



ASSET MANAGEMENT COMPANY

THIRD QUARTER 2001

TERRORISM

The terrorist events of September 11th touched us all. Our hearts go out to everyone affected, particularly those who gave their lives to save others and to the young children who lost parents. These atrocities against innocent civilians of all ages are unspeakable, yet they have galvanized our nation, and indeed the civilized world, in a fight for justice and security.

The path that lies ahead of us is unknown but the task and outcome are certain; we have no choice but to eradicate this terror at its roots. There will be challenges, lives lost, and, quite possibly, more terror as we strike its source. But we are a great nation and a great people, and our leadership role in the free world mandates that we stand tall, pull together, and accept this responsibility—not just for ourselves, but also for future generations.

OUTLOOK

We are confident that our nation and our economy will prevail. Now is a time to have faith in our country, our leaders, each other, and our economic resiliency. Business in the U.S. (and we suspect the rest of the developed world) won't be quite as efficient as we allocate more resources to our security. But, over time and as we make adjustments, we will again operate efficiently in this new environment, and our human and economic spirit will flourish.

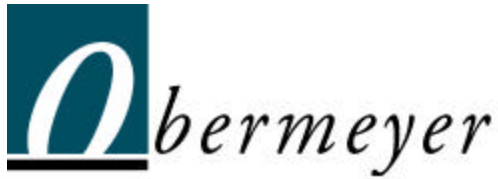
Investing in this climate has been challenging. The table below shows selected returns for the major

market indices and end of period short-term interest rates for 1999, 2000 and YTD 2001 (through 9/30/2001).

	YTD through	2000	1999
S&P 500	-20%	-9%	+21%
Dow Jones Industrial	-18%	-6%	+25%
NASDAQ	-40%	-39%	+86%
Short Term Interest Rates	3.1%	6.5%	5.2%

Just as the incredible returns of 1999 reverted to the mean, so too we suspect the negative returns of 2000 and 2001 YTD will be followed by moderately positive returns.

Bolstering this view of better times ahead for equities, we see the once widespread disconnect between value and price disappearing. While in some sectors there is still room for further correction, we anticipate that this post dot.com era—dubbed “the hangover” by Warren Buffett—will be followed by a sustained period of more rational pricing and indeed reward for the disciplined and patient investor. The momentum-oriented speculators are finding it increasingly difficult to make money in this environment, and their fleeting wisdom shall become the stories of times past.



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The volatility of yearly stock market returns drive home the age-old wisdom of not putting money into stocks that is needed short-term. Indeed, we suspect that if one only viewed the rolling average 5-year return figures for their portfolio, returns would look much more stable and investor reaction and concern would be moderate. We understand that up-to-the-second pricing and media hype about falling stocks makes it difficult to remain detached and to take a long-term view.

STRATEGY

Last year and this year, we have made a number of changes for our clients. In general, these changes have been to shift equity holdings (whether in mutual funds or individual stocks) to more of a value orientation. This fits more with our investment philosophy than does the get-rich-quick, speculative timing game played by so many. Focusing on intrinsic value of a business makes daily market fluctuations less important.

To implement this greater value orientation we have bolstered our analytical models, which we use to estimate a stock's intrinsic value. We have also diversified some investments into higher yielding convertible bonds and REITs. The high yields have been particularly attractive in light of the decrease in short-term interest rates and economic uncertainty, and we believe will serve to limit downside risk.

On the fixed income side, we have responded to lower short-term interest rates by selectively lengthening duration. We continue to stay away

from the more interest rate sensitive long-duration bonds due to the likelihood of higher long-term inflation and interest rates, which will cause bond prices to fall. Our current thinking is that intermediate and long-term bonds will come under pressure as the government surplus fades due to lower capital gains tax revenue, lower corporate profits (and taxes), and government spending increases, particularly as we launch our fight against terrorism.

It is our job to identify the beneficiaries of this unprecedented investment landscape, and to put our clients' funds to work in a way that provides superior returns within their comfort zone. We take our business seriously and are concerned about the long run effects of terrorism. Remember that we still have the most efficient capital market system, an investment-friendly government, transparency in our reporting standards, superior technology, a deeply talented labor pool, and above all, an incomparable entrepreneurial spirit.

We are confident that opportunities exist in any market, whether it is foreign or domestic — stocks or bonds. If you would like information on how Obermeyer Asset Management Company searches for these opportunities, or how we can help you to reach your financial goals, please call us anytime at 925-8747, or (800) 337-0933, or visit our web site at www.obermeyerasset.com.