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Portfolio Recommendations - Crummer SunTrust Investment Portfolio 2001

Thilo Hoffman
Rollins College

Bryan Rich
Rollins College

Andy Wilkinson
Rollins College

Portfolio Recommendations

Crummer SunTrust Investment Portfolio

As Presented by Thilo Hoffman, Bryan Rich and Andy Wilkinson

Dr. Richard Deaves April 2001

CRUMMER
GRADUATE SCHOOL OF BUSINESS
ROLLINS COLLEGE

SUNTRUST

Profile of Individuals

Bryan Rich is a former foreign exchange trader with a UK based macro-hedge fund. His experience includes the analysis of global economic fundamentals, political environments, and relationships within the capital markets, as they effected fluctuations in the global foreign exchange markets. He has pursued an MBA to achieve stronger quantitative and analytical skills with specialized focus on securities analysis and portfolio management. In addition, Bryan is a candidate in the CFA program and is a licensed futures and options representative with the Securities and Futures Authority (UK).

Thilo Hoffmann was born in Germany and has lived in the US and Canada for the past eight years. He studied Biochemistry and Biophysics as an undergraduate and was enrolled in a Ph.D. program for three years studying genetic processes involved in leukemia development. After the decision to change his career path he enrolled in the Crummer Graduate School of Business MBA program where he has concentrations in finance and management. Following the program, Thilo would like to move into the equity research area of a major financial institution.

Andrew Wilkinson is a British citizen studying for his MBA in the US and will graduate having specialized in finance. As a former interest rate portfolio manager with a UK merchant bank, he has almost a decade's worth of trading experience and has been publishing a weekly economic commentary to dealers in London and Chicago aimed at providing a long run assessment of central bank activities, country statistics and analyzing the current structure of yield curves. The aim of MBA study is to sharpen consulting, strategic and managerial thought processes while experiencing a different culture. Andy is also a registered representative of the SFA in Britain.

Executive Summary

Our decision making process has been guided this year by the fundamental change in the economic and capital market situation. The sudden shakeout in the technology sector has rationalized the price to earnings ratios and arguably provided levels at which a stronger "value" driven justification might be made to include those stocks. We have recommended no change to the NASDAQ 100 QQQ fund holding and have made just minor adjustments to stock selections based on sectors we believe will perform well under the current and forecasted economic landscape. We have concluded that there may be greater value to be had from realigning the portfolio to include a greater bond holding at the expense of equities. The client guidelines have, perhaps, been ignored over the last year and that is apparent in the overall negative return of the portfolio in the period. We strongly recommend realignment back to the 70:25 split between stocks and bonds respectively. The portfolio has been running at 81:19. This does not include the money holding.

Our conclusion of the economy is that the situation has been talked down politically, for fiscal reasons. The dogged resistance of indicators such as new home sales and auto sales indicate to us that the environment is unlikely to become recessionary and to that extent we have made recommendation to exit the auto sector on the grounds of value rather than hanging on to what we perceive to be a problematic area. Our sector analysis lends support to continuous weight within the core consumer staples and cyclical sectors. We also recommend increasing our holdings of energy related stocks due to power related supply issues. Within the biotechnology area we advocate a German biotechnology company and a Fidelity fund. We also think that we have found a strong growth stock within the homebuilding sector.

Within the retailing sector we would like to "take profit" on the Mattel holding. The company has had a good recovery and our analysis leads us to believe that the company might encounter further problems ahead based on prior managerial issues and poor strategic decisions. Within the telecommunications sector we wish to make an exit on account of both poor stock performance and a poor future earnings outlook. The reason here is that the advances in technology are not only attracting intense competition, but also causing huge restructuring and investment costs to existing players.

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Portfolio Guidelines and Objectives

The Sun Trust Investment Portfolio was brought to life in 1999 by a gift of $500,000 by the SunTrust Banks of Central Florida Foundation to Rollins College. The portfolio is being established through successive $100,000 gifts spread over 5 years. Students of the Crummer Graudate School of business who are participating in the Portfolio Management/Theory and Application course direct the portfolio. The SunTrust Investment Portfolio follows guidelines that are similar to the Rollins College *Endowment Fund Pool Statement of Investment Objectives and Policies.*
In brief the portfolio was created to fund scholarships at the $5,000 level to "SunTrust Scholars" at the Crummer Graduate School of Business. The number of scholarships will be determined by the portfolio performance. Every year 6% of the three-year moving average of year-end market values will be distributed as scholarships. To achieve this and allow the portfolio to grow its principal the following growth guidelines were set: an annual real return of 6.5%, a total return of 10.5%, average annual growth in principal of 4.5% and additions of 1%. For further detail please refer to **appendix B** which contain the complete SunTrust Portfolio and Endowment Fund Pool guidelines.

Methodology

The researchers took a structured approach to this project in order that the project could be handled easier and the finished product would be easier to assess from the readers' perspective and that the format could be used as a template for future reference. This year's performance has been unusual in that the equity market has been subject to extreme volatility as the American economy juddered to an unexpected halt over quarter four and quarter one of 2001. In that respect the task of the research team has been muddied somewhat since conditions were not considered "normal." Under such conditions we have placed greater emphasis on the turning point in the economy and tried to consider the allocation of the portfolio from such perspective.

The scope of the undertaking is enormous and with that in mind, this project has gone on to consider the existing portfolio by sector in which it is currently involved in order to gain an understanding of the environment in which each stock is located. This generates an awareness of the industry in relation to economic activity and lends support to a forward-looking view of both sector and individual stock. We have considered the stock in relation to both direct competitors and the market as measured by the relevant sector index and the broader S&P 500 index. These findings are measured in two formats. Firstly there is a written analysis by sector and company and secondly, we have included charts of the sector relative to the S&P 500 and then against the company itself.

The research team understands the bottom-up approach adopted by SunTrust Bank in relation to stock selection of this portfolio and wanted to adopt such stock analysis methodology. However, the filtration system and sheer volume of understanding the entire universe of American stocks and the information at our fingertips does not lend itself easily to such analysis. Our approach, we feel, draws upon a consistent ratio analysis of the companies under scrutiny and of new companies for which we make recommendation. Each company has a table of comparison in which we have drawn upon available data for ratios that we thought were pertinent and applicable to the portfolio approach. Where necessary, we have described why a key ratio is important to the sector, or why a particular approach is useful for the stock in question.

The project aims to draw together the time in the economic cycle with the state of the stock market and more importantly, the outlook for the future. The analysis follows on from a broad look at the sector and its competitive structure to a review of activities and past performance of the company. This results in an analysis of the ratios and leads to a recommendation rated as either buy, sell or hold. On occasion we recommend that stocks are held with a view to buying more.

Regarding the fixed income part of the portfolio, we have assessed the overall allocation of the holdings in relation to the portfolio guidelines and in view of the incremental funds to be added to the account in May. We have considered the prospect for the yield curve and an appraisal of corporate bonds relative to government bonds in search of additional value to the portfolio.

Economic Analysis:

State of the United States Economy April 2001

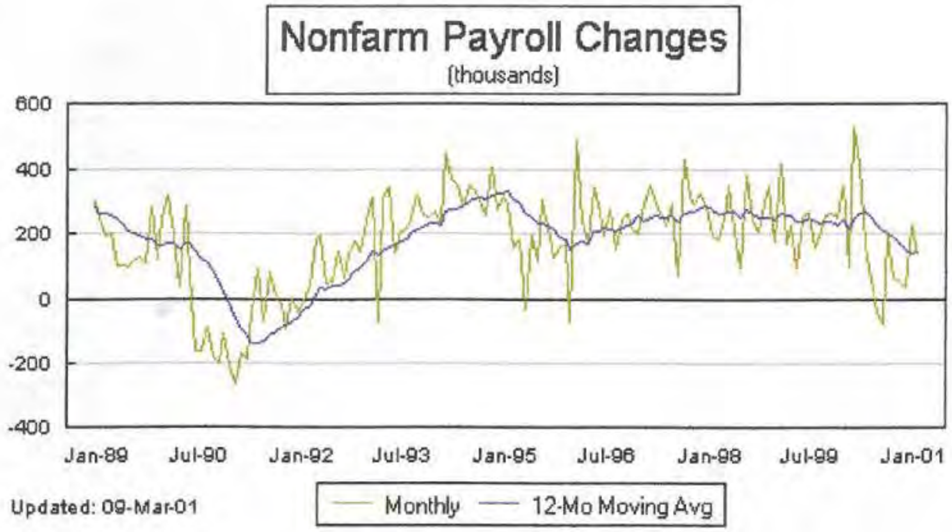
The recent decision by the Federal Reserve to loosen monetary policy by a further 50bps smacks on one hand of a lack of confidence in the economic outlook, but on the other should serve to couch the economy towards the end of this year. Despite the incredible amount of negative commentary regarding the impending recession, we find there to be little to be genuinely concerned about that will not be mended by cheaper credit and the removal of negative sentiment spread by the incumbent Bush administration with the aim of vindicating easier fiscal policy. With the Fed's decision to cut the symbolic discount rate recently, concern seems to have focused quite predictably on the ability of company's to survive and deliver positive earnings. Much of this has to do with a build up of optimism over the past decade and we are witnessing a timely reminder that bubbles really do occur from time to time.

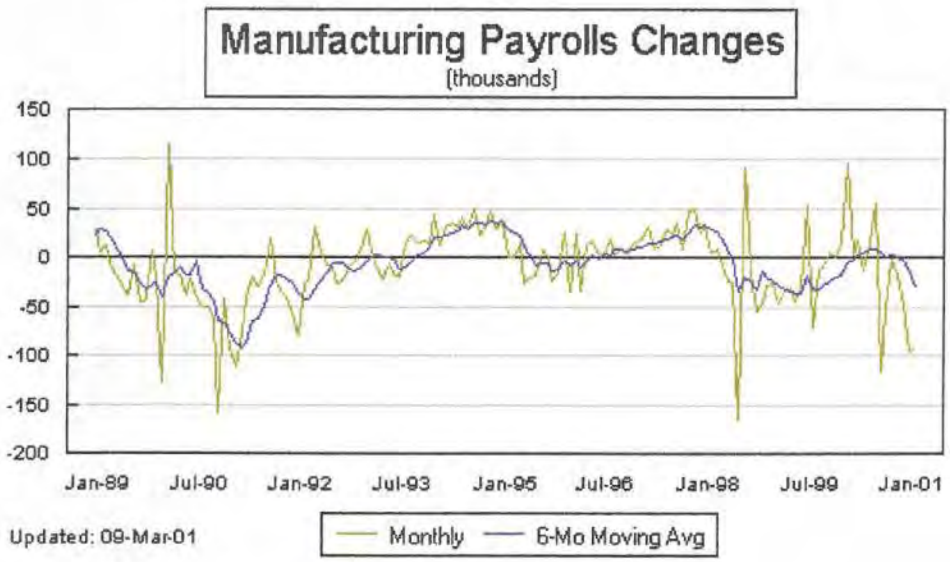
Naturally this has a spiraling impact on confidence and leads us to ask whether declining confidence is as a result of lower output levels or the significant decline in equity wealth? The continued increases in employment data and the relatively stable consumption patterns make us wonder why the situation feels like out and out panic and whether the fed knows something that we don't. Is it perhaps the rapid bolt to the exit door of the stock markets that is making them reach for the trigger at a dramatic pace? What have been the key drivers influencing the Fed to cut rates?

- Declining industrial production
- Weakness in investment spending
- Broad decline in equity indices
- Benign inflation
- Weakness in global economy following period of high energy prices

Unemployment

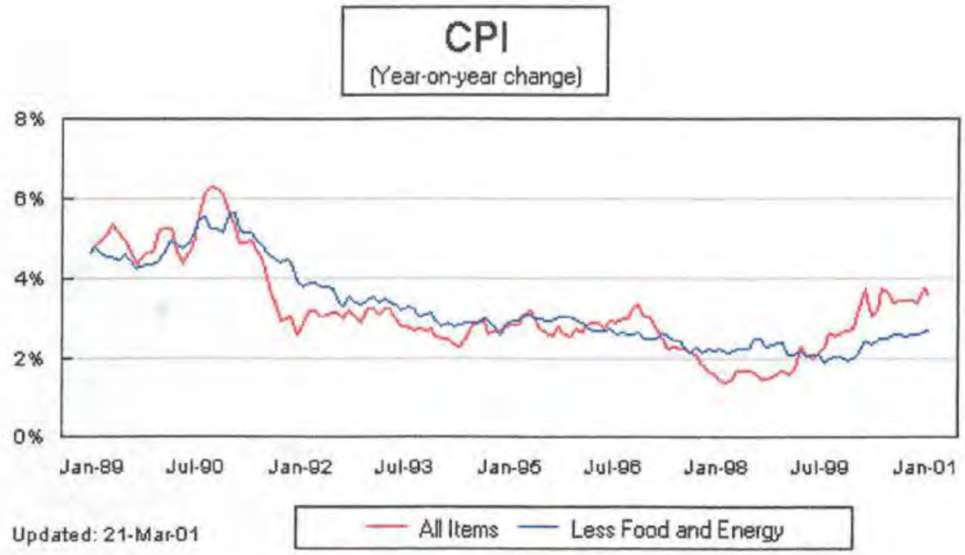
While unemployment is generally seen as a lagging indicator, the strong gains outside of the manufacturing sector look typical of the continued expansion of the economy. Services and construction still continue to expand and the unemployment rate across the nation stands at 4.2%. The supply of labor has shrunk and there has been a spike in wages. Nevertheless, with the increase in layoffs, the threat to price stability is lessened.





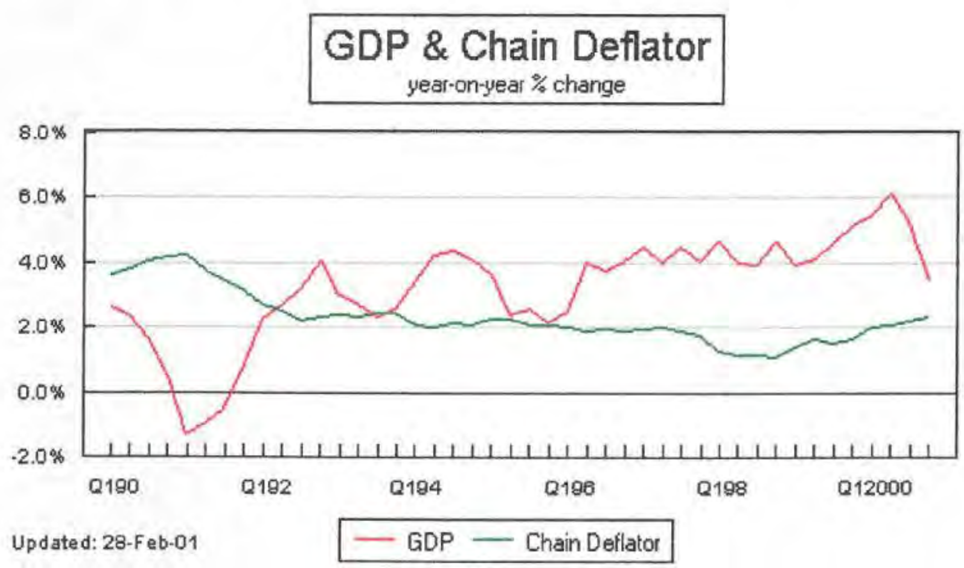
Consumer Price Index

The CPI has is increasing at a yoy rate of 3.5% caused mainly by energy prices and pressure on service employment. However, with the economic slowdown evident the Fed's focus has shifted to couching growth and prices are expected to remain subdued. The fact that commodity prices are offsetting service costs bodes well for inflation expectations.



Gross Domestic Product

Growth is still feeling the impact of Fed tightening from a year ago and will benefit only from the aggressive easing much later in 2001. In the second quarter of 2000 annual growth was 6% but had declined to 3.5% by the fourth. The first quarter of this year will show marginally positive growth.

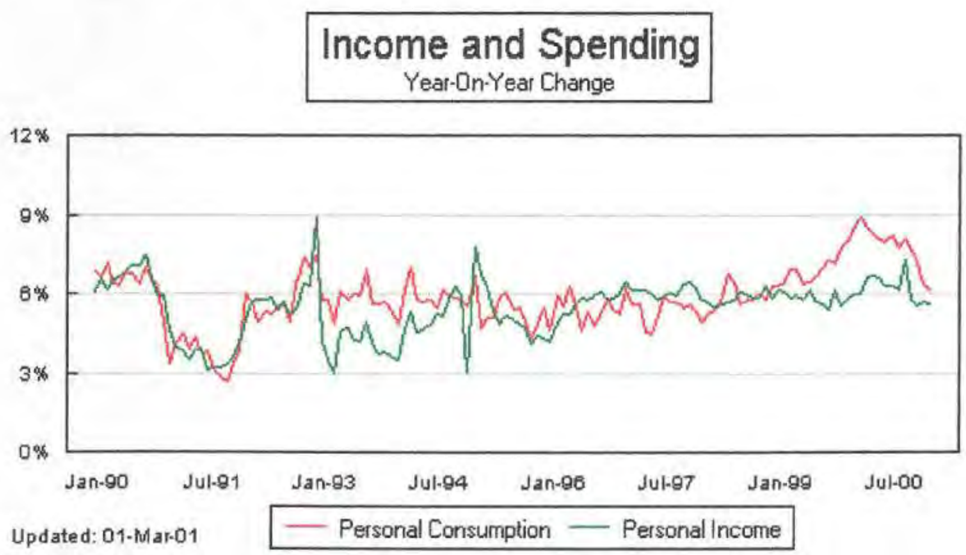


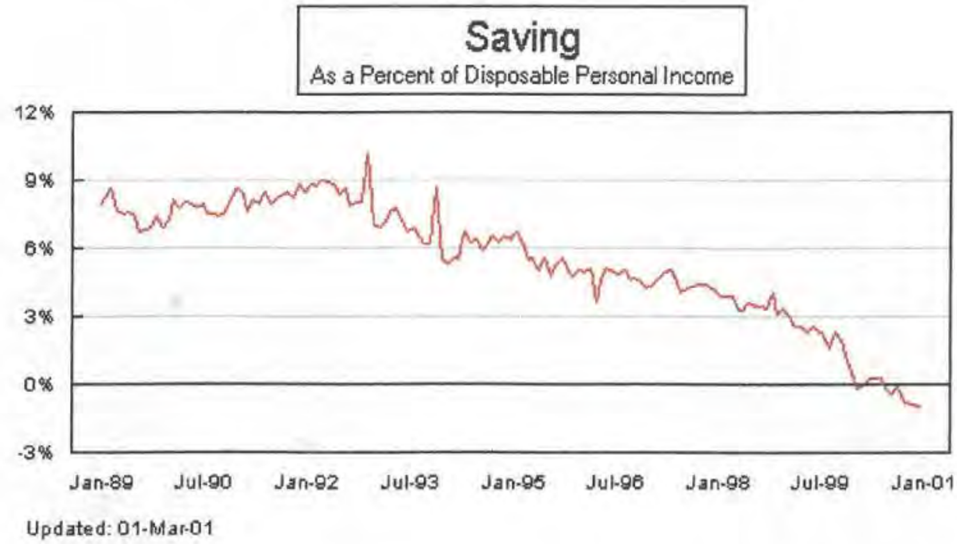
Housing Starts

The housing data has remained buoyant since mid 2000 and is showing surprisingly little reaction to the halving of the NASDAQ and general poor sentiment and confidence. Low mortgage rates have also helped here.

Income and Spending

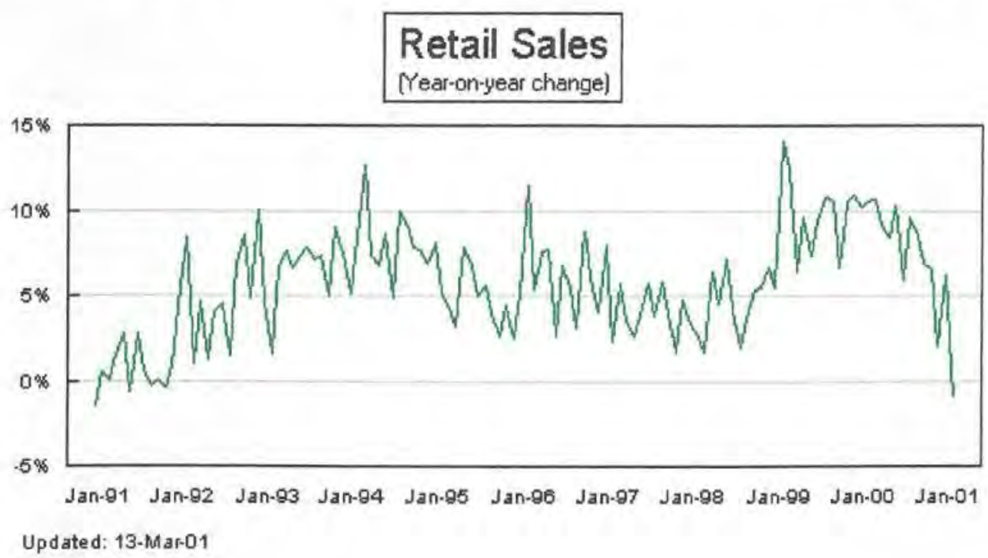
The consumption pattern continues to continue showing modest gains and the economy as a whole is depleting savings to facilitate that. Looking ahead, it will require a recession to reduce consumption probably through significantly higher unemployment.





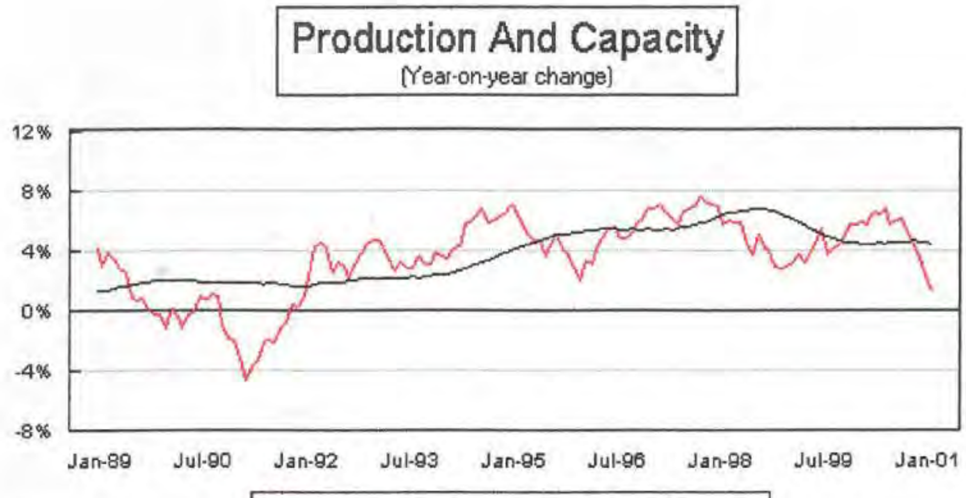
Retail Sales

There has been a decline in the consumption of "luxury" items in the aftermath of the Fed tightening last year. The accompanying chart looks sick but shows sales excluding autos, which account for a quarter of sales, and bounced back sharply in January. The big picture is for a more temperate series ahead. As with many of the current data series at the moment, the outlook appears sickly but is probably overstated since consumers are retrenching.



Production and Capacity

Industrial production has been declining since October and productivity increases have ensured that capacity utilization has declined, actually to a nine year low. The sector is in need of easier monetary policy to stimulate investment and was the first to suffer from the tightening of last year. It is in technical recession.



Updated: 16-Mar-01

Factory Orders and Durable Goods

The sharp decline in manufacturing in the last six months has proved negative for factory orders, which is a notoriously volatile indicator, but coupled with intentions evident in releases such as NAPM, indicates recession in the sector and the economy in general.

Updated: 06-Mar-01

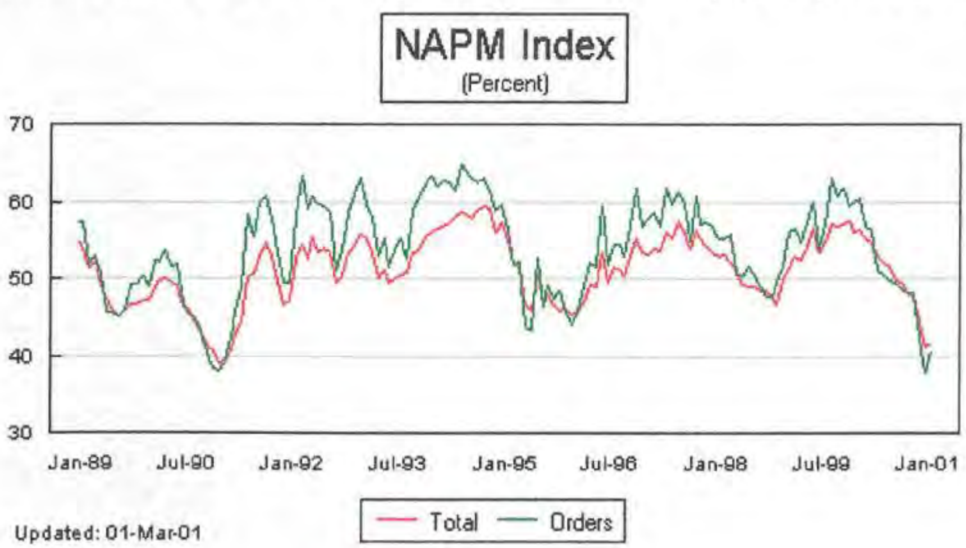
Confidence Indices

The decline in confidence from late 2000 is currently spiraling and will undoubtedly create worse conditions in retailing before the situation reacts to Fed easing. The severe plunges across all measures is the chief concern should such expectations be borne out beyond consumption.

[redacted]

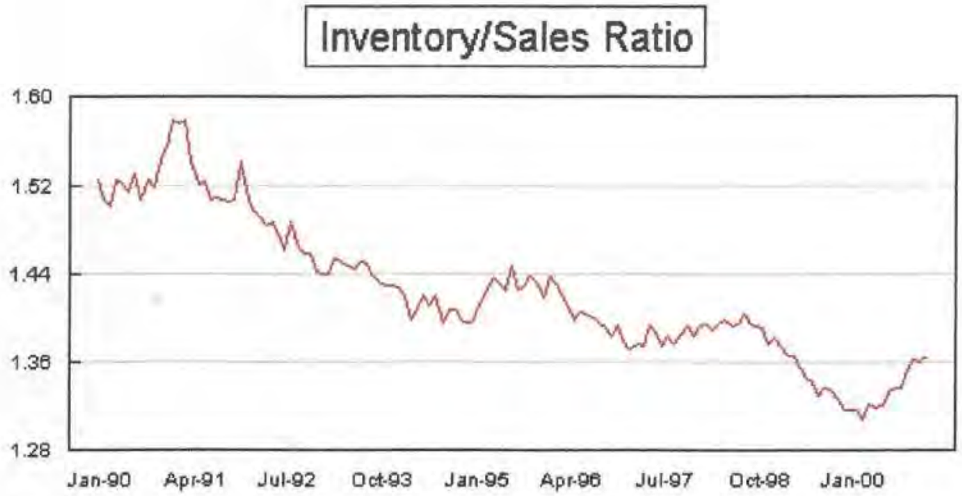
Purchasing Managers Index

The February gain ended the string of declines dating back to March 2000. It currently predicts an end to the current decline looking ahead, but with no certainty over that timing. The six-month reading beneath the 50 'unchanged' level is depressing and the economy must await the benefit of easing to filter through. While manufacturing plays a lesser overall role in GDP, the substantial decline in manufacturing has played an important psychological lead role here.



Inventories and Sales

The decline in sales has lead to an increase in the I/S ratio with unsold stock left in warehouses on the store shelves. The downward slope in the chart is attributable to technological advances and lean inventory management cycles. The negative short-term outlook here is the chief hurdle faced by Greenspan, who believes that overcoming this will achieve stronger growth.



Updated: 14-Mar-01

Leading Indicators

Index of leading indicators is a useful though not necessarily incisive tool for reading recession. The recent downward revision to the data at the start of 2001 returns us to reality and we need to consider the weakest and strongest indications from it. The biggest drags are initial claims, consumer expectations and the factory workweek; the gains come from a steepening yield curve and strong money growth.

Updated: 22-Mar-01

Conclusion

The overall picture is one of weakness based on activity in the manufacturing sector. Despite the role of unemployment data as a lagging indicator, it does bode well for the outlook and there is no cast iron evidence that the economy is falling apart. The indications from income and spending decisions lead us to believe that the economy will level off and ultimately consolidate before reacting to the recent easing of monetary policy coupled with the prospect of an easier fiscal one. The value of the equity indices during the period of late March seemed to us to be predicting possibly the worst scenarios and overlooking the preemptive nature of the Fed's activities.

Portfolio Performance Year 2000

As a result of the bursting technology bubble and a down trending economy, portfolio performance for year 2000 was negative. Underexposure in Technology and allocation of money to bonds and money market funds have resulted in the portfolio outperforming the broader market by an alpha of 10%.

Asset Allocation (as shown in the below diagram) was 81% weighted in stocks. This created high exposure to downside risk in the economy. As major market indices made broad moves lower during the 12-month period analyzed, the portfolio's under weighted position in technology (QQQ) and its allocation to bonds enabled the portfolio to outperform the loss-laden index. However, the position in international mutual funds resulted in losses exceeding the broader

Cash Equivalents	$4,207	2%
Fixed Income	$31,713	17%
International Equity	$31,135	16%
Domestic Equity	$123,371	65%
Total	$190,426	100.0%

market and a drag on the overall performance of the portfolio.

The existing portfolio, in comparison to the S&P 500 is under weighted in Technology, Utilities, Energy, Financials, and Capital Goods and over weighted in Basic Materials/ Transportation, Consumer Cyclicals, Consumer Staples, and Health Care. The strategic sector weightings seemed to have had foresight of a slowing economy.

Stock selection

The prior portfolio was constructed to outperform the S&P 500 through asset allocation, sector weighting and through superior stock selection. In analysis of performance from April 1, 2000 to April 1, 2001, the portfolio demonstrated an ability to outperform the index in some areas, while under performing the index and missing opportunities in others. The portfolio's energy holdings are limited to just one stock, Enron. Enron has been a leader in the energy business; however, the stock suffered the largest pullback with a downturn in the overall market because of its diversified business model. Due to the portfolio's under weighting in this sector and the portfolio's dependence on just one holding, the index outperformed.

The weighting in Financials lessened the impact of poor stock selection on the portfolio. Performance in this sector under performed the index performance by 16%. The decision to take an under weighted position in technologies proved to be a major component of the portfolio's performance, as the sector drew down

63% in the year measured. The portfolio allocated just half of its weighting in technology compared to the index. Due to the decision to not take a position in Utilities, the portfolio missed an opportunity for a 30% return in that sector.

Domestic Equities; Key ratios vs. S&P

With 65% of its holdings in Domestic Equities, as based on market values taken April 1, 2001, the portfolio attempts to be a "tweaked" version of the S&P 500 index. In comparison to the S&P 500, the portfolio has a lower Price to Earnings multiple on average. The portfolio has the same yield at 1.2% and 5-year average Return on Equity at 18.2%. The portfolio differentiates itself from the index in choosing a lower 5-year EPS growth rate of just 1.3% compared to 9.1% and an appreciably higher 5-year dividend growth of 8.2% compared to 4.8%. It is apparent that the portfolio is seeking an alpha based on a more conservative income-oriented positioning than that of the index, and the portfolio appears to have been constructed around the prospects of a softening economy.

International exposure

The portfolio has a 16% weighting in international equities via international and emerging market mutual funds. Due to uncertainty that has arisen in the "safe-haven" United States economy, performance abroad has been shaky. This area of the portfolio concentrates on large cap value and large cap growth. As a result of a sizable exposure internationally, 20% of the overall portfolio has experienced negative returns in excess of 40%. Invesco International Europe has holdings that have been punished by a weak euro and by weakening economic picture, which has not been pro-actively curbed through interest rate adjustments by the European Central Bank, as has been by the Federal Reserve Bank in the United States. The portfolio's two Emerging Markets funds have been shaken by instability in Japan's economy and were the first to feel of effects of a weakening global economy.

Fixed Income Securities

The portfolio currently has a 17% holding in fixed income securities consisting of a five year Treasury note with a 6% coupon. The Note trades at a premium to par and will mature on August 15, 2004.

Money Market

The portfolio currently allocates 2% to cash. The cash is held in the STI Classic FD- Prime Money Market yielding X%.

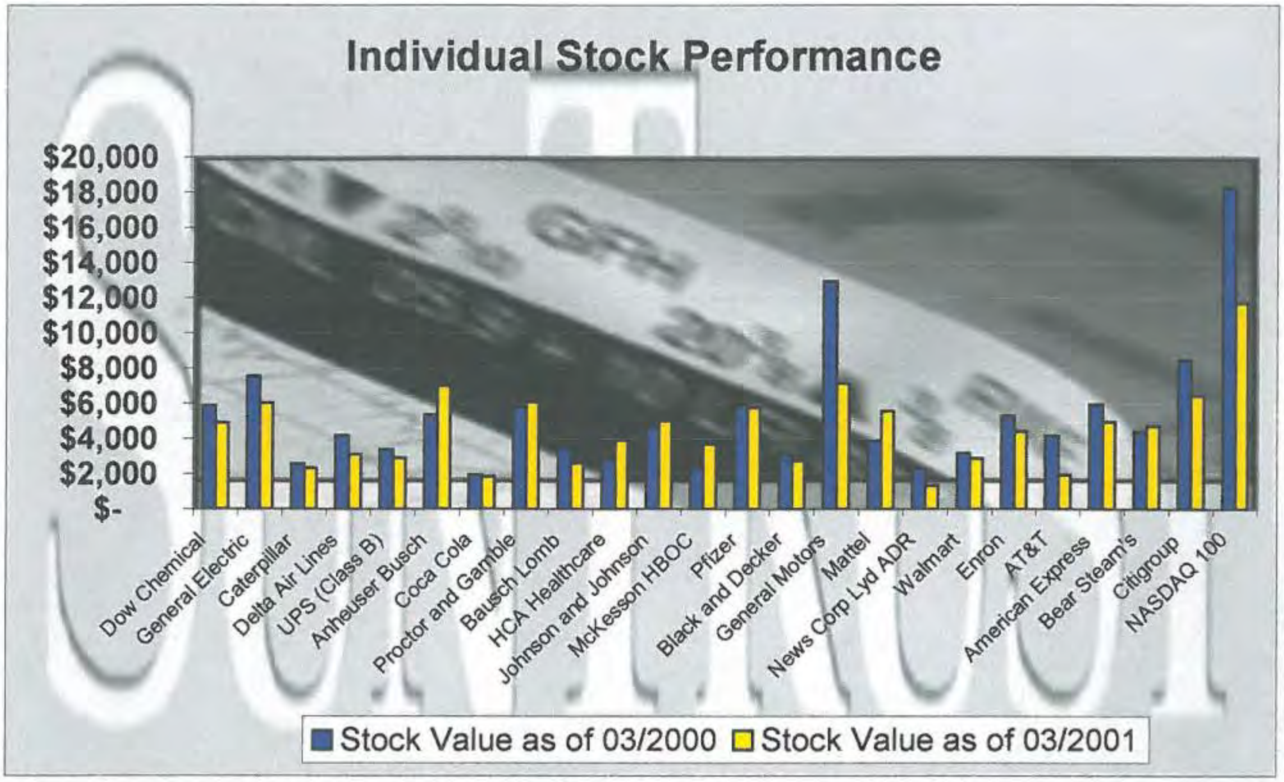


Chart: Illustration of depletion of individual stocks relative to one-year ago

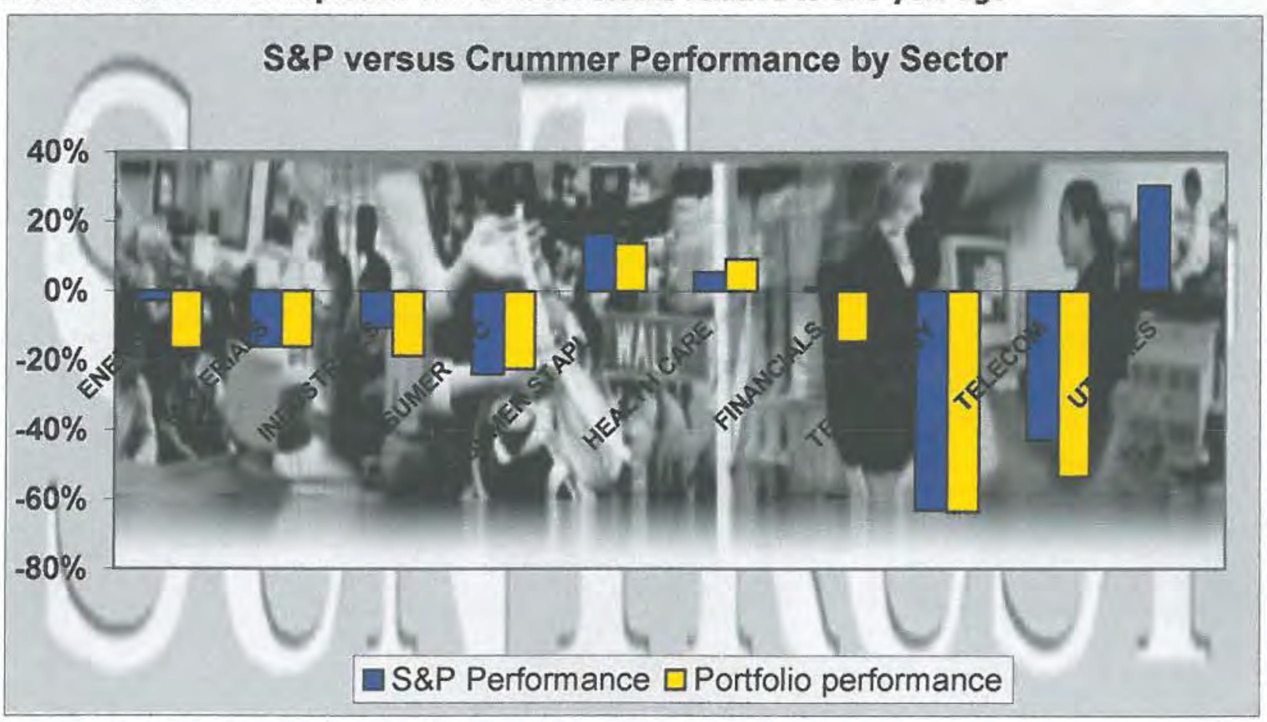
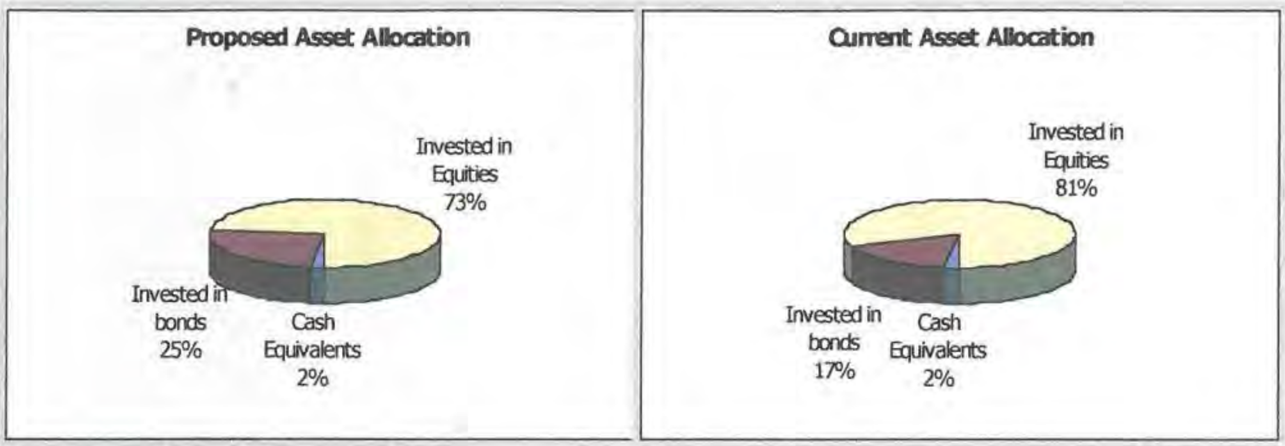


Chart: Sector Performance of the S&P vs the Portfolio

Asset Allocation

Considering the implications of the economic situation, the turbulence in the equity markets and the goals of the portfolio we suggest a moderate increase in the fixed income proportion of the portfolio of approximately 8%. This reallocation will also bring the portfolio closer to guidelines set forth by the Rollins College Endowment Trust.



Our economic analysis suggests zero to moderate growth for the economy this year. Even though we don't forecast a recession, the resulting uncertainty and nervousness will make short-term gains in the equity markets more difficult to obtain, thereby making it difficult to achieve the required portfolio returns in the equity markets. Our equity portfolio has a corresponding long-term horizon. Our shift in asset allocation will increase the fixed income allocation from 17% to 25% and it will reduce the equity allocation from 81% to 73%. This means that approximately 40% of the new endowment money will be spent on fixed income instruments.

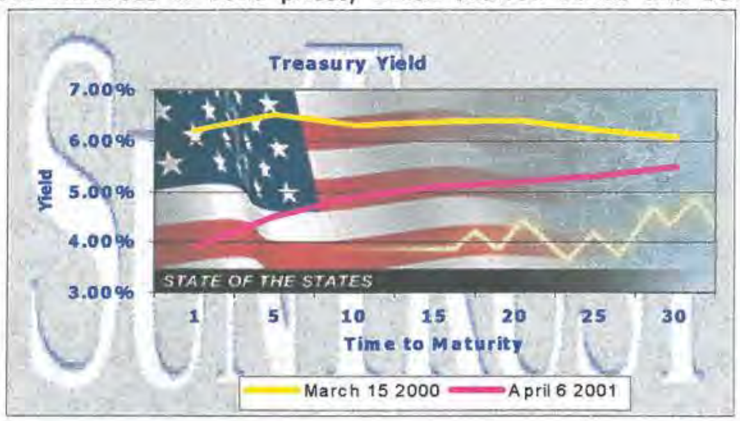
Fixed Income Portfolio

Rationale

The reasons to have a significant proportion of the portfolio in fixed income instruments are to provide some protection from equity market downshifts and a steady income stream for the payment of scholarships. As the overall distribution of scholarship money increases the income provided by fixed income instruments must increase accordingly. This is defined as sufficient current yield by the endowment fund guidelines.

Current Bond Yields and Spreads

The recent aggressive interest cuts by the Federal Open Market Committee (FOMC) have significantly lowered short-term yields and have also affected long-term yields. The drop in interest rates caused the expected increases in bond prices, which allowed bonds and bond indices to significantly outperform equity markets last year. The yield curve, which was inverted a year ago, is normal again with higher yields at longer maturities. We expect this yield curve to remain normal for the next year as no further rapid moves of the FOMC are expected. To obtain a sufficient yield the new additions to the fixed income portfolio have maturities between 9 and 21 years.



The spread between government bonds and corporate bonds has been widening since the end of 1999 and has reached a historic high. The spread between 10-year treasury notes and 10-year, triple A, corporate bonds recently reached 136 basis points. This spread is still 26 basis points higher than in the crisis atmosphere of summer 1998. Neither the state of the US nor the state of the world economies justify this large spread. In fact, treasury bonds appear overvalued at current prices. This opens the opportunity to invest in quality corporate bonds and receive comparatively high yields. It can also be argued that this might provide some shelter in case interest rate movements reverse themselves over the next year. A reversal in interest rate policy would mean a stronger economy. A stronger economy should increase investor confidence. Increased investor confidence should result in a decrease of the treasury/corporate spread. Therefore, when interest rates begin to rise, it is possible that corporate bonds would fare relatively well during the next interest rate reversal. The more immediate reason to chose corporate bonds at this time is the

hope that the spreads will narrow by themselves as investors acknowledge that there is more value in them than the current prices reflect.

Current Holding

The current holding is a 6%, 08/15/2004 treasury note. This was changed from the previous holding of a similar 30-year treasury bond. Unfortunately this shift was undertaken at a time when long-term bonds performed admirable due to sinking interest rates.

Additions

In order to rebalance the portfolio and obtain a sufficient return from the fixed income securities four additions were chosen. All of them carry maturities of 9 years or to take advantage of higher yields and bigger government/corporate spreads at longer maturities. The corporate bonds chosen all have ratings of A+ or better and are not callable until the fall of 2003 at the earliest. We picked issues from companies that are in industries that we also recommended for equity but did not find truly attractive stocks in. One 10-year treasury note with a 6.5% coupon was added as well. We propose investing roughly $10,000 in each to rebalance the portfolio.

Name of Issue	Maturity	Grade	Coupon	Current Yield	YTM	Price	First Call Date
Bank of New York IN MTN BE	Oct-15	A1/A	7.60%	7.28%	7.12%	104.37	Oct-03
May Dept Stores	Aug-24	A1/A+	8.38%	7.94%	7.86%	105.50	Aug-04
Southwestern Bell	Sep-24	Aa2/AA	6.63%	7.14%	7.27%	92.82	Sep-03
US T-Note	Feb-10		6.50%	4.96%		110.94	

Sector And Company Analysis

Financials

Introduction

The portfolio holds stock in **Citigroup, Bear Stearn's** and **American Express** whose company interest lay broadly in the investment banking area. **Amex**, however, has a heavy travel base too. The financial sector comprises almost 17% of the S&P 500 and was the third best performing sector in 2000, with a return of 17%. The best performers were investment banks, insurance companies, Savings and Loans and financial services companies. One of the first clues to trouble that lay ahead in the middle of last year was the restriction in lending by financial companies.

Chart: Diversified Financials Sector

If the slowdown does become recession, poor performance due to write-off of non-performing loans and other credit issues may occur. The longer that the economy does deteriorate, the greater the possibility that the demand for loans and fee income generating bank services increases too. What we do not want to see is this sector becoming exposed to the higher degree of risk associated with financial short sightedness of their customers. It is distinctly possible that many sectors over borrowed over the last couple of years and the credit quality may become an issue. This in turn would represent a risk to further asset growth as lending habits are reined in, ultimately undermining earnings.

Outlook

In the big scheme, however, lower interest rates benefit lenders and enable them to widen margins by reducing savings rates more than the rate on loans. In 1998 the P/E ratio for the sector was 20.5 and this year it is lower at 17.3 for projected earnings. The delivery of lower interest rates should ensure that the prospects for the sector bode well. The tendency for insurance companies to ensure price rises is symptomatic of relative strength within the sector. Whether that comes at the expense of investment banks remains to be seen.

Chart: Diversified Financial Sector and S&P500

Citigroup Inc. Price $44.98 ticker C

Chart: Citigroup Inc vs. diversified financial and S&P

[redacted]

Introduction

Citigroup Inc provides a wide range of financial services to consumer and corporate customers in 101 countries. Activities are conducted through *Global Consumer*, *Global Corporate* and *Investment Bank*, *Global Investment Management* and *Private Banking* and *Investment Activities*. The bank has been involved in several takeovers recently. Rumors have emerged recently that Nikko Securities of Japan will sell a 50% stake to Citigroup and there was talk at the end of March that they were interested in acquiring Amex, valuing the latter at a value in the region of .$50 to$75 per share.

Past Performance

Citigroup recently purchased the European American Bank for $1.6 billion to increase assets under management by $15 billion and acquire a niche Long Island client base, further bolstering its position there. It provides further evidence of how the company is expanding business by getting into niche businesses. The diversity of activities and its geographical presence lend support to solid performance in the future. The market has responded positively to the stock as the Fed reduced rates and the company's online accounts become subject to new products all the time.

Outlook

Citigroup is on a mission to expand both the value and array of its products as well as the number of locations in which it operates. While the stock has recently taken a bath, it has outperformed the S&P 500 and is possible suffering from the prospect of indigestion as the market baulks at the prospect of profitably assimilating new assets. Its price: cash flow ratio is relatively attractive and the P/E leaves room for stock appreciation, particularly in light of the excellent ROE the group achieves.

Citigroup	Company	Industry: Financial	Sector: City Center Banks	S&P 500
P/E Ratio (TTM)	16.13	15.51	19.16	27.77
Price to Cash Flow (TTM)	12.31	14.18	16.83	19.77
Dividend Yield	1.31	2.43	1.97	1.71
Sales (TTM) vs TTM 1 Yr. Ago	44.63	28.83	22.84	20.71
LT Debt to Equity (MRQ)	0	0	0	0
EBITD Margin (TTM)	0	0	0	0
Return On Equity (TTM)	24.72	18.01	18.2	22.35

Recommendation: Hold

Bear Stearn's **Price $45.74** **ticker** **BSC**

Chart: Securities Brokerage Sector

[redacted]

Chart; Bear Stearn's vs Securities Brokers and S&P 500

[redacted]

Introduction

Bear is an investment banking, securities trading and brokerage firm serving corporations, governments, and institutional and individual investors worldwide. It also provides wholesale clearing services. The company has an impressive array of customers from risk arbitrageurs and hedge funds to professional investors and money managers. At the end of November 2000, the company was processing 251,000 trades per day. Assets under management have increased 50% year over year to $19.5 billion by the same time.

Past Performance

The difficulties for a group like **Bear Stearn's** stems from the possibility that what is given on one hand, such as benefits from easier Fed policy, are taken away in the other hand from trading losses. They have a great diversity of revenues and this has not yet happened. They do appear to be making strong headway with their Global Clearing Services, with revenue up by over 23% on the year. Analysts are hoping for better contributions from high yield and secondary debt as well as from underwriting activities. Another factor in favor of this house is that they set aside $500 million for stock repurchase in 2000 and used $235 million to do so. They have approval to do the same this year, but we do not know by how much. The poor sectoral performance stems from the intensity of competition within the online broking sector. The new emergents here are challenging the traditional full service brokers by offering discount trading services as well as online facilities to conduct live trades through Electronic Communications Networks (ECN) and a stunning array of research tools and capabilities. We feel that to lump Bear in with this segment is a little unfair since their revenues come from institutional rather than retail clients, and to that extent volume should not affect them adversely.

Outlook

Recently the company announced that it would miss analysts' expectations due to a slowing economy and was to bear an $8 million severance related cost as it cut back 3% of its workforce. We recognize that this is a company that has a lot of potential. Back in September its share price outperformed the S&P 500 in excess of 55%. There must be something that the management is doing right. We believe that the company is currently being punished for slow sales growth relative to its peers, but we foresee gains in clearing and asset management income as replacing weak growth areas. As a result the company is trading on a lower P/E ratio than its peers. We consider this as an opportunity to buy more stock.

The Bear Stearns Co's	Company	Industry; Financial	Sector; Investment Services	S&P 500
P/E Ratio (TTM)	10.20*	16.56	19.16	27.77
Price to Cash Flow (TTM)	7.95	13.08	16.83	19.77
Dividend Yield	NA	1.26	1.97	1.71
Sales (TTM) vs TTM 1 Yr. Ago	14.40*	28.11	22.84	20.71
Total Debt to Equity (MRQ)	0	0	0	0
EBITD Margin (TTM)	0	0	0	0
Return On Equity (TTM)	15.52*	25.64	18.2	22.35

Recommendation – Hold / Buy

American Express Company   Price $41.30   ticker   AXP

Chart: American Express versus Diversified Financial Sector and S&P500

Introduction

American Express Company provides travel related services, financial advisory and international banking services globally. They strive to become a payment provider for online transactions, deliver online customer service, become a preferred destination site for existing and new customers and use interactive capabilities to improve economic performance. **Amex** has not fared so well of late and has even exceeded the poor performance notched up by the S&P 500. The pressure is seemingly related to fears that the economy is slowing and the demand for credit will slow. We think that this logic is flawed and the extreme under performance represents a good buying opportunity for this stock.

Past Performance

Amex is down 30% on a year ago and we believe that low interest rates are good for the sector and do not concur that credit cards will suffer. Its credit cards have international patronage and despite the slowdown in equity markets, we think that American Express Financial Advisers will witness a return to commissions later this year. We are also impressed with their online banking efforts and it is only a matter time before cross selling initiatives and product introductions produce returns. The recent in line fourth quarter results have put the company is something of a straightjacket since the company predicted a lackluster year ahead on account of the slowdown in the economy.

Outlook

We do not believe that **Amex** has lost its way and that the current weakness in share price is myopic. To that extent the current environment provides a great buying opportunity within a sector that traditionally responds well to efforts by the central bank to stimulate demand. For a company that has provided a return of 21% on equity, we believe that this stock, which was recently down 30% for the year, has room to trade at a higher P/E multiple than its current 17.80.

American Express Company	**Company**	**Industry; Financial**	**Sector; Consumer Financial Services**	**S&P 500**
P/E Ratio (TTM)	17.80*	18.97	19.16	27.77
Price to Cash Flow (TTM)	17.27	14.49	16.83	19.77
Dividend Yield	0.87	1.41	1.97	1.71
Sales (TTM) vs TTM 1 Yr. Ago	9.61*	24.67	22.84	20.71
Total Debt to Equity (MRQ)	0	0	0	0
EBITD Margin (TTM)	0	0	0	0
Return On Equity (TTM)	21.01*	23.58	18.2	22.35

Recommendation - Hold/Buy

Conclusion

We believe that the outlook for activity is likely to be good in the second half of 2001 and that as long as asset expansion remains for our portfolio stock, we recommend holding onto these assets. The intense competition within the securities broking sector will not affect **Bear Stearns** to the extent it would someone like **Merrill Lynch**, and we believe that the decline in interest rates, whether it has further to run or not, will benefit these stocks for the remainder of the year.

RECOMMENDATIONS

Citigroup Inc. is a hold
Bear Stearn's Co. is a hold/buy
American Express is a hold/buy

Chemical Industry

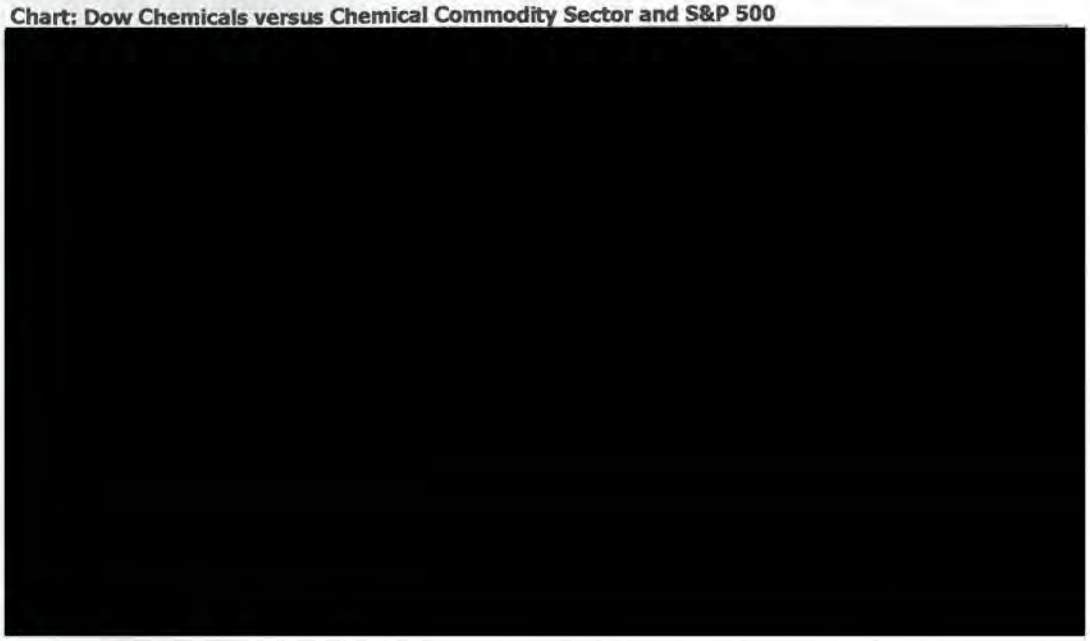
Chart: Basic Chemical Commodities Sector

[redacted]

The chemical industry is expected to be at the losing edge from two standpoints. Firstly, the slowing economy led by the industrial sector has eroded sales, and secondly higher raw material costs are eroding margins. The increases in the prices of natural gas and crude oil have damaged profits. Some companies have felt currency losses with interests in the Euro-zone too. The outlook is set for uncertainty given the capitulation of declines in equity prices as a result of fear of recession. Operators have also found it more difficult to negotiate good terms with suppliers on account of lower volumes. The demand for PVC should remain buoyant as it is used extensively in construction, an area that has not only held up well, but which should benefit from lower interest rates. Overall we feel that given the long-run nature of the portfolio, it is too late to give-up this shareholding, since the forerunner of weakness was in the industrial sector and much bad news is already priced in the market.

Dow Chemicals Price $31.57 ticker DOW

Chart: Dow Chemicals versus Chemical Commodity Sector and S&P 500



Introduction

Dow Chemicals manufactures and sells chemicals, plastic materials, agricultural and other specialized products and services. In over 170 countries the company provides business in food, transportation, health and medicine, personal products and home care, building and construction markets. While it was incorporated in 1947, the company has its origins in a company stemming back to 1897.

Past Performance

The specific outlook for **Dow Chemical** is more positive than the sector in general as there should be some strong synergies to unfold following the merger with **Union Carbide**. While this combination will possibly require the divestiture of some polyethylene process technology, the merger is assumed to be a good one. The benefits include a reduction in headcount, consolidation of operations, vertical integration. These could sum to annual savings of $600 million by 2003. The stock has spent much of the year lagging sadly behind the S&P 500 index, but recent declines in the index have put that situation right. Year over year the company is now outperforming the index but is still down in price around 12% over a year ago. The company mirrors the industry extremely closely.

Outlook

Recently the company lowered its earnings forecasts due to the Union Carbide deal having been closed and the impact of higher US natural gas prices on parts of the Union companies. We believe that the prospect is bright on account of some key ratios as shown in the table. While Dow stock has performed relatively well relative to the market, it still has room to improve to allow it to catch up to the sector on a P/E basis. The low price to cash flow ratio and strong sales growth performance should underpin the stock in the months ahead.

Dow Chemical Company (NEW)	Company	Industry; Chemical Manufacturing	Sector; Basic Materials	S&P 500
P/E Ratio (TTM)	16.77	20.64	20.79	27.77
Price to Cash Flow (TTM)	8.05	10.34	10.15	19.77
Dividend Yield	2.18	2.51	2.46	1.71
Sales (TTM) vs TTM 1 Yr. Ago	19.09	11.66	14.85	20.71
Total Debt to Equity (MRQ)	0.8	0.87	0.94	0.9
EBITD Margin (TTM)	12.46	17.24	17.14	22.53
Return On Equity (TTM)	14.43	14.5	15.17	22.35

Recommendation: Hold

Machinery Industry

Chart: Heavy Machinery Sector versus S&P 500

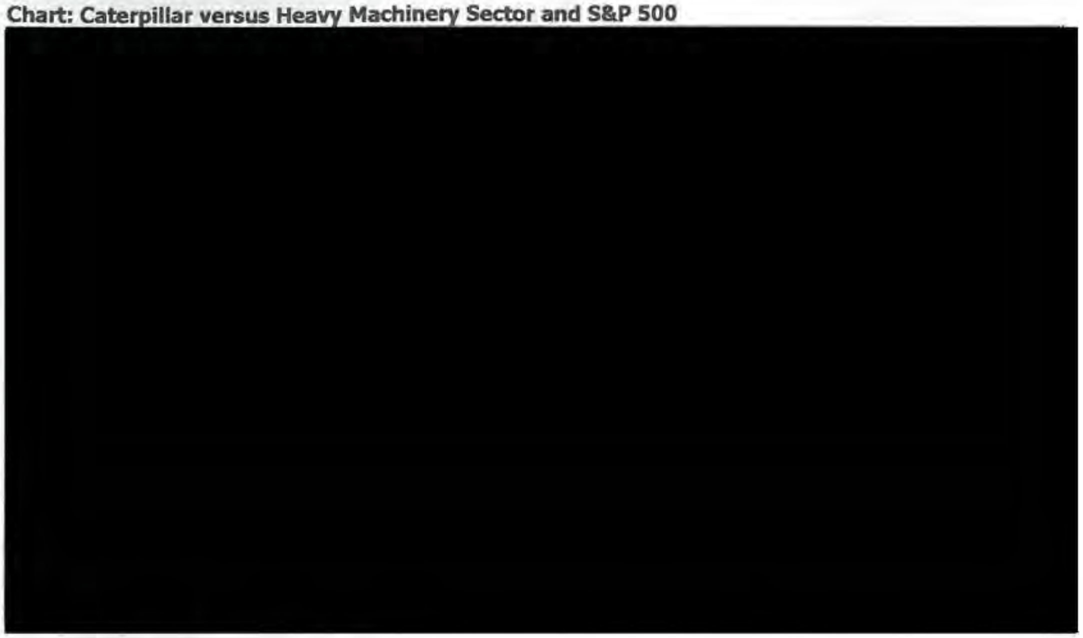
[redacted]

Introduction

The heavy machinery sector has actually performed well relative to the overall market as the above chart shows. The market always views this particular sector over a medium-term period and projects that the current slowdown will witness a return to growth in the next two to three years. The good news for this market has been that it continued to expand strongly before dropping off a cliff suddenly and sales have been impacted quickly rather than sending a warning signal. The general industrial downturn, while negative for the sector as a whole is expected to be one of the first to pick up when the recovery comes and is, therefore, to an extent cushioned. Several companies in the sector are set to benefit from the development of portable generators during the shift to new power sources. Caterpillar has been one of these companies.

Caterpillar Price $44.38 ticker CAT

Chart: Caterpillar versus Heavy Machinery Sector and S&P 500



Introduction

Caterpillar operates in three principal business segments; machinery, engines and financial products. While the former categories speak for themselves, the latter provides customers and dealers the latitude to purchase and lease equipment. Caterpillar also provides insurance to support the purchase of capital goods. The company has 63 US dealers and 144 outside that area. There are 1,800 places of business and the group serves 172 countries. We are not undaunted by the slowdown in terms of our holding of **Caterpillar**, which is suffering currently at the hands of slow demand in north America. Sales to Europe and Asia should keep the sector on path to perform handsomely over the medium term. There has indeed been a sharp fall off in demand for heavy-duty trucks and a weakening of sales in the mid-range and light truck market. Such peaks in activity may take a couple of years to recoup but we feel that the global diversity of such operations should be sufficient reason for at least average performance for this year and economic recovery could lead to over performance thereafter. Many companies are trying to find cost reductions through partnering with differentiated suppliers. For example **Caterpillar** is doing so with **Daimler Chrysler**.

Past Performance

The full benefits from the Daimler Chrysler distribution venture will be borne out in the future as the economy recovers fully. **Caterpillar** stands to gain more than companies in other sectors should easier fiscal policy hit home through increases in municipal spending. The company has been hit hard by a softening construction sector and decline in on-highway truck production. Support comes from energy exploration equipment and heavy construction goods. Once again the diversified nature of this company with sales interests in developing nations should see them perform nicely in the medium term.

Outlook

Caterpillar stock spent much of the year staying abreast of the S&P only to defy gravity at the end of 2000 showing a 20% gain, only to hit the runway once again leaving the shares up marginally for the year. The stock has had a respectable performance considering the drag from the industrial downturn in the US, although 50% of sales revenue is internationally sourced. Throughout the year insiders sold the stock on balance. The reason for the decline in price in January coincided with a warning of flat sales for the year on account of a decline in North American sales of construction equipment. This was despite a fourth quarter out performance of 10% in earnings. This company has strong earnings traditionally and the downside is the heavy indebtedness. Price to cash flow is attractive as is dividend yield at 3.26%. The recent sales growth number is an aberration from last year and the five-year figure is more respectable.

Caterpillar Inc.	Company	Industry: Constr. & Agric. Machinery	Sector: Capital Goods	S&P 500
P/E Ratio (TTM)	13.84	14.84	16.29	27.77
Price to Cash Flow (TTM)	6.93	10.18	12.86	19.77
Dividend Yield	3.26	2.77	1.74	1.71
Sales (TTM) vs TTM 1 Yr. Ago	2.4	5.95	6.96	20.71
Total Debt to Equity (MRQ)	2.69	2.33	1	0.9
EBITD Margin (TTM)	17.09	14.05	11.64	22.53
Return On Equity (TTM)	19.1	16.21	14.93	22.35

Recommendation: Hold

General Electric Price $41.86 ticker GE

Chart: Diversified Industries Sector versus S&P500

Chart: General Electric vs Diversified Industries Sector and S&P500

Introduction

Here lies **General Electric** in a sector that displays sensitivity to a cooling economy. Many companies in this sector are diversified, operate in mature product markets and exist internationally. The way forward for many is to rely on cost cuts, whereas others rely on acquisition. The sector is also characterized by technological innovation, which ahead should help boost productivity. It is extremely difficult to make a case for ejecting **General Electric** from the portfolio since it is such a well-managed company. While the auto industry is suffering in the face of intense competition and slowdown, we believe that the electrical sector has no reason to be overly concerned with the medium term picture.

GE is one of the largest and most diversified companies in the world. Revenues grew 11% in 1999 (yoy) to $111.6 billion. The company provides products for the generation, transmission, distribution, control and utilization of electricity. They also offer an array of financial services including consumer finance, commercial and industrial finance, real estate financing, and asset management, leasing agreements for commercial interests as well as savings and insurance services for individuals.

Past Performance

As one might expect, **GE** has mirrored the S&P index. The assimilation of Honeywell is possibly a recent cause for lagging the diversified industrial index. In March, the company announced the sale of some of its' satellite services for $5 billion but leaving **GE** with a 25% economic interest in the company.

Outlook

General Electric is a heavy component in many funds because of its weighting in the S&P 500. This is perhaps why the stock trades at such a high P/E multiple for a share with significant debt of 414% of equity. The management of the company through skill in acquisition and simply managing departments well achieved strong sales growth of 16.32% last year. Despite the low dividend payout, the stock provides an excellent return on equity at 28.19%.

General Electric	Company	Industry: Conglomerates	Sector: Conglomerates	S&P 500
P/E Ratio (TTM)	31.46*	26.13	26.13	27.77
Price to Cash Flow (TTM)	20.54	17.05	17.05	19.77
Dividend Yield	1.6	1.59	1.59	1.71
Sales (TTM) vs TTM 1 Yr.	16.32*	15.4	15.4	20.71
Total Debt to Equity (MRQ)	4.14	2.8	2.8	0.9
EBITD Margin (TTM)	19.7	19.84	19.84	22.53
Return On Equity (TTM)	28.19*	26.59	26.59	22.35

Recommendation: Hold

Autos and Trucks

Within this sector the portfolio includes the old stalwart **General Motors**. The outlook for automobiles has deteriorated as a result of the increase in rates by the Fed back in 2000. As the economy turned down, demand slipped away and inventory piled up. Demand has fallen back to that of 1998 and the industry is trying to cut costs through employment and reductions in product line. The sector has traditionally benefited from strong capital markets and healthy disposable income, and so lower rates cannot rescue demand given the capacity problem surrounding the industry. Declining demand has been addressed by automakers by heavy incentives at the car lot, but this is hardly a long-term fix and we expect the industry to get worse before it gets better.

Chart: Auto Sector versus S&P 500

[redacted]

General Motors Price $51.85 ticker GM

Chart: General Motors versus Auto Sector and S&P 500

Introduction

General Motors has two main divisions, the first of which designs, manufactures and markets cars, trucks and locomotives. The other is the financing arm, GMAC, offering a broad range of financial services from vehicle leasing to asset based lending. The auto side has a presence in North America, Latin America, Europe and Asia-Pacific. Within the auto side, GM incorporates Hughes Electronics, which is engaged in digital entertainment, information and communications services and satellite-based private business networks.

Past Performance

Recent discussion has centered on the spin-off or disposal of Hughes; the alternative is to receive strategic investments from interested parties in Hughes.
Evidence of problems comes across the automakers where at **General Motors** the decision has been to phase out the Oldsmobile and generally reduce the product line. At **Daimler Chrysler** management is trying to reduce the workforce at Chrysler and make plant idle. **Ford** is aggressively trying to reduce operating costs. The sector is expected to perform badly as weak earnings reports begin to show and the short-term horizon already looks gray. We would recommend the disposal of **General Motors** from the portfolio. Evidence to this claim comes from the stock chart above, which illuminates the under performance of **GM**. The automobile industry as a whole is down 12% on a year ago and even **Daimler Chrysler** has recently rallied to match the S&P's decline. Companies have made progress in this sector and include **Ford, Honda** and **Nissan.**

Outlook

The bashing that the auto sector has witnessed is evident in the low earnings multiple currently seen by GM. While the dividend yield is relatively attractive relative to the consumer cyclical sector, it is generous against the index. Sluggish sales growth of 4.57% brings with it a plethora of organizational problems for the company and indeed the sector, hampering future returns on equity, currently languishing at 14.8%.

General Motors Corp.	Company	Industry: Auto & Truck Manufacturers	Sector: Consumer Cyclical	S&P 500
P/E Ratio (TTM)	8.11	12.9	16.61	27.77
Price to Cash Flow (TTM)	6.61	4.31	9.09	19.77
Dividend Yield	3.84	4.07	3.01	1.71
Sales (TTM) vs TTM 1 Yr. Ago	4.57	5.99	7.85	20.71
Total Debt to Equity (MRQ)	4.79	5.04	2.56	0.9
EBITD Margin (TTM)	9.05	10.45	12.78	22.53
Return On Equity (TTM)	14.8	15.06	17.06	22.35

Recommendation: SELL

Trucking & Transport Leasing

The state of the transportation sector reminds us to an extent of a punch bag. Our interest lies in **United Parcel Services**. The sector felt early evidence of the string of Fed tightening in the first half of 2000 and then saw an erosion of margins as fuel prices rose. The sector has witnessed consolidation recently as some companies could no longer face the strain alone, indeed some smaller businesses left the sector altogether. Others have generally tried to introduce hedging techniques such as surcharges and rate increases to offset fuel price problems. These have met with limited success since subsequent fall-off in demand has made life more difficult and empty miles, truck idling and out of route miles have compounded problems. **Federal Express** paid a premium of 60% for its acquisition of **American Freightways** and opened up speculation that other companies might become takeover targets. Analysts have begun to speculate whether **UPS** will respond to this action. The impact of this merger should ultimately benefit the industry as **American Freightways** was a price discounter and the move should reduce capacity and stabilize prices, particularly since **FedEx** is known for its strict pricing policy. The tone of this industry is currently unsettled and the worst outcome would be if the downturn remained depressing earnings for longer than we currently anticipate.

Chart: Air Freight Sector versus S&P 500

United Parcel Service   Price $56.90   ticker UPS

Chart: UPS versus Air Freight Sector and S&P

[redacted]

Introduction

United Parcel Services
The company is the largest express carrier in the world, the largest package delivery company in the world and in 1999 delivered an average 12.92 pieces per day generating revenues of $27 billion. The company has developed a vast and reliable global transportation infrastructure, supported by advanced technology. **UPS** relies on domestic business to generate 82% of its earnings and management employs its own extensive hedging program. It also managed to increase both air and ground prices recently and now has six routes into China and is making a strong impact in Europe.

Past Performance

The company is also absorbing relatively high costs associated with its new logistics business. This is a well-run company, which should see a return to strong earnings by next year. We believe that this is likely and we would hold onto this within our portfolio. In an attempt to extend its reputation UPS has moved into the field of the movement of electronic information. By handling over 9.5 million packages per day, more than any competitor, it has improved efficiency and competitiveness. Indeed this has allowed UPS to pioneer secure Internet transfer technology. **UPS** has also returned a negative 12% over the year, which is better than the S&P 500 but it sadly lags the industry average, which shows a decline of just 2%. As is evident from the chart, this sector has been insulated slightly from the broad based sell off.

Outlook

The company 'fits' the sector characteristic well, with both P/E and price to cash flow similar to the average for the industry. Sales growth is reasonable at over 10% and debt levels are low. The return on equity is what attracts us at almost 30%. At the end of March, UPS announced that it would start direct delivery to China and aims to be able to deliver daily to every address in China by year-end. The strategy should add $100 million in revenue in the first year of operation. **UPS** also acquired **First International Bancorp Inc**. in January in an effort to expand the capabilities of **UPS Capital Corporation**.

United Parcel Service	Company	Industry: Trucking	Sector: Transportation	S&P 500
P/E Ratio (TTM)	22.11*	21.16	19.82	27.77
Price to Cash Flow (TTM)	16.22	15.04	11.55	19.77
Dividend Yield	1.38	1.37	1.42	1.71
Sales (TTM) vs TTM 1 Yr. Ago	10.05*	10.35	10.19	20.71
Total Debt to Equity (MRQ)	0.35	0.37	0.77	0.9
EBITD Margin (TTM)	19.41	18.51	19.36	22.53
Return On Equity (TTM)	29.35*	27.61	18.79	22.35

Recommendation: Hold

Air Transport

We have a nasty suspicion that our holding in **Delta Air Lines** might never take off again. They are far from being the worst performing stock in it their sector. That honor goes to **TWA** down and out at 100% beneath the broad S&P for the year and in the process of talks with **AMR**. The industry has suffered from rising fuel prices and labor problems. The notable losers here include our own **Delta**, **UAL** and **US Airways**, whose collective decline in profits accounted for the bulk of the net 20% decline for the industry. The ability to hedge against rising fuel prices was exploited last year but this year some carriers may be unable to do so. The air transport industry has been growing nicely for some years and industrial traffic grew 6.5% in 2000 and began 2001 with a 6.8% increase. However, domestic traffic has been sluggish and **AMR, UAL, Delta** and **Continental** all reported lower traffic. While the industry has witnessed consolidation, it is all too evident that structural problems exist with price competition rife and airlines going bust. Bringing together merged entities might take a significant amount of time and melding labor unions; communications and computer activities might prove cumbersome to say the least. The ability to raise prices through consolidation might be a long way off.

Chart: Air Transport Sector versus S&P 500

[redacted]

Delta Air Lines   Price $39.50   ticker   DAL

Chart: Delta Air Lines versus Air Transport Sector and S&P 500

[redacted]

Introduction

Delta, along with **Atlantic Southeast Airlines** and **Comair Inc.** is the US' largest airline in terms of aircraft departures and passengers enplaned. It serves 205 domestic cities in 45 states as well as 44 cities in 28 foreign countries. It is the third largest by operating revenues.

Past performance

Delta has entered into marketing agreements to maintain or improve its access in international markets. **Delta** relies on passenger flights for 94% of revenue and fuel costs 10% of revenue with labor costing 35%. The company is quite adept at hedging fuel costs, but not so at handling labor disputes over salary and retirement benefits for its pilots. Many passengers have avoided **Delta** on account of cancellation risks and such 'downed' flights have reduced fourth quarter earnings by $0.40c per share. While **Delta** compares favorably to other passenger airlines, the dispute has weighed heavily against their presence and the current downturn will undoubtedly be mirrored by the industry as a whole. We wonder whether this situation will mark the turning point for the company.

Outlook

Delta has matched the S&P as if it was a substantial weight within it. Despite the industry's positive return on the year to date, this masks a different picture. In reality there is a massive dispersion of returns with both **TWA** and **UAL** under performing enormously. Other carriers have exceeded the industry by equal amounts. Both **Southwest Air** and **US Air** are up towards 50% for the year. A significant factor in our decision to lose this holding is the decline in price beneath the annual low recently; this will probably mark a period of significant underperformance. Seemingly a nice earner with an ROE of 18.16%, this stock exhibits low a dividend yield and the current slowdown and the compounding effect of the pilots' strike makes **Delta** stock look cheap. We argue our case here and state that the next rise in the P/E ratio will likely be as a result of declining earning rather than rising share price.

Delta Air Lines, Inc.	**Company**	**Industry: Airline**	**Sector: Transportation**	**S&P 500**
P/E Ratio (TTM)	5.43*	14.18	19.82	27.77
Price to Cash Flow (TTM)	2.12	8.57	11.55	19.77
Dividend Yield	0.26	0.47	1.42	1.71
Sales (TTM) vs TTM 1 Yr. Ago	11.36*	14.89	10.19	20.71
Total Debt to Equity (MRQ)	0.91	1.25	0.77	0.9
EBITD Margin (TTM)	16.01	15.77	19.36	22.53
Return On Equity (TTM)	18.16*	17.12	18.79	22.35

Recommendation: Sell

Consumer Staples

Chart: Food & Beverage Sector vs S&P500

Chart: Household Products (non-cyclical) vs S&P500

Introduction

Consumer staples are a classic value and defense sector that is thought by investors during market troubles and economically difficult times. The argument for this is that even in economically less favorable times people need to fulfill their basic needs like food and drink. Consequently these companies' earnings are much less affected by changes in the economy.
Valuations for the sector have increased over the past five years from P/E ratios in the low 20's to P/E ratios in the high 20's. The higher valuations can be traced back to increases in profit margins, which have doubled from 4% to 8% sector wide. Managements have consolidated and continue to consolidate their brands and holdings to focus on core strengths.
Current holdings in this sector are Coca-Cola and Anheuser-Busch in the beverage sector and Proctor & Gamble in the non-durable household products sector.

Outlook

The increased net profit margins that resulted from industry consolidation have held steady for about four years now. We believe that these are sustainable margins and that they will justify higher P/E ratios into the foreseeable future. As investors have become wearier with the stocks in this sector should continue to perform well over the next twelve months, serving as a perceived safe haven from further market uncertainty and volatility.

Conclusion

We recommend an overweight position in this sector for the year.

Anheuser Busch Price $45.93 ticker BUD

Chart: Anheuser-Busch vs Food and Beverage and S&P500

Introduction

Anheuser-Busch (AB) is the world's largest brewery conglomerate. The concern derives app. 95% of its revenue from it subsidiaries involved in brewing and in aluminum container manufacturing and recycling. Its core beer brands are Budweiser, Michelob and Busch. Through one of its subsidiaries AB also operates the SeaWorld and Busch Gardens theme parks throughout the US, making it the second largest theme park operator in the world.

Past Performance

As investors thought safety in more conservative stocks after the dotcom bubble burst in March 2000 stocks like AB performed admirably, gaining 50% year on year. There are other reasons for its continued strong performance though. Over the past 10 years AB lowered its costs and increased it net operating margin from 19.5% to over 26%. This translated directly into the bottom line as Net profit margins grew from 7.8% to over 12%.

Outlook

It is doubtful that AB will be able to increase operating margins much longer. The current margins however make AB a very profitable company. We believe AB will be able to maintain these and therefore continue to do well. AB also has significantly increased its leverage over the past ten years. This has greatly increased the return for shareholders. Considering the stable business environment AB operates in, the increased leverage should not pose any threat to AB's shareholders as AB creates ample cash to pay those creditors. AB's superior performance has led to a premium price for the stock despite a somewhat sub-par dividend yield and growth rate.

Anheuser-Busch Companies	**Company**	**Industry: Beverages (Alcoholic)**	**Sector: Consumer/Non-Cyclical**	**S&P 500**
P/E Ratio (TTM)	26.35*	24.9	28.38	27.77
Price to Cash Flow (TTM)	19.47	18.01	20.27	19.77
Dividend Yield	1.48	1.53	2.33	1.71
Sales (TTM) vs TTM 1 Yr. Ago	4.77*	5.12	3.38	20.71
Total Debt to Equity (MRQ)	1.3	1.16	1.17	0.9
EBITD Margin (TTM)	26.82	25.09	18.1	22.53
Return On Equity (TTM)	40.74*	36.37	34.47	22.35

Recommendation: HOLD

Coca Cola Price $45.16 ticker KO

Chart: Coca-Cola vs Food and Beverage Sector and S&P500

Introduction

Coca Cola (KO) is the worlds' largest soft drink producer and distributor. KO creates roughly 38% of it revenues outside the US. The Coca Cola brand is the most recognized brand in the world. The company maintains a consistently high equity ratio, choosing to finance its operations mostly through equity. In '98 and '99 KO divested the majority of its bottling operations throughout the world in an attempt to reduce assets and increase ROA. In February '01 CC announced a joint venture with Proctor and Gamble that will combine KO's MinuteMaid brand with P&G's Pringle.

Past Performance

KO has been a consistent high performer in terms of operating margins and net profit margins. Since the spin off of its bottling subsidiaries, KO has managed to keep operating margins of around 29% and net profit margins around 18%. Despite this fact the stock performance has been lackluster during the past few years as KO is trying to regain its status as a growth company and management issues continue to keep investors at bay.

Outlook

Demand for soft drinks is expected to grow at approximately 5% annual in the future which should ensure stable growth in revenues for many years to come. These gains are already priced into KO's current stock price and the overall price gains over the next year appear average. KO's superior cost management is also reflected in an industry best EBITD ratio.

The Coca-Cola Company	Company	Industry: Beverages (Non-Alcoholic)	Sector: Consumer/Non-Cyclical	S&P 500
P/E Ratio (TTM)	52	42.98	28.38	27.77
Price to Cash Flow (TTM)	38.36	29.86	20.27	19.77
Dividend Yield	1.5	1.34	2.33	1.71
Sales (TTM) vs TTM 1 Yr. Ago	3.3	2.64	3.38	20.71
Total Debt to Equity (MRQ)	0.61	0.75	1.17	0.9
EBITD Margin (TTM)	21.82	19.16	18.1	22.53
Return On Equity (TTM)	23.28	24.25	34.47	22.35

Recommendation: HOLD

Proctor Gamble   Price $62.60   ticker   PG

Chart: P&G vs Non-Perishable Households, Non-Cyclical and S&P500

Introduction

Proctor and Gamble (P&G) is involved in the development, manufacturing and distribution of detergents, foods and toiletries. P&G usually has several leading brands in each market that it competes in. For example it owns Bounty and Charmin household paper brands and Luvs and Pampers diaper brands. Other important brands include, Tide, Folger's and CoverGirl. P&G currently follows a strategy of consolidating and leveraging its core brands.

Past Performance

Like many of the companies in this sector P&G went through a cost savings program in the 1990s that has increased operating margins from around 13% to over 20%. This has translated directly into the bottom line, making this company much more profitable and attractive now than in the past.

After taking a beating in early 2000 the stock made a comeback during the "flight to safety" phase but has recently lost most of these gains again as economic worries have reached conservative stocks as well.

Outlook

P&G is an attractive stock for a very long-term investment horizon and for this portfolio because of its profitability and relatively high dividend yield. Its currently somewhat depressed P/E ratio can be traced to its low growth last year. We would like to see improved growth before we recommend buying more P&G.

The Procter & Gamble Co.	Company	Industry: Personal & Household Prods.	Sector: Consumer/Non-Cyclical	S&P 500
P/E Ratio (TTM)	23.65	26.94	28.38	27.77
Price to Cash Flow (TTM)	15.25	19.59	20.27	19.77
Dividend Yield	2.33	1.96	2.33	1.71
Sales (TTM) vs TTM 1 Yr. Ago	1.04	2.93	3.38	20.71
Total Debt to Equity (MRQ)	1.1	1.35	1.17	0.9
EBITD Margin (TTM)	19.8	18.26	18.1	22.53
Return On Equity (TTM)	32.21	35.97	34.47	22.35

Recommendation: Hold

Healthcare

Chart: Healthcare vs S&P500

Introduction

The Healthcare sector has performed amicably over the past year. Not only did it return over 25% in 2000, but it also has managed to stay in positive territory year on year. The sector comprises such diverse industries as pharmaceuticals, biotechnology companies, medical devices, managed healthcare and healthcare providers. The first three of these are particularly notable in that they tend to serve a global customer base that is protected by strong patents and create a large proportion of their revenue abroad. Healthcare is a rare sector that combines robust growth in the 10% to 12% range with a somewhat reduced sensitivity to economic factors. In fact, as overall earnings drop in economic downturns, relative earnings in the sector tend to increase[1]. In addition, the global nature of drug, biotechnology and medical technology companies tends to shelter them even further from economic turmoil. Several subsectors in particular have benefited from perceived changes in the regulatory environment. A renewed discussion of limiting lawsuits has helped Managed care and Hospital Management companies. Generic drug manufacturers have benefited from an increased acceptance by the public and an increased pressure by HMOs and healthcare insurers to substitute expensive brand drugs with these cheaper substitutes.
Current holdings in the portfolio include Pfizer, Bausch&Lomb, McKessonHBOC and HCA-Healthcare Co.

Outlook

The overall sector has shown consistent growth in double digits and this performance appears to be sustainable for some time to come. A big factor in this is that the populations in North America and Europe, the industries' two largest markets, are rapidly growing. This is particularly true for North America where the baby boomer generation is rapidly approaching retirement age. The European population has been aging more gradually but is also expecting rapid growth as a generation that was not affected by WWI or WWII approaches retirement.

Recommendation: We recommend to overweight the sector

[1] FirstUnion, "Autlook 2001", published December 2000

Bausch & Lomb Price $45.66 ticker BOL

Chart: BOL vs Healthcare and S&P500

Introduction

Bausch & Lomb (BOL) is a world leader in developing and manufacturing optical healthcare products. Its two business sections are vision care (contact lenses and lens care) and pharmaceutical/surgical products (surgical lasers, ophthalmic pharmaceuticals). BOL has undergone some strategic restructuring during the past few years, selling of its eyeglass division in '99 to concentrate on the remaining sectors.

Past Performance

In a sector that has done very well compared to the S&P500 BOL has been one of the few negative exceptions. The cause for this was lower than expected performance in both divisions. New products did not make up for lost revenues in old lines. This was aggravated by an unfavorable lawsuit that forces BOL to sell its contact lenses to mail order distributors.

Outlook

BOL's profit margin will undoubtedly suffer from the changes caused by the lawsuit. At the same time its surgical lasers are not performing as expected and it is having trouble introducing its newest version in the US as a patent dispute with VISX is on the way. The overall outlook for BOL is unfavorable for the next few years. This is reflected in its profitability and growth ratios.

Bausch & Lomb Inc.	Company	Industry: Medical Equipment & Supplies	Sector: Healthcare	S&P 500
P/E Ratio (TTM)	26.39	36.25	39.45	27.77
Price to Cash Flow (TTM)	22.98	27.05	30.68	19.77
Dividend Yield	2.39	0.84	1.42	1.71
Sales (TTM) vs TTM 1 Yr. Ago	0.4	10.73	13.34	20.71
Total Debt to Equity (MRQ)	0.95	0.48	0.41	0.9
EBITD Margin (TTM)	8.9	25.27	23.66	22.53
Return On Equity (TTM)	8.55	20.88	25.36	22.35

Recommendation: Sell

HCA Healthcare Price $40.27 ticker HCA

Chart: HCA vs Healthcare and the S&P500

Introduction

HCA-Healthcare (HCA) provides healthcare facility management services throughout the United States to hospitals, outpatient surgical centers and psychiatric units. HCA has been in the press recently because of lawsuits filed by the Department of Justice. HCA already settled one set of lawsuits last year taking a $593 million charge from civil and criminal cases.

Past Performance

HCA's stock performance was outstanding in '00 despite the aforementioned lawsuits and related charges. HCA has improved its operations and cash flows over the past year but continues to be riddled by lawsuits. The stock price dropped sharply in December after the extent of the criminal charges became clear. The new charges however had no significant impact on the share price as they related to issues that were already under discussion with the DOJ.

Outlook

We expect HCA's growth strategy to continue and be a solid investment despite the current threat of further charges related to lawsuits in '01. At the current P/E ratio we don't see large capital gains in the next year. We are also waiting for sales growth to pick up and leverage to decrease before we recommend buying more stock.

HCA-The Healthcare Co.	Company	Industry: Healthcare Facilities	Sector: Healthcare	S&P 500
P/E Ratio (TTM)	98.38	51.11	39.45	27.77
Price to Cash Flow (TTM)	16.47	16.79	30.68	19.77
Dividend Yield	0.22	0.22	1.42	1.71
Sales (TTM) vs TTM 1 Yr. Ago	0.08	14.78	13.34	20.71
EBITD Margin (TTM)	13.15	14.83	23.66	22.53
Total Debt to Equity (MRQ)	1.53	1.09	0.41	0.9
Return On Equity (TTM)	4.13	9.29	25.36	22.35

Recommendation: Hold

McKesson HBOC Price $26.75 ticker MCK

Chart: HBOC vs Healthcare and S&P 500

Introduction

McKessonHBOC (MCK) is a distributor of healthcare products and service provider to the healthcare industry. MCK has three business lines: supply management, information technology and iMckesson. Supply management distributes healthcare products to hospitals, healthcare providers and medical supply retailers. Information technology and iMckesson provide IT and internet solutions to companies involved in the healthcare industry. These solutions range from patient care to financial and strategic software.

Past Performance

In '98 McKesson merged with HBOC, a then high-flying, 50% growth company that brought in the IT i-business. Both of these divisions have been struggling. MCK stock price has been under performing since April '99. MCK is surviving on razor thin operating margins of less than 3% and net profit margins of less than 1%. MCK has had negative surprises in its earnings for three out of the last four quarters. Estimates for the current quarter however have been revised upward recently.

Outlook

As a company that derives most of its profit from its distribution business MCK will continue to have very small margins until its IT and i-business units pick up speed. There is a chance for this to happen as healthcare providers are looking for solutions to cutting cost without lowering quality of care. The overall outlook for the next twelve months is average. This outlook could turn to very positive though if the IT business picks up.

McKesson HBOC, Inc.	Company	Industry: Medical Equipment & Supplies	Sector: Healthcare	S&P 500
P/E Ratio (TTM)	182.99	36.25	39.45	27.77
Price to Cash Flow (TTM)	28.99	27.05	30.68	19.77
Dividend Yield	0.91	0.84	1.42	1.71
Sales (TTM) vs TTM 1 Yr. Ago	11.75	10.73	13.34	20.71
Total Debt to Equity (MRQ)	0.33	0.48	0.41	0.9
EBITD Margin (TTM)	1.27	25.27	23.66	22.53
Return On Equity (TTM)	1.26	20.88	25.36	22.35

Recommendation: Hold

Pfizer Price $40.95 ticker PFE

Chart: Pfizer vs Healthcare and the S&P500

Introduction

Pfizer (PFE) is one of the world largest producers of pharmaceuticals. It recently went through a merger with Warner Lambert, increasing sales from $16.2 billion in '99 to $29.6 billion in '00. Pfizer has arguably the most attractive product line up in the industry with blockbusters such as Lipitor, Novarsc, Zoloft, Celebrex and Viagra.

Past Performance

PFE's blockbuster portfolio has increased operating margins significantly with a direct effect on the bottom line. Net profit margins, if expectations hold, will have doubled between '90 and '01. The stock price had a very nice run between '94 and '98 but has held steady since, allowing the fundamental value to catch up once again.

Outlook

The merger with Warner Lambert is expected to increase PFE's net profit margins further to around 25%. Furthermore PFE faces none of the expiring patent issues that many of its competitors face. All of its blockbuster drugs are fairly new and will be patent protected for many years. PFE also has a very strong R&D pipeline. Expectations are that PFE will introduce between 5 and 7 new drugs in the next two years. The recent decline in its stock price has made it an interesting investment as EPS is expected to grow in excess of 20% over the next years. Currently PFE's EBITD and ROE margins are trailing the sector. This situation is expected to reverse as more competitors begin having patent issues and the cost and benefit of the W-L merger are fully realized.

Pfizer Inc.	**Company**	**Industry: Major Drugs**	**Sector: Healthcare**	**S&P 500**
P/E Ratio (TTM)	63.08	38.94	39.45	27.77
Price to Cash Flow (TTM)	50.11	31.4	30.68	19.77
Dividend Yield	1.17	1.55	1.42	1.71
Sales (TTM) vs TTM 1 Yr. Ago	9.7	10.16	13.34	20.71
Total Debt to Equity (MRQ)	0.45	0.37	0.41	0.9
EBITD Margin (TTM)	23.54	27.07	23.66	22.53
Return On Equity (TTM)	26.6	32.78	25.36	22.35

Recommendation: Hold

Johnson & Johnson   Price $87.47   ticker   JNJ

Chart: JNJ vs Healthcare and S&P500

Introduction

Johnson & Johnson (JNJ) is a diversified healthcare company that is active in three business segments: consumer, pharmaceutical and professional. The consumer business produces skincare, baby care first aid products. The pharmaceutical sector produces prescription and non-prescription drugs in several areas of indication. The professional business provides surgical devices, equipment and materials as well as disposable contact lenses. JNJ is a world leader in the development of sutures and wound healing products.

Past Performance

JNJ is now in its 67th year of sales increases and its 38th year of dividend increases. Over the past five years operating margins increased by 4.5% to 27.5% and net profit margins increased by 4% to 16.5%.

JNJ recently announced the purchase of Alza Inc. the worlds premier drug delivery technology company in an all-stock deal that is valued at $12.3 billion ($10.5 ex cash). The deal announcement explains the recent drop in the stock price but is generally seen as favorable by analysts[2].

[2] AP, Tuesday, March 27th 2001

Outlook

JNJ's variety of business lines protects it from some of the patent issues that currently plague some of the pure play pharmaceutical companies. We feel that JNJ's current price presents good value and should be exploited as we agree with analyst forecasts of more price appreciation when JNJ's P/E ratio gets more in line with the rest of the sector and industry.

Johnson & Johnson	Company	Industry: Major Drugs	Sector: Healthcare	S&P 500
P/E Ratio (TTM)	25.98*	38.94	39.45	27.77
Price to Cash Flow (TTM)	20.26	31.4	30.68	19.77
Dividend Yield	1.45	1.55	1.42	1.71
Sales (TTM) vs TTM 1 Yr. Ago	6.07*	10.16	13.34	20.71
Total Debt to Equity (MRQ)	0.18	0.37	0.41	0.9
EBITD Margin (TTM)	27.13	27.07	23.66	22.53
Return On Equity (TTM)	27.50*	32.78	25.36	22.35

Recommendation: Buy

Consumer Cyclical

Consumer Cyclicals will likely continue to under perform until a clearer image of a recovering economy is presented. Many groups have felt the effects of the slowdown to date. Automakers have seen massive layoffs in the face of slowing demand and escalating inventories. Earnings have been downward revised because of poorly structured lease programs. Additionally, consumer-spending figures have shown a significant drop in big-ticket items. Analysts have been revising 2001 earnings downward since May of 2000 for this sector. A key economic indicator will be NAPM's manufacturing orders to ascertain when the sector might be in line for more favorable times.

Wal-Mart Price $47.57 Ticker WMT

Introduction

Wal-Mart Stores, Inc. principally is engaged in the operation of mass merchandising stores, which serve customers primarily through the operation of three segments: Domestic Discount stores and Supercenters, International operations, and Sam's Clubs. The company also has an on-line presence

Past Performance

Wal-Mart is a leader in the retail store industry. Deteriorating consumer sentiment has hurt most retailers' sales and earnings in the past 12 months. Higher interest rates and rising fuel costs have impacted discount store performances. However, recent interest rate cuts and a decrease in tax rates should help fuel improved retail spending through the next year. The stock currently trades 27% off of its 52-week high.

Chart: Retailers vs. S&P 500

[redacted]

Chart; WalMart vs Retailers and S&P 500

OUTLOOK: Wal-Mart Strategy

Wal-Mart plans to double the number of its super centers in the U.S., to around 1,700 by the close of fiscal 2005. Such an expansion would far exceed the total openings of similar facilities by the competition. The company is also experiencing rapid growth in its international operations which should be supported by a strengthening euro and a more vulnerable dollar. Wal-Mart's aggressive move into foods provides a more defensive position against a potential ensuing recession, making them a defensive retail play. In light of the uncertainty that has arisen from the economic shakeout, a hybrid-like company with a defensive component will remain a good holding. Wal-Mart has been reported to have had exploratory discussions about a possible alliance with Amazon.com.

Wal-Mart Stores, Inc.	Company	Sector: Services	Industry: Retail (Department & Discount)	S&P 500
P/E Ratio (TTM)	33.84	32.15	25.81	27.77
Price to Cash Flow (TTM)	23.35	21.66	16.56	19.77
Dividend Yield	0.59	0.8	1.86	1.71
Sales (TTM) vs TTM 1 Yr. Ago	15.88	14.85	21.1	20.71
EPS (TTM) vs TTM 1 Yr. Ago	12.92	12.93	15.23	21.42
Total Debt to Equity (MRQ)	0.76	0.85	0.9	0.9
EBITD Margin (TTM)	7.57	8.13	21.73	22.53

Wal-Mart has 5-year earnings growth of nearly 20%. The company is projected to earn $1.58 per share this year and over the past four quarters has reported upside surprises twice. The company's price to earnings multiple is reasonable for an industry leader relative to the rest of the industry and to the broader market and maintains a PEG ratio of 1.82. The analysts mean 12-month target for the stock is $64.88 with a low target of $58.00, a 22% premium to current market value.

RECOMMENDATION:

At current levels, and at the current stage of the economy, we **recommend holding** our position in Wal-Mart.

Recreation Industry

Mattel Price $17.82 Ticker MAT

Introduction

Mattel, Inc. designs, manufactures, and markets a broad variety of family products on a worldwide basis through both sales to retailers and direct to consumers. Mattel's core business unit is Toy Marketing. Its business is dependent in great part on its ability each year to redesign, restyle and extend existing core products and product lines, to design and develop innovative new products and product lines, and successfully market those products and product lines.

Past Performance

Rising fuel costs, a weak euro, sub par weather conditions, and a downturn in trendy products, along with a downturn in the macroeconomic environment have hindered earnings in the recreation sector. Spending on non-necessity items in a slowing economy tends to be tightened and the industry has begun to show that direct tie to their earnings. Mattel has been hampered with an unprofitable, capital-intensive business segment in the Learning Company. After divesting this segment, the company has turned its focus to its core toy making business and is trading up 83% from its 52-week lows.

Chart: Toys vs S&P 500

[redacted]

OUTLOOK: Mattel Strategy

Mattel has strengthened its market position and financial position through its October 2000 restructuring, which involved selling off an unprofitable business unit, The Learning Company, for future considerations. The sale eliminated a substantial cash drain and reduced operating uncertainty, allowing management to focus on the core toy business. The company continues to focus on cutting costs and expects sales growth in the mid single digits this year from globalizing its brands.

Mattel, Inc.	Company	Industry: Recreational Products	Sector: Consumer Cyclical	S&P 500
P/E Ratio (TTM)	44.89	30.41	16.61	27.77
Price to Cash Flow (TTM)	34.27	26.7	9.09	19.77
Dividend Yield (%)	2.02	1.27	3.01	1.71
Sales (TTM) vs TTM 1 Yr. Ago	1.61	9.59	7.85	20.71
EPS (TTM) vs TTM 1 Yr. Ago	14.5	18.6	-9.55	21.42
Total Debt to Equity (MRQ)	1.05	0.56	2.56	0.9

Mattel is currently trading at a multiple excessive to both the industry and to the benchmark S&P 500. It is in a recovery stage and will need to demonstrate an ability to grow sales and earnings sustainably to command such a valuation.

RECOMMENDATION:

Due to its recent price appreciation and modest growth outlook, we **recommend a sell** on Mattel at current levels.

Home Appliance Industry

Black & Decker Price $38.95 Ticker BDK

Introduction

Black & Decker Corp. is a global manufacturer and marketer of power tools and accessories, hardware and home improvement products and technology-based fastening systems. The company operates in three business segments: Power Tools and Accessories, Hardware and Home improvement, and Fastening and Assembly Systems. Black & Decker markets products and services in over 100 countries and reported a FY 2000 revenue increase of 1% to $4.56 billion and a decrease in Net Income of 6% to $282 million.

Past Performance

Home appliance stocks are interest rate sensitive and demand has been tapering off for these products on the successive Federal Reserve tightening. However, the feds responsive loosening of money as a result of economic slowdown, in theory, should reverse this trend. Unfortunately, companies in the home appliance industry are just plain out of favor with investors. Industry fundamentals prove weak by declining shipment growth and weakening quarterly earning reports. In the face of the industry slowdown several companies, such as Black & Decker, have implemented measures to improve profitability through share buy back programs and cost cutting initiatives.

Chart; Diversified Industrials vs. S&P 500

Chart; Black & Decker vs. diversified industrials and S&P 500

OUTLOOK: Black & Decker Strategy

In an under performing industry, Black and Decker has made a substantial effort to improve profitability through cost cutting initiatives.

Black & Decker Corp.	Company	Industry: Appliance & Tool	Sector: Consumer Cyclical	S&P 500
P/E Ratio (TTM)	11.66	16.76	16.61	27.77
Price to Cash Flow (TTM)	7.38	10.78	9.09	19.77
Dividend Yield	1.23	1.61	3.01	1.71
Sales (TTM) vs TTM 1 Yr. Ago	0.89	7.39	7.85	20.71
Total Debt to Equity (MRQ)	1.8	0.81	2.56	0.9
EBITD Margin (TTM)	14.62	14.7	12.78	22.53
Return On Equity (TTM)	37.53	28.34	17.06	22.35

Black & Decker has a five-year growth rate of earnings of 7.89%. As a result of slowing demand due to a slowing economy the company has reported an annual contraction in earnings. The company, however, has a business model that produces return on equity far superior to its competitors and the benchmark S&P 500 and analysts forecast earnings to return to double-digit growth by year 2002. Black & Decker is known for its responsible and strategic financial structuring. The company has reported upside earnings surprises in 3 of the last 4 quarters. Goldman Sachs has recently upgraded the stock and analysts' 12-month mean price target on the stock is $47.33. The company is expected to earn $3.54 per share for FY 2001. Based on an industry multiple to earnings of 16, the stock is undervalued at $38.95.

RECOMMENDATION:

We recommend that Black & Decker be a **hold** in the portfolio, based on our analysis that the economy and consumer sentiment has bottomed out and better times are ahead for such a leading cyclical natured company.

Media and Entertainment Industry

News Corp Price $31.40 Ticker NWS

Introduction

News Corporation Limited is the world's fifth largest media conglomerate. It is a diversified international communications company engaged in the production and distribution of motion pictures, television broadcasting, publication of newspapers, magazines and books

Past Performance

The multi-media industry as a whole has poorly performed in 2000 and early into 2001 due to uncertainty in the role that the Internet will play in its future. The AOL/Time Warner merger in late 2000, while putting more modest valuations on high-flying AOL, simultaneously burdened Time Warner with a potentially fledgling business model in AOL. This union has the industry on its toes waiting in anticipation of what form the industry will take. Not atypical, mergers are characteristic of the industry as a whole. In efforts to build critical mass and market coverage constant merger activity is prevalent in the industry. This leaves many stocks with uncertainty, unproven synergies and difficult and time consuming melding of companies. NWS is 45% off of its 52-week highs.

Chart: Media and Entertainment vs S&P500

[redacted]

Chart: Publishing vs. S&P 500

OUTLOOK

The future growth opportunities for NWS are insulated from the advertising cycle, which analysts believe has bottomed out, by its performance in TV programming, off-network syndication, improved ratings at Fox Television Network and the closing of the Chris Craft Industries acquisition. This purchase ads 10 television stations to News Corp.'s media empire and gives it duopolies in four markets, including New York and Los Angeles. The company also is aggressively pursuing a merger with Hughes Electronics, which would create the largest global satellite TV network in the world and expand Murdoch's satellite TV interests in Asia and Europe to North America via DirecTV's 9.5 million customers.

News Corp. Limited	Company	Industry: Media and Entertainment	Sector: Services	S&P 500
P/E Ratio (TTM)	490	23.39	25.81	27.77
Price to Cash Flow (TTM)	30.47	13.13	16.56	19.77
Dividend Yield	Na	1.44	1.86	1.71
Sales (TTM) vs TTM 1 Yr. Ago	17.67	18.52	21.1	20.71
EPS (TTM) vs TTM 1 Yr. Ago	-91	-2.59	15.57	22.47
EBITD Margin (TTM)	15.09	25.86	21.37	22.53
Total Debt to Equity (MRQ)	.44	.92	.90	.90

Analysts expect the NWS to earn .70 per share for FY 2001 and grow earnings by 37% in FY 2002. These forward-looking earnings place a price multiple to earnings of 43 times. Ratios alone don't tell the story on NWS. This is a growth play and the future performance of the stock has more to do with the continued innovation and expansion of the company intelligently rather than in current valuation.

RECOMMENDATION

We recommend a **hold** of News Corp based on analysis of multiples, the leadership position of the company and its ability to take advantage of future direction and growth in the industry.

Energy & Utilities

The energy sector has undergone a paradigm shift in the way business is done, due to deregulation in the industry. Deregulation has been adopted to drive down prices by removing monopolistic conditions and encouraging competition. This has caused a rebirth in the business strategies of old-line energy companies. Deregulation began in 1992 with the Energy Policy Act, but is just now gaining momentum. Currently, 28 states have instituted or are considering either partial or complete deregulatory policies. Deregulation has been focused on electricity generation, leaving distribution and transmission more heavily regulated. Therefore, companies devoted solely to generation have rapid growth potential. These companies have already seen significant price appreciation, while companies focused on distribution and transmission have traditional valuations and dividend yields. Independent power producers have vertically integrated, acquiring generation businesses, and distribution assets, positioning themselves to offer products and services for the customers' total energy needs. Utilities and consumers have been switching toward gas away from coal, oil and nuclear energy sources of power making natural gas the power fuel of the future. More than 95% of all new generation plants that are scheduled to be built in the next three years are natural gas fired plants. With growing demand for energy and OPEC induced supply constraints, natural gas prices have elevated and are projected to remain high. This means higher profits for generation companies as well as the companies that have transformed their businesses by divesting hard distribution assets and have reorganized to capitalize on their trading expertise. International deregulation is taking place, at least, as fast as deregulation in the state.

Utilities have become a more volatile play in light of deregulation in the power industry. As there are opportunities for greater returns, there is also a greater underlying risk. Pacific Gas & Electric of California has been the fear evoker in utility companies and there investors in early 2001. Deregulation coupled with higher demand for power and production shortages have left P,G,&E with demanded power under regulated price constraints while buying wholesale power on the open market for inflated supply/demand driven prices. This has caused escalating blackouts in California and has resulted in P,G,&E recently taking a charge of 4.1 billion dollars for the year, jeopardizing the future of the company. The company has indicated that by year-end the charges might be as great as 6.7 billion. For utility companies, ability to hedge themselves from price risk and its ability to pass price fluctuations along to the consumers is a key question when analyzing investment opportunities.

Chart: Electric Utilities vs. S&P 500

Enron Price $60.50 — Ticker ENE

Introduction

Enron delivers physical commodities and financial and risk management services, develops and operates energy facilities, produces electricity and natural gas, offers broadband services, and has an online trading platform. The company has taken its expertise in the energy markets and has begun to transform their business, with the help of the internet, into a virtual energy company and a market maker in wholesale energy as well as any other commoditizable product or instrument. As a result, Enron has experienced rapid growth and recently has been able to capitalize on escalating natural gas prices in California.

Past Performance:

As a result of a new business model, Enron has experienced rapid revenue growth and recently has been able to capitalize on escalating natural gas prices in California. The stock has undergone a sell-off with the overall market and rumors of a fledgling broadband concept and layoffs in that area have induced speculation.

Chart: Enron vs Electric Utility and S&P 500

Outlook

Enron Corp.	Company	Industry: Natural Gas Utilities	Sector: Utilities	S&P 500
P/E Ratio (TTM)	53.13*	33.84	23.52	27.77
Price to Cash Flow (TTM)	26.2	15.81	11.51	19.77
Dividend Yield	0.84	2.26	3.81	1.71
Sales (TTM) vs TTM 1 Yr. Ago	151.27*	75.21	58.54	20.71
EPS (TTM) vs TTM 1 Yr. Ago	-11.83*	2.35	20.59	21.42
LT Debt to Equity (MRQ)	0.95	1.23	1.45	0.62
EBITD Margin (TTM)	3.19	14.32	21.78	22.53
Return On Equity (TTM)	9.85*	11.7	13.84	22.35

Earnings for Enron are expected to grow at 19% for FY 2001. Analysts have revised FY 2001 earnings expectations up 2 times in the last 30 days. Q4 2000 earnings reported an upward surprise of 14.6%. Analysts' mean 12-month target for the stock is $97.55, a 61% premium to the current market value. Expected earnings for 2001 on a current multiple of 53, give the stock an appropriate valuation of $93.

RECOMMENDATION:

The stock retraced from its highs of $90.75 in the fourth quarter of last year to its recent lows of 51.51. At current levels, we **recommend holding** Enron.

Telecommunications Services Industry

The telecommunications service stocks have fallen out of favor with investors, due to accelerating competition, rising capital budgets, declining free cash flow, and falling revenue and earnings estimates. The long distance business that companies have relied on in the past has now given way to intense competition and commoditization leaving the door open for smaller players to capture market share. AT&T has decided to make a move away from long distance, putting efforts into more growth oriented business lines. The future for former powers in the industry does not look promising, at least in the near term. Companies shifting focus to fiber optics are facing abundant capacity and weak demand. Companies shifting focus to wireless communications are incurring sizable costs in acquiring wireless spectrum licenses, which are squeezing operating margins.

[redacted]

AT&T Price $21.30 Ticker T

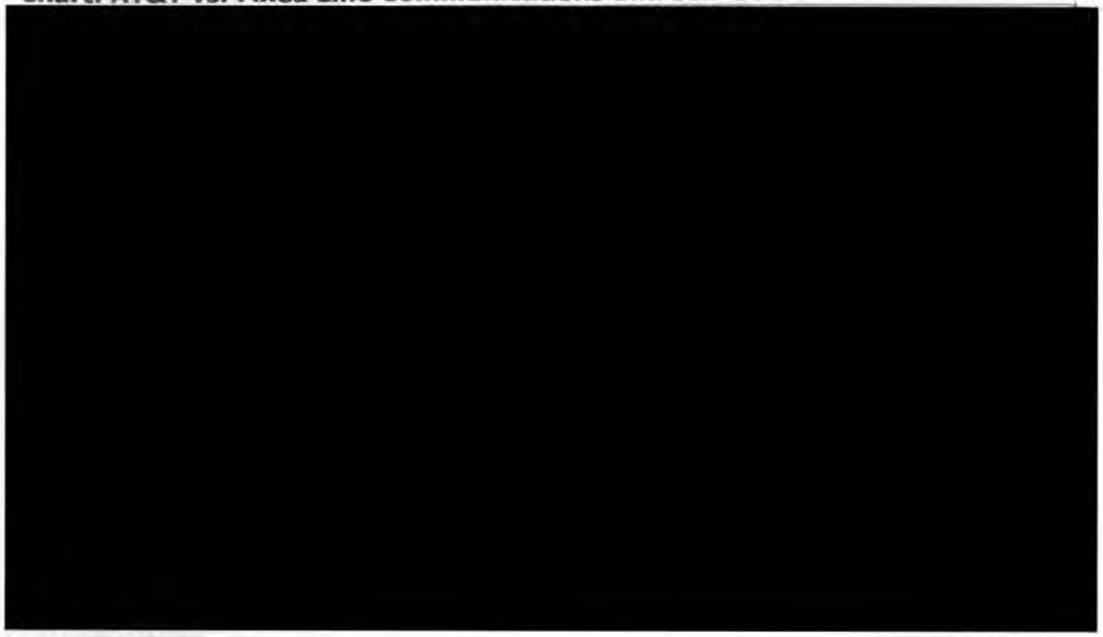
Introduction

AT&T provides voice, data, and video telecommunications services, including cellular telephone and Internet services, to businesses, consumers and government agencies. The company also provides cable access to over 11 million customers throughout the United States. In June of 2000 a merger with MediaOne was completed, making AT&T the largest cable operator in America. For fiscal year 2000 revenues rose 5% to $65.98 bio. Net income fell 43% to $3.11 bio.

Past Performance

AT&T shares have been driven down to a 13-year low. The company has also cut its dividend by 83%, plowing money back into the company in effort to increase investor favor by improving revenue and earnings growth. Increased competition in long distance, coupled with large costs associated with restructuring and infrastructure development. The stock is currently 65% off of its 52-week high.

Chart: AT&T vs. Fixed Line Communications and S&P 500



OUTLOOK:

Analysts expect 2001 revenues to grow by single digits and net profits to continue to slide. AT&T will break up this year into three independent operating companies. AT&T broadband has the most interesting growth potential out of the three. However, the spin-off carries a large debt burden and signed up fewer customers than expected and has not been able to generate the success in contracts with local cable providers that were expected.

AT&T Corporation	Company	Industry: Telecommunication Services	Sector: Utilities	S&P 500
P/E Ratio (TTM)	22.16	17.67	26.80	28.28
Price to Cash Flow (TTM)	4.34	10.36	16.90	19.80
Dividend Yield	.70	1.95	1.79	1.65
Sales (TTM) vs TTM 1 Yr. Ago	5.72	17.93	21.78	20.10
EPS (TTM) vs TTM 1 Yr. Ago	-44.30	5.19	15.57	22.47
EBITD Margin (TTM)	30.68	29.56	22.71	22.57
Total Debt to Equity (MRQ)	.56	1.16	.90	.89

AT&T has experienced diminishing growth and increasing leverage as it takes on capital-intensive projects to re-position itself. The stock's current valuation is well off its highs, however, appears to be fair in light of future growth prospects.

RECOMMENDATION:

We recommend a **sell** of AT&T. The future for comparable growth out of AT&T is questionable based on the shift in core business and the uncertain operating environment that broadband, a key future business line, will present.

Technology

Past Performance

The technology bubble created by vast overvaluations was burst in March of last year. The depth of the downfall has been deep and the tech heavy Nasdaq index has been the victim. The index has lost more than 68% of its value from its 52-week highs. Technology companies no longer are valued based on their abilities to attract eyeballs or on price/ sales ratios. Companies with unprofitable business models have been given 90% and even 100% devaluations by the market in broad measures, as the process of correcting to reasonable multiples takes place.

Current Holding

NASDAQ 100 Price $39.80 **Ticker QQQ**

Outlook

Technology looks oversold at current levels. We believe that there is upside and recovery that will take place in the index. A scenario may occur where a reconfiguration of the index takes place. This would entail fledgling businesses being removed from the index in favor of new proven business models.

Recommendation

We recommend a **hold** on the portfolio's position in QQQ. We believe that the economy has bottomed and due to oversold conditions in the Nasdaq, there is upside potential.

RECOMMENDED ADDITIONS

Biotechnology

Chart: Biotechnology vs Healthcare and the S&P500

Introduction

Biotechnology is a sub sector of the healthcare industry and belongs into the realm of the pharmaceuticals even though not all biotechnology companies are involved in healthcare. Their growth prospects stem from the revolution they promise to bring to the way we think about and treat diseases. Their developing technologies promise more efficient drug discovery process and an increasing number of products. A more efficient drug discovery process will dramatically reduce the cost to bring a drug to market. Estimates are that this cost might be reduced by as much as half from $1 billion/drug currently to $500 million in the future. This will reduce the pressure of drug developers to focus on so called "blockbusters" that are capable of recovering the high development costs and will make smaller markets attractive. Another driving factor in the biotechnology sector is the finishing of the Human Genome Project. The drugs known today are directed at approximately 400 –500 targets in the human body. This number is expected to increase to several thousand over the coming decades. As the targets become more defined the expectation is that the medications will be more efficient and have fewer side effects.

Outlook

Estimates vary, but it appears clear that these companies will be able to capture a sizeable portion of the overall drug and drug discovery market. Individual companies stand to gain significantly if they manage to get products out into the market as was witnessed by the success of Amgen and Genentech.

This sub sector carries with it great potential but also great risk and is not necessarily suitable for a buy and hold strategy because individual company performance is extremely dependent on news flow. One way to avoid this problem is to try and find "pick and shovel" stocks, the other is to invest in well-managed biotech funds.

Recommendation

We recommend an involvement in the industry because of its outstanding long-term growth prospects.

Qiagen Price $20.56 ticker QGENF

Qiagen vs Healthcare and S&P 500 **P/E: 114.2**

Introduction

Qiagen (QGEN) is one of the few "pick and shovel" stocks available in the biotechnology sector. The company was founded in 1985 in Germany but is incorporated in the Netherlands. The company specializes in the development, production and sale of nucleic acid (DNA and RNA) purification tools. These tools range from manual, single sample kits to fully automated high throughput machines. As biotechnology evolves further the need for these products will increase significantly. They are used every time the law enforcement creates a genetic fingerprint, a cancer is genotyped to allow more specific treatment and anytime anyone is doing any form of genetic research. QGEN is the undisputed market leader in this technology with an estimated market share of more than 80%.

QGEN is currently in the process of diversifying its business into the analysis of such nucleic acid samples. To achieve this the company has made several acquisitions including instrument maker Rosys of Switzerland and genomics company Rapigene of the US.

Past Performance

QGEN has been profitable since its inception and has met or beaten analysts estimates every time. The gross profit margin on its staple consumable products is above 70%. Its relatively low net profit margin of about 10% is largely a result of their growth efforts and R&D. The company had $207 million in revenues in FY2000, ending December 31st. QGEN's stock price has come off a high of $58.50 as the NASDAQ slumped and Biotechnology has once more fallen out of favor of investors.

Outlook

QGEN's market leadership, R&D and business line expansion are expected to continue to create outstanding performance of the company. Analyst forecasts for the coming year call for a growth of revenues of 45% to over $300 million in 2001. Earnings are forecast to grow by 50% in 2001 and continue to grow at over 40% for the next five years. We believe the current price reflects an opportunity to acquire this stock at a price that is reasonable considering its proven performance and growth opportunities.

Qiagen	Company	Industry: Biotechnology	Sector: Healthcare	S&P 500
P/E Ratio (TTM)	114.2	43.71	41.25	27.12
Price to Cash Flow (TTM)	139.29	36.71	32.34	19.57
Dividend Yield	0	0.41	1.34	1.7
Sales (TTM) vs TTM 1 Yr. Ago	41.73	25.9	13.28	21.24
Total Debt to Equity (MRQ)	0.19	0.38	0.41	0.9
EBITD Margin (TTM)	17.09	9.44	23.39	22.57
Return On Equity (TTM)	15.45	2.61	24.77	22.52

Recommendation: BUY

Fidelity Select Biotechnology

Chart: FBIOX vs S&P500

Introduction

The Fidelity Select Biotechnology Fund was established in 1989. Over the past 12 years it had nine years of positive returns and three of negative returns. FBIOX invests in biotechnology companies with established products as well as those that only have a research pipeline. Therefore, as for the whole industry, the risks are high but so are the returns.

Past Performance

FBIOX was the best performing US biotechnology fund over the past five years with an annualized return of over 20% and an annualized return of over 23% for the past three years. We recommend this fund to avoid increasing our international exposure even more as the best performing biotechnology fund for the past three years has been the Dresdner Biotech RCM fund, which is run from Germany.

Consumer Staple

Tupperware Corp. **Price $23.86** **Ticker** **TUP**

[redacted]

Chart; Tupperware vs Household Products and. S&P 500

[redacted]

While the portfolio guidelines do not require us to look at specifically locally based companies, one that we think might fit nicely into the portfolio is Tupperware Corp. Based in Orlando this household consumer products and personal goods producer distributes through direct selling, malls via kiosks and recently over the Internet. Tupperware products include food storage containers and have an established line of children's educational toys and gifts. It has a global presence and indeed Europe accounts for 47% of sales and 68% of operating profits in 1999. The way forward for the company has appeared blocked by competition, particularly online over the past five years, particularly since the company is relatively new. In 1996 Tupperware was spun off from Premark International Inc. along with other interests. By 1999 revenue was $1 billion versus $1.1 billion the year before.

Past performance

In the face of a slowing economy, this is a company that we are impressed with since it appears to have reorganized itself in order to face head-n the challenge of online trading. It has broadened its product range into other areas of the house and is a brand name that will only increase in status in coming years. In 1999 new products were being extended into new geographical locations including a licensing agreement for Disney logos. Over the past five fiscal years 85% of revenue has come from foreign sales across 100 countries. There are a growing number of distributors selling Tupperware goods and by the end of 1999 the system had 1,800 distributors, 51,000 managers and 980,000 dealers. A year ago Whirlpool and Tupperware announced a global strategic alliance to capitalize on mutually beneficial growth plans. The alliance will coordinate marketing, product development, market research efforts and co-promote new and current products.

Outlook

Tupperware Corporation	Company	Industry: Personal & Household Prods.	Sector: Consumer/Non-Cyclical	S&P 500
P/E Ratio (TTM)	17.95*	26.94	28.38	27.77
Price to Cash Flow (TTM)	9.04	19.59	20.27	19.77
Dividend Yield	3.78	1.96	2.33	1.71
Sales (TTM) vs TTM 1 Yr. Ago	1.35*	2.93	3.38	20.71
Total Debt to Equity (MRQ)	2.71	1.35	1.17	0.9
EBITD Margin (TTM)	18.69	18.26	18.1	22.53
Return On Equity (TTM)	51.59*	35.97	34.47	22.35

The price to cash flow relative to the above universe is low as is the P/E ratio. The share price has done little but decline since 1996 with a range of $55.50 to $11.40 (1998). We think that the recent efforts to streamline the company and get its position mapped out for the future will help increase cash flow relative to the rising debt burden, which was aimed at financing expansion plans. Margins have been widening against increasing sales to underline this point. The debt to equity ratio is higher than the sector but we believe the underlying cause to be right here. The return on equity is high and we believe that Tupperware is poised for growth from abroad. Despite the fact that the recent downturn in the US economy has not filtered through to weaken the dollar materially, this stock would provide great international exposure should this be the case in the future.

Recommendation - BUY

Increasing the positioning within this sector is clearly a sensible way forward should growth shift from luxury to core consumer products. At around $20 per share, the technical situation favors a short-term move to $25 ahead of a surge to $30. We are particularly drawn to this stock by the management's encouragement to directors and staff who have been loaned funds to purchase 800,000 ordinary shares in the company. If that is not a sign of health and confidence in a company's outlook, we do not know what is.

Beazer Homes USA Price $39.30 Ticker BZH

Chart; Homebuilder vs S&P 500

Introduction

According to the Value Line database of company information, the house building industry ranks number one for timeliness, which measures share price appreciation and earnings momentum. So it should be no surprise to read that many of the industrial members have witnessed a doubling of their stock prices over the past year. Between July and December 2000, this came true for Beazer USA. The service recommends that investors should be selective when choosing company stock in the face of a slowing economy. Factors include backlogs of orders, a presence in the fastest growing orders, low debt burden and an ability to grow margins. Finally, companies that control costs effectively in the environment of slowing economic growth will perform best as margins are squeezed in the light of moderating selling prices. The string of interest rate cuts deserves a mention here but the impact on the industry should be apparent.

Beazer designs, builds and sells single-family homes for entry level and first move-up buyers. It operates primarily in the southeast, southwest and central regions of the US. These represent the fastest growing areas that Value Line pointed too. At the end of 2000 Beazer had a backlog of 2,929 homes valued at $575 million, both figures up 15 and 20% respectively on a year earlier. The company has an impressive target of doubling the number of homes it closes in the five-year period beginning early 2000.

Chart; Homebuilder vs S&P 500

Past Performance

The company avoids competition in any area by remaining flexible in its offerings and adapting to local conditions. The company is careful to estimate economic and demographic strength of a market as well as margin and demand for a particular product. We are impressed by the online efforts of the company to increase interaction between its suppliers and customers. Beazer also owns a mortgage subsidiary in order to provide financing to its customers. In January of this year the company exceeded analysts expectations with record first quarter share earnings of $1.61; the year earlier the number was $0.85 per share. Operating margins improved as prices were raised and costs cut.

Outlook

Beazer Homes USA, Inc.	Company	Industry: Construction Services	Sector: Capital Goods	S&P 500
P/E Ratio (TTM)	6.7	10.82	16.29	27.77
Price to Cash Flow (TTM)	5.85	8.89	12.86	19.77
Dividend Yield	0	0.92	1.74	1.71
Sales (TTM) vs TTM 1 Yr. Ago	8.45	21.14	6.96	20.71
Total Debt to Equity (MRQ)	1.09	0.94	1	0.9
EBITD Margin (TTM)	7.69	11.72	11.64	22.53
Return On Equity (TTM)	19.53	18.05	14.93	22.35

While this stock pays no dividends, we would recommend that it be considered for inclusion in the portfolio. Despite the strong rally in its share price, we believe that there is ample room for further appreciation as evident in the relatively low P/E ratio relative to either the industry or sector. While the ROE is above the industry, there is no reason to believe that Beazer cannot outperform the market.

Recommendation – BUY

Energy & Utility Sector

Mirant Corporation   Price $30.00   Ticker   MIR

Mirant Corporation, formerly Southern Energy, Inc., is a power provider with regionally based businesses in the Americas, Europe and the Asia-Pacific region. Mirant meets customers' specific requirements by integrating electricity generation and distribution, management of gas assets, fuel procurement and marketing of energy and energy-linked commodities. To support its business Mirant owns a portfolio of power plants. An interesting play in the Energy/ Utility sector, Mirant is a diversified energy company that has held on to its hard assets and has made an aggressive move to take advantage of new opportunities by offering market making, trading, and risk management services to the industry. With this strategy, like Enron they will capitalize on de-regulation, however by maintaining ownership of their pipelines, distribution and transmission they alleviate the risks that Enron faces by having the underlying deliverable for positions taken on the trading desks. Enron has made the bet that their understanding of risk and the markets will enable them to hedge risks effectively. All aside, Mirant is known in the industry as stiff competition and has not been priced accordingly by the market trading at a multiple of 24 times earnings compared to Enron's 54.

Currently, the portfolio is under weight in Energy with 5% of the portfolio holdings as opposed to 8% in the S&P 500. We propose that in light of the positive outlook for energy and utilities over the next 2 plus years, we **take an over weight position** in this sector.

Electric Utilities vs S&P 500

Past Performance

Mirant has experiencing aggressive growth, as demonstrated by its sales growth and 5-year earnings growth. The company is growing exponentially (61% expected eps growth for FY 2001) and remains at a multiple in line with the industry and under that of the broader market. The stock is currently trading 17% off its 52-week high of $36.

OUTLOOK:

Mirant	Company	Industry: Recreational Products	Sector: Consumer Cyclical	S&P 500
P/E Ratio (TTM)	24.85	20.54	23.90	27.12
Price to Cash Flow (TTM)	11.58	9.51	11.25	19.51
Sales (TTM) vs TTM 1 Yr. Ago	487	55.81	59.80	21.24
EPS (TTM) vs TTM 1 Yr. Ago	-10.52	28.78	23.05	22.47
EPS 5 Yr. Growth rate	85.66	9.82	8.25	19.47
Total Debt to Equity (MRQ)	1.71	1.82	1.72	.90
Ebitda margin	15.64	29.60	25.71	21.65

Mirant has recently reported expected earnings for full year 2001 to be on track for 1.55-1.60 per share. This is a 58% growth from fiscal year 2000 earnings. The company also sees no impact on earnings from the Pacific, Gas, & Electric bankruptcy, which is effecting many energy companies with exposure in the state of California.

The company has provided a stable earnings history, with an upsided surprise in Q4 99 beating earnings estimates by 16.7%.

Recommendation: Strong Buy

We recommend a strong buy on Mirant (MIR). We believe that as deregulation in the power industry continues, Mirant's global breadth, market position, and portfolio of underlying assets will enable it to take advantage of opportunities in making markets and in supplying energy in an environment of higher natural gas prices. The stock currently trades at a PEG ratio of .86 compared to the industry and broader market of roughly 1.50 times. Analysts have a mean 12-month price target of 42.00 with a low target of 37.00.

APPENDIX A: Portfolio Composition and Changes

HOLD		Units	Price	Current Value	Equity Weights Old	Equity Weights New	New Value
Money market	STI Classic FD-Prime MM	1680.84	1	1,681			1,681
	Cash	2526.49	1	2,643			2,643
Government Bonds	US Treasury Note 08/16/99 6% 08/15/04	30000	1.0571	31,713			31,713
				36,037			36,037
Basic Industries/ Materials	Dow Chemical	156	31.57	4,925	3.51%	3.51%	7,033
Industrials	General Electric	144	41.86	6,028	4.30%	4.30%	8,608
	Caterpillar	52	44.38	2,308	1.65%	1.65%	3,296
	UPS (Class B)	51	56.90	2,902	2.07%	2.07%	4,144
Consumer staples	Anheuser Busch	152	45.93	6,981	4.98%	4.98%	9,970
	Coca Cola	41	45.16	1,852	1.32%	1.32%	2,644
	Proctor and Gamble	97	62.60	6,072	4.33%	4.33%	8,672
Health Care	HCA Healthcare	97	40.27	3,906	2.79%	2.79%	5,579
	Johnson and Johnson	57	87.47	4,986	3.56%	5.41%	10,837
	McKesson HBOC	138	26.75	3,692	2.63%	2.63%	5,272
	Pfizer	141	40.95	5,774	4.12%	4.12%	8,246
Consumer cyclicals	Black and Decker	74	36.75	2,720	1.94%	1.94%	3,884
	News Corp Lyd ADR	43	31.10	1,337	0.95%	0.95%	1,910
	Walmart	57	50.50	2,879	2.05%	2.05%	4,111
Energy	Enron	76	58.10	4,416	3.15%	3.15%	6,306
Financial	American Express	120	41.30	4,956	3.54%	3.54%	7,078
	Bear Stearn's	103	45.74	4,711	3.36%	3.36%	6,728
	Citigroup	144	44.98	6,477	4.62%	4.62%	9,250
Technology	NASDAQ 100	313.00	37.40	11,706	8.35%	8.35%	16,718
Mutual funds -- Equity	Fidelity Pacific Basin	637.03	15.39	9,804	7.00%	7.00%	14,001
	Invesco International European	795.28	13.18	10,482	7.48%	7.48%	14,969
	Montgomery Emerging Markets	323.48	7.88	2,549	1.82%	1.82%	3,640
	Montgomery International Growth	684.83	12.12	8,300	5.92%	5.92%	11,854
				119,761			
SELL	Bausch Lomb	57	45.66	2,603	1.86%	0%	
	AT&T	91	21.30	1,938	1.38%	0%	
	Delta Air Lines	79	39.5	3,121	2.23%	0%	
	General Motors	138	51.85	7,155	5.11%	0%	
	Mattel	314	17.74	5,570	3.97%	0%	
				20,387			
ADD							
Equity	Qiagen	150	20.56			1.54%	3,082
	Beazer Homes, Inc.	129	39.3			2.54%	5,084
	Fidelity Select Biotechnology	90	56.59			2.54%	5,084
	Mirant	228	35.5			4.04%	8,086
	Tupperware	171	23.86			2.04%	4,083
	Total equity		Old	140,148		New	200,169
Bonds	Bank of New York IN MTN BE	9.58	104.38				10000.0
	May Dept Stores	9.48	105.50				10000.0
	SouthWestern Bell	10.77	92.82				10000.0
	US T-Note	9.01	110.95				10000.0
	Total invested assets OLD		Old	176,186		New	276,186

APPENDIX B

Original 5/19/94
Revised 10/18/96

ROLLINS COLLEGE

ENDOWMENT FUND POOL
STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

INTRODUCTION

This statement is issued by the Trustee Committee on Business and Finance of Rollins College for the information of interested parties and the guidance of its investment advisors in the management of Endowment Pool assets. The Committee on Business and Finance is responsible to the Board of Trustees for adopting investment objectives and overseeing policy implementations. The Committee is also responsible to monitor investment performance. A full statement of the responsibilities of the Committee on Business and Finance may be found in Attachment A.

A. Management and Investment Objectives

1. The Committee's management objective for the Endowment Pool is to provide a sustainable and increasing level of distribution to support the College's annual operating budget while preserving the real (inflation adjusted) purchasing power of the Endowment Pool exclusive of gift additions. The level of distribution is expected to grow over time at least as quickly as the annual average increase in the College's operating budget, estimated to be approximately 2% greater than the average annual growth in the Consumer Price Index.

2. The Committee's investment objective for the Endowment Pool is to attain an average annual real total return (net of fees) of at least 4.5% over the long term, as measured over rolling five-year time periods. Real total return is defined as the sum of capital appreciation (or loss) and current income (dividends and interest) less investment management and custody fees related to investment management adjusted for inflation as measured by the Consumer Price Index. The table below summarizes the above investment objectives:

Average annual real return	6.5%
Average annual inflation	4.0%
Average annual total return	10.5%
Average annual distribution	6.0%

Average annual growth in principal	4.5%
Additions to endowment (gifts)	1.0%
Total principal growth	5.5%

3. The Committee's investment policies assume that annual spending over the long term will represent 6% of the market value of the Endowment Pool for the prior three-year period. The annual endowment distribution will primarily come from current income (dividends and interest); however, a prudent portion of realized capital gains will be used. The Committee periodically reviews the spending policy and issues statements of change as appropriate.

B. Investment Management Structure

1. A major role of the Committee on Business and Finance is to oversee the allocation of the Endowment Pool among asset classes, investment vehicles, and investment managers. The Committee is not charged with making individual investment decisions. The Committee continuously reviews, monitors, and adjusts the asset allocation based on a number of factors.

2. The Endowment Pool is managed primarily by external investment managers generally in the form of co-mingled vehicles. However, separate accounts may be established. The external investment managers have discretion, within the guidelines set forth in the policy statement and any additional guidelines provided to them, to manage the assets in each portfolio to achieve the investment objectives. Managers will normally handle only one type of investment in each fund. For example, stocks and bonds will not be combined in a balanced fund assigned to a single manager.

C. Portfolio Composition and Risk Management

1. To attain the investment objective, the Endowment Pool assets are divided into two parts: fixed income and equities. The -long-term commitment is described in the following asset allocation model:

Asset Class	Allocation Policy
Equities	70%
Fixed Income	25%
Cash	5%

The purpose of using the asset allocation model is to ensure that the overall asset allocation among the major asset classes remains under the scrutiny of the investment committee and is not permitted to become the residual of separate manager decisions. History has demonstrated that the allocation among major asset classes is the single most important determinant of the performance of an investment portfolio.

2. The purpose of fixed income assets is to provide a hedge against deflation in order to reduce the overall volatility of returns of the Endowment Pool so as to produce current yield to support the annual distribution to the individual funds.

3. The percentage of total pooled endowment assets allocated to fixed income at any time should be sufficient to provide that the capital value of the pooled endowment fund does not decline by an intolerable amount during a period of extended deflation. The fixed income fund should not include foreign bonds without the specific approval of the Committee on Business and Finance in advance of such an acquisition.

4. The purpose of holding equities in the Endowment Pool is to provide appreciation of principal that more than offsets inflation and to provide a growing stream of current income. It is recognized that in seeking higher returns through appreciation entails the assumption of greater market variability and risk than investment in fixed income securities.

5. The equities in the pooled endowment include several categories as follows:

   Growth -- Large Capitalization
   Growth -- Small/Medium Capitalization
   Value
   International

The above categories ensure that return is enhanced on a risk adjusted basis, as the various types of assets do not correlate to each other under a given market condition.

6. Within the pooled endowment, in addition to cash held by managers pending investment and re-investment, there normally is a cash or short-term investment balance representing gift receipts pending their assignment to one of the investment managers. The level of such cash is closely monitored by the Committee.

7. The equities within the Endowment Pool are placed with investment managers who have distinct and different investment philosophies. To attain proper diversification and reduce risk, equities held in a single industry sector are not to exceed 20% of the market value of the Endowment Pool nor will equities in any single company exceed 10% of such market value.

D. Fixed Income Fund Guidelines

1. The investment objective for fixed income is to achieve returns at least equal to an average of the following three indices: Merrill Lynch Corporate/Government Master Index, Lehman Bros. Government/Corporate Index, and Salomon Brothers Broad Investment Grade Index. Performance is monitored on a regular basis and evaluated over at least one market cycle.

2. The fixed income fund is to be invested at least 80% in call-protected treasuries or agencies with a portfolio duration range averaging between four and ten years, assuring that this segment of the portfolio, both in regards to quality and interest rate risk, fulfills its purpose of protecting the portfolio in the event of a period of deflation. When corporate bonds are held in the portfolio, no single corporate issuer is to represent more than 25% of a bond portfolio. Tax-exempt issues are not to be held in the portfolio without specific approval by the Committee on Business and Finance.

E. Equity Fund Guidelines

1. The investment objective of the total equity fund is to achieve returns (net of fees) at least equal to the Standard & Poor's 500 Stock Index. Performance is monitored on a regular basis. Appropriate benchmarks have been identified for each of the investment managers.

2. Decisions as to individual security selection, size, number of industries or holdings, income levels, and turnover are left to manager discretion subject to the normal standards of fiduciary prudence and monitoring by the Committee. The use of options, financial futures, non-marketable securities, selling on margin, or short selling require prior approval from -the Committee. No single stock position is to exceed 10% of the market value of an equity manager's portfolio without prior approval from the Committee.

3. Equity managers may at their discretion hold investment reserves of cash, cash equivalents, or short-term instruments. However, at no time are such items to constitute more than 10% of the portfolio without prior approval from the Committee It is important that the equity manager understand that performance is measured against stock indices regardless of his non-equity reserves.

4. Since the Committee has provided for significant diversification within the pooled endowment portfolio, individual managers are encouraged not to over-diversify beyond their own areas of expertise or to emphasize market timing activities.

F. <u>Monitoring Results and Objectives</u>

1. All policies and objectives are to remain in effect until modified by the Committee.

2. If at any time an investment manager believes that any of the policy guidelines inhibits his investment performance or causes him to handle the account differently from his other clients, it is the responsibility of the manager to communicate such a view to the Committee.

3. Each of the portfolios (overseen by outside managers) is monitored for return relative to objectives, consistency of investment approach,

and investment risk (as measured by asset concentration, exposure to extreme economic conditions, and market volatility.) Managers are asked to periodically attend meetings of the Committee to describe their perception of the market outlook and their strategy for dealing with it. Managers are required to inform the Committee of any significant change in matters such as firm ownership, structure, personnel, etc.

G. Other Guidelines and Considerations

1. As a matter of policy, the Committee manages the Endowment Pool to yield the best long-term financial results rather than to pursue other social objectives.

2. Investment managers are generally authorized to vote proxies on behalf of the College. The Committee will notify, in advance, the manager when it wishes to vote proxy.

3. Security lending is not permitted.

4. In general, managers should avoid any transaction that could result in unrelated business income tax.

ATTACHMENT A

COMMITTEE ON BUSINESS AND FINANCE

Composition

The Committee on Business and Finance is a standing committee of the Board of Trustees. It generally meets three times a year; meetings are scheduled to precede the Board of Trustees meetings.

General Responsibilities

The Board of Trustees is responsible for all funds of the College, as well as funds held and administered by the College as fiduciary. The Board exercises the responsibility by supervising the work of the Committee on Business and Finance.

Specific Responsibilities

Specific responsibilities of the Committee on Business and Finance are as follows:

1. Review and recommend investment policies for the endowment. Such policies should address key issues such as asset allocation objectives, acceptable risk levels, and total return objectives. The Board of Trustees should approve investment objectives.

2. Select investment managers and other professional experts, as appropriate.

3. Review and approve investment guidelines relating to such areas as eligible investments, diversification and concentration restrictions, and performance objectives for specific manager's portfolios.

4. Monitor the adherence of the endowment investments to the overall investment policies and evaluate performance of the endowment as compared with total return objectives.

5. Evaluate the performance of investment managers as compared to performance

objectives and other investment guidelines, making changes as appropriate.

Recommend an endowment spending policy to the Board of Trustees for approval.