	26.1%	7,666	24.6%	3,318	40.2%
End of 2001	<u>1,148</u>		<u>10,020</u>		<u>1,950</u>	
7 Year Gain; Annualized %	689	14.0%	6,186	14.7%	1,198	14.6%
End of 2002	<u>880</u>		<u>8,342</u>		<u>1,336</u>	
8 Year Gain; Annualized %	421	8.5%	4,508	10.2%	584	7.5%
July 25, 2003	<u>999</u>		<u>9,285</u>		<u>1,730</u>	
8.6 Year Gain; Annualized %	540	9.5%	5,451	10.8%	978	10.2%



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