

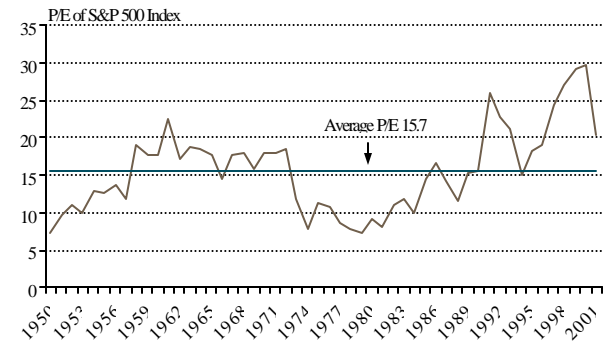
ASSET MANAGEMENT COMPANY

FIRST QUARTER 2001

### TODAY'S MARKET

Warren Buffett once said, "Be fearful when others are greedy and greedy only when others are fearful." We have seen a long period of greed be replaced by one of fear, especially in this recent quarter. The first quarter of 2001 was a difficult one for stock investments: The S&P declined 11.9%, the Dow fell 8.4% and the NASDAQ tumbled 25.7%. Indeed rather scary statistics. However, we view this market opportunistically for many reasons. For one, we now see stock valuations at much more reasonable levels — levels that have the ability to deliver superior returns going forward. Secondly, many high-quality companies have fallen victim to "guilt by association," by operating in industries that have fallen out of favor on Wall Street. We believe that this pessimism presents opportunity.

In 1999 and early 2000, stock prices ran up to unsustainable levels. When the Federal Reserve started to increase interest rates in June 1999, the financing of new projects became more expensive, which in turn slowed capital spending, especially on new technologies. This effect manifested itself in the corporate profitability of technology companies towards the end of 1999. Additionally, oil prices skyrocketed in 1999, which eroded consumer discretionary income. These two factors combined to diminish investor expectations for sustained earnings growth — a major driver of price-to-earnings (P/E) ratios. As indicated by the following chart, we have witnessed a major compression of the average P/E ratio of the S&P 500 over the last year.



Source: <http://hometown.aol.com/WCrimi/sp500.html>; Zacks Investment Research

A bear market is defined as a 20% or greater decline. The NASDAQ has declined a record 64% since its March 2000 high, and the S&P 500 has lost 23% over the same period. A 20% or greater decline is not uncommon, as the chart on the next page shows. Bear markets have occurred an average of once every five years since 1946. On average, these bear market declines last for about 15 months, although the length varies greatly. Afterwards, it has taken an average of 19 months for the stock market to return to its previous peak. This means that every bear market in history has been a good opportunity to buy world-class companies less expensively. This bear market will not likely prove different.

Nobody knows when the "bottom" will be reached, but it will be reached, and we're a lot closer to it now than we were one year ago. The most effective action we can take as investors is to continue to add investments into the stock market whenever we have money to invest for at least three to five years.

Given its average return since 1926, \$5,000 invested in the S&P 500 for 10 years will grow to \$14,261. In

Length of Decline (mos)	S&P 500 Index Decline from Relative Peak	Recovery Period (mos)
37	-30% 1946-49	16
15	-22% 1956-57	11
7	-28% 1961-62	16
8	-22% 1966	10
18	-36% 1968-70	23
21	-48% 1973-74	70
18	-20% 1976-78	18
20	-27% 1980-82	5
4	-34% 1987	19
3	-20% 1990	6
12 so far	-23% Mar. 2000-3/31/01	???

Source: Wall Street Journal 3/6/01; Interactive Data Corporation

20 years, the investment grows to \$40,676. In 40 years, it grows to \$330,912. That's just \$5,000 put into the S&P 500 index. And if you're investing more money during a decline, you could perform even better in the long run. Now, if only the financial media made this point more often, instead of reacting to each day individually — as though each day's movement were all-important.

## MARKET OUTLOOK

While no investor likes to see the value of his or her investments decline, long-term investors should rejoice at the decline in the equities markets. It is a signal that the market still reacts rationally to available information, and provides investors the ability to take advantage of weakness.

Many people expect the Federal Reserve to lower interest rates again next month in order to boost consumer confidence and aid economic growth in the long run. Whether or not a rate cut occurs, the economy will continue to have challenging times for at least the next several months. As investors, we need to remember that economic downturns are a natural part of investing in a public market, and as such are unavoidable.

Going forward, we agree with many of the prognosticators who predict a firming of the economy later this year. As the Federal Reserve eases credit, we believe that capital spending will pick up and, in turn, earnings will increase among technology companies. We believe that stock prices will increase as a result, but not back to the levels we saw early in 2000 for quite some time. Just as this was a technology-led sell off, we believe there will be a technology-led recovery.

U.S. monetary policymakers and corporate managers have reacted quickly to this slowdown, and each in turn has aggressively eased credit and announced record layoffs. We believe this is a classic inventory correction cycle, not a structural economic change, and as such will work itself out over the rest of the year.

Armed with a long-term perspective and our guidance, we are encouraging our clients to relax as we navigate through this volatility and are “greedy” on their behalf. If you would like to receive additional information on how Obermeyer Asset Management can help you reach your financial goals, please call us anytime at (970) 925-8747, or (800) 337-0933.