



ASSET MANAGEMENT COMPANY

THIRD QUARTER 2002

So far this year, being a stock investor has been an unpleasant experience. The S&P 500 returned -28.2%, the Dow -24.2% and the NASDAQ -40.1% as of 9/30/02. However, our conservative approach has helped mitigate much of the downside within our customers' portfolios. In addition, we view this recent period as one where the stock market has become more rational in its pricing and one where the universe of opportunities has improved.

Recent movements on the geopolitical scene, a decline in sentiment, and signs of improving economic fundamentals have made this a confusing investment climate. Global turmoil combined with a third year of negative returns in stocks has challenged the patience of many investors, as evidenced by the record mutual fund redemptions.

Uncertainty in the Middle East has increased. Interest rates are at 40-year lows and still declining, and the stock market is still expensive (by valuation measures not price level). The pundits on TV keep saying that we've bottomed, but the financial press seems to take delight in scaring us with new scandals. In this environment it's tempting to take a 4% return in bonds and relax for a while. Yet patience and fortitude are key elements of successful investing.

For longer-term investors, this is why we believe we should not give up on stocks: *It seems to be that when things look bleak that the best opportunities exist.* And we are finding compelling investments despite the higher valuation of today's versus previous bear markets. This is due in part to the price decline of the last three years, and more recently by large equity mutual fund redemptions. The good news is that some babies have been thrown out with the bathwater.

Regarding the economy, there may be short-term pressure on oil supplies, and the negative wealth effect could put a crimp on a recovery. However, we have minimized our exposure to this scenario by buying stock in businesses (or mutual funds that invest in businesses) that should survive and thrive whether or not the economy grows. Moreover, we invest in companies that we believe have a bright future **and whose stock is attractively priced**, not necessarily those companies that are popular with other investors.

For bonds, we can earn significant returns over cash by extending maturities a little bit, but not too much whereby there is excess risk. With inflation near record lows, we can earn a tidy real return in the 3% range with limited risk.

To hedge against another market shock like that of 9/11, we are making investments (in most equity accounts) in gold. Its defensive characteristics as well as global economic fundamentals have converged to make it a compelling investment. Also as a hedge, we have been increasing investments in both REITs and emerging markets. Tangible assets provide a good inflation hedge and a weak dollar makes higher returns abroad more probable.

In short, we are optimistic about the future, despite having been through a long, difficult market. We will remain disciplined in our methodology to provide our clients with efficient portfolios with good risk/reward characteristics. We will strive to help our customers meet their objectives in both good times and in difficult times. To find out more, please give us a call at (970) 925-8747 or (800) 337-0933 to speak with an investment professional.