Obermeyer
ASSET MANAGEMENT COMPANY

FIRST QUARTER 2003

After much saber rattling, the war with Iraq has finally begun, at least removing some uncertainty over the level of U.S. commitment to removing Saddam Hussein. A much anticipated relief rally has taken place amid a continuing broad market sell-off, which has tested the patience of even the most steely-nerved equity investors. As such, for the 1st quarter of 2003 the S&P 500 was off 3.2% and the Dow declined 4.2%.

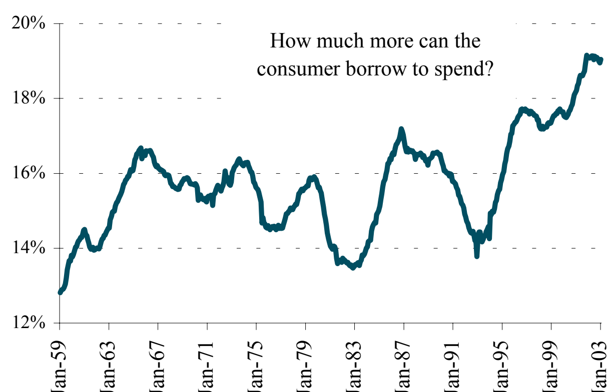
In the financial markets, investors have buoyed stock investments off the earlier lows as a perception that headway toward peace and stability in the Middle East has taken hold. While many elements of the investment environment are improving, our policy is to remain cautious due to the challenging economic fundamentals that persist. Moreover, we are careful not to count on the terrific returns experienced by investors following Desert Storm of 1991. This time around there are several important contrasts of note:

1. There is a lack of a broad coalition that sees fit to undertake a costly and dangerous displacement of Hussein. Our go-it-alone attitude does not sit well with some important trading partners of the EU or Southeast Asia. In addition, U.S. taxpayers will almost entirely pick up the cost of this war as opposed to the 1991 war, which was almost entirely funded by foreign governments.

2. The implication of a Saddam-less Iraq as opposed to a Saddam-less Kuwait may mean that the region remains somewhat destabilized, with an ensuing civil struggle between Shiite, Sunni and Kurdish factions over control of Iraq's vast petro-wealth. The broader implication is that U.S. forces may need to remain in a hostile environment indefinitely to keep order and protect its interests, but in the process become targets for guerrilla fighters and regional terrorists.

3. The condition of today's macroeconomy vs. that in 1991 is more challenging. In 1991, the economy was being fueled by the strong credit expansion policies of the Federal Reserve Board (lowering interest rates). After a 20-year period, this trend is nearly over as interest rates are at a 50-year low and consumer debt is at an all time high (see chart below). In addition, in 1991 the U.S. capitalist system had recently prevailed over the centrally planned economics of the Soviet and Eastern Bloc. The dominance of capitalism was being priced into the stock market, but today certain influential countries continue to embrace central planning.

Consumer Debt as a % of Personal Income



Source: www.freelunch.com

4. In 1991, critical mass in information technology was beginning to take shape, namely by those operating in the personal computing industry. At present, the future growth of this industry is adequately priced into most issuer's securities and new applications to drive hardware and software sales are scarce.

The good news is that valuations continue to improve and that sooner or later, cheap capital may stimulate/improve demand. Our perception is that absent a multi-year occupation of Iraq, the war should have more of a short-term effect (what the effect will be is unknown) rather than acting as a long-term drag on financial markets. The mode of combat operations (to create the least amount of collateral damage to the Iraqi citizenry and infrastructure as possible) makes it difficult to achieve quick victories, but it has a positive effect on our public relations and political efforts. This will be important in maintaining strong ties with our foreign trading partners.

Understandably, you may be concerned with the geopolitical scene and its impact on financial markets and your portfolio. Yet, the key ingredient to reversing the trends that confront today's investment climate in the U.S. is most likely to be time — time for the development of new technologies that enable demand and productive capacity, time for the domestic workforce to retool its skill set to create and support new opportunities, and time to work off the overcapacity that currently exists and for obsolescence to spur replacement. With each passing day, opportunities improve, but in our view, continuing our focus on fundamentals and valuations will help manage risk and provide the best risk/return tradeoffs.

For our clients, we plan to continue making bond investments in those with short durations and good credit for yield pickup over money market rates. Inflationary pressures have indeed been building through recent credit expansion, which has been signaled by the recent rally in gold prices. Therefore, we will not try to chase high-yields with longer maturity bonds because we don't see nearly as many values. For stocks, we will stick with investments made either by fund managers who have a strong bear market or value track record (in the case of mutual funds), and/or in companies that have strong balance sheets, viable business models, good cash flow and attractive valuations.

If you believe that a change in strategy for your current investment portfolio may be warranted, please contact us for a *no-obligation* review. We continue to work hard to manage our clients' investments with both caution and opportunism, and believe that the uncertain investment environment can be managed effectively despite any market outcome that may lie ahead.